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FINANCE EXECUTIVE INSIGHT
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Looking Past Covid-19: Five Critical Messages for CFOs

By Nilly Essaides and Tom Willman

EXECUTIVE SUMMARY

Finance has received high marks from management and business stakeholders for its rapid response to the Covid-19 pandemic. In a May 2020 poll conducted by The Hackett Group, 100% of finance respondents transitioned successfully to remote work and closed the books on time in spite of substantial disruption. Now, using the lessons learned in the past few months, CFOs must move the function beyond reactive blocking and tackling, toward preparing to meet the long-term implications of the crisis on finance's operating model.

INTRODUCTION

The Covid-19 pandemic instigated an economic crisis of epic proportions. The recession now underway may be prolonged and recovery will be uneven, varying by company, industry and geography. The crisis was an eye-opener for many CFOs. Not only did it expose fault lines in the function's current operating model, it also proved that bold change can happen quickly and effectively.

Going into 2020, 88% of finance organizations had a major transformation initiative underway, and 96% were planning on launching one in the next 12-24 months.[1] The experiences of the past few months have caused a rethinking of the way finance executes and delivers its services, as organizations prepare for a future "normal." While the post-crisis environment will be challenging, finance has gained an opportunity to reemerge as a more agile and digitally enabled function.

Our May 2020 poll on business responses to the Covid-19 outbreak looked into the near- and long-term effects on the finance function. The five principal findings and their implications for CFOs are discussed in these pages.

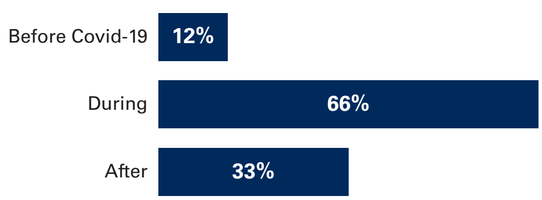
1. REMOTE WORKS! KEEP IT GOING

All finance respondents to our poll quickly transitioned staff to remote work once the scale of the epidemic started to become clear. In an April webcast for our Account-to-Report Advisory Program members, participants told us they met their company's quarter-end or month-end close deadlines in March, although 20% experienced some difficulty doing so.

[1] Finance Transformation in the Digital Age Study, The Hackett Group, 2019

HR executives predicted a 3X surge in the percentage of employees working from home post-crisis, compared to pre-crisis levels **(Fig. 1)**. Some companies have already announced they expect staff to continue working remotely for the foreseeable future. At one client company we spoke with, employees will not return to the office until January 2021, in large part to reduce pressure on parents by waiting for schools to reopen. Other companies are experimenting with hybrid solutions, including working in shifts to decrease the chances of contagion. In addition, with infection rates spiking in many areas, stay-at-home directives may be renewed by government entities.

FIG. 1 Percentage of employees working from home, according to HR leaders



Source: Covid-19 Poll, The Hackett Group, 2020

To maintain smooth operations through the current environment and beyond, CFOs must take the following initiatives:

- Assess which roles require office presence (and how regularly), and which employees can continue to work remotely.
- Automate more processes to operationalize the virtual workplace.
- Reexamine service placement in captive GBS organizations or business process outsourcers (BPOs) to identify business-critical activities that should be pulled back or remain in-house.
- Expand VPN bandwidth to permit greater access to sensitive data for remote workers.
- Accelerate the adoption of cloud-based solutions to broaden access to enterprise data hubs and work tools.
- Develop performance-evaluation metrics tailored to virtual work, including new ways of measuring productivity.
- Offer training to finance staff and their managers to support the transition, such as establishing work routines, communication frequency and collaboration protocols.

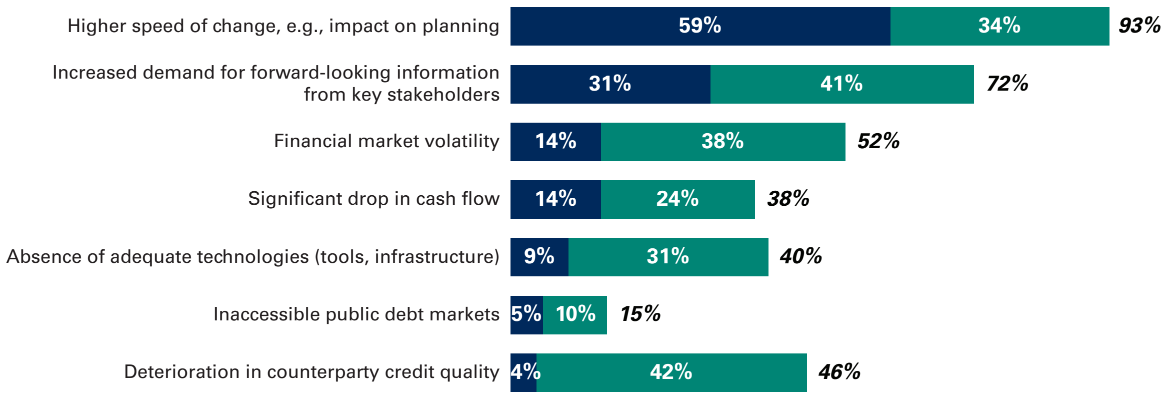
2. OVERHAUL INFLEXIBLE PLANNING PROCESSES

Initially, as the pandemic unfolded, the most visible disruptor to finance's day-to-day operations was the changeover to remote work. However, this was not finance's biggest problem. Ninety-three percent of poll respondents reported difficulties keeping up with the fast-changing business and economic environment, which strained existing planning processes.

Our EPM Performance Study (2018) found that half of financial planning and analysis (FP&A) groups still rely on complex and cumbersome spreadsheets to produce the forecast and run analysis. As a result, 72% have had difficulty meeting the company's demand for forward-looking information **(Fig. 2** on next page**)**. Over half of organizations also reported that inflexible planning processes were a major inhibitor to an effective crisis response. To add resilience to the planning process, CFOs should:

- Forgo the exhaustive, bottom-up annual planning process in favor of a truncated, high-level budget that leverages rolling forecasts with a cadence and horizon aligned to changing business needs.
- Establish an event-based forecasting process that kicks in and supplements the regular forecasting regimen when the unexpected happens.
- Pivot from historical analysis toward forward-looking insight by acquiring dedicated planning solutions with embedded analytics functionalities or deploying standalone AI and predictive analytics tools.
- Reinforce a forward-looking mindset by spending most of the time during management review meetings discussing possible future events.

FIG. 2 Degree of disruption to finance operations



Source: Covid-19 Poll, The Hackett Group, 2020

- Establish analytics centers of excellence (COEs) to amplify the reach of data-science experts in order to provide services to other parts of finance and the overall organization.
- Set up an enterprise data "store" (data lake or other platforms) to integrate source systems, enhance data integrity and consistency, and provide a strong governance structure, so everyone can access "blessed" data to drive modeling.
- Reskill staff so they become comfortable with big data and statistical models.
- Democratize access to data and push analytics capabilities to the business, using self-service functionalities to reduce pressure on COEs and speed up the data-to-insight cycle.
- Develop new communication skills like storytelling, so analysts can convey insights in a digestible and actionable manner.

3. MAKE CASH KING

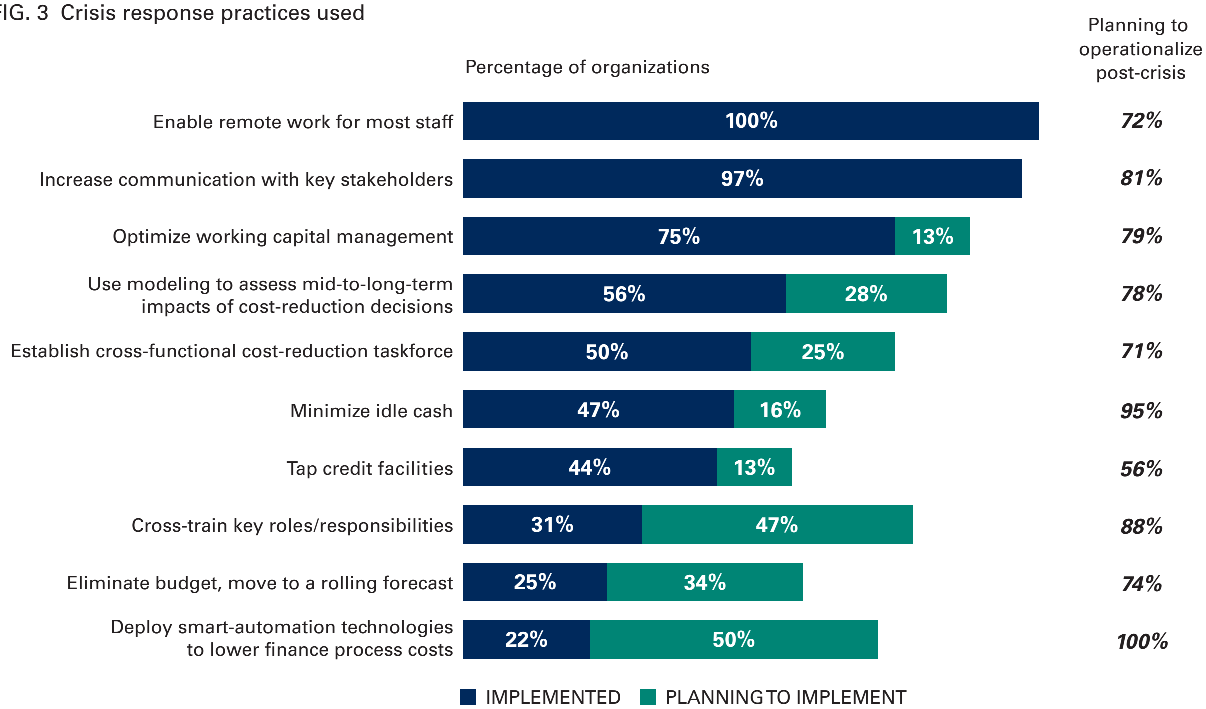
After a decade of cheap debt and abundant liquidity, many companies had been lulled into complacency about cash. The crisis was a huge wake-up call. The ongoing liquidity squeeze is being alleviated by central bank intervention. While some companies have been able to access the debt markets, and the soaring stock market offered others the chance to raise capital by issuing equity, more highly leveraged organizations (the majority) are struggling to meet debt obligations.

Expectations of long-term negative or weak growth will continue to undermine corporate revenue, resulting in greater emphasis on cash preservation. Seventy-five percent of participants in our Covid-19 Response Poll took immediate steps to improve working capital management, and 79% intend to operationalize them post-crisis (Fig. 3 on next page).

Many companies expect continued pressure on margins, indicating that cash preservation will remain at the top of the CFO agenda and leading to the following imperatives:

- Optimize working capital by extracting cash that is already circulating in the company in order to reduce reliance on external funding.
- Review and tighten global customer credit-risk policies.
- Automate the collection of third-party credit data and internal payment information and apply AI and machine learning tools to continuously monitor and analyze real-time trends to predict future customer behavior.
- Use advanced analytics tools to segment overdue accounts and drive collections contact strategy.
- Embrace a strategic receivables management framework by ensuring the credit function is involved in initial sales conversations.
- Automate the end-to-end cash cycle (e.g., integrate dedicated customer-to-cash applications with the ERP and treasury management system) in order to enhance cash-forecasting accuracy.

FIG. 3 Crisis response practices used



Source: Covid-19 Poll, The Hackett Group, 2020

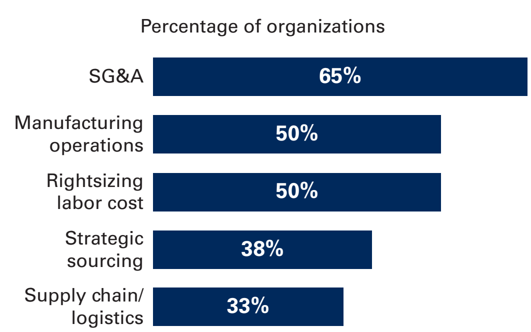
- Rethink the company's banking strategy and liquidity management structures to enhance visibility into cash, e.g., rationalize banking relationships and establish notional or physical pools or an in-house bank.
- Reconsider tax-driven cash accumulation strategies to build up domestic liquidity.
- Evaluate the capital structure to determine the implications on leverage ratios, buyback programs and dividends, and socialize the message with investors and creditors.

4. PURSUE COST-REDUCTION EFFORTS

Most finance organizations entered 2020 with expectations of a modest recession and factored this into annual budgets. However, they were not prepared for a demand shock of the magnitude of Covid-19. Further, our poll found that 69% of SG&A executives expect economic conditions to get worse. By using our benchmarking data to determine current function costs per $1 billion of revenue, we determined that SG&A functions will have to cut budgets by an average of 15% just to maintain pre-crisis cost/revenue ratios.

Finance's role in driving cost optimization is twofold. First, it must support enterprise-wide initiatives, and second, it must diagnose sustainable function cost-reduction opportunities. Our research indicates that management expects finance to support cost-reduction efforts in SG&A functions, manufacturing and workforce rightsizing (Fig. 4).

FIG. 4 Areas where finance is expected to support enterprise cost reduction efforts



Source: Covid-19 Poll, The Hackett Group, 2020

Cost pressures will not abate anytime soon, not only because of the economic slowdown but also due to ongoing technological disruption and business-model innovation. Therefore, CFOs should:

- Apply advanced analytics to avoid undermining the company's ability to benefit from the eventual recovery. For example, what are the upstream and downstream ramifications of headcount reductions?
- Engage in benchmarking exercises to diagnose immediate and long-term opportunities for improving process efficiency at the function and enterprise levels.
- Identify emerging risks (or opportunities) for achieving the company's strategic vision, revising service delivery models as necessary.
- Evaluate Capex and OpEx projects within a robust, value-driven framework that is aligned with the company's strategic objectives.
- Deploy process analytics to extract data about inefficiencies that increase process costs, which can be resolved through process redesign and greater automation.

5. ACCELERATE DIGITAL INITIATIVES

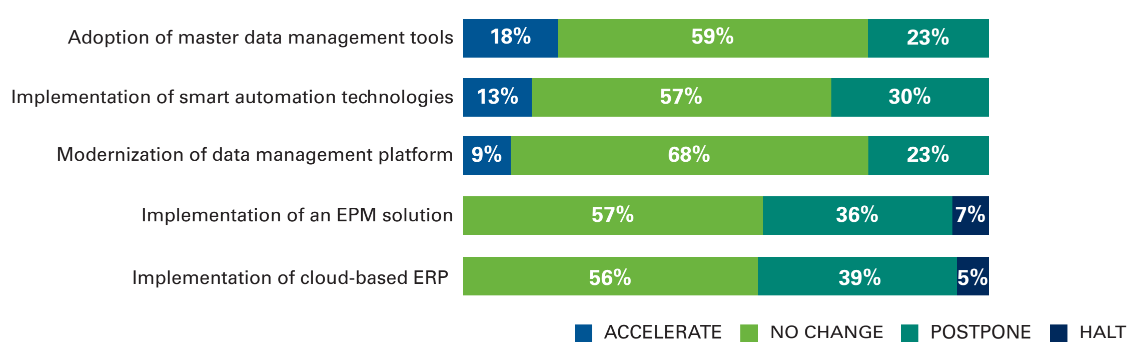
Low levels of automation were cited as the No. 1 factor limiting finance's ability to respond effectively to Covid-19. This recognition by finance, senior management and the business overall underpins a rising commitment to digital transformation initiatives and in some cases, an acceleration **(Fig. 5)**.

Even more encouraging, 64% of finance respondents affirmed they intend to press forward with select new initiatives. It is telling that companies are stepping up efforts to modernize data management platforms and adopt master data management tools, as these are the foundation for a successful transformation.

Finance's digital resolve is aligned with that of the IT organization. Seventy-seven percent of CIOs reported that their company's commitment to investing in digital projects will rise either moderately or significantly post-crisis, leading to the following imperatives for CFOs:

- Leverage increased IT investment in digital to secure funding for ongoing and new finance transformation projects.
- Work with newly supportive business stakeholders to strengthen buy-in for developing digital capabilities.
- Optimize existing systems by implementing their full functionality.
- Collaborate with vendors to learn about upcoming functionalities and identifying new use cases.
- Drive new investment by proposing projects that can deliver ROI quickly, such as RPA.

FIG. 5 Impact of Covid-19 on digital transformation initiatives



Source: Covid-19 Poll, The Hackett Group, 2020

CONCLUSION AND RECOMMENDATIONS

Finance's effective response to pandemic-related disruption demonstrated that bold, rapid change is possible. According to 75% of our poll respondents, the biggest long-term effect of Covid-19 will be a renewed sense of urgency about transforming to a more agile service delivery model.

Enhancing finance's resilience to future waves of business and economic volatility requires reviewing and updating every aspect of service delivery (Fig. 6). By taking a holistic approach to how and where finance executes its work, CFOs can build a sustainable, agile operating model that can withstand continued disruption and support the organization's strategic objectives.

RELATED RESEARCH

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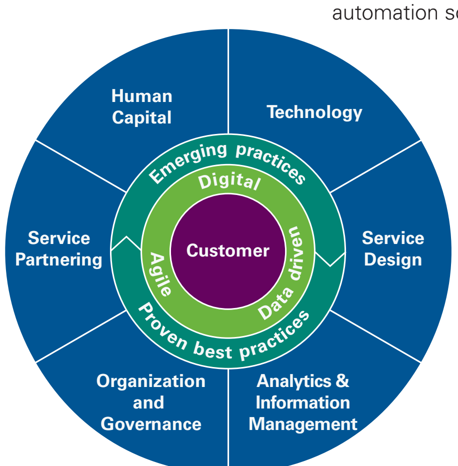
The Impact of Covid-19 on Planning, May 2020

How to Become a Better Business Partner, April 2020

FIG. 6 Adding resilience and agility to the finance service delivery model

Human Capital
- Upgrade skill set to support better business partnering.
- Leverage COEs to amplify access to expertise.
- Cross-train critical staff.
- Plan for a hybrid office/remote working world.

Technology
- Scale up secure connectivity for sensitive data to support virtual work.
- Optimize use of existing technologies.
- Accelerate migration to proven cloud-based and smart automation solutions.



Service Partnering
- Evaluate the crisis response of key providers, e.g., BPOs, banks, audit firms.
- Increase communication with critical stakeholders.
- Leverage expertise of external service providers when making decisions.

Service design
- Evaluate effectiveness of service delivery for stakeholder segments.
- Remediate process design weaknesses exposed by the crisis.
- Expand use of self-service tools to improve customization of user interface.

Organization and Governance
- Coordinate with GBS organizations to optimize capacity and automate more processes.
- Lead cross-functional crisis-response team.
- Accelerate the use of agile teams.

Analytics and information management
- Switch to dynamic planning and rolling forecasting of P&L and cash.
- Run scenario analyses and reassess their validity as market conditions change.
- Leverage analytics IQ to support intelligent cost-reduction decisions.

Source: The Hackett Group

About the Advisors

NILLY ESSAIDES

Senior Research Director, Finance, EPM/Business Intelligence and Finance Operations Advisory Programs

Ms. Essaides has over 25 years of experience researching, writing, and speaking about finance and treasury issues, with a focus on the way finance adds value to the enterprise through excellence in financial management and planning processes. Previously, she worked at the Association for Financial Professionals, where she led the FP&A practice. Ms. Essaides, a prolific blogger with thousands of LinkedIn followers, writes for external publications such as *Digitalist Magazine*. In addition, she co-authored a book about the internal transfer of best practices, *If Only We Knew What We Know* (Simon & Schuster).

TOM WILLMAN

Associate Principal and Global Practice Leader, Finance Executive Advisory Program

Mr. Willman has over 20 years of experience helping CFOs and other senior finance executives transform their organizations by deploying more efficient and effective processes, service delivery models and enabling technologies. Areas of expertise include planning and forecasting, close and consolidations, management reporting and analysis, and the design and implementation of shared services organizations. Previously, he spent 10 years with IBM Global Business Services and PricewaterhouseCoopers, consulting in their Finance Transformation practices, and several years in the Audit and Assurance practice at Coopers & Lybrand.

The Hackett Group
1000 Abernathy Road NE
Suite 1400
Atlanta, GA 30328

+1 770 225 3600
1 866 844 6514 (toll-free)
info@thehackettgroup.com
www.thehackettgroup.com

Atlanta
+1 770 225 3600

London
+44 20 7398 9100

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