KPMG

Future of finance

Finance disrupted

Innovation in the life sciences finance function

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Finance disrupted

1 in 3

CEOs believe that their sector will see a major disruption in the coming three years as a result of technological advances.

Amid continuous disruption, the life sciences CFO has an opportunity to take the reins.

As we edge toward the third decade of the century, *business as usual* is no longer sufficient to keep up with the pace of innovation and unprecedented change in life sciences. According to KPMG LLP's (KPMG) *U.S. CEO Outlook 2017*, one in three chief executive officers (CEOs) across all industries believes that their sector will see a major disruption in the coming three years as a result of technological advances.[1]

"CEOs see this time as one of opportunity and investment and are looking into what needs to be accomplished to distinguish their companies," explains Lynne Doughtie, chairman and CEO of KPMG US.

In life sciences, the stakes are particularly high: Considering new entrants to the sector, technology disruption, changing distribution models and value chains, deal activity, payer pricing pressure, increasing regulation, and changing nature of consumer engagement, the ways in which healthcare and its impact on life sciences organizations is delivered are evolving as we speak.

The resulting shifts in market power call for a new breed of finance function. The reality, however, is that most finance organizations are not prepared to meet these wider demands. "The finance function is, by nature, conservative, detail-oriented, rule-focused, and structured," says Jim Carroll, a futurist and trends and innovation expert. "To make the transition to a more forward-looking model requires a lot of innovative thinking."

Over the next decade, finance in life sciences must disrupt itself to meet these needs, as well as the expectations of corporate boards, sales and marketing departments, suppliers, and internal/external auditors. These stakeholders increasingly expect finance to serve as a true business partner, not just a back-office department that processes transactions and conducts historical reporting.

[1] KPMG LLP, *U.S. CEO Outlook 2017: Disrupt and grow*: https://assets.kpmg.com/content/dam/kpmg/us/pdf/2017/06/us-ceo-outlook-survey-2017.pdf

How should the CFO respond?

Today's rapidly changing healthcare and life sciences ecosystem and business environment requires finance to address disruption head on or risk being left behind by more nimble competitors. Leading chief financial officers (CFOs) are focusing on leveraging disruption into opportunities for competitive advantage and growth, while also improving their current operations. Experience shows that CFOs are deriving significant benefits for their organizations by focusing on the following key areas:

Innovation and investment

Life sciences CFOs need to maintain a firm grip on the numbers while serving as creative strategists to help the organization identify new and expanding market opportunities, managing threats, expected and unexpected sector disruptions, changing value chains, and focus on customers and research, allocating capital to protect and grow the business.

In a sense, CFOs need to think like venture capitalists: They must first understand the trends and economics driving market disruption in their sectors. They can then manage innovation investments as a portfolio, using metrics aligned with the organization's overall strategic objectives and governance program.

Extreme automation

Leading finance organizations are already reaping the rewards of cloud-enabled enterprise systems and platforms and robotic process automation - from reduced costs and risks to heightened efficiencies and improved cybersecurity. With a baseline technology infrastructure in place, these organizations can look to future investments in more advanced technologies, and they can leverage extreme automation to take their organizations to the next level and transform their operating models. In fact, progressive organizations are already actively piloting these emerging technologies to unlock value.

Successful finance functions will make good use of blockchain, data analytics, and other enabling technologies, while emerging technologies will change the nature of global business services. Furthermore, life science organizations can exploit artificial intelligence for sharper operational and predictive insights and better deployment of capital.

Turning vision into reality

A global biopharmaceutical company was looking to create additional capacity in its finance functions by automating and standardizing repetitive, manual processes. KPMG assessed the organization's finance processes to develop a business case for automation and implemented bots, resulting in significantly increased capacity across multiple regions, allowing finance teams to focus on higher value-added activities.

A leading pharmaceutical company is leveraging blockchain solutions for compliance with the Drug Supply Chain Security Act(DSCSA). KPMG assisted in mapping the material and information flow across the extended supply chain, which included defining the necessary permissions to post data for replication across distributed ledgers, and establishing rules for visibility of data, exception processing, and alarm/alert notifications. The client is leveraging this capability to implement a broader solution with a large wholesale distributor and a major retail pharmacy.

A leading medical device manufacturer's global expansion was challenged by increasing complexity in forecasting, reporting, and analyzing its cost of goods sold and gross margins. These challenges were magnified by the acquisition of an other entity with similar challenges. KPMG led the implementation of an intelligent automation solution to automate rule-based and repeatable tasks among multiple enterprise resource planning (ERP) and excel-based applications, allowing the organization to focus on value-added activities.

> **"Making the transition to a more forward-looking model requires a lot of innovative thinking. Unfortunately many finance functions are not structured to support that."**
>
> — Jim Carroll, futurist and innovation expert

Insights and analysis

"Finance leaders will need to capitalize on their unique position in the company to pursue a data and analytics agenda closely tailored to their companies' needs —or risk the finance function's relevance as a strategy and business partner," as noted in *Advanced Analytics and the CFO*, a Harvard Business Review white paper sponsored by KPMG.[2]

The life sciences CFO is uniquely positioned to define the analytics agenda as the only person in the enterprise with both the permission and the duty to integrate strategy, finance and analytics. As the traditional finance function of historical data analysis becomes fully automated, there will be a shift from analyses that are descriptive (determining what happened) and diagnostic (understanding why it happened) to predictive (projecting what will happen in the future) and prescriptive (pinpointing what should be done about it).

A powerful technology toolbox also strengthens finance's ability to identify and make the right investments to drive innovation. As noted in *Tech Innovation to Reinvent the CFO Suite*, an article produced by KPMG and Bloomberg Studios, the increasing ability to automatically analyze very large datasets will help CFOs decide whether to invest capital to expand capacity.[3]

Organization and talent

The groundswell of digital transformation requires finance to reimagine its workforce. In the future, the function will require a combination of strategy and finance skills, process and control experience, and the ability to collaborate and build relationships across formerly siloed departments.

"Skills requirements are changing really fast," says Carroll. "How can we make sure that we get the right skills, in the right place, at the right time, for the right purpose?"

"The more integral that finance is to the business, the more the silos will break down," says Louis. "Leading organizations already have finance sitting with the teams they support as opposed to sitting in a centralized finance function."

Service delivery

Integrating new technologies and extreme automation into life sciences organizations will dramatically change the size, structure, and delivery model of the finance function, with human expertise separated from automated execution.

Finance organizations must assess what new work needs to be done, how those demands are reflected in the skill sets of their workforce, and how to transition to managing processes end-to-end, rather than in silos. They will need less of a formal hierarchy, fewer offshore locations, and smaller teams that possess more advanced skills that add real value to the enterprise.

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[2] Harvard Business Review Analytic Services, sponsored by KPMG LLP, *Advanced Analytics and the CFO* (November 2017): https://advisory.kpmg.us/content/dam/kpmgadvisory/management-consulting/pdfs/2017/advanced-analytics-cfo.pdf

[3] KPMG LLP and Bloomberg Studios, "Tech Innovation to Reinvent the CFO Suite" (December 2017): https://www.bloomberg.com/news/sponsors/features/kpmg/techinnovation-to-reinvent-the-cfo-suite/?adv=14234&prx_t=k0kDAq_MYAWikPA

Risk and controls

An estimated 60 to 70 percent of manual controls performed today will be automated over the next five to ten years. Extreme automation promises to improve controls while reducing internal and external compliance costs. This can be achieved by maintaining a flexible control environment that supports innovation, automation and other organizational changes.

Despite the potential benefits, disruptive technologies also pose significant challenges. From process integration and system compatibility to data protection and privacy, risks must be managed proactively and monitored continuously.

Such an effort involves taking steps to:

Set a future-focused organizational strategy

Scan and analyze signals of change to prepare for potential disruption with innovative solutions.

Build a smarter portfolio

Use a venture capitalist approach to balance riskier investments in innovation and ongoing investments to sustain the core.

Establish a strategic investment framework

Align investments to strategic, operational, and financial plans to help ensure the organization is nimble and competitive.

Use appropriate metrics and models for evaluation

Utilize financial metrics that blend customer, operational and risk assessments to yield opportunities for learning and strategic fit.

Drive alignment with strong governance

Deploy scarce capital and labor with a structure that drives alignment from the C-level through operations to prevent mismanaged resources.

What to do next

As the process of preparing compulsory reporting becomes increasingly automated, finance functions will have more time to solidify their position as valued business partners, using advanced analytics to model future scenarios and map the best outcomes for the enterprise.

"That's very much about the head of finance or CFO sitting on the board, being part of setting the strategic direction of the organization, and then monitoring performance and achievements against targets," says Louis.

To drive this process, life sciences CFOs need to take steps to disrupt their finance functions or face a drain on talent and the abilities to grow revenue and deploy capital effectively. The key to success is to create a blueprint for how the finance organization can turn disruptions into opportunity.

How KPMG can help

KPMG's Financial Management practice supports the growing agenda and increasing responsibilities of the CFO. Our global network of financial management professionals helps clients align their finance organizations with the strategies and needs of their businesses to realize and sustain value over the long term.

Serving pharmaceutical, medical device and biotech companies, our life sciences specialists across finance, information technology, data science, compliance, strategy, tax and deal advisory, draw on deep industry insights to innovate and transform the business of life sciences to best position our clients for all that the future will bring.

Learn more at kpmg.com/cn

About KPMG

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 154 countries and territories and have 200,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

China Contacts

Li Fern Woo
Partner, Head of Life Sciences
KPMG China
T: +86 (21) 2212 2603
E: lifern.woo@kpmg.com

Kai Cui
Partner, Financial Management
KPMG China
T: +86 (10) 8508 5403
E: kai.cui@kpmg.com

Global Contacts

John Mulhall
Partner, Advisory,
Financial Management
T: 212-954-2542
E: jmulhall@kpmg.com

Prashanth Brindavan
Managing Director, Advisory,
Financial Management
T: 949-705-9354
E: pbrindavan@kpmg.com