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Frank R. Gatti

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by
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[Introductory note: Frank R. Gatti is a vice president and corporate controller of The New York Times Company. He joined the company in 1974 as manager of corporate accounting, became director of corporate financial reporting in 1975, and served as assistant corporate controller from April 1977 until his appointment as corporate controller in 1980.

Mr. Gatti received a B.B.A. degree in accounting from Baruch College in 1967 and joined the accounting firm of Deloitte Haskins Sells that same year. He became a certified public accountant in 1971 and received an M.B.A. from Rutgers University in 1984.

He is a member of the American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants, Institute of Management Accountants, International Newspaper Financial Executives, and Broadcast/Cable Financial Management Association. He serves on the advisory board of the Master of Science in Publishing Program at Pace University and is on the board of directors of the New York City chapters of the Financial Executives Institute and the National Investor Relations Institute.]

INTRODUCTION

Good evening and thank you for taking time out of your schedules to join me on this chilly February evening.

I am truly honored and delighted to have been invited to speak this evening at my alma mater (Class of 1967). This state-of-the-art library and technology center represents just one more example of how this highly regarded institution is positioning itself now and for the future as a linchpin in The City University of New York, the nation's leading public urban university. But first, I would like to say a few words about the past.

Baruch College provided me with a well-rounded, quality education that served as an excellent foundation upon which to build my career in both public accounting and private industry. The range and diversity of my educational experiences at Baruch enabled me to not only develop technical business skills but also to think creatively and communicate effectively. From my first experience with Accounting 101, when a textbook entitled *Fundamental Accounting: Theory and Practice* by Professor [Stanley] Tunick and Dean [Emanuel] Saxe was used, to the excellent array of core and elective courses offered, it was evident that at Baruch College, the professors and staff truly cared about the knowledge and experiences they were sharing with the students. I will always be grateful for the quality and breadth of the education I was fortunate enough to have received at Baruch.

Since the early days of my career as an auditor in public accounting, I developed a natural tendency to want to see supporting documentation and to make the necessary inquiries. This "curiosity factor" enabled me to validate a transaction or representation and carry out my professional responsibilities for my clients as well as the accounting firm I was representing. In private industry this same tendency has always driven me to go beyond just the financial results to understand the underlying business drivers.

In the spirit of reciprocity and as supporting documentation for my initial representation about being a graduate of this fine institution, here is my Baruch College Alumni Association membership card, which on its face certifies that "I am a member in good standing." This is a status I hope will still be in effect at the conclusion of this evening.

Now, let's move on to this evening's topic, "Benchmarking the Finance Function." To help guide us, my remarks are organized into five segments:

1. Background
2. Rules of the Road
3. Getting Started
4. The Journey
5. Next Steps

In each segment I plan to share with you my experiences and insights into how the benchmarking technique can be used to benefit any organization as it positions itself to not only face a constantly changing business environment but also to address some of the challenges that lie ahead as it tries to become highly adaptive and service-oriented. The creative use of benchmarking has significant strategic, operational, and financial implications that will become evident during the course of my remarks.

The application of benchmarking concepts and techniques is relevant to any company, regardless of industry or size. However, one of the most critical determinations that must be made is an assessment of whether or not the timing is right for a particular organization. If it is, the cascading implications of an organization effectively using and embracing benchmarking will generate enormous paybacks in both the short and long term.

BACKGROUND

By way of background, I would like to take a few minutes to describe my organization so that you will have a context within which to place my remarks. However, the use of benchmarking is by no means limited to organizations with a similar profile.

The New York Times Company ("NYTCO"), a public company listed on the AMEX, is a diversified, decentralized media organization with consolidated revenues of $2.4 billion in 1995. It publishes 24 newspapers and operates news, photo and graphic services, news and feature syndicates, and various electronic publishing activities. In addition, NYTCO publishes 10 sports/leisure magazines; operates six television and two radio stations; and has minority interests in two paper manufacturers.

Despite the diversity of the operations included in NYTCO's portfolio of businesses and the different means of distribution employed -- that is, print and electronic -- a great deal of emphasis is placed throughout the organization on the editorial quality and independence of each product and service. This is reinforced by constantly focusing on the interrelationship between the editorial product and the audience or market served. Since the markets that are served across the company and the country vary both demographically and geographically, addressing the specific needs and wants of its external customers -- advertisers, readers, viewers, and listeners -- has enabled NYTCO to prosper and grow in size and complexity. This focus on the core competencies of each of the businesses has resulted in the enhancement of the individual brand names and franchises and the economic health of the company.

Now let's move to the business side of the organization, which is where I have spent my career. Growth in the organization over the last 25 years has come from a combination of acquisitions, internal development, and investments in and focus on core businesses. During this period in the organization's 100-year history, revenues have grown from about $400 million in 1974 to $2.4 billion in 1995, and the number of business units has increased to about 50.

Concurrent with this explosive growth has been an operating philosophy that provides a high level of operational autonomy so that each business can react quickly to its changing market conditions and customer needs. One implication of an operating philosophy that is built on such autonomy has been the purchase, development, and implementation of a mosaic of financial business processes and supporting technology that are generally highly customized and business specific.

This business-specific approach was also driven, in part, by the lack in the marketplace of flexible, cost-effective software applications in the 1970s and 1980s that could adequately meet the needs of businesses that differed not only in location and industry but also in size, complexity, and needs. The result of such a decentralized approach, as one might expect, is heavily customized financial processes and systems that, in many instances, cannot be elegantly integrated, along with a high degree of incompatibility of hardware and software as one looks across the enterprise. Many of these systems capture and store enormous amounts of financial data but are difficult to blend and align with nonfinancial data residing in still other customized internal systems or available from external sources or databases. So it is difficult, costly, and time-consuming to transform this internal and external data into information to be used for business analysis and decision support and, therefore, add value to the overall management process.

These factors have collectively resulted in a full menu of highly customized, business-specific financial functions being performed at each business unit. This approach does not permit optimization and results in the inability to redeploy resources across multiple businesses as needs vary at different points in the life cycle of each business. Further, as the organization's portfolio of businesses changes as a result of acquisitions, the array of business-specific financial processes and technology becomes even more diverse and fragmented.

With the availability in the 1990s of scaleable hardware and flexible, user-friendly software, coupled with a more intensely competitive environment in all markets, regardless of industry or location, the timing was right for management to re-examine the implications of the decentralized operating philosophy, with respect to the finance function that had worked so well for the past two decades. The strategic, operational, and financial implications of having each business unit devote financial, human, and capital resources to generic transaction-processing activities that are common across all businesses, regardless of industry and size, needed to be objectively quantified, analyzed, and evaluated.

Clearly, these financial processing activities are not the core competencies referred to earlier that made each of the business units and the company successful, nor are such activities critical aspects of the long-term strategic mission and vision of each of the businesses. However, on a decentralized basis, no one business unit or cluster of like businesses could develop a business case with a return on investment that would be high enough to justify the investment required to transform the business processes and legacy systems and technology that have evolved over the last several decades from their current state to the "best practices" currently employed by many other organizations. This is due in part to the inability of any single business to have enough transaction volume to take advantage of economies of scale. Further, no single business would have the financial and human resources over which to spread the investment and the risk associated with the redesign and implementation of new business processes supported by an enhanced technological infrastructure.

What I have just described about legacy systems and the investment associated with a transformation to new business processes and technology is not unique to my organization. In fact, it is relevant to many other companies in the media industry and in other industries, as well as organizations in the public sector. Let's spend a few minutes examining why that is the case.

Need for Benchmarking

Typically, as organizations expand, their need to remain close to their customer base sometimes blurs their vision with respect to activities that are not within their core competency and, more importantly, that do not add value to the products and services they sell. The focus becomes so intense with respect to acting locally that the organization is not able to step back and think globally across the enterprise in an objective manner.

One of the many ramifications of this is that business units evolve into self-contained silos of financial activities that often replicate business processes, technology, and expertise throughout the organization. Further, in many instances, multiple business units unknowingly are simultaneously developing and implementing solutions to issues that are common across different parts of the enterprise. It is at this point in its life cycle that an organization becomes a prime candidate for benchmarking its finance functions in order to objectively quantify the size of these silos. This technique will enable a company to objectively evaluate the operational and cost implications at both the macro and micro levels of conducting its finance functions.

The benchmarking process, which can serve as a wake-up call, is a useful tool that assists the organization in its analysis and evaluation of its financial activities. Through benchmarking, one can not only quantify how much but also understand in what ways the organization is expending its resources on financial processes and activities. Benchmarking enables management to focus on common issues. It also highlights specific opportunities for improvement by identifying competitive gaps through a comparison of the best practices of other organizations with a company's own financial processes and costs.

This effort can also serve as a catalyst for change that will reach deep into the organization and, in many cases, transcend the financial function. The impartial findings from benchmarking have caused many companies to re-examine how they have organized their businesses and how effectively and efficiently they operate. In some cases, benchmarking has also provided the incentive to reassess the financial, human, and capital resources allocated to business units to achieve their core missions. Additionally, benchmarking may focus attention on how business units interact with each other as well as with vendors and customers that are common to multiple parts of the organization. Information about a company's relationships with other organizations with whom there is both a vendor and customer link is also highlighted through this process.

RULES OF THE ROAD

With that as background, I would now like to establish some "rules of the road" for the balance of my remarks. This will enable us to move through the rest of my material in a productive and efficient manner.

In order to maximize the process of sharing information this evening, I would like to suggest that we keep the session informal and interactive. Also, let's rely on a dialogue as opposed to a lecture format. Despite the importance of accuracy, you will quickly see why focusing on the relevance of information as opposed to its precision is critical. It will also be extremely helpful if you suspend your individual assumptions and biases about financial processes and controls as we share ideas and information in an area where there is no one right answer. Finally, let's have some fun.

GETTING STARTED

In benchmarking there are a handful of critical considerations that apply to most companies. Though the importance of each varies by organization, getting started requires assessing a number of critical issues in order to know when and how to proceed. As indicated earlier, the timing of a benchmarking project and top management support are critical to the credibility of the effort and its ultimate success. This is further enhanced by the level of partnering and collaboration among colleagues throughout the organization.

Recognizing up front that multiple cultures exist within any organization also plays a key role in how and when one should proceed. Also, linked with the aforementioned is the necessity to clearly communicate the purpose, scope, and timetable of the benchmarking process. And, last but by no means least, continually selling the technique and a project of this magnitude is a must.

THE JOURNEY

In connection with our efforts at NYTCO, we experienced the four identifiable phases noted below during the course of our journey, which is now in the final phase.

Phases

1. Benchmarking
2. Business case for change
3. Business process redesign
4. Best practices implementation

Within each of these four phases there are subsets that relate to specific activities covered by each phase of the journey. In the interest of time, my remarks will focus on the first phase -- benchmarking. Time permitting, we will spend a few minutes briefly discussing the other three phases before the conclusion of my remarks.

In order to ensure clarity, let me define "benchmarking." Benchmarking is the comparison of similar processes across organizations, companies, and industries to identify best practices, some of which may exist inside an organization and others outside. The challenge is to identify these best practices and to apply as many practices as possible across one's own organization. We used benchmarking in early 1994 to compare our financial processes to a database of more than 100 other companies developed by The Hackett Group ("THG"), a well-known consulting firm that specializes in this area. Their database is updated periodically as companies provide more current information and new companies are added.

Planning the benchmarking effort is a critical first step in order to ensure the integrity and credibility of the entire process. As part of the planning, it is important to clearly define and articulate the scope and timetable of the benchmarking effort to avoid "scope creep" into areas beyond the project's originally defined scope. This is accomplished by specifically identifying the business units and processes to be included, along with the use of consistent methods and definitions throughout the organization to ensure comparability of the data collected and aggregated. This approach provides valid comparisons with the database as well as within the organization.

Once the data has been electronically aggregated for each process and business unit, the finance processes and related costs can be compared across internal business units of similar industry, size, or geography, as well as against the external database. After all of the business units review and understand the results of the benchmark comparisons by business unit and for the entire enterprise, the findings are communicated to management. This is a key step in the overall process because the sharing of the benchmark comparisons provides the initial forum from which a common understanding of the results must evolve. The determination of the appropriate next steps in large part is based upon the quality of this sharing process and forms the basis for the buy-in necessary to begin the change process. The sharing sets the stage so that a dialogue can begin based upon a common set of facts rather than perceptions, and enables the organization to objectively consider alternative approaches to handling its business processes and technology on a company-wide basis versus a business-unit basis.

To maximize the value of the results of our benchmarking project, we included the 22 financial processes shown below.

accounts payable/freight	payroll
travel and expense	benefits administration
fixed assets	budgeting
accounts receivable	forecasting
credit and collections	business performance report
customer billing	cash management
general accounting	treasury management
external reporting	tax planning
cost accounting	internal audit
tax accounting	risk management
tax filing and reporting	finance function management

A comprehensive approach was taken so that we could gain valuable insight into the interrelationship among these processes. This insight was critical in the later phases of our journey as we redesigned our business processes and selected technology that is compatible with best practices.

To benchmark these processes, we accumulated costs and operating statistics for 1993; for example, the annual number of customer billings, customer remittances, payroll checks, expense reports, and vendor invoices, to name a few. The accumulation of both costs and statistical data enabled us to make comparisons against the database in multiple ways, such as by process, by business unit, and for the total enterprise. The information gathered as part of the benchmark process enabled us to compare ourselves with other organizations that were employing best practices in specific processes.

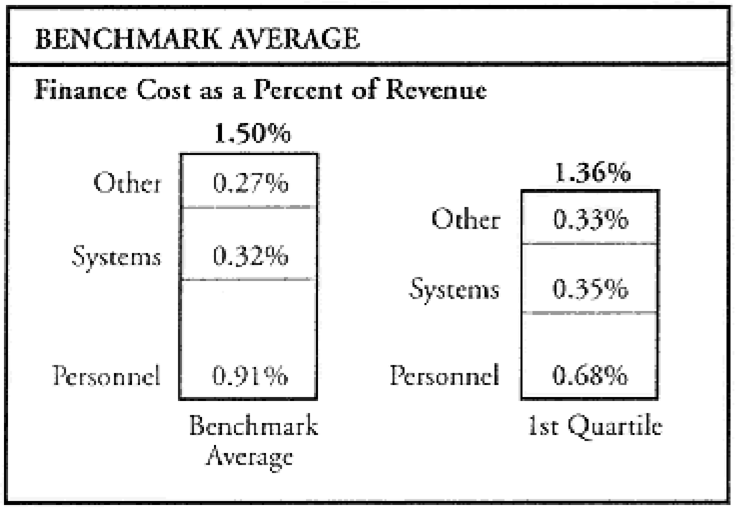
Given the size and diversity of THG's database, benchmark comparisons for each of the finance functions can be made across multiple industries. While some companies have demonstrated noteworthy best practices in selected processes, no one company can claim "best-in-class" in all its finance processes. To identify improvement opportunities, comparisons are made at the individual process level with best practices in the database. Identifying the gap between an organization's current processes and best practices generates a "wake-up call" for change if an organization wants to be able to take advantage of specific process improvement opportunities.

The information gathered from each business unit and aggregated on a company-wide basis provides a look at an organization's finance function from a number of viewpoints. One viewpoint is financial staffing by job classification -- management, professional, and clerical. Another is the portion of the financial staff's time devoted to activities such as transaction processing, control and risk, decision support, and management. This technique also enables us to compare the years of experience of the financial staff -- management, professional, and clerical -- to the benchmark database and provides an opportunity to identify and evaluate differences in these parameters.

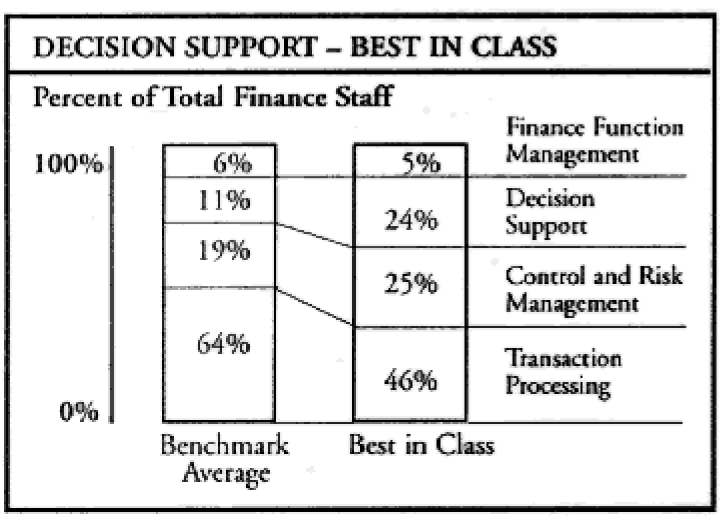
In addition, the costs of the financial function are aggregated by process under three broad categories -- personnel, systems, and other. In the case of personnel costs, the methodology results in each business unit aggregating salaries, wages, overtime, bonuses, and fringe benefits. The systems costs category aggregates system support and processing costs. The final category -- other costs -- includes items such as facilities, travel, training, supplies, postage, communications, outsourcing, etc.

With that as a backdrop, let's consider how to compare individual companies with the benchmark database. Having aggregated the total costs of the finance function, one now calculates such costs as a percentage of revenues and compares that percentage to the database average, as well as the first quartile, which is a proxy for best-in-class. These comparisons can be performed not only for total finance costs but also for each of the three aforementioned categories of costs -- personnel, systems, and other.

At the time of our benchmark effort, THG's database average based on 1993 information indicated that finance function costs represented 1.50 percent of revenues, but first quartile companies expended only 1.36 percent of revenues to perform the same functions. An analysis of these reference points indicates that the primary reason for the difference between the two percentages is lower personnel costs. See Exhibit 1 below.



A closer look at the database also reveals a difference in the distribution of these costs among four discrete activities -- transaction processing, control and risk, decision support, and management. For the benchmark average the cost distribution is 64 percent, 19 percent, 11 percent, and 6 percent, respectively. However, for first quartile companies we see a different distribution, where transaction processing is significantly lower at 46 percent, whereas control and risk at 25 percent and decision support at 24 percent are actually higher than the benchmark average. See Exhibit 2 below.



By linking financial function costs as a percentage of revenues and their related cost distribution, we observe two critical differences between the database average and the first quartile. The data reveal that best-in-class companies not only had lower overall finance costs as a percentage of revenues (1.50 percent versus 1.36 percent) but also focus a greater portion of finance expenditures on control and risk and decision support. This approach adds value to the overall management of an organization and devotes significantly less expenditures to transaction processing (64 percent versus 46 percent).

NEXT STEPS

Having gathered, quantified, analyzed, and shared the benchmark results, NYTCO considered the multidimensional implications of the changes necessary to move from the current environment to a world-class finance organization with business processes, technology, and a cost structure that paralleled organizations in the first quartile of the THG database. To accomplish this, the future is viewed as a comprehensive program that takes into account the full spectrum of internal and external pressures and issues that have an impact on the organization.

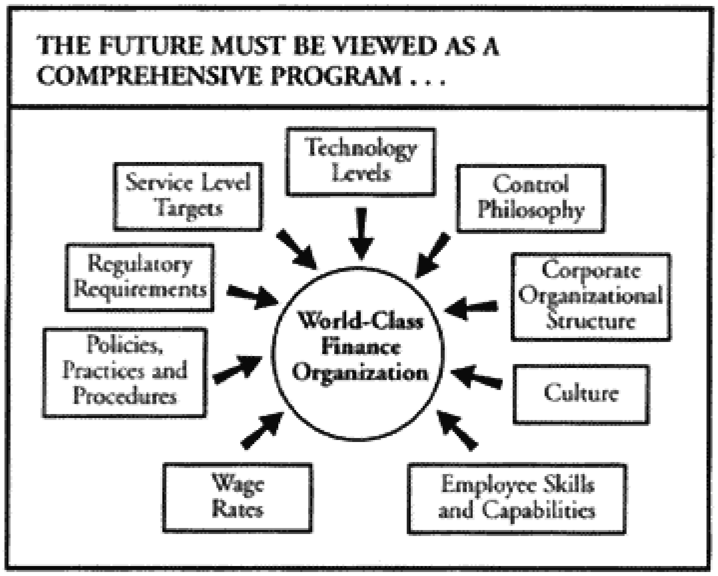


Exhibit 3 by no means represents a complete list of the areas requiring an organization's focus as it evaluates the implications of alternatives, but rather a number of major areas that are common to most organizations. However, all of these pressures and issues exert varying degrees of influence on how a company should proceed as it develops a comprehensive vision for the future. Obviously, technology plays a critical role in virtually every decision that is made today, but it should be viewed as a tool to enable the redesigned business processes to function. The organization's control philosophy must also be considered to ensure compatibility with the new vision that will require greater empowerment of employees relative to the old "command and control" environment.

In addition, the organizational structure plays a role. How the whole enterprise "fits" together may have significant implications. This depends, in part, upon the legal entities that are involved, state and local tax requirements for companies operating in multiple jurisdictions, and the level of centralization or decentralization of some finance functions within the organization.

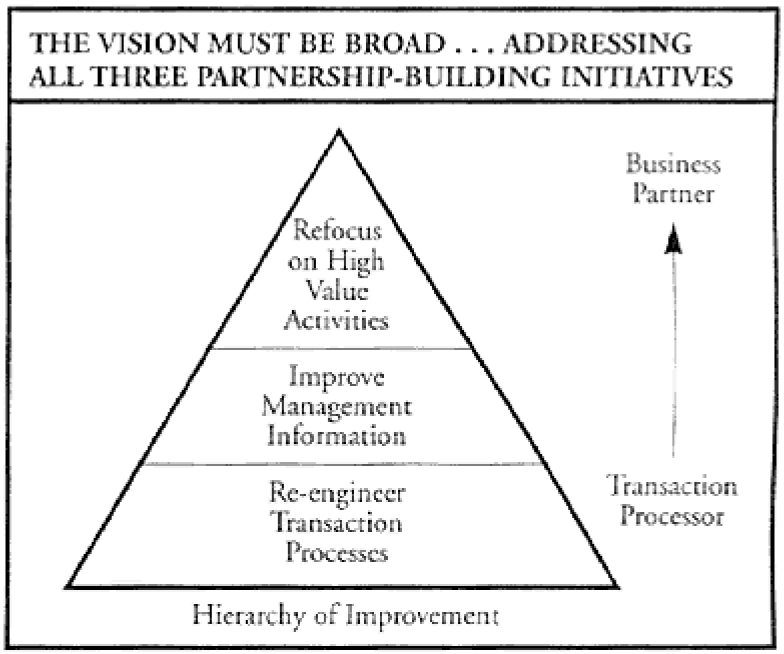
The importance of understanding the multiple cultures that exist within any organization was mentioned earlier. Such insight is also critical to the development and ultimate buy-in to a shared vision of the financial processes and technology necessary to move from the current state to a future state that maximizes the use of best practices.

The mix of employee skills and capabilities must also be considered, even if staff levels compare favorably to THG's database. It is essential to determine if the workforce has the skill sets required for the environment envisioned. Wage rates and geographic locations must also be analyzed in developing a comprehensive plan. Collective bargaining agreements must be taken into account because they may influence the organization's cost structure and flexibility. In addition, regulatory requirements (FCC, SEC, IRS, etc.) and a company's current policies, practices, and procedures must also be considered. The organization must evaluate the strategic and competitive implications of specific service target levels and determine how much it can expend to provide quality internal and external customer service.

The most important point to keep in mind is that none of these pressures or issues should cause one to construct a vision that is constrained from the outset by an unwillingness to embrace change. Even though some of these pressures or issues may influence the implementation plan, the organization must resist allowing them to become roadblocks to moving forward.

Hierarchy of Improvement

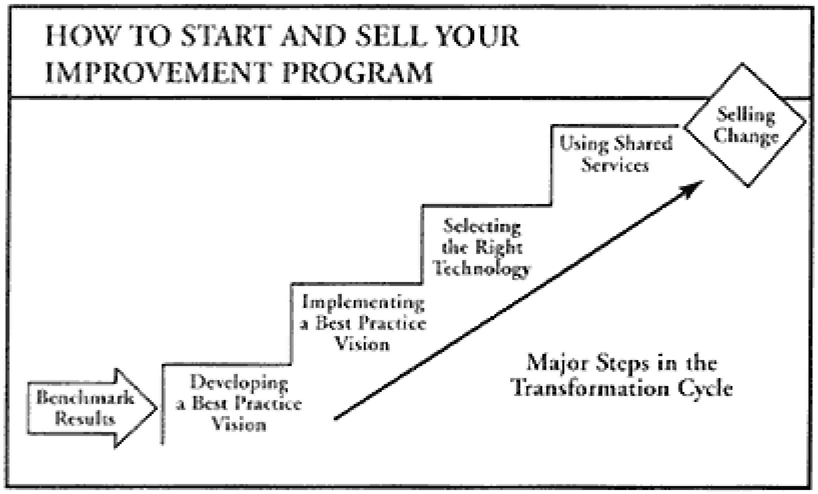
One of the primary objectives of benchmarking is to assist in the development of a comprehensive program that will enable the organization to move up the "Hierarchy of Improvement" triangle, as illustrated below in Exhibit 4.



Companies first re-engineer their financial transaction processes because these activities usually span the entire organization and represent the greatest opportunity for improvement through the use of best practices. This leads to an improvement in management information and a refocusing of resources to higher value activities such as decision support and analysis. Addressing all three of these initiatives enables the financial functions to move up the hierarchy and become a business partner with operating executives.

We talked earlier about best practices and some of the pressures that might cause the timing to be right in a particular organization. The benchmark enables an organization to objectively identify and evaluate opportunities and aids in the formulation of a cohesive best practices vision that is shared throughout the organization.

It is critical to communicate the benchmark results in order to initiate the transformation cycle and facilitate the development of a vision that fits a particular organization and enables the implementation of best practices. As part of this effort, the organization must select the right technology and use shared services in order to aggregate and standardize common activities across the enterprise. Exhibit 5 (see below) illustrates that the communication and selling of such radical change must be continually performed at all levels in the organization and reinforced by top management if it is to be successful.



Having already validated the benchmark data and results, what is next? The organization needs to form a cross-functional, high-caliber project team comprised of individuals with a diversity of skills and from different business units to lead the process redesign effort. Early in this effort, a timetable with specific objectives and milestones must be developed and communicated within the organization, and management must be updated on a predetermined basis. The project team should focus their attention on those processes with the greatest leverage and payback for the organization. In addition, the team's major responsibilities should include developing a business case, implementation plan, and detailed recommendations.

NYTCO Experience

Earlier I mentioned that we experienced four distinct phases to our journey. Let me share with you the time frame each one required for our organization. The benchmarking effort occurred in the months of March and April 1994. Following several months of communicating and selling throughout the organization to ensure buy-in at the conceptual level, a project team was formed in September 1994. A comprehensive vision, business case, and implementation plan were developed by February 1995, when the Board of Directors gave its approval to move ahead. From April 1995 to April 1996, with the assistance of outside consultants to supplement our project team, we focused our efforts on a number of areas, such as best-practice process mapping, software and hardware selections, shared service-center site selection, and outsourcing of certain activities. A detailed implementation plan and a communication and training program were also developed to ensure a successful rollout. The implementation process began in mid-1996 and will continue through early 1998.

Once you're fully implemented, you may want to go back and re-benchmark to ensure you've actually achieved the return on investment in the business case and are providing the quality of service planned since the structural change in transaction processing has taken place. In addition, the benchmark average (1.50 percent) and first quartile (1.36 percent) finance costs as a percentage of revenues were based on 1993 information before many of the organizations in the database redesigned their business processes. A current look at the database reveals much lower percentages and, therefore, a wider gap between best practices organizations and others that have not redesigned their business processes.

Hopefully, the value of benchmarking the finance function, as well as the techniques and methodologies used, is somewhat clearer, and my remarks have provided you with insight into this powerful technique.

Thank you for your patience and for joining me this evening.