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Brief

Is Your Finance Organization Ready to Navigate the Coronavirus?

This crisis raises the importance of cash flow, contingency planning and true partnership with the business units.

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Many finance organizations have spent the past few years becoming more valued business partners. The disruption created by the coronavirus will test how much progress CFOs and their teams have really made.

Powerful forces—including globalization, regulatory change, activist investors, automation technologies and scarcity of talent—have pressed finance teams to evolve. In response, many have sought to spend more time on higher-value, forward-looking activities, such as decision support, and less time on accounting and transactional finance activities. COVID-19 will demand not only that finance teams devote more time to value-added activities, but also that traditional activities, such as receivables and payables, run more efficiently and effectively, through remote collaboration and other new ways of working.

We suggest the following tactics for CFOs and their teams.

Raise the game on business partnering

Finance should become more visible and vocal in helping the business units understand the financial impact of this crisis. While the business will not expect finance to accurately predict what will happen, it's not enough to react and report on the impact on sales, operations or the supply chain. Finance leaders will need to understand and communicate what factors are affecting the business most acutely, and anticipate the consequences of key events, such as reductions in customer spending or the loss of a key supplier.

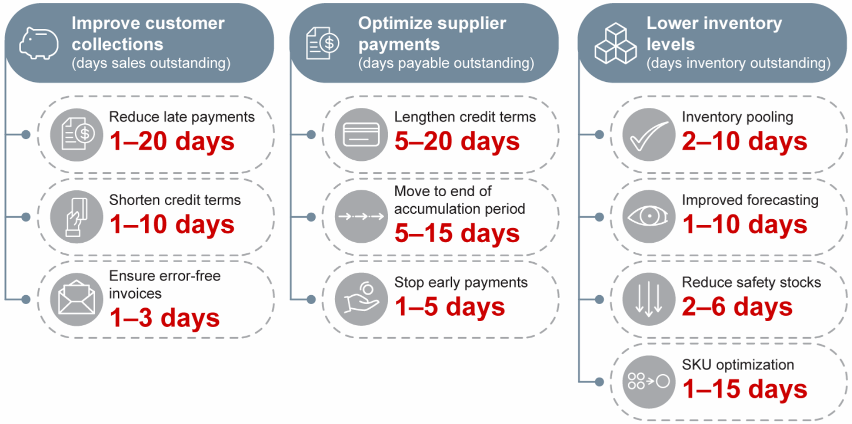
For example, finance groups that have already gone through a zero-based budgeting program can apply that discipline to the top and bottom lines. Most urgently, finance should adjust management reporting to home in on the metrics that matter most right now. Leading indicators like new orders will be far more important than lagging indicators. In the most disrupted industries, the crisis may warrant creation of war rooms, led by business leaders and supported by finance, to provide daily or weekly updates on financial performance.

Protect the cash position and liquidity

Cash flow management takes a central role in this crisis. Under normal business conditions, companies spend most of their time on the profit and loss statement. Now, finance should encourage the business to emphasize cash flow and the balance sheet. Finance should focus on expediting receivables, extending payables where appropriate and more tightly managing inventory (see Figure 1). For some companies, that may mean immediately launching a net working capital optimization program to shorten the cash conversion cycle.

Figure 1

Cash flow management now takes a critical role



Notes: Not all levers would necessarily be applied at the same time; end of accumulation period is an accounting policy that shifts to one payment run instead of multiple payments within a given month
Source: Bain & Company

Finance can also work with business leaders to revisit capital investment plans. Treasury should test funding sources for resiliency, then diversify contingent sources. Treasury may also need to prepare to renegotiate short-term debt to reduce the pressure on cash.

Activate or build contingency plans

Given that a fast response helps organizations weather a crisis, financial planning and analysis (FP&A) teams will need to step up to support the business with scenario planning. Rather than relying on across-the-board cuts to manage costs, which inevitably remove muscle from the organization, some companies define and align on a contingency plan in advance of a downturn.

Caterpillar, for instance, launched a trough planning initiative several years prior to the last recession as part of its 2005 strategic plan. Once the recession started, that planning allowed the company to take rapid, bold steps to align the cost structure with lower volumes and revenue. When revenue declined by 37% in 2009, Caterpillar had already started to execute contingency plans the year before, reducing selling, general and administrative costs by 17%.

For finance teams that have prepared contingency plans for a recession, FP&A could work with the business units to activate these plans now. Teams that haven't prepared contingency plans should align with the businesses on the steps and trade-offs required to manage through COVID-19. These plans may require cutting costs, variabilizing the cost structure, finding new revenue sources, shifting to more stable products or markets, or some combination of these actions.

Calibrate the right cadence of communications with investors

Neither pulling back from dialogues with investors nor explaining the worst-case scenario is a smart communications move. What does work is demonstrating how prepared the company is to continue production, setting realistic expectations, providing regular updates on cash flow management, and having contingencies if the company does not meet its targets. Widening your guidance may create more flexibility, while sharing an early view of the quarter along with a picture of how the next quarter is unfolding can help reduce investor uncertainty.

Avoid disruptions through business continuity planning

With many companies closing offices and moving to remote collaboration for some time, finance departments in some industries will need to redesign how they deliver basic services.

Take payroll: Some hourly workers may still receive paper checks from a print center, so finance will need alternatives to ensure that workers get their checks. In collections, companies may need to rapidly deploy virtual call-center solutions to route and resolve customer calls.

Plan for hits to the full ecosystem

Finance teams must look beyond the four walls of the businesses they serve and factor in the impact on customers, suppliers and partners. Without considering this broader ecosystem, the business raises the risk of future surprises to financial performance.

Seize the opportunity to repair broken processes

The strains emerging as finance teams scramble to right the ship will undoubtedly reveal broken processes at some companies. Processes that rely on tribal knowledge or workarounds, or that depend on one person, will quickly stand out.

Although the near-term goal is to ensure that finance provides the required support to the business, don't pass up the chance to take stock of where process redesign or simplification would yield big returns once the environment stabilizes.

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