Building Resilience in Times of Business Uncertainty

A framework for Finance and Procurement leaders

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Introduction

Few saw the COVID-19 pandemic coming or anticipated the deep reverberations it would have on economic activity across the globe. Following years of economic stability and growth, we are now confronted with an unprecedented disruption to global supply chains, consumer behaviour, and the free flow of goods, services, and people. The resulting economic disruptions will be felt throughout 2020 and beyond.

As people join together to mitigate the spread of illness across the globe, they also must join together to mitigate the risk of businesses falling victim to this global crisis. Senior business executives, especially in Finance and Procurement, have the opportunity to lead their organisations through these challenging times. **Whether and for how long different countries will find themselves in a downturn is not yet clear. What is clear is that uncertainty is the new normal.**

Businesses that respond to these ever-changing market conditions quickly will be able to not only weather the current storm, but also find unexpected opportunities to gain an edge. Following the 2008 downturn, 10 percent of 1000 publicly-traded companies studied by McKinsey fared "materially better" than their counterparts. These resilient businesses "moved early ... entered ahead, dipped less ... and came out with guns blazing.[1]" Resilient organisations take action rapidly to survive challenging times. But perhaps more importantly, truly resilient organisations also recover quickly from difficult times by positioning themselves to thrive when the economy recovers.

This guide provides a framework for Finance and Procurement leaders to build a resilient company in uncertain times. The capabilities in the framework empower leaders to make the best decisions at the right time to support the short-term health of their business as well as set their business up to thrive when the economy recovers.

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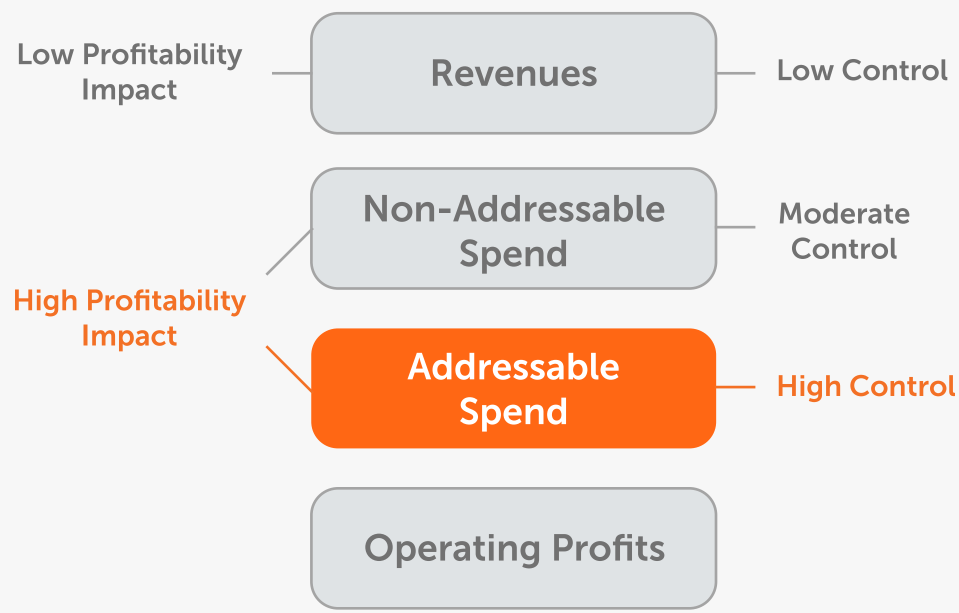
From Top-Line Growth to Bottom-Line Control

In good economic conditions, many companies focus more on top-line growth than getting their costs under control. In uncertain economic conditions, people appreciate that a dollar saved is worth more than a dollar earned. For the average company, sales would have to increase 10x to drive the equivalent profit impact of every dollar, euro, pound, or yen saved.[2] By focussing on savings, you can extend your business's operating runway, have a greater bottom-line impact, and improve your cash flow control.

CFOs are well aware that saving is critical in today's uncertain environment. According to a recent CFO pulse survey by PwC, the top priority of CFOs today is cost containment.[3] Many realise they do not have the visibility and control of where, when, and how their business is spending to deliver savings across their entire business. Without visibility, it is challenging to exert control when discipline and rapid adjustments are required.

Cost containment is a top concern of CFOs today. But where do you look for ways to increase profitability? Revenues can be difficult to predict in uncertain times, and a lot of organisational effort and cost goes into generating each dollar of revenue. Start by focussing where you have both a high degree of control and a large impact on profitability, which is your addressable spend. Increasing savings here by even a fraction of a percent can have a high profitability impact.



Employing traditional cost-cutting methods won't yield enough. Finance teams need to be armed with more data and better technology in order to cut with a scalpel rather than an axe.

Finance and Procurement leaders can take immediate action to achieve cost control, increase savings, mitigate costly supplier risk, and build organisational agility. While every region and industry is impacted uniquely by the current crisis, every organisation can achieve better outcomes by taking steps to manage their spend more effectively today. Even industries with increased sales due to the global pandemic, such as grocers and online retail organisations, may face supplier shortages that put additional stress on their businesses. Getting control of spend now is critical for any business.

Cost control often leads to cost reductions, but cutting haphazardly can cause more harm than good. "These days, across the board cuts can cause more problems than they solve," warns the McKinsey Quarterly.[4] Since the last recession, many companies have focused on running leaner organisations where there are no longer as many obvious places to cut spend when revenue slows or shrinks. Because of this, the McKinsey brief further notes, "cost-reduction opportunities using traditional levers amount to only two percent of costs, whereas those applying digital and analytics tools can reduce costs by a further five percent."

In other words, employing traditional cost-cutting methods won't yield enough. Finance teams need to be armed with more data and better technology in order to cut with a scalpel rather than an axe. By following the recommendations provided in this guide and taking action now, CFOs and their teams can contain costs immediately while also setting their businesses up to thrive when the economy recovers.

Building Resilience with your Business Spend: A Success Framework

Gain Immediate Visibility and Control of Spend

Quickly Gain Visibility and Control Over Spend

Use Data to Make Tough Decisions with Confidence

Enforce Policies and Cost Controls Across Your Organisation

Mitigate Supply Chain Risks

Monitor Supplier Health and Flag Emerging Risk Identified

Take Action to Quickly and Proactively Address Third Party Risk

Minimise Risk from Surprises Buried in Third-Party Contracts

Increase Agility to Invest at the Right Time

Re-evaluate Supplier Mix to Meet the Needs of Your Business

Digitise and Improve Working Capital Management

Maintain Flexibility with Contingent Labour Management

Priority #1:

Gain Immediate Visibility and Control of Your Spend

The question you should be asking yourself is not *"where should I cut costs?,"* it is *"how can I cut costs while minimising my business disruption?"*

There are many levers available to reduce spend and control costs. It is imperative to choose the right ones. You know that good talent is expensive to replace. Before slashing headcount, focus on a cost containment strategy centred around reducing purchasing costs.

In order to control and reduce the costs of goods and services purchases, you must know exactly where and when your business is spending. The following three steps will help you get all of your spend under management rapidly to uncover opportunities that create value today while building for your business's long-term growth.

Quickly Gain Visibility and Control Over Spend

In order to move quickly and make decisions about how to cut costs wisely, you should **know how and when your spend occurs.**

More than 60 percent of CFOs lack complete visibility into transactions within their organisations, according to a study from The Economist Intelligence Unit.[5] When you can't see your spending, how can you make informed decisions about where to cut? Without visibility, you're more likely to cut programs and services that are needed for the long-term success of your business. The quicker you can identify opportunities to consolidate buying power, to source, and to save, the better you will be positioned for today and for long-term stability and growth.

To achieve a full view of business spending, some companies hire a third-party firm to do a formal analysis of historical spend and provide recommendations. It can take months and quite a bit of money to get this kind of analysis, which gives you a point-in-time view that needs to be recreated with another several-month engagement every time you want to refresh the data. This is not an ideal way to get the most value out of your business spend in any economic conditions, but in times of uncertainty where one must react quickly to changing market conditions, it is imperative to have real-time visibility of spend.

Resilient companies have begun to leverage technology that makes it easy for employees to make all purchases through one centralised platform, rather than directly with suppliers or through a fragmented collection of purchasing systems. This allows companies to steer more activity towards pre-approved spend and away from post-approved or even non-approved spend, leading to greater control. It sounds basic but having one transactional spend engine is critically important to capturing the data that makes spend visibility and automated, real-time spend analysis and AI-powered recommendations possible.

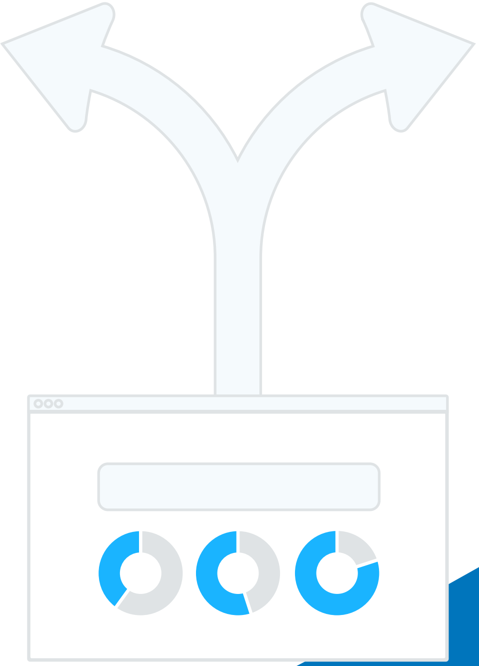
Ideally, the spend captured should include not only goods purchases and expenses, but also services spending, so that there is a complete view of organisational spend. Many organisations have very little visibility into what they spend on contractors, consultants, and other contingent labour, and without proper oversight this area of the business is rife with threats to savings opportunities and compliance risks.

Use Data to Make Tough Decisions with Confidence

Once you have full visibility of your business spend, you can **use data to make tough decisions with confidence.**

Since the recession of 2008-2009, many organisations have learned to run leaner and rely on more complex, global supplier networks. This makes it harder to find easy opportunities to cut costs in a downturn. Cuts must be made intelligently with the support of solid data analysis, not indiscriminately or based on gut feel.

Cutting costs the right way starts with having enough data about your company's spend behaviour, along with insights about what companies across your industry and other industries are doing. Companies that cut too much or in the wrong places now may struggle to compete in the future when the economy recovers. Make sure you reduce spending with a data-driven plan to inform your cost containment measures in order to avoid harming your organisation's long-term health. Use category-management techniques to see if you can consolidate purchases or identify sourcing opportunities that will lead to lower costs.



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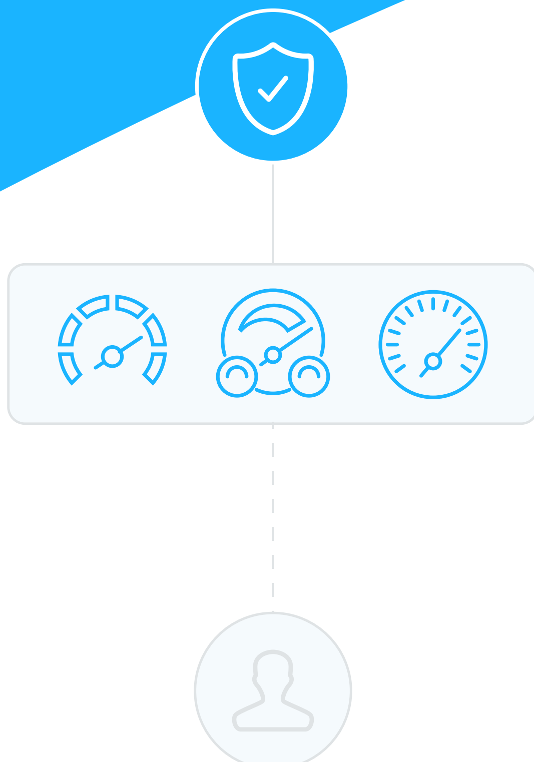


Enforce Policies and Cost Controls Across Your Organisation

In addition to getting visibility of your total addressable spend and getting the data to make tough decisions, you also must **ensure that your policies and cost controls are enforced consistently across your organisation.**

While policy enforcement is always important, the cost of loose enforcement is felt much more acutely in uncertain times when every dollar saved is so critical. To properly enforce policies and control costs at scale, ensure all of your spend goes through one platform that is easy to use. Without having all of your spend under management, it is virtually impossible to enforce your cost containment and risk mitigation policies. Focus on a platform that is easy-to-use so that your employees don't go rogue to make purchases.

With spend management in place, you should make sure that discretionary spend thresholds are reduced and approval levels are added to all purchases above a certain monetary threshold. New spending proposals and expense reports should be scrutinised closely and strict adherence to contracts should be demanded. It is also worth noting that controls over how suppliers are added, vetted, and paid can reduce the risk of fraud from phoney suppliers and phoney invoices.

Implementing cost containment is now the number one priority of many CFOs.[6] For opportunities to conserve cash without causing undue hardship to your suppliers, look to optimising your supplier payments. Payments to large, well-capitalised suppliers can be delayed to the limits of negotiated payment terms. For smaller suppliers, or those with their own liquidity issues, using virtual cards for payment allows you to pay immediately on purchase while taking advantage of your card's billing cycle to delay your cash outflow. These measures together can help you to take advantage of your policies and controls--while being sensitive to supplier cashflow needs in order to conserve your own cash.

Priority #1 Checklist: Spend Visibility & Control Preparedness

Do you have full visibility and control of your business spend? Assess your spend visibility and control by filling out the checklist below. Follow the recommendations in this guide to get the control needed to make informed decisions for cost containment.

- [ ] I have full visibility of all my business spending including goods, services, and travel.
- [ ] If I had to cut 5% of my business's spend today, I have the right data to inform me about where I should cut across my organisation.
- [ ] I can see how much we spend today on contracts, consultants, and other contingent labour, and I have proper oversight on contingent workforce savings opportunities and compliance risks.
- [ ] I know where my company is spending and am empowered to adjust this as needed.
- [ ] I am able to completely enforce my travel and expense policies.
- [ ] I know if suppliers are covered by a force majeure clause in our contract or if I can recoup payments and collect damages due to pandemic-related supply chain disruptions.
- [ ] I am confident our organisation is not losing cash to fraud or accidental spending errors.
- [ ] I embrace innovative ways to preserve cash without jeopardising supplier relationships, like increasing use of V-cards.

Priority #2:

Mitigate Supply Chain Risks

Supplier health is critical to understand in any economic environment, but it is especially important to have a complete picture of suppliers in uncertain times.

Performance and the risk of each supplier relationship can significantly impact your company's success. Fortunately, a comprehensive risk and performance management approach can keep your supply chain moving in all economic conditions even in a global pandemic.

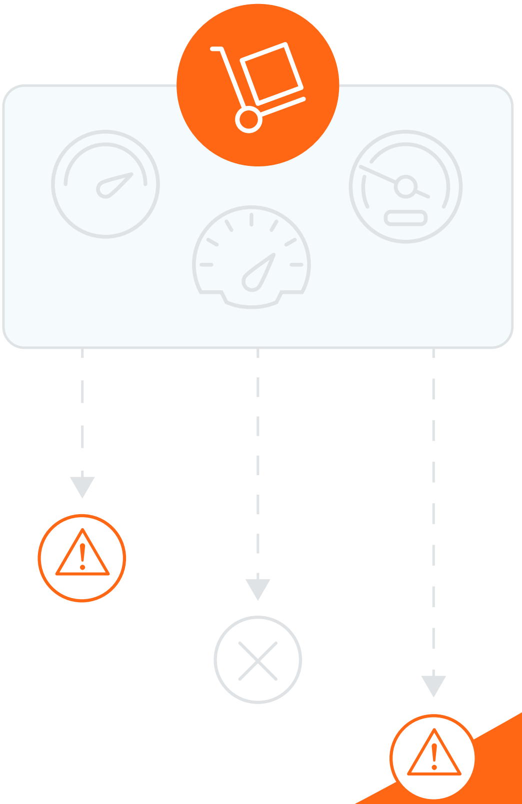
Monitor Supplier Health and Flag Emerging Risk

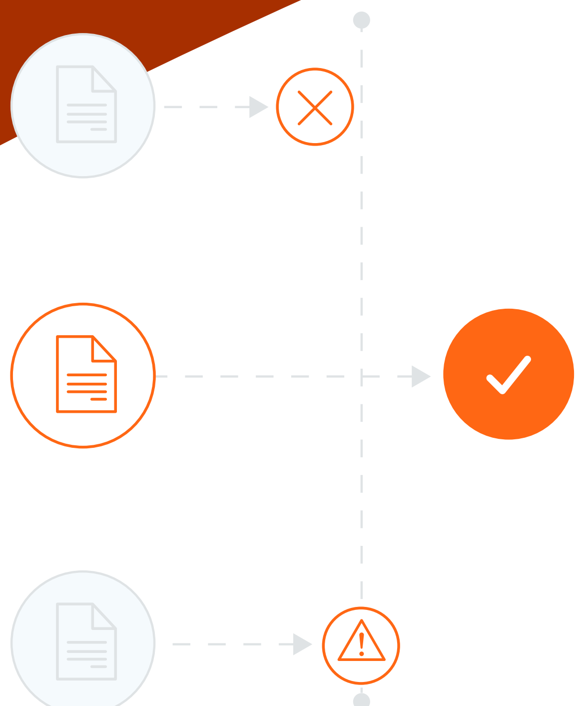
The business environment has transformed virtually overnight due to recent events. It is mission critical to **monitor the health of your suppliers and flag supplier risk.**

Suppliers that were financially solvent are suddenly closing their doors. Other suppliers are now unable to keep up with demand or are facing challenges to fulfil orders on time due to issues with their own supply chains. You need to know, at scale, if your suppliers are having problems with on-time delivery, have a high invoice-rejection rate, or are a credit risk. You need to know if they can be relied on right now or whether you need to look for alternatives.

Technology that enables you to have a comprehensive view of not just third-party supplier risk, but also fourth-party, fifth-party, and beyond is extremely helpful in order to minimise supply chain-related disruptions to your business. Issues at a fourth- or fifth-party serving multiple suppliers, resulting in supplier concentration risk, have the potential to bring down multiple direct suppliers at once. With the current global disruption, being able to assess your entire supplier base on critical risk areas is a must. It is recommended that you couple this data with qualitative and quantitative performance metrics to obtain a holistic view of your suppliers so you can identify weak spots that need to be addressed.

Look for risk solutions that pull in supplier performance data from peers, and provide recommendations based on this information. This is extremely helpful in a world that is rapidly changing. You can benefit from what others have learned the hard way. Instead, you can learn, react, and operate more nimbly because of the collective intelligence of other companies that have overlapping supplier relationships.





Take Action to Quickly and Proactively Address Third-Party Risk

Once you have supplier risk monitoring in place, it is in your company's best interest to take action rapidly and proactively to **resolve any identified supplier risk.**

To quickly address supplier risk, make sure you have a system in place that monitors risk in real time and allows identified supplier risks to be acted on immediately during the PO, invoice, and payment processes. This could lead to finding alternative suppliers for a given category, item, or region through new sourcing events.

Rapid re-structuring of supplier networks to mitigate identified risk requires optimising for new and dynamic constraints to make quick and optimal award decisions. Be prepared to quickly find new suppliers and contract for new logistics needs in order to adjust to new suppliers, border closures, and disruptions, and other constraints such as multi-sourcing across geographies. You should also move from paper to digital cheques for supplier payments, if you haven't already done so. This will allow you to adjust your payment processes more quickly for new suppliers and enable your employees to handle this remotely instead of needing to be in an office location with a physical cheque printer.

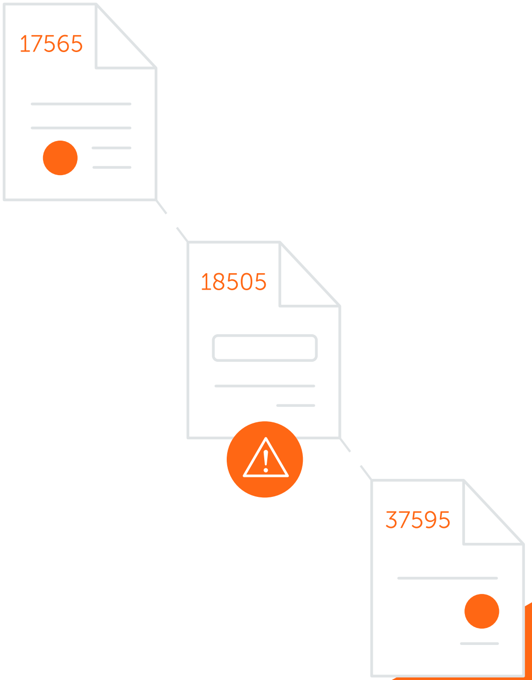
Ask your suppliers to fill out a pandemic risk questionnaire so you know how they are planning to remain stable in the rapidly changing environment. Gather information on what your suppliers are doing and why, and what resources they will have access to in order to deliver domain-specific templates--such as InfoSec, GDPR, or Anti-Bribery and Corruption (ABAC)--to gather all of the right information for risk mitigation and compliance when onboarding and assessing new suppliers.

Minimise Risk from Surprises Buried in Third-Party Contracts

Supplier risk extends beyond potential supply chain disruptions. Smart Finance and Procurement leaders also look to **understand risk from terms hidden in, or missing from, third-party contracts.**

Consider having a single contract repository for all supplier contracts. A single contract repository will help you get your arms around all risks involved and plan better for contingencies and potential negotiations to either keep suppliers delivering goods or cancel purchases and contracts if needed. As you reallocate your spend to new suppliers, there's benefit in making sure that contracts are being enforced during the purchasing process. If you negotiate for lower rates or volume discounts, steering company spend toward these contracts and suppliers is critical when every dollar saved might buy time for your company's survival.

Having a comprehensive spend management platform that is easy to use ensures that employees use the appropriate contracts to mitigate additional risk caused by quickly switching to new suppliers.



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Priority #2 Checklist: Supply Chain Risk Mitigation Preparedness

How confident are you in your organisation's ability to mitigate your supplier risk? Assess your supplier risk preparedness by filling out the checklist below. Follow the recommendations in this guide to identify and address risk from your supply chain.

- [ ] I am able to monitor the current health of all of my third party suppliers.
- [ ] I understand risks to my supply chain from fourth-, fifth-, and nth party suppliers.
- [ ] I know what geographies my suppliers (and their suppliers) operate in.
- [ ] I am able to proactively lead sourcing events and make quick award decisions.
- [ ] My payments processes are structured so I can easily assess which suppliers I should delay or expedite payments to.
- [ ] My company uses digital (not paper) checks to pay suppliers on time from any location.
- [ ] I have one digital contract repository that stores all of my supplier contracts.
- [ ] I can quickly review my supplier contracts for any relevant terms, clauses, or omissions that could impact my business.
- [ ] I am prepared to renegotiate contracts if needed to support my business continuity.
- [ ] I can quickly issue a pandemic preparedness questionnaire to my suppliers and track their responses in a scalable way.

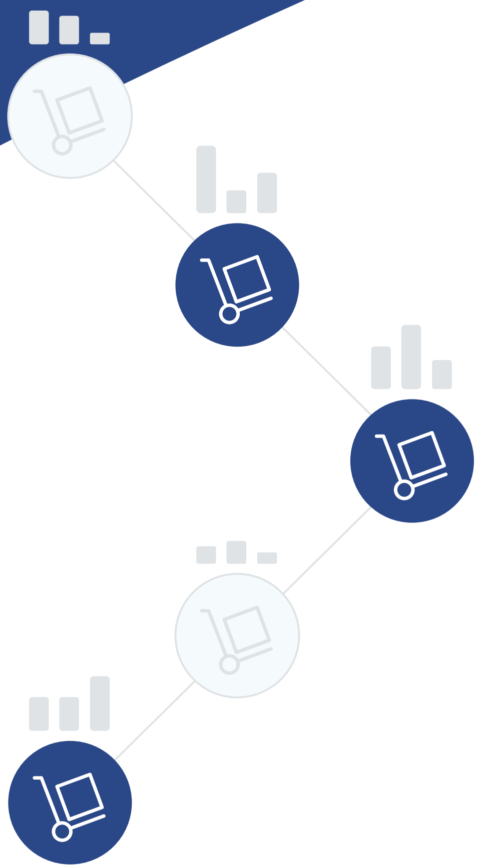
Priority #3:

Increase Agility to Invest at the Right Time

No downturn lasts forever. Resilient business leaders know that the actions they take today prepare their organisation to thrive when the economy recovers. This means increasing agility to invest at the right time, whether that be taking advantage of opportunities now or preparing for ones that will present themselves in the unknown future.

As we mentioned in this guide's introduction, resilient companies outperform post-downturn. McKinsey found that following the 2008 downturn, 10 years later, resilient companies performed far better than the S&P 500 and non-resilient companies. They did this by "cleaning up their balance sheets before the trough, which helped them be more acquisitive after… At the first sign of economic recovery, resilients shifted to M&A."[7]

Re-evaluate Supplier Mix to Meet the Needs of Your Business



Once you have stabilised your spend and taken action on mitigating your supplier risk, you can begin to evaluate business continuity scenarios and **re-evaluate your category strategy and supplier mix.**

You should consider moving from a just-in-time supply chain to a just-in-case one, as the Covid-19 crisis has stretched carefully calibrated supply chains to the limits. To become more agile, you should optimise your category strategy to balance between concentrating spend for savings versus multi-sourcing and geographical redundancy. You can also review your category strategy and sourcing needs, making adjustments based on current and projected needs to support ongoing resilience.

For advanced scenarios with complex, strategically important categories, home-grown solutions such as spreadsheets with myriad formulas are too limited in scope and costly to maintain to help make the best sourcing decisions, especially in an uncertain environment. Procurement leaders need the support of sophisticated sourcing optimisation technology that utilises advanced algorithms to balance a large amount of constraints and options. This will allow them to make smarter sourcing decisions for their business and be extremely agile in adjusting their category and supplier mix to support current and projected business needs.

As input costs and other variables become less predictable during a crisis or downturn, the costs of making a good or bad decision go up accordingly. The better you are able to evaluate and adjust your category needs and supplier mix, the better position you will be in when the economy recovers.

Digitise and Improve Working Capital Management

In times of uncertainty, cash is king. To support agility in order to free up working capital for jumping on investment opportunities when the time is right, you should **digitise and improve working capital management.**

Freeing up working capital is one benefit of moving to a sophisticated digital payments solution that is integrated into a core transactional spend engine. Improving your payments processes and technologies makes it much easier to extend DPO and capitalise on early pay discounts to achieve meaningful cash returns. Combining these strategies with supplier-risk monitoring can help to avoid negative impacts to supplier financial position.

Combining virtual card payments and early-pay discounts lets you finance early payments through your card's billing cycle. Discounts realised in turn generate cash you can use to invest when the economy turns. Additionally, many companies have complex, inefficient, and error- and fraud-prone processes for handling global payments and reconciliation. By automating these processes to cut out manual transaction processing--and errors--you can achieve efficiency gains while avoiding fraud.

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Maintain Flexibility with Contingent Labour Management

In a cost-conscious environment, rather than bring on new full-time employees, companies turn to **hiring contingent workers to maintain flexibility.**

According to a recent survey by Willis Towers Watson, hiring has been heavily impacted, with four in ten companies having frozen or reduced hiring and another 28 percent that will or might do the same. With the contingent workforce in the spotlight, your hiring managers and human resources teams should partner with finance leadership to determine the best path forward with existing and new contingent workers. Technology should help with intelligent candidate screening and onboarding to reduce the time it takes to fill these positions, when speed is of the essence.

Companies without a unified process for contingent labour spend will struggle to identify who their contingent workers are and how they are performing. All existing contractors and consultants should be scrutinised and evaluated to ensure that maximum value per contingent headcount is being delivered. If compliance issues haven't been addressed in the past, they may appear now as unwelcome and costly surprises. The longer it takes to understand the nature of your contingent labour spend, the longer you'll need to take action.

Priority #3 Checklist: Agility to Invest Preparedness

Is your business agile enough to quickly shift priorities to weather a downturn while nimble enough to opportunistically invest for the future? Find out by completing the checklist below. Follow the recommendations in this guide to build agility.

- [ ] I am prepared to optimise category strategy to balance between concentrating spend for savings versus multi-sourcing and geographical redundancy.
- [ ] I am confident my category mix will support my organisation’s projected needs when the economy recovers.
- [ ] I am able to refine risk management strategies to respond to gaps or ineffective processes highlighted by our crisis response.
- [ ] I can take advantage of buying power as markets shift and identify opportunities to save.
- [ ] I have a close link between my supplier risk management information and my sourcing processes to get the best possible rates with trusted vendors.
- [ ] I am fully capitalizing on early payment discounts if my business is able to pay early.
- [ ] I am using the downturn to re-evaluate supplier selection criteria to address new and changing concerns, from risk management and compliance, to geographic redundancy and corporate social responsibility.
- [ ] My payment solution is integrated into a transactional spend engine so that reconciliation is seamless and adoption of digital payment improvements is feasible.
- [ ] I am prepared to get the most value from my travel spending when we return to regular business travel spending, in light of potential extreme volatility in pricing.
- [ ] I am able to understand and track our use of contingent labour, and bring new contingent labour on board quickly as part of an integrated spend process.

Final Thoughts on Building Business Resilience in Uncertain Times

Businesses everywhere, regardless of company size or industry, are facing challenging times. Are you prepared to survive and thrive?

As Finance and Procurement leadership, you have an obligation to ensure your organisation can not only manage through the current uncertainty, but also can take action today to thrive in the years ahead. Leaders who will be known for their resilience will gain quick visibility and control of spend, mitigate supplier risk, and improve their organisation's ability to invest at the right time.

Set yourself up for success as a resilient leader and be prepared for the uncertainty ahead by focussing on business spend management. Follow all of the steps in this framework to manage your spend smarter and safer, and build resilience. The steps in the framework can all be achieved by partnering with the right business spend management technology provider.

When selecting business technology, look for a solution that offers a comprehensive suite of solutions to manage all of your spend, from goods and services purchases to expenses to payments. Having multiple siloed systems and processes can mean delays that companies and suppliers can ill afford in a time of crisis. Additionally, look for a platform that is open and easy-to-use. Your employees and suppliers must use your business spend management technology for all of their business spend processes for you to get in full control of that spend.

With the right partner and following the steps provided in this guide, you can help your company build resilience and be prepared to survive and thrive in the years ahead.

[1] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles Pop, Downturns Stop." McKinsey & Company, www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/bubbles-pop-downturns-stop

[2] Average operating margin for US companies 10.70%, NYU Stern School, http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html

[3] PwC's Covid-19 CFO Pulse Survey, PwC, https://www.pwc.com/us/en/library/covid-19/pwc-covid-19-cfo-pulse-survey.html

[4] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles Pop, Downturns Stop." McKinsey & Company, www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/bubbles-pop-downturns-stop

[5] "The Strategic CFO in a Rapidly Changing World," Economist Intelligence Unit, commissioned by Coupa, https://www.coupa.com/cfo/

[6] PwC's Covid-19 CFO Pulse Survey, PwC, https://www.pwc.com/us/en/library/covid-19/pwc-covid-19-cfo-pulse-survey.html

[7] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles Pop, Downturns Stop." McKinsey & Company, www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/bubbles-pop-downturns-stop

[8] "COVID-19 pandemic fuels North American employers to pursue cost-containment strategies, Willis Towers Watson survey finds," Willis Towers Watson, https://www.willistowerswatson.com/en-US/News/2020/03/COVID-19-pandemic-fuels-North-American-employers-to-pursue-cost-containment-strategies

About Coupa Software

Coupa empowers companies around the world with the visibility and control to make smarter spend decisions and to build more resilient businesses. To learn more about how Coupa can help you spend smarter and safer, visit coupa.com. Read more on the Coupa Blog or follow @Coupa on Twitter.

See how Coupa can help you build resilience in uncertain times: coupa.com/resilience