AI's quantified impact on the finance function

Improving process quality, cost, and efficiency

How IBM
can help

We help transform finance organizations from simply improving the efficiency of their finance processes to creating smart functions with intelligent workflows. These workflows can find, connect, and analyze data, uncovering deep insights that can inform intelligent decisions. Our financial consultants partner with clients to advise and manage end-to-end processes. To learn more, please visit ibm.com/services/finance-consulting

Key takeaways

AI provides quantified operational benefits across the finance function.

■ **AI is an untapped opportunity in finance.**

Only roughly one-fifth of surveyed organizations are operating or optimizing AI in financial planning and analysis, record to report, order to cash, or procure to pay.

■ **AI significantly impacts finance processes and applications.**

Top AI use cases being implemented are key performance indicator (KPI) selection and monitoring, close and consolidations, collections, financial forecasting, and market performance comparison.

■ **AI is driving operational benefits.**

The adoption of AI has a positive impact on finance function costs and finance area-specific productivity metrics.

Introduction

For the CFO and finance function, the expectation to be guardian of stability *and* agent of transformation has elevated both what's at stake and opportunity. To tackle this paradox of responsibilities and drive value through the organization, finance needs new approaches, new tools, new perspectives, new organizational constructs, and skills—especially related to data.
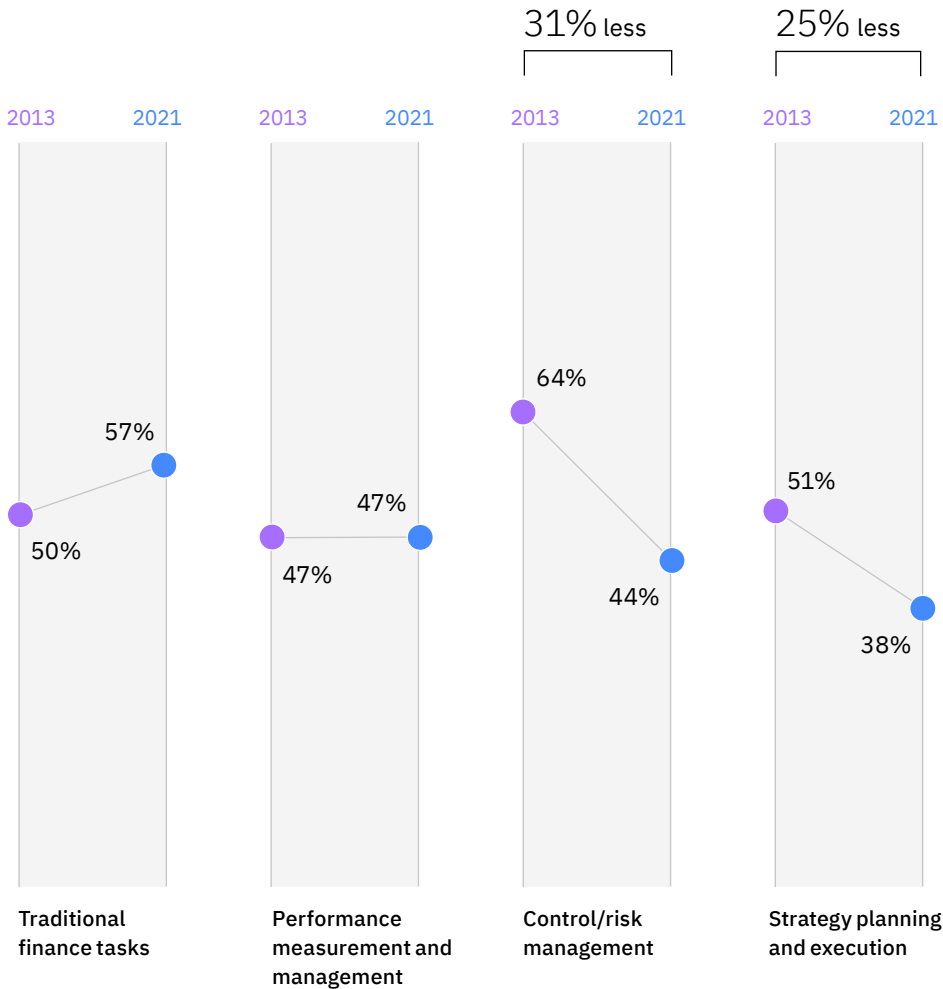
Yet, CFOs are ambiguous about how well their own finance organizations fulfill their duties (see Figure 1).[1] In the IBV 2022 C-suite CFO Study, executives state they are most effective at executing traditional finance tasks (transaction processing); still, two in five are not effective. Only 47% think they excel at measuring and managing performance—a task that has not seen improvement since 2013. And only 38% of respondents say they are effective in planning and executing strategy, a dramatic 25% drop over the same period. Control and risk management effectiveness has declined even more: 31% since 2013.

To enhance effectiveness, finance needs to choose the right course of action with speed—fed by having the right data at the right time—enabling execution decisions to proceed unencumbered. And finance should spend the right amount of time and effort on decision-making, increasing efficiency without compromising quality.

FIGURE 1

Finance effectiveness

A decline in strategy and
control effectiveness over time

31% less

25% less

| 2013 | 2021 | 2013 | 2021 | 2013 | 2021 | 2013 | 2021 |

57%

47%

64%

51%

50%

47%

44%

38%

Traditional
finance tasks

Performance
measurement and
management

Control/risk
management

Strategy planning
and execution

Q: How effective is your organizations's finance function at the following?

Source: IBV 2022 C-suite CFO Study.

AI defined

AI refers to next generation information systems that understand, reason, learn, and interact. These systems do this by continually building knowledge and learning and understanding natural language. And AI can reason and interact more naturally with human beings than traditional programmable systems.

AI can be a key enabler, changing the way work gets done to drive business outcomes. It can be applied to improve transactional activities and decision support. And replacing manual work with AI automation can help streamline financial processes while also enhancing business partnerships through better-informed decision-making.

In the record-to-report (R2R) general accounting and reporting area, AI-powered workflow and data models could include a reconciliation module that aggregates subledger transactions and performs risk-based reconciliations and cognitive forecasting. Automating procure to pay (P2P) with AI has been shown to increase productivity and permit finance to detect more fraudulent invoices.[2] AI-driven innovations in order to cash (O2C) help with credit scoring, pricing decisions, and the prevention of payment frauds. AI and advanced analytics rank as key components of the financial planning and analysis (FP&A) process, galvanizing and orchestrating planning and performance management.

Given this immense opportunity for finance, the IBM Institute for Business Value (IBV), in partnership with the American Productivity & Quality Center (APQC), surveyed 1,000 senior finance personnel. The research covered their AI adoption in four key finance areas (R2R, P2P, O2C, FP&A) and finance organization performance. This survey was conducted in 2021 with the goal of quantifying the impact of AI on operational level metrics. AI ad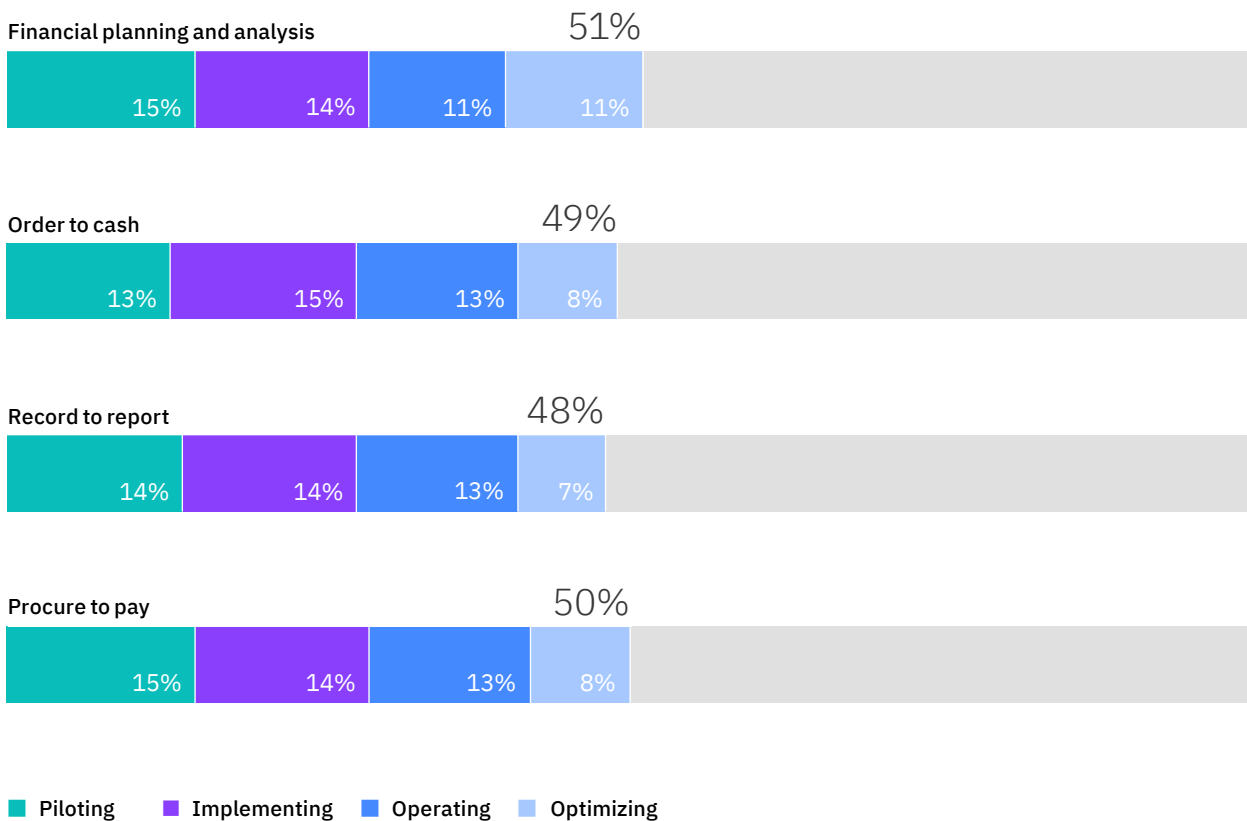opters, defined as those piloting, implementing, operating, or optimizing AI in any of the four finance areas, provided estimations of how AI influenced their scores on common finance metrics.

Across respondents, roughly half report adopting AI in each area, with only one-fifth operating or optimizing AI (see Figure 2). For more than 80% of AI adopters, AI has been incorporated into business-as-usual environments for less than two years.

AI adoption by finance area

Roughly half of organizations report adopting AI in each function

Financial planning and analysis — 51%

| 15% | 14% | 11% | 11% |

Order to cash — 49%

| 13% | 15% | 13% | 8% |

Record to report — 48%

| 14% | 14% | 13% | 7% |

Procure to pay — 50%

| 15% | 14% | 13% | 8% |

■ Piloting   ■ Implementing   ■ Operating   ■ Optimizing

Media company: Optimizing the record-to-report close cycle[3]

For a media company, the close process was complicated by:

– Resources from all the subprocesses involved in journal preparation and reconciliations

– Disparate distribution of workload among the team

– Lack of standard templates, process, and uniform technology, resulting in errors and escalations.

AI provided an opportunity to interpret the large volume of data and conduct process redesign to standardize and automate processes. AI systems helped recognize personnel who could do the same work faster and accurately and recommended redistribution of workload. As a result, the company experienced a reduction in turnaround time by 2.2 hours and a reduction in errors to less than 0.5%. There was also a 24% increase in efficiency.

Across respondents, roughly half report adopting AI across four finance functions.

AI impact on finance metrics

A statistical analysis of the data provides empirical evidence that positively correlates the adoption of AI with a positive impact on finance function costs and finance area-specific productivity metrics. This correlation does not imply causation since other factors, such as the use of other exponential technologies, operating model, finance skills, and lean processes, can contribute to finance's performance.

Looking at the total annual finance function cost as a percentage of revenue, half of AI adopters credit AI with a decrease of 7% or more and one-quarter credit AI with a decrease of 14% or more (see Figure 3). Clearly, AI helps these companies streamline transaction processing by decreasing labor-intensive, repetitive tasks through intelligent automation. For the bottom quartile, their finance function cost increased at least 2%, perhaps indicating unsuccessful implementations of AI.

Clearly, AI helps these companies streamline transaction processing by decreasing labor-intensive, repetitive tasks through intelligent automation.

FIGURE 3

AI impact on finance function cost as a percentage of revenue

Half of AI adopters credit the technology with a decrease of 7% or more

Total annual finance function cost as a percentage of revenue (median) = 1.28%

Estimated AI impact* on metric
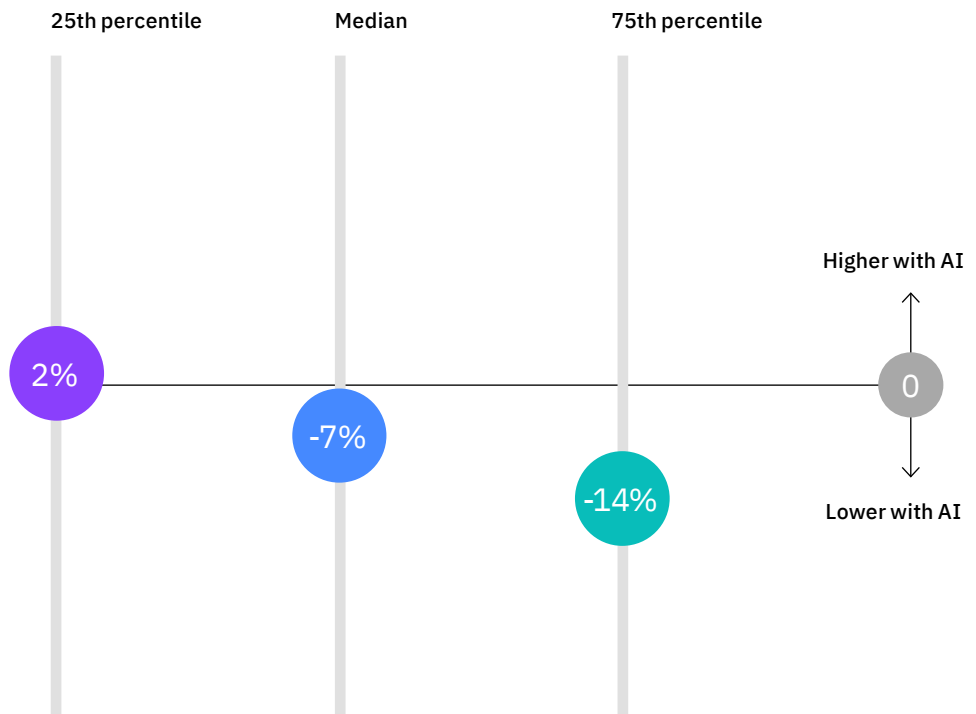
| 25th percentile | Median | 75th percentile |

Higher with AI

2%   -7%   -14%   0

Lower with AI

* AI impact: Computed at respondent level. AI contribution as a percentage of respondent's current value.

Source: IBV Performance Data and Benchmarking Program. 2021.

This AI benefit can also be seen in the number of finance function FTEs redeployed in the past 12 months as a percentage of total finance function FTEs (see Figure 4). The median of AI adopters attribute 40% or more of this change to AI, which allow these employees to refocus on strategic activities.
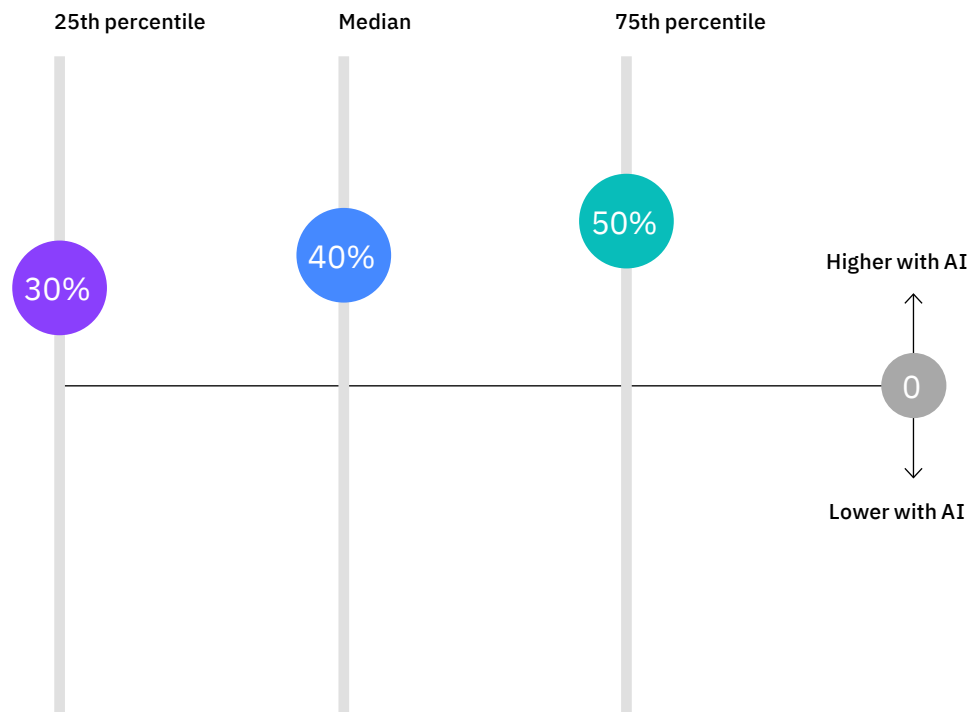
AI impact on finance function FTEs redeployed

The median of adopters attribute 40% or more of this change to AI

Number of finance function FTEs (including contractors and outsourced resources) that were redeployed in the past 12 months as a percentage of total finance function FTEs (median) = 6%

Estimated AI impact* on metric

AI impact: Computed at respondent level. AI contribution as a percentage of respondent's current value.

Source: IBV Performance Data and Benchmarking Program. 2021.

Record to report

Respondents tell us they are implementing AI in a number of record-to-report activities (see Figure 5).

A company's strategy execution is guided by its KPIs. Finance can help the enterprise make the difficult choices required to set and execute strategy, including supporting AI-influenced KPIs. Using AI in KPI selection and monitoring helps determine not only the outcomes that need to be measured, but also the measurement and prioritization of those outcomes.

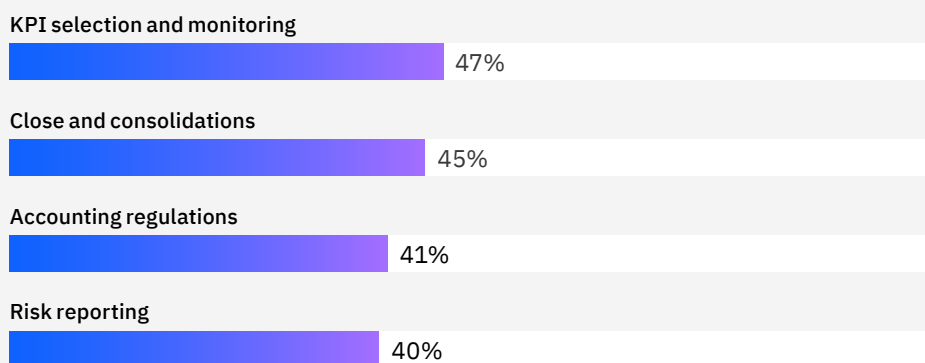With close and consolidations, AI assists with automating journal entries and completing account reconciliations. A journal entry AI advisor provides qualitative reviews using historical behavior and rules that enforce organizational policies and generates early insights into performance and business impact. Machine learning provides actionable insights on reconciliation anomalies. Risk insights highlight transactional anomalies period over period.

With risk reporting, AI technologies can identify and manage emerging risks. For instance, they can aggregate storylines from news and social media to identify potential risks. The solution can then project possible scenarios with business implications based on selected risk drivers.

FIGURE 5

Implementation of AI use cases: Record to report

More than 40% of respondents are implementing AI in this area

KPI selection and monitoring
47%

Close and consolidations
45%

Accounting regulations
41%

Risk reporting
40%

Percentage of respondents selecting the category as a finance-related AI use case being implemented today.

In terms of AI's impact, respondents estimate a reduction in cycle time in days to perform monthly close at the business entity level (see Figure 6). This metric indicates the speed at closing the books at the end of each month, leading to accelerated reporting of financial information. Half of AI adopters credit AI with a decrease of at least 25% and one-quarter credit AI with a decrease of at least 67%.
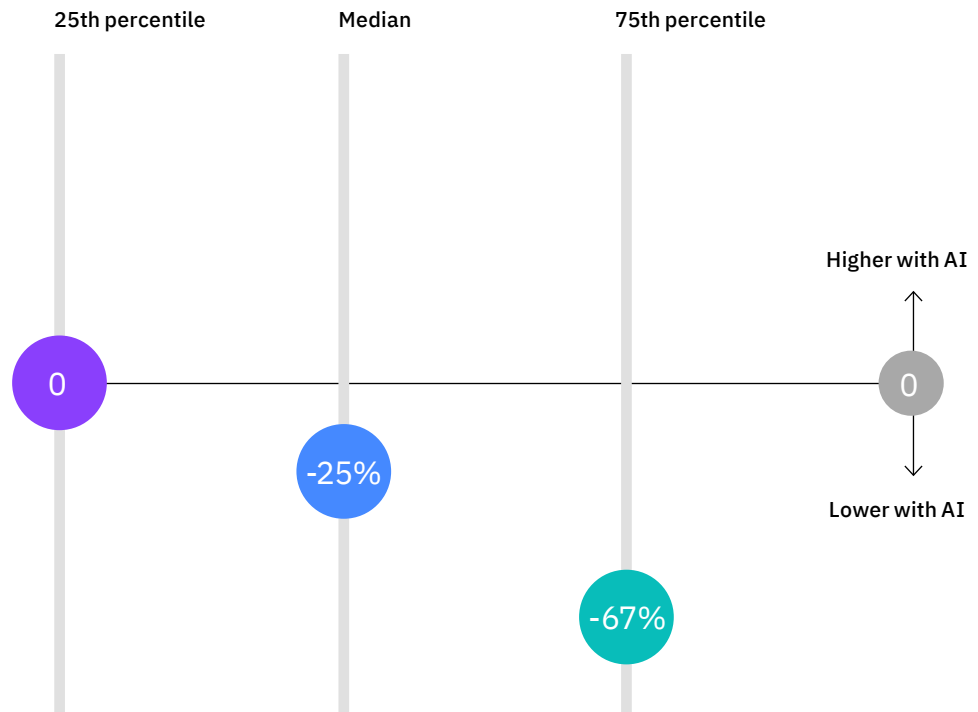
AI impact on monthly close cycle time

Half of AI adopters credit the technology with a decrease of at least 25%.

Average cycle time in days to perform monthly close at the business-entity level (median) = 10 days

Estimated AI impact* on metric

AI impact: Computed at respondent level. AI contribution as a percentage of respondent's current value.

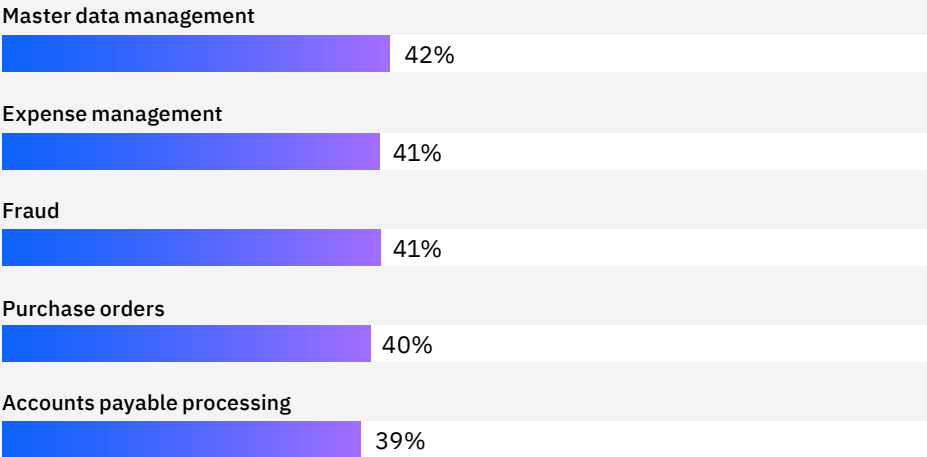*Source: IBV Performance Data and Benchmarking Program. 2021.*

Procure to pay

Implementing AI in procure to pay streamlines the process and enhances decision-making (see Figure 7). An AI-powered workflow, underpinned by data models, optimizes touchless processing and provides a unified interface for buyers, suppliers, procurement, and finance staff. Invoices are validated against business rules, coded, and matched to the purchase order automatically. Spend and pricing intelligence enables insights during sourcing. AI automates procurement operations and manages inquiries from buyers and suppliers.

Implementation of AI use cases: Procure to pay

Roughly 40% of respondents have adopted AI in this area

Master data management
42%

Expense management
41%

Fraud
41%

Purchase orders
40%

Accounts payable processing
39%

Percentage of respondents selecting the category as a finance-related AI use case being implemented today.

For the cycle time in days from receipt of invoice until approved and scheduled for payment (see Figure 8), half of AI adopters credit AI with a decrease of 33% or more and one-quarter credit AI with a decrease of 100% or more. An invoice in the approval phase creates cost. Shortening this KPI indicates improved efficiency in the P2P process. And finance can capture additional savings from early-payment discounts and favorable payment terms as well as avoid late fees.
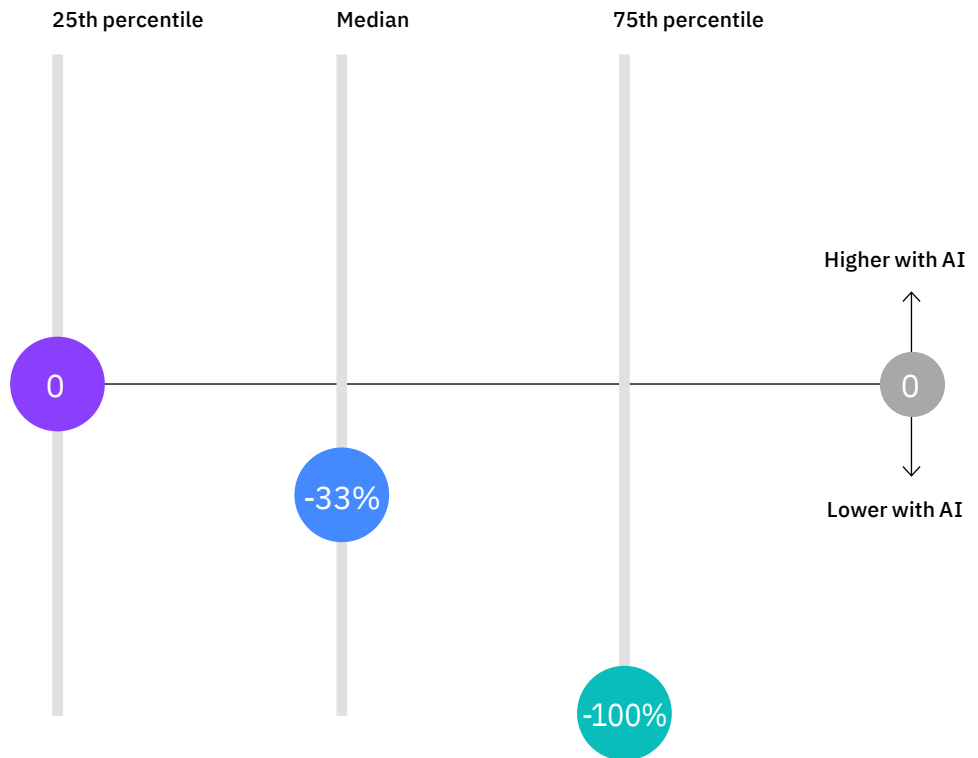
AI impact on cycle time from receipt of invoice until approved and scheduled for payment

Half of AI adopters credit the technology with a decrease of 33% or more.

Cycle time in days (including weekends) from receipt of invoice until approved and scheduled for payment (median) = 5 days

Estimated AI impact* on metric

* AI impact: Computed at respondent level. AI contribution as a percentage of respondent's current value.

*Source: IBV Performance Data and Benchmarking Program. 2021.*

Order to cash

Respondents report implementing AI for invoicing/billing, collections, and payments (see Figure 9). Across these activities, as well as order management and disputes and deductions, AI collects, prepares, and distributes data from documents and unstructured data. This automation eliminates the need to validate and manually populate data to the order-to-cash systems. AI advisors surface insights at critical moments in the order-to-cash process to optimize decision-making and enable greater accuracy in data extraction and matching.

For example, AI can help create and authenticate invoices, and analyze and process disputes. Collections from high-risk customers can be prioritized using AI-based customer segmentation, and organizations can leverage AI technology to predict the payment timelines. Finance staff can then follow up on valid deductions and help ensure customer satisfaction. Intelligent workflows with AI can automate cash applications on the same day against invoices and remittances and automatically manage scenarios, such as parent-child relationships and prepayments.[4]

Implementation of AI use cases: Order to cash

More than 40% of respondents report adopting AI in this area
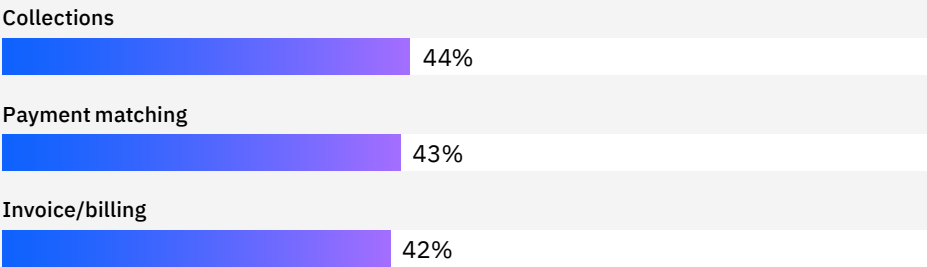
Collections

44%

Payment matching

43%

Invoice/billing

42%

Percentage of respondents selecting the category as a finance-related AI use case being implemented today.

Major consumer products company: Increasing collections efficiency and improving customer experience[5]

Disparate systems associated with collections created siloed processes and imposed actions on workers that result in suboptimal outcomes for both the company and their customers.

The organization leveraged a cognitive collections platform with AI that can learn from customer's purchases, payment patterns and trends, and recommend changes, including workflow reconfigurations. The agile and intelligent solution enabled collection process practitioners to make better-informed decisions on their own. As a result, the company generated a 35% increase in collection practitioner efficiency, 30% reduction in delinquent receivables, and 25% increase in customer satisfaction.

Respondents tell us that AI has impacted the total annual value of uncollectable balances as a percentage of revenue (see Figure 10). This KPI measures efficiency in O2C and helps companies optimize their collections process by reducing waste and refining resource consumption.[6] Half of AI adopters credit AI with a decrease of at least 2% and one-quarter credit AI with a decrease of at least 8%.
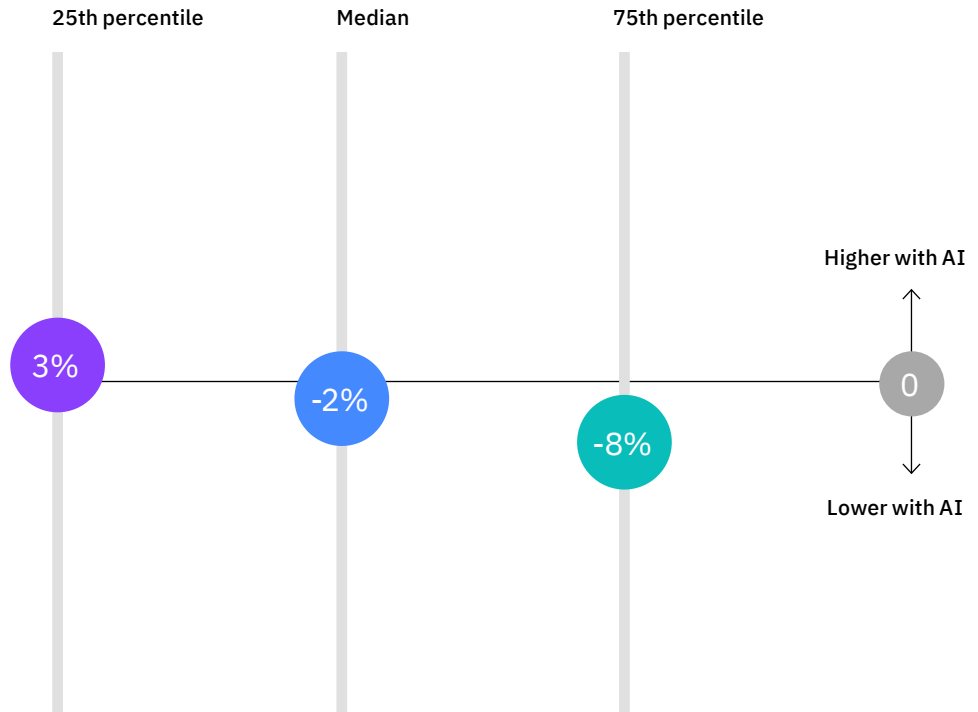
AI impact on the value of uncollectible balances as a percentage of revenue

One-quarter of adopters credit the technology with a decrease of at least 8%.

Total annual value of uncollectible balances, as a percentage of revenue (median) = .65%

Estimated AI impact* on metric

25th percentile	Median	75th percentile	
			Higher with AI
3%	-2%		0
		-8%	Lower with AI

*AI impact: Computed at respondent level. AI contribution as a percentage of respondent's current value.

Source: IBV Performance Data and Benchmarking Program. 2021.

For days sales outstanding (DSO) (see Figure 11), half of AI adopters credit AI with a decrease of 13% or more and one-quarter credit AI with a decrease of 24% or more. DSO measures the average number of days it takes an organization to collect payments from its customer.[7] Decreasing DSO provides greater liquidity.
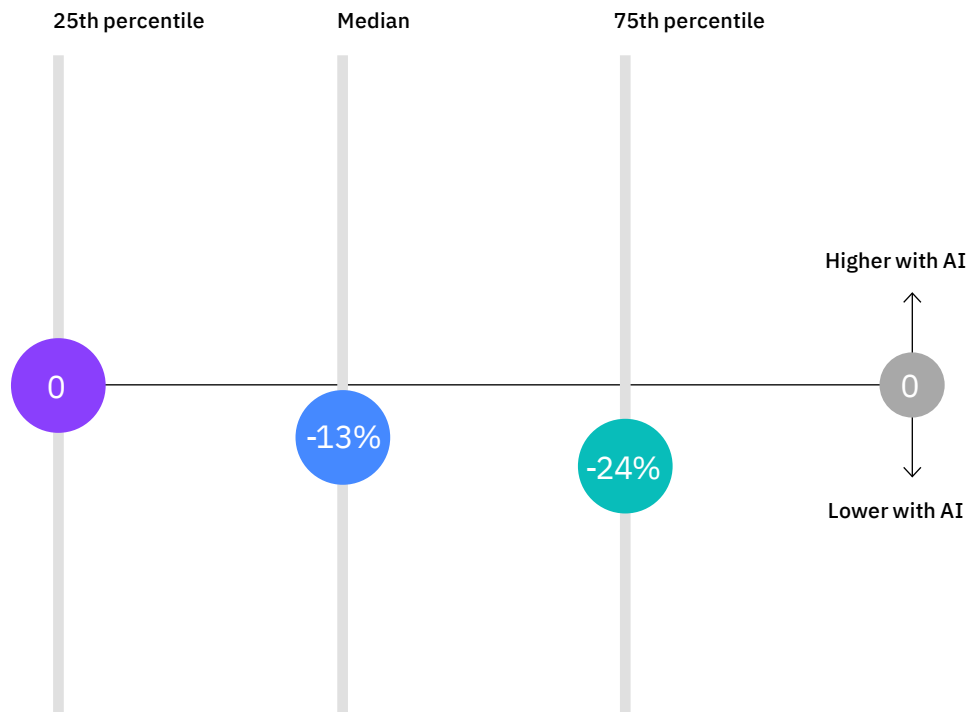
AI impact on days sales outstanding

Half of AI adopters credit the technology with a decrease of 13% or more

Average days sales outstanding (median) = 42 days

Estimated AI impact* on metric

25th percentile	Median	75th percentile

0   -13%   -24%   0

Higher with AI

Lower with AI

* AI impact: Computed at respondent level. AI contribution as a percentage of respondent's current value.

Source: IBV Performance Data and Benchmarking Program. 2021.

Financial planning and analysis

A significant amount of data on the market, company performance, competitor information, pricing, and operations needs to be aggregated and assessed by FP&A teams. The implementation of AI (see Figure 12) can partially automate the labor-intensive process by parsing through this data to identify anomalies, enhance forecasting, optimize pricing, and provide recommendations.

AI applies trend analysis, correlation analysis (including pattern and anomaly detection), and neural networks for financial forecasting. With neural networks, AI determines the relationship among data and uses it to predict new data, resulting in higher forecast accuracy.[8]
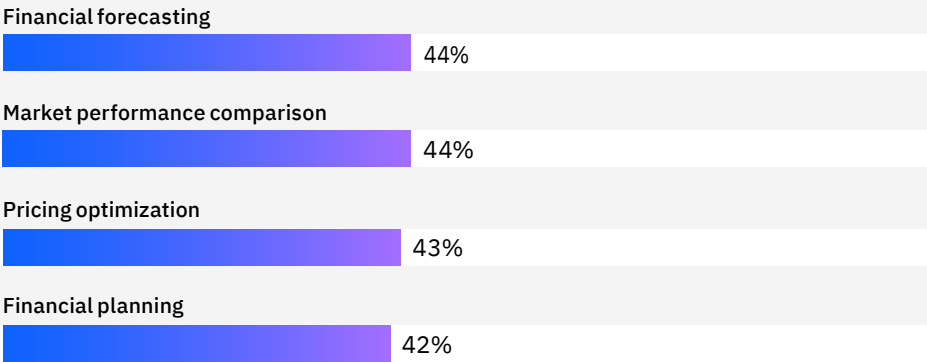
Application of AI for market performance comparison allows FP&A teams to factor in more variables and internal/external influences.[9] This facilitates producing scenarios on the industry and industry peer actions and developing ROI projections.

With pricing optimization, an AI analytics model can balance win probability against pricing to optimize expected revenue and profit and increase win rates. Analysis can factor in historical success and transaction characteristics (offering, configuration, deal size, customer) to enable more informed pricing decisions. Deals priced at or better than optimal price guidance can be set to "auto approve" or follow a streamlined approval path.

FIGURE 12

Implementation of AI use cases: Financial planning and analysis

More than 40% of respondents report adopting AI in this area

Financial forecasting
44%

Market performance comparison
44%

Pricing optimization
43%

Financial planning
42%

Percentage of respondents selecting the category as a finance-related AI use case being implemented today.

Nukissiorfiit:
Reaping the rewards
of AI in FP&A[10]

Nukissiorfiit is a government-owned Greenland energy company dedicated to supplying water and energy to residents without using fossil fuels. The company was challenged with providing accurate financial data and forecasts. Previously, 70 people worked to generate just one forecast a year.

Nukissiorfiit used machine learning and analytics solutions to automate, accelerate, and share intelligent forecasts and results. Now it can make faster, more informed decisions on capital projects.

Planning and forecasting processes were streamlined from 70 people contributing to an annual plan to just nine people creating monthly plans. Business visibility, forecast reliability, and agility were improved by providing the latest, most accurate information to stakeholders. Time spent on forecasting decreased from 1,000 hours annually across many roles to well below 200 hours.

With the solutions, the company can now use the insights to set thresholds and be alerted if the forecasts are outside of the ranges; it can also override the alerts based on experience or additional information. The result: Nukissiorfiit is more agile, and its financial planning is more accurate.

AI's natural language processing can capture and analyze the intent of human language data to recommend a way of working that improves the effectiveness of the financial planning process. Automated machine learning capabilities create "what-if" modeling scenarios based on the incoming data and helps finance staff to better understand and plan for future outcomes.[11] By constantly comparing current plan data to historical data and trends, AI assists planners in understanding variances. And AI allows FP&A teams to factor in economic data, organizational benchmarks, and operational data.[12]

With the implementation of these use cases, AI provides both an impact on efficiency through intelligent automation as measured by cycle time and quality indicated by forecasting accuracy.

With days to complete the financial forecast (see Figure 13), half of AI adopters credit AI with a decrease of at least 25% in the cycle time and one-quarter credit AI with a decrease of at least 50%. By reducing cycle duration, finance can focus on performing analysis and making recommendations to adjust organizational direction. In addition, AI adopters see a decrease in cycle time in hours to develop a short-term cash flow forecast. Half of adopters credit AI with a decrease of 50% or more and one-quarter credit AI with a decrease of 140% or more.

AI impact on on financial forecast cycle time

Half of AI adopters credit the technology with a decrease of at least 25% in cycle time

Average cycle time in calendar days (including weekends) to complete the financial forecast (median) = 12 days

Estimated AI impact* on metric
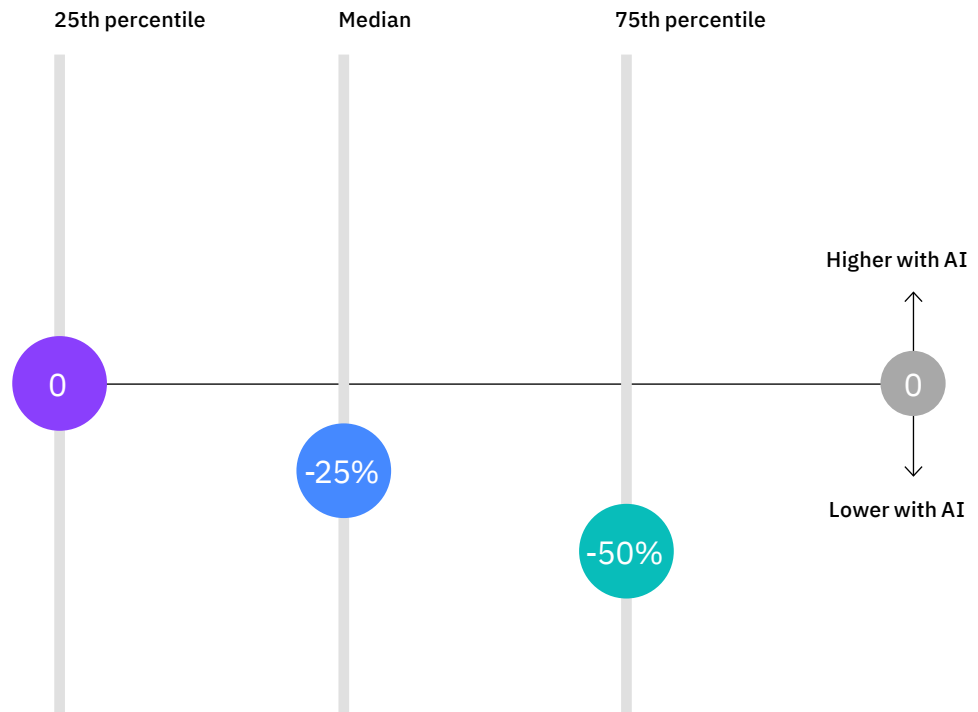
AI impact: Computed at respondent level. AI contribution as a percentage of respondent's current value.

Source: IBV Performance Data and Benchmarking Program. 2021.

Vaasan: Upgrading planning[13]

To provide high quality products and services to their customers, Finland baker Vaasan relied on very short planning cycles that were informed by various data sources from across the organization. When the COVID-19 pandemic first occurred, Vaasan's demand doubled overnight, putting significant pressure on their supply chain. With the help of predictive analytics, the company was able to operate with less excess capacity, as well as predict energy consumption and costs and build long-term product plans.

As a result of their planning solution with AI, Vaasan realized higher profits and customer satisfaction. Vaasan is currently testing a model that can analyze cost center trends, saving planners time spent sifting through data manually at month's end.

Half of AI adopters credit AI with a decrease of 20% or more in typical overall forecast error and one-quarter credit AI with a decrease of 50% or more (see Figure 14). As forecast error goes down, the risks decline and finance can make smarter decisions associated with staffing, production, capital expenditures, and other areas. In addition, AI adopters state that total sales forecasting error and inventory cost forecasting error have decreased due to AI.
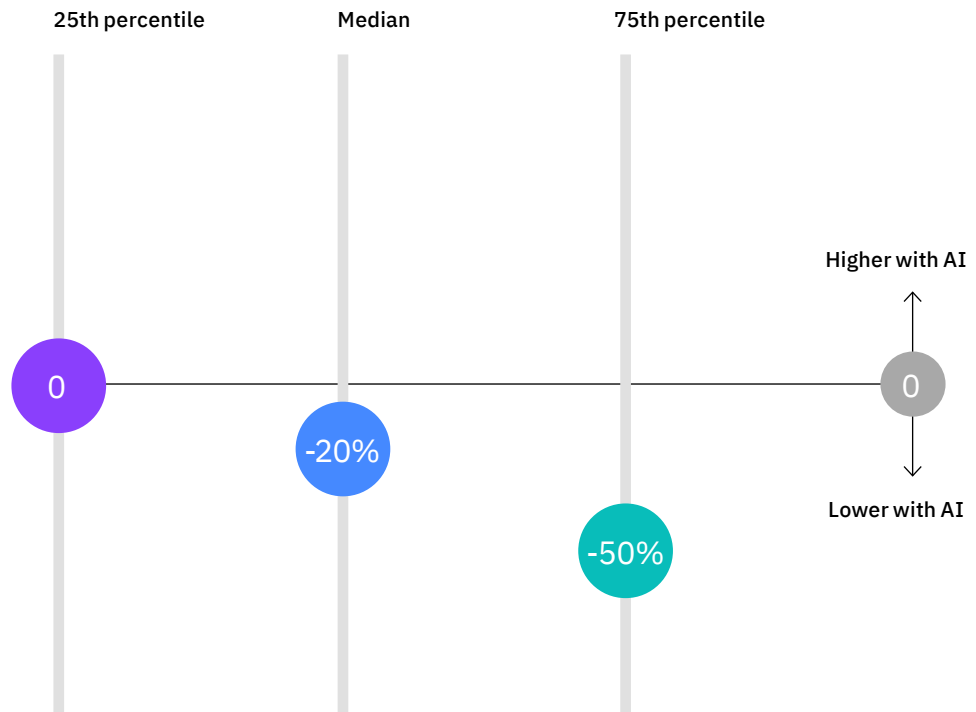
AI impact on typical overall forecast error

Half of AI adopters credit the technology with a decrease of 20% or more

Typical overall forecast error (median) = 2.5%

Estimated AI impact* on metric

25th percentile	Median	75th percentile
0	-20%	-50%

Higher with AI

Lower with AI

* AI impact: Computed at respondent level. AI contribution as a percentage of respondent's current value.

*Source: IBV Performance Data and Benchmarking Program. 2021.*

Global pharmaceutical company: Improving forecasting[14]

A global pharmaceutical company grappled with low forecast accuracy at a drug level using traditional methods, such as using historical data to estimate future metrics. Moreover, slow reaction to competitive shifts resulted in a subpar return on investment and long turnaround times for analyzing data and determining actions.

To address this, the company developed a cognitive simulator solution that drives end-to-end dynamic, integrated, and streamlined financial planning. The solution includes a machine learning-based forecast; an external perspective for true market potential through a live scenario-planning engine; and an accurate account of the impact of client and competitor actions, policy changes, market dynamics, new regulations, and more.

As a result, drug-level forecast accuracy increased to 97% from approximately 85%. And by optimizing investments and driving significant efficiencies through on-demand planning, the enterprise recorded an estimated $115 million in incremental profit over two years.
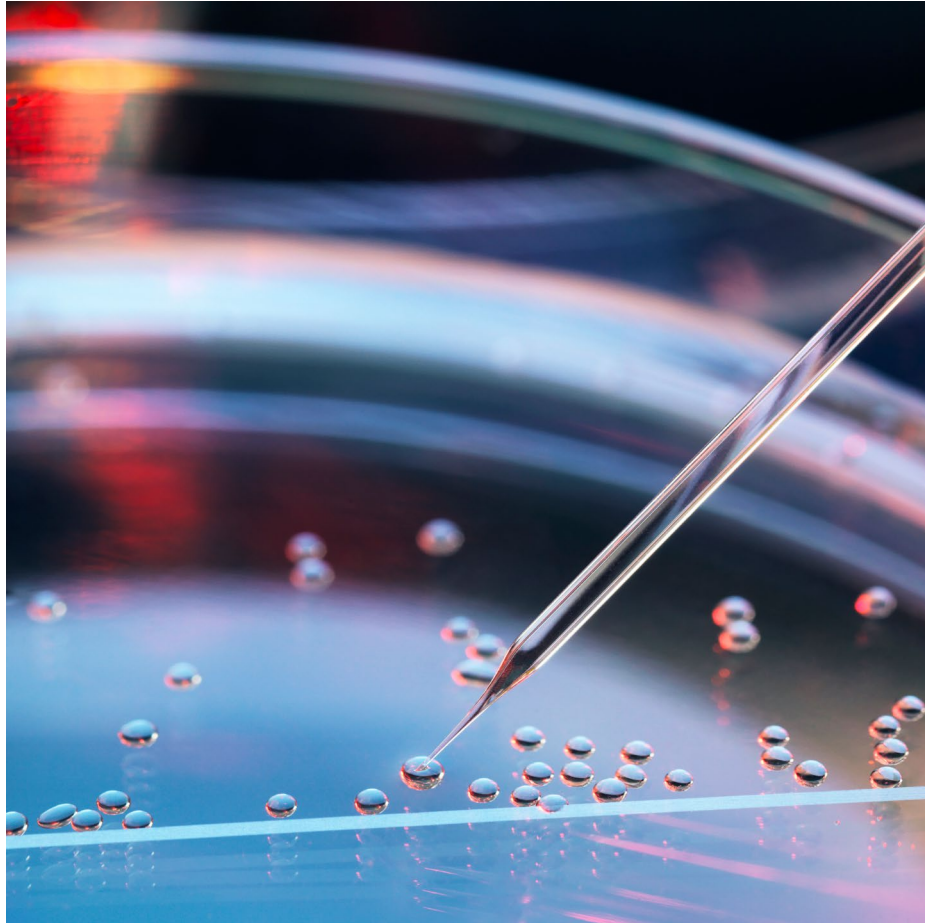
AI adopters state that total sales forecasting error and inventory cost forecasting error have decreased due to AI.

Action guide

*AI's quantified impact
on the finance function*

01

Develop a transformation map.

The rewards of implementing AI for finance can be immense. Yet only one-fifth of respondents are operating or optimizing AI for record to report, procure to pay, order to cash, or financial planning and analysis. To realize clear financial value from AI, finance needs to integrate AI into its transformation strategy—as well as measure performance more systematically.

Prioritize a clear, well-defined transformation strategy for the finance function. This allows the CFO to establish goals while identifying new and evolving technology opportunities. Look beyond one-dimensional, cost-driven intelligent automation. Finance can then create a transformation map to articulate distinct steps and investment requirements to deliver AI. Support this map with business cases and a benefits tracking approach to deliver return on investment, cost reduction, risk mitigation, and insights.

Include prerequisites with an emphasis on fundamentals. Before implementation of AI, invest in the people skills, processes, data, and culture needed to take full advantage of the technology. Put in place a deliberate, thoughtful approach to AI talent acquisition and development. Establish process and systems commonality. Use tools for process mining to help identify the most efficient and effective path and rogue variants. Place data at the center of the transformation. Standardize financial and nonfinancial data definition and establish a data governance framework. In addition, create central repositories to aggregate financial, operational, and externally curated data.

02

Leverage the "garage" concept and align with the broader organization.

AI initiatives in the finance areas impact the entire organization—so enlist leaders from finance, the business, technology, and operations to co-create and co-execute. These centralized innovation teams help accelerate envisioning the future and building out and scaling up the adoption of AI as it touches on sales and supply chain (order to cash) and lines of business (financial planning and analysis). Drive an agile innovation incubator for creating automated and AI-enabled finance capabilities. Select and measure key process metrics, creating a baseline that enables the tracking of ongoing performance to quantify the impact of AI.

03

Implement with an eye on speed and outcomes.

Create an implementation plan for the AI-driven finance transformation, including business objectives, milestones, and costs. Include pilots and staged investments to rapidly achieve success and demonstrate the value of the solutions. This can also build underlying AI readiness capabilities. When pilots are successful, finance can then move to production. Measure KPIs as defined in the business case and compare with the baseline to quantify benefits realization.

Communicate regularly with stakeholders—especially because critical data is required from them. For example, data from suppliers in an AI procure-to-pay implementation will need to be cleaned and serve as input into new systems. Ramp up execution by formal weekly and monthly reviews with business stakeholders to understand roadblocks, critical path, and value realization.

About
the authors
↗

Caitlin Halferty

caitlin.halferty@us.ibm.com
linkedin.com/in/caitlin-halferty

Caitlin brings 17 years of industry experience to her current role as Partner, Data, and Finance Transformation in IBM Consulting. She is responsible for the data practice, partnering with data and finance leaders to implement data strategy, ERP systems, governance, change management, data fabric, and data and AI use cases. Caitlin has built IBM's global client community of more than 1,300 Chief Data Officers and Chief AI Officers, delivering the industry's longest running data and AI summit series.

Monica Proothi

monica.proothi@ibm.com
linkedin.com/in/monicaproothi

Monica is a Partner and leads the Global Finance Transformation practice within IBM Consulting. She has 20 years of experience split between consulting and industry roles. Monica has built a reputation for driving hypergrowth through optimizing finance operating models through human centric transformations integrated with ERP modernization, intelligent operations, digital, technology and data for C-suite clients. She is a people champion and continues to drive diversity, equity and inclusion awareness and engagement across IBM Consulting.

Annette LaPrade

annette.laprade@us.ibm.com
linkedin.com/in/annette-laprade-67a3307

Annette is the CFO Lead for the IBM Institute for Business Value Performance Data and Benchmarking program. She manages financial management benchmarking and regularly conducts benchmark studies on finance-related topics. Annette has over 30 years of experience in financial management and consulting.

Spencer Lin

spencer.lin@us.ibm.com
linkedin.com/in/spencer-lin-35896317

Spencer Lin is the Global CFO Lead for the IBM Institute for Business Value. He is responsible for market insights, thought leadership development, competitive intelligence, and primary research on the CFO agenda and trends. He is a co-author of the last eight IBM Global CFO Studies. Spencer has over 25 years of experience in financial management and strategy consulting.

Study approach and methodology

In partnership with APQC, we surveyed 1,000 senior finance personnel (roles included CFO, controller, and finance and accounting director). Respondents are from a variety of industries and reported on their finance organization performance and AI adoption in record to report, order to cash, procure to pay, and financial planning and analysis. The respondents had overall responsibility for finance and accounting and could answer questions related to strategies, budgets, FTEs, and practices for the entire organization's finance function. The survey was conducted in 2021 to quantify the impact of AI on finance operational level metrics. Participants provided information on current performance in key operational metrics and AI adopters also provided estimates of how the current metrics results were impacted by AI.

Of the 576 AI adopters (defined as those piloting, implementing, operating, optimizing AI in any of the four finance areas), we asked:

– What is your value for the KPI today (including influence from AI, since these are AI adopters)?

– What do you estimate that your KPI value would be, were it not for AI?

We calculated the influence of AI at the respondent level in two ways (see Figure 15):

– AI contribution to KPI score: the raw difference made by AI to the KPI score

– AI impact as a percentage of the respondent's current value.

Calculation of the influence of AI on a KPI

Examples of AI increasing KPI score	
KPI score (with AI)	13%
Estimation of KPI score without AI	12%
AI contribution to KPI score	1%
AI impact (AI contribution as percentage of KPI score)	1% / 13% = 8%

| Example of AI decreasing KPI score	
KPI score (with AI)	45
Estimate of KPI score without AI	50
AI contribution to KPI score	-5
AI impact (AI contribution as percentage of KPI score)	-5 / 45 = -11%
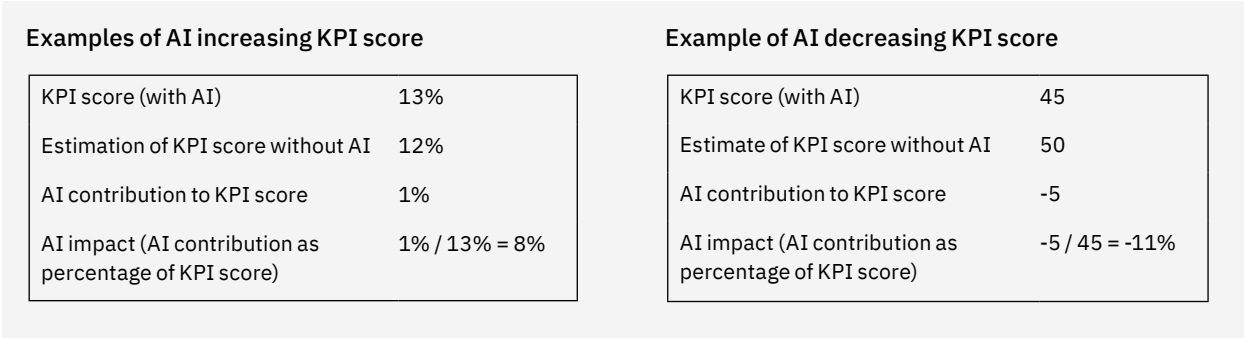
The scope of the survey was global, including 25 countries across the Americas, Europe, Asia/Pacific, the Middle East, and Africa. The surveyed enterprises represented 16 industries and included a range of enterprise sizes (see Figure 16). Data cited in this study is self-reported by study respondents.
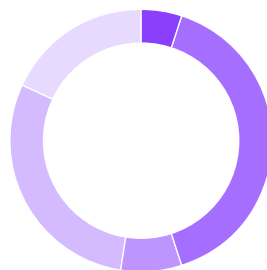
Survey demographics
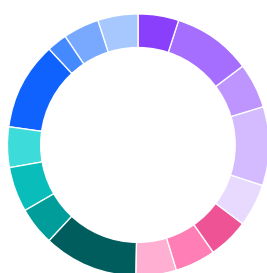
Industry distribution

Automotive	5%	
Banking	10%	
Chemicals and petroleum refining	6%	
Electronics	10%	
Fast-moving consumer goods	5%	
Government	5%	
Healthcare providers	5%	
Insurance	5%	
Life sciences	12%	
Media and entertainment	5%	
Other manufacturing	5%	
Retail	5%	
Services	11%	
Telecommunications carriers	3%	
Transportation	4%	
Utilities	5%	

Regional distribution

Africa and Middle East	5%
Asia Pacific	40%
Central and South America	8%
Europe	29%
US and Canada	18%
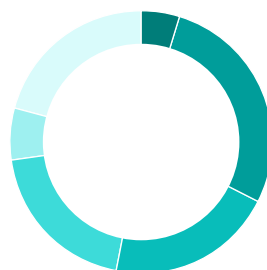
Parent organization revenue

Less than $100 million	5%
$100 million to $500 million	28%
$500 million to $1 billion	21%
$1 billion to $5 billion	20%
$5 billion to $10 billion	6%
More than $10 billion	21%

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