Planning in a crisis – business lessons from the eye of the storm

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The Modern Finance Forum

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Gary Simon, BSc, FCA, FBCS, CITP
Chief Executive FSN &Leader of the FSN Modern Finance Forum on LinkedIn

Dear Colleague,

The global shutdown of economies and societies has had a profound impact on every business. No-one could have fully prepared for the speed and scale of upheaval this caused worldwide, so companies have had to respond with their own momentum to stay in control of their business. CFOs have played a central role in this response, quickly guiding their board colleagues to the safe haven of a stable foundation and deftly steering them through the profound challenges presented by this crisis.

In early March, CCH Tagetik and FSN partnered to carry out a series of online video interviews with CFOs in their homes, called “Planning in a Crisis”, to establish the breadth of issues confronting CFOs, to understand what measure they were putting in place to wrest control of the crisis back from the virus and ultimately to share these insights and experiences with other CFOs in the CCH Tagetik community and the FSN Modern Finance community on LinkedIn. This document sets out some of the key strands of their endeavours from which it is hoped that others can benefit.

Sadly, this crisis will be the undoing of many. But there are many more that have managed to shore up their core operations, simplify their processes, reinvent their working practices and are riding the storm of the pandemic with a new-found agility. Finance functions have emerged as an oasis of insight in this complex situation, even though businesses have never been impacted so profoundly by so many adverse factors in play at the same time.

On a more personal note I am full admiration for these CFOs, their professionalism and stoicism in the face of such unprecedented demands. They have risen to the challenge; although there hasn’t been time to sit back and admire what has been achieved. They have focused on the financial essentials, shrunk planning cycles from months down to days or even hours, re-defined break-even points, re-negotiated with lenders, taken charge of liquidity, while calmly, patiently and professionally keeping the rest of the management team and employees safe and on-board.

With almost no visibility of how countries and economies will emerge from the lockdown, the long tail of the crisis is yet to come. Meanwhile finance functions are remaining alert and agile. Even in these grim circumstances, these CFOs know there are opportunities for improved processes, innovation and growth in market share.

The CFOs interviewed in this series have shown the modern finance profession at its very best and I feel privileged to have had the opportunity to listen and document their journeys at a most difficult time. I wish to thank the management of CCH Tagetik for their foresight in commissioning this series and the CFOs themselves for giving up their time to help other finance professionals around the world to learn from their experiences.

Regards,

Gary Simon

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Chief Executive FSN & Leader of the FSN Modern Finance Forum on LinkedIn

Ralf Gaertner
Senior Vice President & General Manager Corporate Performance Solutions
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Dear Colleague,

When we first met with Gary Simon to discuss emerging trends in Finance, the pandemic was only knocking at our door. Colleagues operating in our offices in China and Italy were among the first to see, feel, and experience the virus' impacts on lives, including the way we work. Immediately, we saw the impacts on both our local economy and global customers, and began exploring how we could help finance teams flourish in the face of the pandemic. In sharing our customers' common pains, best practices, and pandemic experiences with Gary Simon, the "***Planning in a Crisis***" series was born.

As an organization that works closely with finance offices across various industries, company sizes, and countries, we've witnessed the whole spectrum of responses, from urgent struggles to incredible ingenuity. Ramped up or ramped down, stuck or redirected, every company has been touched by the pandemic in some way. And the CFOs interviewed by Gary Simon echoed the same sentiments (watch them ***here***).

What have we learned? If cash is king, today the king's on fire. If mass data's a flood, today it's a tsunami. If processes are bandaged together, today operations buckle under the smallest financial wounds. Everything is magnified.

For those of you leveraging legacy systems and spreadsheet-based processes trying to make quick and thoughtful decisions, we've heard you loud and clear: your finance transformation cannot wait. Many organizations are operating from home. Senior executives are battling myriad fires fanned wild by these turbulent times. As a result, finance teams have discovered that merely keeping the ball rolling is not enough. The pandemic has accelerated the need for a finance evolution. Finance's role has already changed. And now processes must transform faster than ever to successfully steer a business through the crisis.

We hope that the lessons shared within this article help finance offices establish a roadmap for transformation. We would like to thank Gary Simon and FSN for providing us the insight that enabled us to pivot our operations in order to support organizations through this unprecedented time.

Ralf

Ralf Gaertner
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Introduction

It's fair to say there has never been a situation like this one. It is a multidimensional crisis of epic proportions. Previous pandemics with devastating death tolls, like the Spanish flu of the early 20th century, have not taken place in a hyper-global world of intertwined trade and supply chains together with mass national and international travel. Nor have they been against the backdrop of a technological revolution that is daily changing the nature and scope of markets, businesses and economies. But crises are not uncommon. Businesses survived through the oil crisis of the 1970s, the stock market crash of 1987, the dot com bubble and the financial crisis of 2008. Each of these scenarios threw companies into turmoil, and forced them to adapt to survive.

The difference today is that the crisis hasn't just impacted only one part of a business. Where the oil crisis stunted growth, it left supply chains relatively unscathed. And where the financial crisis laid bare liquidity issues, employees were still able to come in to work. In previous crises it has been sufficient to plan more frequently and focus management effort on the problem areas. This time around, the global lockdown has hit every part of every business simultaneously. And it is this multi-dimensionality that has forced a complete rethink of everything. Where one part of the business can quickly adapt to a single crisis point, now all the levers of the business are being pulled at the same time.

Companies have had to endure changes in management structure, business processes, controls, customer requirements and employee working practices. This is compounded by the impact of everyone working from home, including suppliers, and the need for a communications infrastructure to be built from scratch or adapted at speed.

Sink or Swim

A major crisis will always sort the wheat from the chaff. Companies that went into this crisis with underlying issues, of liquidity, management or processes, are struggling to adapt effectively.

They may be reliant on too few suppliers and find that alternatives have become increasingly expensive as competitors also scramble to shore up their supply chains. Businesses that entered the crisis with insufficient working capital or too much debt will find their financial situation squeezed even further. And those without a strong and enduring banking relationship will find it infinitely more difficult to make themselves heard in the clamour for loans and attention. If companies didn't invest in relationships during the good times, it may be too late now.

The companies that have done well are the ones with a strong balance sheet, long-standing banking/lending relationships, agility, robust systems and enduring products.

" A manufacturer of engine coolers was going through a massive restructuring, after being acquired by a global car manufacturer 18 months ago. Its global CFO explained that all the key decisions for right-sizing the business had been taken but nobody could have anticipated an 80% collapse in sales post COVID-19 and the devastating effect on liquidity.

Watch the interview series available here
www.tagetik.com/en/planning-in-a-crisis

But when the chips are down, cash is king. Every company has stripped back to the basics of accounting and leapt on their cash position. There is not one company (strong or weak) that hasn't done daily or weekly cash flow forecasts. And the crisis has brought traditional accounting knowledge to the fore, because without cash, a company can no longer trade.

> *" The CFO of an Indian pharmaceutical group talked about a bright future for the pharma industry developing new formulations and drugs, and so did the CFO of a French healthcare group that made sterile supplies for hospitals. Even a US provider of smart meters could look forward to untapped markets across the globe.*

Lessons Learned

Always scan the horizon

A crisis by its very nature is unexpected, but it is possible be better prepared by scanning the horizon for risks and potential issues.

The coronavirus shut down vast swathes of Asia and southern Europe before the UK went into lockdown. These early warning signs should have been taken as an opportunity to prepare employees for home working, and shore up supply chains and liquidity channels where possible.

> *" The CFO of a global membership organisation for engineers commented that they were well aware of the early impact of COVID-19 from their colleagues situated in Asia-PAC. They used this advance information to buy and configure laptop computers for all of their key workers that didn't have them and test communications a good two weeks before lockdown in the UK.*

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Ensure 360 degree visibility of the business

When a crisis hits, the first thing companies need is a complete view of the organisation, because every part of it will be impacted. The CFO's role at the confluence of all the business processes provides a wide view of these impacts – from disintegrating supply chains to vanishing sales, from headcount issues to the rapid switch to home working. Without complete visibility, the situation can never be brought under control.

Implement a lean decision-making structure for the crisis

The second major change necessitated by the crisis was the rapid need to reconfigure the management structure to suit the new circumstances. Senior CFOS interviewed in the aftermath of the lockdown all said they had changed their regular method of communication by designating a small, high quality 'A' team to speed up decision-making.

What was startling to many businesses was just how malleable they were. They found they could turn on a dime. In a crisis, even large corporations can be agile, make quick decisions and change processes very fast if need be. Relevant management changes that would have been mired in bureaucracy last year, were effected in an instant when the instinct for survival kicked in. The finance function became the voice of calm amidst the initial panic, putting a steady hand on the financial tiller to steer the business through the chaos.

80:20 Forecasts

Newly configured management teams needed information quickly, and it became apparent that the regular information systems were not going to provide the most pertinent information. Cyclical reports are too voluminous, detailed and slow to generate on demand. In a crisis, companies need to focus on fewer items to get the gist of the problem quickly. There is no time to stand on accuracy, so existing forecasting systems had to be scaled back and the frequency increased. Existing planning systems were too geared to cyclical reporting, focused on absolute accuracy and the widest net of available data.

Find your new break-even quickly

Once the initial panic is over, organisations needed to quickly establish their new baseline. If sales volumes have halved, what is the new break-even point? What earnings are required just to cover the costs, or conversely how much of those costs must be shed to stay profitable? Calculating the new breakeven point, or finding the new bottom is crucial.

With a new bottom, companies quickly turned to liquidity as their pivotal benchmark. Even in companies with long sales cycles, liquidity was being measured relentlessly. By now organisations should have at least tried to renegotiate all aspects of funding, from supplier payment terms to incentives for early payment, restructuring of loans or debt, and talking directly to lenders. From this new baseline, organisations forecasted more frequently within a smaller more pertinent range of KPIs. The shrinking of data down to the most vital level speeds up the process and focuses on the real levers of the business.

Use non-financial data to see further out in the distance

In previous localised crises, the variables were largely known, but the Covid-19 pandemic has no precedent. Even seasoned finance professionals admit they just ‘don’t know’ what’s going to happen next. In this circumstance, the future is being driven by non-financial data. How many tourists will return, in what capacity, what will fuel demand be like when lockdown is lifted, what is happening to footfall in the retail outlets? Which vaccine will work? When will the death rate fall to an acceptable level to allow unrestricted movement?

Scenario planning against this backdrop requires far fewer balance sheet metrics and far more external data. If organisations were underplaying the importance of non-financial data to forecasts, they have had to quickly recalibrate their scenarios to make any sense of the current situation.

Keep everyone engaged

It’s easy to get drawn into a cacophony of figures while trying to balance the books and keep the business afloat. But this crisis in particular has underlined that a company must never lose sight of its most valuable asset – its people. The coronavirus death toll is a stark reminder of the human impact of this crisis. This is compounded by the mental stress of job insecurity, diminished wages, and the drastic change in working circumstances that almost everyone has experienced.

How do you keep your finance team motivated when they may have to take a pay cut for doing the same amount of work?

How do you keep home workers motivated without the 'water-cooler' discussions they're used to? How do you manage mental health issues and keep the team together when they've been scattered so suddenly? These effects may not be easily quantifiable, but they can have a profound impact on business outcomes at a very vulnerable time.

Thankfully, technology has enabled people to work from home, which has allowed many businesses to trade during the lockdown. But it is imperative that this change in human interaction and personnel structure is supported properly by management, with due care to the people involved.

" An experienced regional CFO of an engine manufacturer fretted about the impact the COVID crisis was having on the mental health and wellbeing of her team. Many personnel did not have suitable facilities to work at home, they missed the collegiality of the informal chats by the water-cooler and the formal team meetings each week. And how do you motivate staff to work productively when their take-home pay has been slashed by 20%?

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Multi-dimensional problems need multidimensional solutions

It may seem like the lockdown is finally moving towards a conclusion, but this crisis will inevitably have a long tail. The first stage of shock and panic has given way to a new normal amidst government imposed restrictions. But when national shutdowns begin to lift, they will be cautious and slow, and continue to throw up new challenges. For some time at least, companies will have to accept less than perfect planning to allow for new and sometimes unquantifiable variables.

That doesn't mean plans will be wrong, just simpler for a time. The corporate performance management industry has been advocating the value of integrated business planning for many years. Companies that had previously implemented systems linking the different parts of a business have been better placed to flex and adapt their planning requirements in the midst of this crisis. The multi-dimensional impact of the global lockdown has visibly highlighted the need for a multi-dimensional solution. And if it's accessible in the cloud, so much the better.

" The CFO of a global provider of healthcare products, was grateful for the integrated performance management systems they had implemented before the crisis. They could instantly trim and re-shape their reforecasting and see the impact of different scenarios in a matter of hours. All of this was under the control of the finance function.

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" The CFO of a chain of petrol stations with retail food outlets admitted that they needed integrated financial systems that linked electronic point of sale (EPOS) to financial management systems. All forecasting was done in spreadsheets but they were missing retail product margin information which had to be estimated. This came at a time when consumer spending was fluctuating wildly from essentials (bread, milk, disinfectant and toilet rolls) in the early days of the crisis to comfort items (wine, spirits and tobacco) as customers settled into lockdown.

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Opportunity knocks

In amongst the relentless headlines of gloom, this crisis has turned up many good corporate opportunities. It has stimulated innovation, forced open new supply chains, and compelled companies to remodel products. Efficiencies have been found, and the new ways of working forced on many companies will have a lasting effect on the way they operate in the future.

Some have had to find new revenue streams, from, say, product sales to maintenance earnings. The market has changed too. People will be re-evaluating some of the changes they've been forced to make, from shopping online to work life balance, and consequently consumer demand will evolve. The ability to capture and retain the spirit of survival and innovation, is what turns a crisis into an opportunity for growth.

About the author

Gary Simon is leader of the FSN Modern Finance Forum on LinkedIn which has more than 53,000 members. He is a graduate of London University, a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the British Computer Society with more than 30 years' experience of implementing management and financial reporting systems. He is the author of four books, many product reviews and whitepapers and as a leading authority on the financial systems market is a popular and independent speaker on market developments. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

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