The Cost of Doing Business:

A new business imperative

WHITEPAPER

Contents

How UK businesses can survive and thrive in these testing economic times

Hard on the heels of the pandemic and with the effects of Brexit still being felt, the UK is now also in a serious economic crisis. Energy and fuel costs are rising fast, there is political uncertainty abroad with the war in Ukraine, and here in the UK too with recent government leadership changes and economic decisions creating high levels of insecurity and rising interest rates.

Leaders are having to make a lot of tough decisions around their cost base. Rapidly changing circumstances mean that even those with scrupulously laid out budgeting forecasts and plans are having to review them as the cost of energy, transport, repairs and other capital and running costs skyrocket, not to mention supply chain pressures and the rising price of raw materials and component parts. Employees are seeking salary increases to help them cope with the cost-of-living crisis and there is still a high number of unfilled job vacancies putting additional pressures on businesses. The UK business community has survived tough times before, but it is clear that many will have to resort to making difficult choices in the coming months.

In this year's Advanced Business Trends Report we found that 78% of business professionals were concerned their organisation would be impacted by the rising cost-of-living. They also recognise the role of technology in helping them overcome these economic challenges, with 94% saying technology supports profitability. The key priorities identified in the report for businesses this year are 'Growth' – the top priority for 60% of respondents, followed by 'Cybersecurity' and 'Employee Retention', each named as top priority for 41%. These concerns haven't changed drastically from last year, even though the survey was expanded from 1,000 to 5,000 respondents. It may be that the business community is still finding its feet after Brexit and the Covid-19 pandemic. Whether one believes that these challenges created or have simply been superseded by the cost-of-living crisis, there is little doubt that spending, and investment decisions are going to have to be even more strategic than ever before, and will require some vocal and impassioned advocacy at board level.

Advanced is a UK software and solutions company, with a mission to help people do their jobs more easily, so that their organisations can achieve their business goals. This year is without doubt one of the most challenging that many leaders and employees have faced. This white paper sets out some of the pain points and issues that our customers are facing along with some suggested solutions that may help them weather this economic storm.

Reducing spend

In normal times, making cost-savings and finding improved efficiencies is part of the daily function of good business management. This year, it is at the very heart of making ends meet for the majority of businesses. Many finance and procurement professionals may welcome the opportunity to become more involved in business-critical decision-making and there is a real shift in purpose for many CFOs, with a greater voice in the boardroom and more opportunity to add value to their role.

The exercise of examining costs to see where reductions and savings can be applied is simplified when using digital technology. It can capture and analyse a broader data of set of real-time information when compared to traditional spreadsheet-based processes. By offering data at a more granular level, it can provide far greater insights that inform smart decision making, that is based on the true snapshot of any moment in time.

Other cost-saving initiatives may include ensuring that a business is not over-servicing customers. This takes up time and resources for both parties that neither can readily afford. It may be a good time to reassess discretionary spend and question the value of activities and events, and, despite the initial additional cost, it may pay dividends to hire a specialist procurement director to professionalise the function. Investing in specialist talent requires some upfront spend, but it is likely to introduce expertise that can improve efficiency and increase productivity. This should enhance the business over time and help to future-proof it, so it can better deal with the inevitable bumps on the road to business success.

“Increasingly, businesses are aware of the importance of data as a valuable resource. If it’s not accurate, or they’re not using it effectively, there’s a good chance they could be left behind by competitors, especially in finance, where understanding income and expenditure is everything.”

Advanced Chief Finance Officer, Richard Kerr

5

Spend management

Spend management isn't just about reducing costs. The other side of the coin for the function is controlling necessary expenditure.
Securing better deals with suppliers, such as lower prices or longer credit terms, can help ensure that every penny is working hard and being invested wisely. Digital solutions can drive significant savings here to ensure that inventory management and stock control are optimised, and different approaches can be applied to suit different circumstances. Stockpiling materials can have some advantages, such as obtaining a lower unit price by buying in bulk, particularly if goods have a long shelf life or are unlikely to be superseded by improved versions any time soon.
However, many businesses are using powerful Supply Chain Management (SCM) software to implement manufacturing systems such as Just In Time (JIT), where materials are ordered specifically to fulfil a particular customer order.
This ensures almost no budget is tied up in stock, sitting in the warehouse.

Supplier decisions aren't always just about price, even when increasing Return on Investment (ROI) is the goal. Technology can help with comparing other important factors as well as costs. For example, if a company uses JIT systems for ordering component parts, it may pay dividends to spend more per unit with a local supplier that can deliver more quickly, facilitating rapid manufacture and order fulfilment. If this supplier also has the capacity to scale quickly, they may be preferable over another, cheaper supplier who has limited stock to dispatch at any one time. Balancing all of these factors using traditional spreadsheets is difficult and time-consuming, whereas Cloud-based solutions can do all the heavy-lifting, providing immediate analysis for quick and informed decision-making.

Getting this balance right is critical, particularly for small businesses that may be more prone to suffering from cash flow problems. Even with plenty of orders coming in, if there is not enough cash within the business to pay staff and suppliers, and for shipping, production will stall. Using smart inventory management software can automate ordering and storing materials, help to organise stock within the business and help to ensure customers are being charged the correct price.
There are also new factors for some organisations to contend with, specifically those driven by the war in Ukraine and tensions with Russia. The UK government reacted quickly to Russia's invasion of its neighbouring sovereign state in February 2022, with asset freezes on designated individuals and financial institutions, which impacted the usual trading practices of some British businesses.

There is now a set of sanctions around finance, trade, aircraft, shipping and immigration that place prohibitions and tight requirements on UK organisations that had previously done business with Russian counterparts. According to a government report in June 2022, imports on goods from Russia decreased to £33m in June, a fall of 96.6% compared with the average monthly imports in the 12 months prior to the invasion, and exports to Russia also fell substantially. Machinery and transport exports were down by 66.9% compared with the average monthly exports in the 12 months to February 2022. This drastic change in trading is attributed to the sanctions, but the report notes that "self-sanctioning, whereby traders voluntarily seek alternatives to Russian goods, is also a factor."

These companies must now seek ways to grow their business in other territories, or identify new suppliers for crucial raw materials and components. This will almost inevitably drive some to increase marketing spend, while others will invest in upskilling employees or recruiting more individuals with a particular skillset to help them succeed in these new markets. Digital solutions offer companies a real time view across their businesses, and can help join the dots between them, where cuts can be made, and where investment is crucial to increase the odds for success. Managing these cost and expenditure relationships ensure that ROI is as high as possible.

Securing the people who matter

Employees are seeking higher wages to help them cope with the cost-of-living crisis. Not many businesses can afford to increase salaries across the entire workforce though, so, instead, they are using other strategies beyond pure wage increases to attract and retain good people in a highly competitive recruitment market.

If finance, for example, is to continue attracting and retaining the high-quality talent it needs in order to deliver its function effectively, it must offer people the tools to do this effectively. By implementing appropriate and powerful digital solutions, finance professionals, for example, can have access to accurate, real-time data wherever they are working, without any concerns around data security. Given the choice between moving to a new employer that operates time-consuming, legacy systems and another that uses the latest Cloud-based, intuitive solutions, high-quality talent is likely to choose the one that will provide a more rewarding, more enjoyable experience. People no longer have to accept that preparing reports for the board will require days of manipulating spreadsheets and exporting data into new documents, when solutions now exist that transform the process into an accurate repeatable process which takes minutes.

Whether employers are communicating with existing employees or advertising for new recruits, it makes sense to strive to be an employer of choice in this competitive market for talent.

Other benefits and elements of Employee Value Proposition (EVP) that can set a business apart from its competitors include people-focused initiatives such as health and well-being programmes. Right now, with many people struggling to make ends meet at home, businesses can support them with initiatives such as earned wage access, company-funded workshops and coaching for better financial management and budgeting, or even offer help with household energy bills, particularly for those who work from home frequently.

Businesses can drive further employee engagement by creating a workplace culture that actively seeks to make a positive difference to the people and places it serves. This might be by supporting other local businesses in the supply chain or helping local causes and charities. Even in these challenging economic times, many people can find fulfilment and a sense of purpose in volunteering or fundraising activities that help the local community. This sense of working in an organisation that wants to make a difference also extends to implementing environmental and ethical policies that employees can be proud of. Businesses that guide themselves on key ESG principles such as sustainability, diversity, inclusion with strong governance will also find that many of these activities not only offer potential opportunities for cost-saving but also help with attracting and retaining employees who share these values.

"People are at the heart of business activities so even when digital technology automates and speeds up manual processes, employees remain the vital component to business success. Providing the right digital tools to work efficiently helps reduce stress and minimise burn-out whilst allowing more time for higher-value, more productive tasks."

Advanced Chief People Officer, Alex Arundale

9

A sustainable talent pipeline

Providing access to industry-recognised training is also an important strategy for attracting and retaining talent. Not only does this ensure that employees are up to speed with the latest processes and changes in compliance regulation, but it demonstrates the value that the business places upon these employees. Most people want to develop their skills, gain new experiences and be offered new opportunities that help them grow professionally and have a fulfilling career. A well-designed Learning and Development (L&D) programme can help with this.

Traditionally many businesses have operated apprenticeship schemes to develop new talent and provide themselves with a sustainable talent pipeline. Although parents, students and schools have been increasingly focused on university as the pinnacle of achievement over recent decades, there is a mindset-shift towards more vocational training now. This may be because of lower than hoped for graduate employment and salary levels, the move towards online university tutoring during the pandemic, and the burden of debt from student loans, or probably a combination of all three. But more young people are now deciding that university isn't necessarily their best option. This offers employers an opportunity to secure talented new recruits and help them develop their skills in line with their own business requirements.

The Apprenticeship Levy exists to support UK businesses to train new entrants to their industry. Those with an annual pay bill of over £3 million must pay into the Apprenticeship Levy Fund, at a rate of 0.5%, but smaller organisations can access the fund without making a contribution. Businesses must pay their own apprentices, using the fund to cover the costs of training, both on-the-job experience and with a learning provider, such as a Further Education (FE) college, where education professionals deliver weekly tutor-led sessions to ensure training is kept to an accepted standard. Fund paying organisations can transfer up to 25% of their allocation to smaller, non-fund paying businesses, such as those in the supply chain, or others in the same industry. In this way, everyone can potentially reap the benefit of a more skilled and effective workforce, ready to meet future needs.

Businesses can improve employee retention with existing staff and drive increased engagement by adopting effective digital performance management solutions. These encourage regular, open, two-way communication between employees and managers, giving people a clearer sense of their own performance, what needs improving and keeping individuals focussed on key business goals. This in turn drives an enhanced sense of feeling valued, appreciated and supported by their employer. Surprisingly, only one-quarter (24%) of the HR professionals in our survey told us that the software they currently use gives them the tools to measure and track performance, a surprisingly low number given the cost of recruiting, managing and retaining talent.

Performance metrics are essential for mapping out a clear path of career progression, continual development and identifying future role opportunities. An organisation which has a strong, well-embedded culture for awarding development opportunities is more likely to be successful in attracting and retaining the best talent.
This has never been more important than now when more people are working from home for at least part of each week, they should not feel concerned that opportunities and promotions will be handed out to those who are in the boss's line of sight. Using digital solutions to transparently communicate to all staff any available opportunities for training, experience and longer-term prospects for promotion and pay-rises is crucial so that they can embrace a long-term career within the business and are prepared to invest themselves in contributing to overall business success.

Flexible working, works

Before the pandemic, many businesses had never considered hybrid working. Now, it is a standard expectation for many employees and businesses are increasingly open to providing their people with more autonomy about where, and when, they work. Many employees find they can use the time they would have spent commuting for more fulfilling personal activities giving them a greater work/life balance. It also saves them the cost of commuting and other out-of-home expenses like lunch - this is especially true of people embarking on their career who are typically on lower salaries. 45% of the business professionals in our Trends Report told us they are equally productive when working at home or in the office and 40% said it has given them the opportunity to work at a more productive time of day.

Hybrid and flexible working offers benefits for employers too. Many have discovered that productivity is unaffected, or even improved when people have the chance to work remotely for part of the time and having fewer employees in the workplace every day can create opportunities to reduce costs. Some organisations have already relocated to cheaper locations or reduced office size, moving to a hot-desking system for those who come into the workplace on certain days. Smaller office space requires less energy for lighting, heating and air conditioning systems, and other organisations are choosing to reduce or abandon company car schemes and fleets when online meetings have become a ubiquitous part of the normal working day. Certainly, the days when individuals would travel around the UK to meet in a single location, with employers footing the bill for transport and overnight stays, appear to be largely behind us.

The UK is currently hosting a trial for the four-day working week, with over 70 businesses involving around 330,000 employees. They are working a 100:80:100 ratio – 100% productivity in 80% of the time for 100% pay. Although this way of working may not suit all businesses and sectors, reports half-way through the trial period indicate that it is popular with employers and employees alike, and 86% of the companies involved are saying they will probably continue after the end of the trial. As the trial progresses there may be more evidence available about how this might impact on the Cost of Doing Business, when, for example, closing the office one day a week, even if retaining a skeleton team to take calls, may help reduce office running costs. The longer-term benefit may well be increased productivity and a happier, more engaged and committed workforce.

Is finance out of step?

However, not all departments agree that hybrid is the way forward and finance teams appear to be at odds with the majority of their colleagues, with eight out of ten telling us they are more effective when working in the office than remotely, and 60% saying they have trouble accessing finance software from home.

Also, half of the finance professionals we talked to in our survey told us they don't think the data they currently have access to, is accurate. Accuracy is key to making well-informed decisions, particularly in challenging economic times. Out-of-date and approximate data could lead a business in the wrong direction very quickly and when tough decisions need to be made, there is no room for error. Legacy and on-site systems do not have the power to deliver accurate and real time information, so it goes without saying that any decisions based on this may likely be flawed.

It appears that the sector has been slow to adopt to digital solutions with only around one in five telling us they are using Cloud-based finance systems. It may be that financial processes are more entrenched in traditional ways of working. They are spending a lot of time number-crunching and entering data into spreadsheets, that needs to be migrated into other reporting software in a process that can take days and is vulnerable to human error.

However, finance teams that are already implementing the latest digital solutions are experiencing more efficiency and increased productivity. For example, they can significantly reduce the time they spend creating things like reports. Those using legacy systems are spending hours inputting data into spreadsheets, then migrating into other formats and apps and using these to run off reports which are already out-of-date by the time they land on the CEO's desk. Cloud-based solutions provide the necessary agility for almost instant reporting, enabling quick and repeatable reports that not only enhance the experience of working in finance and procurement for employees, but greatly increase productivity.

Other finance professionals may have elevated concerns around data security with Cloud-based solutions, preferring the notion that data will be safer kept in-house, on legacy systems that can't be accessed elsewhere. It is true that most of the security breaches that occur with online systems happen because people made basic mistakes around cybersecurity. Examples may include people using unsecured devices at home or responding in error to phishing and other sophisticated methods employed by cyber criminals to gain entry to systems and data. However, implementing a purpose-built, Cloud-based finance solution brings with it enhanced security layer that helps minimise the chance of criminals gaining entry, protecting the data and all users from costly mistakes. As well as enabling collaborative remote working and access to accurate real-time data, Cloud-based technologies offer significantly higher levels of data security than legacy systems, reducing the risk of potentially expensive data leaks.

As people shift towards more digital solutions across their business and personal activities, they are becoming more savvy and aware of potential scams. Businesses can protect themselves by implementing sensible precautions and specific rules for online activities, and of course, by providing high-quality training to employees to empower them to operate safely.

Especially relevant in these current economic times, maverick spend is a big issue, with almost 50% of finance and procurement professionals telling us they struggle with this problem in their company. The automated and intuitive workflows of a digital finance solution require that specific actions are taken at each stage, greatly reducing the occurrence of maverick spend, enabling finance teams to have greater control.

The finance function is changing, with professionals seen less as 'numbers people' and more as active contributors to overall business strategy. One quarter of those in our survey told us they wanted to get more involved with informing strategy and that can only come from having access to more granular and accurate data.

27% of finance and procurement professionals told us that they don't believe the data in their finance/ ERP system is completely accurate and half (50%) of finance professionals told us they want to provide a higher quality of data to the board, requiring the agile and flexible reporting functions of a digital finance solution. The slower uptake of digital solutions in this sector appears to be holding it back from being as efficient, productive and proactive as it might be. As more finance and procurement teams adopt digital technologies these benefits will become increasingly apparent, driving more eagerness to implement further digital adoption. It will also enable finance professionals to experience the benefits of hybrid working that many colleagues in other teams already value so highly.

Find our 2022 Finance trends survey here.

"It's surprising that such a low number see Cloud technology as a priority considering the benefits it would bring them, such as stable remote access, a higher quality of accurate data, better cybersecurity, and a reduced carbon footprint."

Advanced Chief Finance Officer, Richard Kerr

Changing times with rigid budgets

Some organisations, including education providers and local authorities are working with budgets that were set a long time prior to the financial landscape they now operate in. They therefore have little or no flexibility for sudden changes in the economic environment, making them particularly vulnerable to the Cost of Doing Business crisis and, as much of their funding comes from central government to recent political uncertainty too. It is therefore critical that they use technology to help them streamline spending, reducing costs where they can and managing expenditure in the most efficient way.

Managing the public purse means that local authorities have always had an overriding responsibility to provide the best ROI for local citizens. In order for local authorities to continue to deliver crucial services to the public they need to drill down into every area of operation and find cost savings, for example, by shifting to new suppliers or in some cases, taking vital services back in-house. They can use technology in many areas of operations, from finance, accounts and spend management, to In-house Legal, HCM and Field Service Management.
Every efficiency can make the difference between being able to protect and maintain, or lose, vital services to the people they serve.

The pandemic catalysed the implementation of networking technologies and the digital transformation of private sector businesses.
As more local authorities follow suit and begin adopting their own Cloud-based digital technologies to help manage in-house service provision, they are experiencing significant time and cost-saving benefits, while developing the necessary in-house resources and mechanisms that enable increased control over their public services.

The benefits for insourcing include:

- Being able to offer more local employment, which in turn helps drive a more thriving local economy and contributes to a community agenda.
- Having more control – and accountability, over quality of service
- Greater flexibility and budget predictability when management costs can be consolidated, allowing them to be directed into frontline services.
- Higher levels of internal capacity due to the digital solutions implemented, and resultant empowerment to drive further change and more in-house service provision.
- Boosting the employee experience with automated processes and interactive tools that make their work lives easier, driving an improvement in customer-facing interactions and accordingly, higher levels of customer satisfaction.

Although they are not strictly classified as Public Sector bodies, FE Colleges are mostly funded by the government and exist to provide training and education to the public. They too have the challenge of juggling out-dated budgets with the demands of the Cost of Doing Business crisis. Education Technology (EdTech) can help providers manage the entire learner journey, from prospect attraction, applications, enrolment, learner monitoring, exam completion and even alumni communications. It helps with reporting for stakeholders, including providing critical data for streamlined and stress-free Ofsted inspections. 88% of education professionals in our Trends Report say that technology is important in supporting profitability, and 62% say it helps with faster task completion.

EdTech can also transform the design and delivery of course materials, building more learner engagement for higher completion and pass rates. This helps drive increased future budgets for the provider, as well as ensuring that there is a sustainable pipeline of skilled and proficient employees entering the world of work.
Granular data gives providers more insights as they drill down into data to understand popular and successful courses, attrition rates and other factors to enable more effective future planning.

"When there is no scope to increase budgets in the short-term, local authorities and education providers are faced with the seemingly impossible challenge of continuing to provide the same, or even improved services, and meeting their staff and overhead costs, all while prices are rising. Digital processes can give them what they need to succeed – automating time consuming tasks for greater efficiencies, while providing rich data that can enhance their auditing and reporting processes, potentially helping them to access new income streams."

Advanced Managing Director Education & Legal, Doug Hargrove

ESG

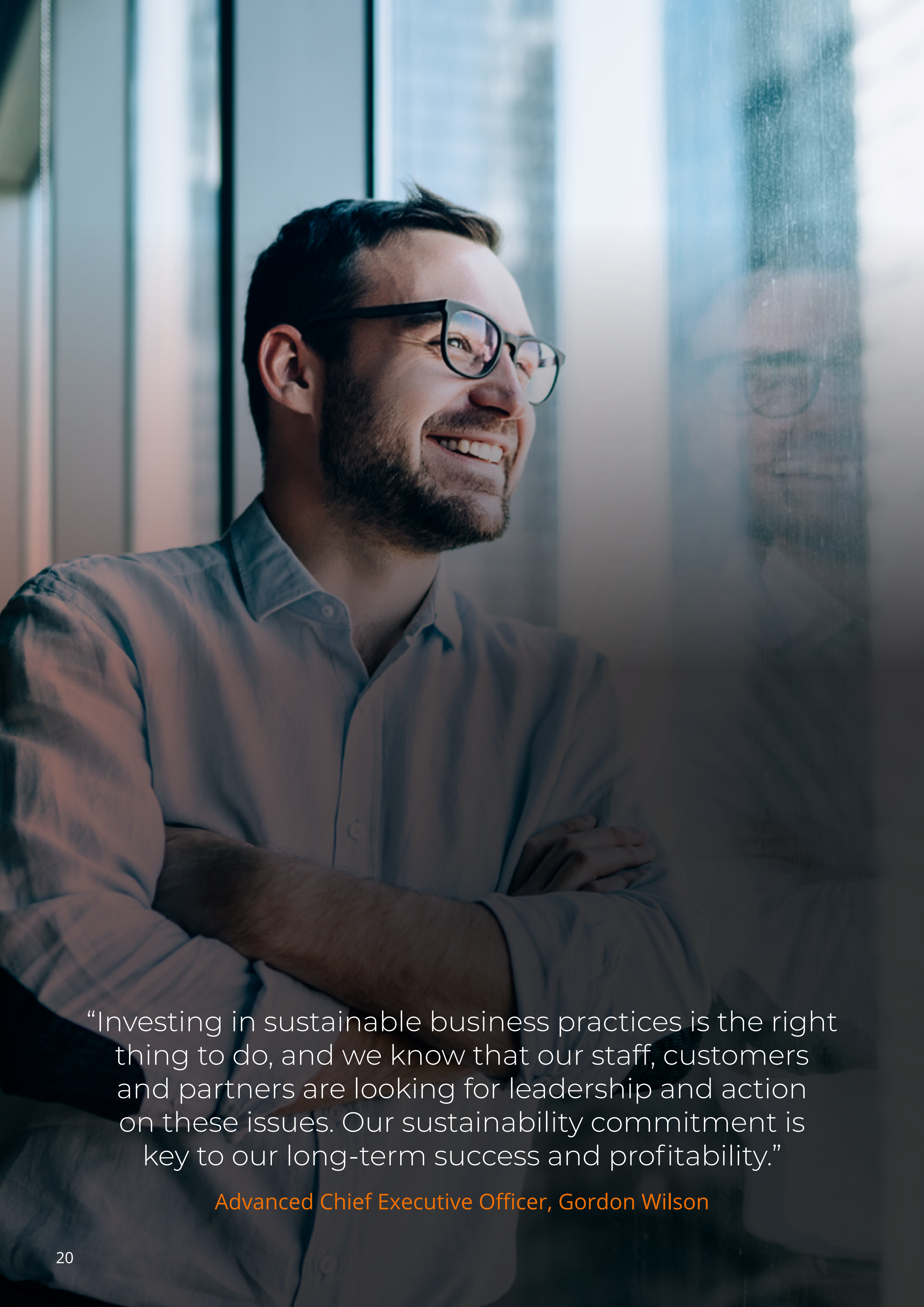
Saving costs while also ensuring ethical and environmentally sound business practices are not mutually exclusive aims. Many of the initiatives that can be introduced to reduce spend will also have a positive impact on carbon footprint. For example, offices that go paperless can immediately reduce their stationery, copying and printing costs. Storing digital files in the Cloud requires less physical storage space in the workplace, allowing office space to be repurposed or downsized. Some organisations are switching to low-energy lighting and reducing electricity use with tools such as occupancy and vacancy sensors that provide lighting only as required. Supporting workers who want to work from home means reduced impact on the environment from commuter traffic, and improves the experience on the roads for local communities affected by traffic noise and pollution.

There is no doubt though that for many, prioritising ESG over revenue and jobs may seem something of a luxury during a recession. However, comparing our Trends Reports for 2021 and 2022, ESG has remained in 7th place, with little change to the percentage of business professionals who said it was a 'business priority for the next 12 months' – from 37% last year, to 35% in 2022.

It appears that ESG is maturing as a core business objective, regardless of the impact of the current economic situation. It will of course remain to be seen whether it is deprioritised if the recession deepens or continues for longer than hoped.

For now, at least, leaders are aware that a strong and transparent ESG policy not only helps to attract and retain good staff, but it also attracts investors, many of whom are now only focused on 'green' investment potential. It also helps to secure good trading partners and suppliers. Carbon emission reporting is already mandatory for the largest UK organisations and many more are beginning to measure and publish this data. As Scope 3 emission metrics for one business are a measure of the ESG activities of others in its supply chain, there will be a growing shift for suppliers and customers to work together to improve the scores for each other's benefit. Our Trends Report picked up on this shift to greater awareness in 2022, with almost three-quarters (72%) telling us their organisation can provide tangible evidence of its ESG achievements.

You can find our ESG report here.



"Investing in sustainable business practices is the right thing to do, and we know that our staff, customers and partners are looking for leadership and action on these issues. Our sustainability commitment is key to our long-term success and profitability."

Advanced Chief Executive Officer, Gordon Wilson

Decisions to mitigate the cost of doing business

The Cost of Doing Business now is driving an imperative for leaders to make smart, informed and sometimes tough decisions to ensure ongoing trading and future business growth. There is little room for error. Recruiting the right talent, first time, is crucial to avoid wasting time and money on unsuccessful onboarding and re-hiring. A reduced cost-base and possible reduction in certain areas of business may also highlight roles that can be removed or equally highlight roles requiring a new skillset to drive the business forward at this challenging time.

By investing in the digital technology, leaders can identify more effectively the areas of business that require more efficient processes and resources. Prioritising ESG policies and initiatives, produces data that can help highlight which of these will make most impact for carbon footprint and for cost efficiency, allowing businesses to implement these first, picking off the low hanging fruit for greatest impact.

Recent turbulence in the markets and rising interest rates will increase the cost of borrowing, at least in the short term. It may not therefore be the ideal time for acquisition as part of a growth strategy unless the business already has the cash reserves in place. Recent over-valuations are now coming down so those who are in a position to invest might find this an excellent time to expand operations with a carefully chosen acquisition, taking advantage of the effect that rising interest rates will have on the acquisition power of competitors.

Negotiating the Cost of Doing Business crisis is highlighting the need for greater focus on spend management across all functions and areas of an organisation. Keeping a close eye on all spend and investment is what good businesses do at any time, but now is the time for a more heightened focus in order for businesses to survive and thrive into 2023 and beyond.

advanced

Doing less, empowers possibility

Technology is designed to make our lives easier, right? But it can bring countless distractions and obstacles, meaning we're in a constant state of ineffective multi-tasking. At Advanced, our vision is to wake up the world to the power of doing less. Because doing less, empowers possibility.

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