

Cost centre or Value centre—what is your finance team?

Most businesses miss a massive value adding opportunity

Finance as a cost centre

The finance team captures the basic and historical data within the business and presents it to management. This remains the majority view of most operational managers, particularly in SME and mid market businesses. The finance team are involved at the end of the operational chain and keep the score.

What do we mean by a value centre?

Profit centres are usually revenue generating centres that contribute directly to profitability. The finance team is a support team, does not usually earn revenue but can and should improve profitability. This can happen directly but often improved profitability is achieved indirectly.

A good finance function should be treated as an investment not a only cost. Their performance depends on what they contribute to the business's bottom line directly or indirectly, as you would judge operations or sales.

Value centre activities:

- Improving **decision making**, thus improving outcomes and profitability
- Improving **efficiencies**—reducing costs, increasing volume, increasing margins, identifying best practice
- **Pricing** improvements— improved tender wins, gross margins, commercial terms, mix of services/products
- Improved **investment choices** and resource allocation
- **Planning**— forward looking improvements in capacity allocations, resource allocations, mix of products, return on investment, business focus
- **Process redesign**—achieving scalability, improved capacity, cost efficiencies, improved capability
- **Cash utilisation**—ensuring minimum cash usage for maximum return in all areas

Finance functions often have great skills to apply to these areas, as well as the availability of information to support and model different scenarios.

What is your business losing by not maximising the potential that you have?