CFO Response to COVID-19

Week of 13 April 2020

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CFO approaches and ideas | Discussed 14 April 2020

As the COVID-19 humanitarian crisis evolves, CFOs need quick perspective to ensure they take the right actions for their organizations, their employees, their shareholders and themselves – especially as it relates to declining economic activity and sudden stoppage to cash flows.

Gartner facilitated discussion amongst 200+ CFOs on 14 April 2020 to glean actions underway in the four key areas listed below, and detailed at length on the next several pages.

- Cash Flow Management
- Planning, Forecasting and Budgeting
- Reopening Physical Workspaces
- Labor Cost Management

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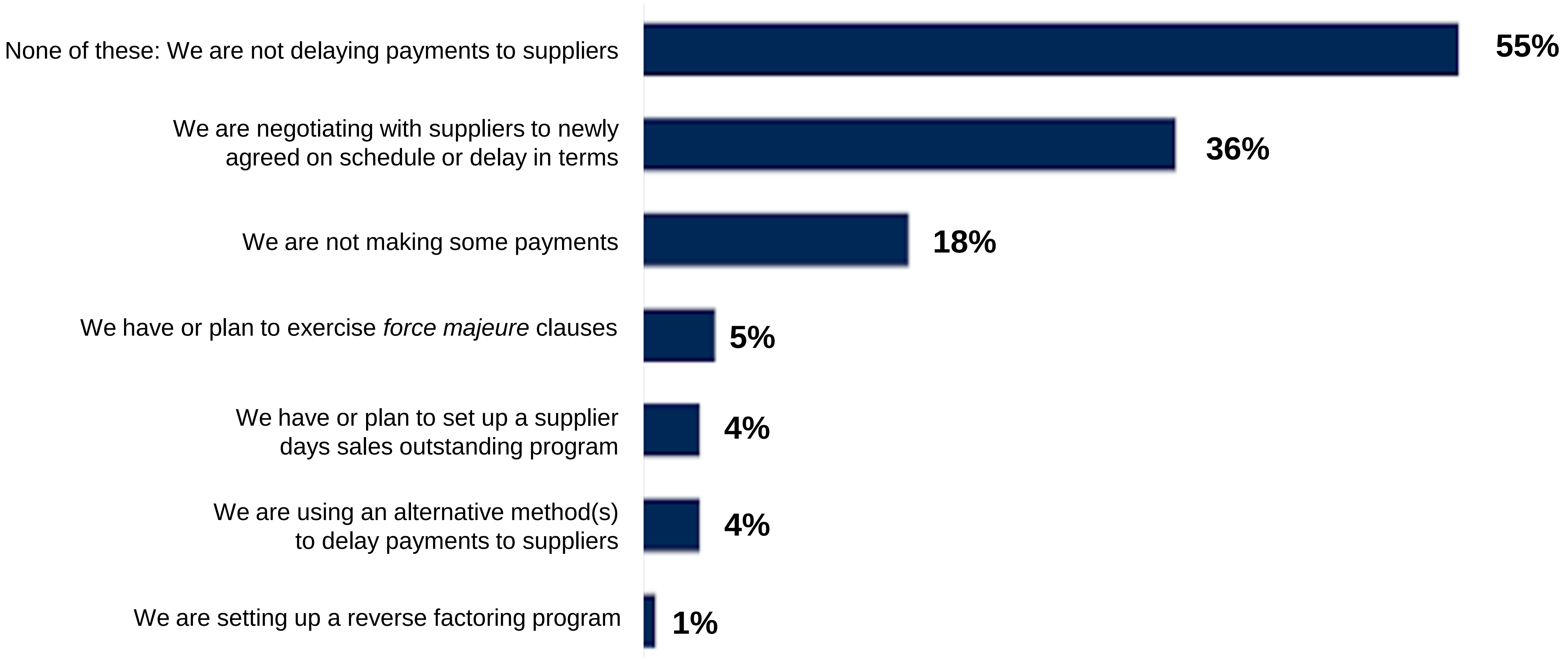
Cash Flow Management

CFOs are managing cash flow much more often than in the past, reviewing and updating cash flows and forecasts weekly instead of monthly. While the majority of CFOs (55%) indicate that they do not plan to delay payments to vendors or suppliers, 45% are pursuing alternative arrangements to preserve cash on hand, including negotiating payment dates and amounts, skipping some payments and cancelling contracts. (See Figure 1) While they are particularly reluctant to delay payments or cancel contracts where they have long-standing relationships, CFOs are focused on preserving cash and protecting the company's financial stability.

From a receivables perspective, CFOs are tracking customer payments more closely and are generally reluctant to extend payment terms or offer discounts. Instead, they are encouraging customers to make payments using credit instead of cash or are offering one-time accommodations in exchange for multi-year agreements. One suggested practice is to stand up credit reviews for customers and proactively evaluate high-risk industries to make more-informed, less risky decisions should customers ask for extended payment terms or discounts.

CFOs are also looking closely at long-term growth investments, with about 50% selectively suspending long-term growth investments. That said, they are being particularly cautious to ensure suspended investments won't hurt long-term growth prospects post-pandemic.

Figure 1: What is the mechanism(s) through which you are delaying payments to suppliers/vendors?



Multiple responses allowed. n = 147.

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Planning, Forecasting and Budgeting

CFOs continue to be challenged by uncertainty related to planning, scenario modeling, forecasting and budgeting. They cite several reasons including lack of data, lack of previous crisis models and the unpredictable nature of COVID-19 and corresponding government responses. While they expect an eventual recovery to be the inverse of the pandemic curve but with a flatter upward slope, several CFOs stated that they are “practically guessing.”

In general, CFOs are taking two approaches to planning and forecasting: 1) scenario modeling or 2) building precise models. Some CFOs continue to see the value in modeling a range of scenarios, targeting disruptions of 6-12 months given the potential for a resurgence of COVID-19 infections in Q4 2020 and Q1 2021 should it prove to be a seasonal illness or should a relaxing of physical distance policies contribute to a resurgence.

Other CFOs are increasingly focused on precision rather than modeling a range of scenarios. They’re analyzing new metrics to help them build likely scenarios or are reviewing data they already track in greater detail. The metrics vary by industry, but cited examples include the following: Temporary expenses specific to COVID-19, such as cleaning supplies and hazard pay; opportunity costs, such as the amount of leadership time spent on COVID-19 related matters instead of running the business as usual; employee performance and productivity data; and receivables, including more detailed reviews of revenue at risk and percent of cash arriving late.

Relatedly, CFOs are unsure how to approach budgeting. While there is agreement that usual approaches are not nimble enough and that new budgeting tools are needed, some CFOs advocate for a higher-level approach while others advocate for more granular, precise budgeting processes.

Finally, CFOs are not adjusting targets for 2020, indicating that it is too early to do so because of ongoing uncertainty. Some are communicating that guidance will be adjusted as well as the assumptions influencing those targets. Others are keeping watch on the market to see which companies are adjusting or removing guidance from their Q1 earnings releases.

Reopening Physical Workspaces

CFOs are beginning to consider how they will reopen offices and bring associates back to their physical workspaces, a complex and gradual process that will not be applied uniformly. CFOs cite that the transition back to the office will depend on several factors, including:

- **Work life balance matters**, including employees with children still out of school or a personal preference to continue working remotely
- **Health and safety issues**, including employees' comfort level returning to the physical workspace before the availability of treatment or vaccines, ability of employers to provide protective safe work spaces (redesign office layouts to create physical distance, use alternating A/B teams and schedules to limit exposure to other employees, provide protective equipment, increase sanitation support, etc.)
- **Government mandates and guidance** – sometimes conflicting – on physical distance and businesses reopening
- **Productivity levels,** as organizations learn which type of work is better performed remotely and which work is better performed at the physical workspace

To ease employee anxieties about reopening offices and to ensure a smooth transitions, leadership teams are considering: 1) piloting return to the physical workspace with select employee groups, 2) providing a period of voluntary return to the physical workspace and 3) providing employees with lead time of at least 1-2 weeks so they can prepare to return to work.

CFOs are also grappling with the implications for longer term remote working policies and how to manage the transition phase versus the final policies employers will adopt. Successfully determining short- and long-term work arrangements and policies requires a multi-function effort (e.g., HR, legal, IT, facilities).

Labor Cost Management

CFOs are using COVID-19 as an opportunity to optimize employee costs and performance. CFOs continue their reluctance to pursue layoffs, instead prioritizing non-headcount related strategies like temporary pay cuts or furloughs. They are also more closely tracking employee performance and productivity with workforce metrics such absenteeism rates and the percent of employees working remotely.

One area in which CFOs would like support is better knowledge of global capabilities to pursue OpEx levers. The ability to pursue furloughs, salary reductions and layoffs varies globally due to local employment laws and CFOs lack visibility as a result.

CFOs are also using COVID-19 as an opportunity to reevaluate their total compensation mix, ensuring they understand which benefits their employees value and use. This reevaluation will allow organizations to make much smarter strategic investments in employee benefits and total compensation and drive employee performance, attraction and retention.

Questions on the Horizon

How do companies look to not only minimize cash burn but maximize growth?

What metrics should we track specific to COVID-19 to help us model likely scenarios?

How should we change our budgeting process and tools to be more nimble? Should we switch to rolling forecasts instead of annual forecasts?

When should we adjust our targets for 2020?

How should I communicate plans about the return to physical workspaces? How gradual should the approach be?

How do we measure the effectiveness of working remotely?

Do we assess the risks and rewards of returning to a physical workspace once the crisis is over vs. continuing with remote work?

How do we navigate the global complexities associated with optimizing labor costs?

Senior finance leader poll data | Collected 8-12 April 2020

As the COVID-19 humanitarian crisis evolves, CFOs need quick perspective to ensure they take the right actions for their organizations, their employees, their shareholders and themselves – especially as it relates to declining economic activity and sudden stoppage to cash flows.

Gartner collected polling data from senior finance leaders 8-12 April 2020 on the five critical topics listed below, and the pages that follow provide the graphical data and key findings.

- Q1 Close
- Scenario Planning
- Business Performance Management
- Reporting
- Long-Term Investment Strategy

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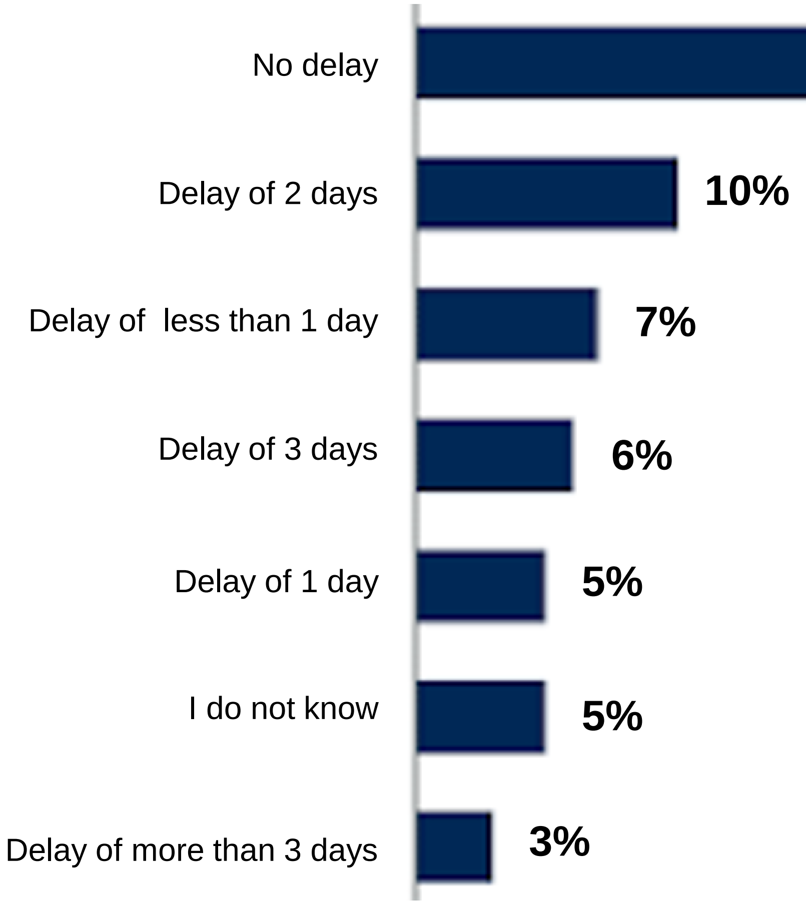
How fast are you closing the books at the end of Q1 due to COVID-19?



Closing Q1…
Three weeks ago we asked CFOs what expectation they had of a significant disruption to the Q1 earnings release schedule. Reality should end up matching prior projections. As the books close on-time, earnings should not be delayed. But investors will have less patience with any future delay in reporting earnings. Earnings delays come end of Q2 could be interpreted as a negative signal – whether warranted or not.

n = 147.

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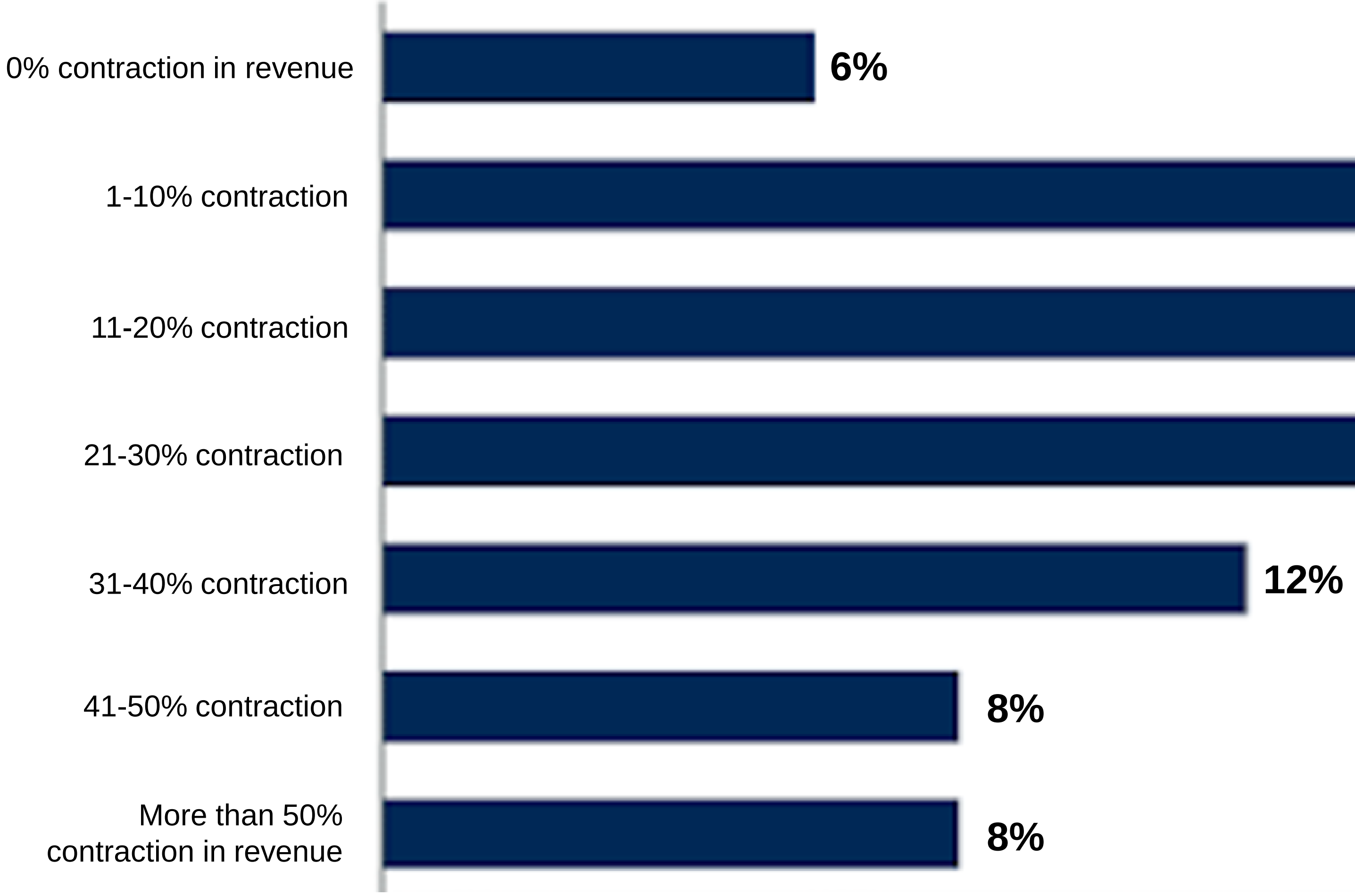
What is your most extreme downside revenue forecasting scenario for FY20 given COVID-19?



…and Looking Forward
Some but not all finance leaders are preparing for the worst: Nearly three-quarters said that their most extreme downside revenue forecasting scenario was at least an 11% contraction.

n = 145.

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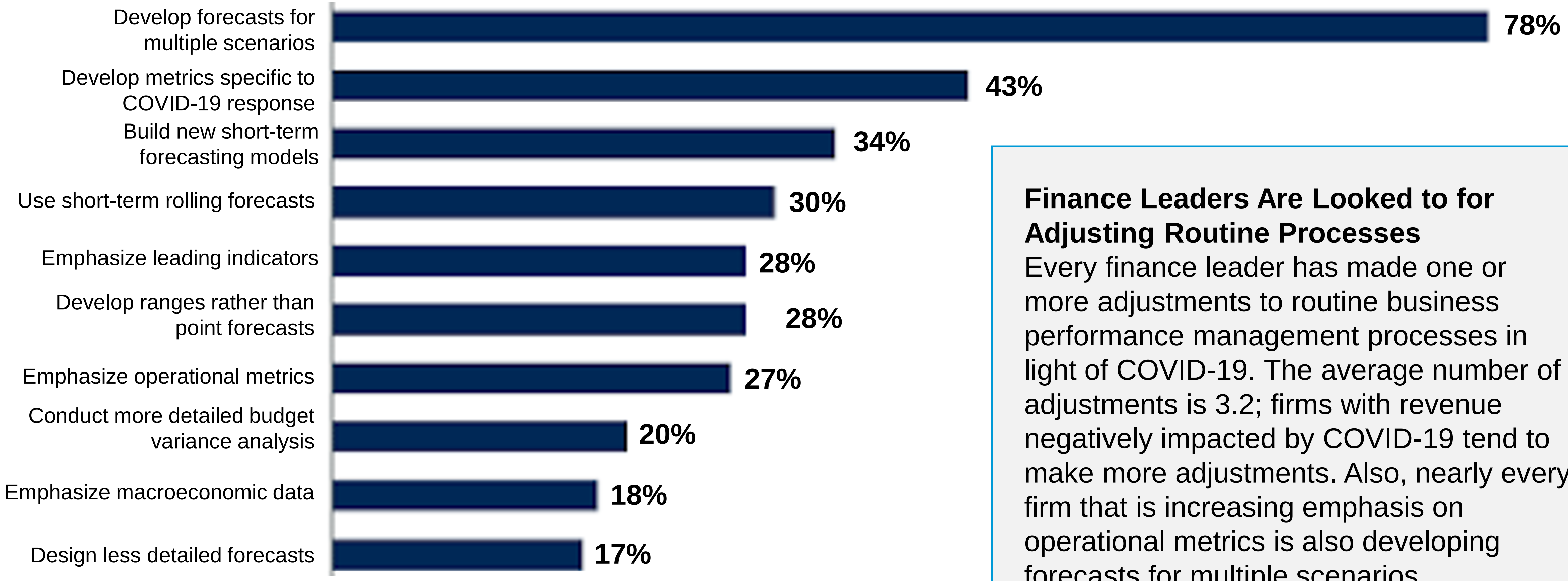
What adjustments have you made to routine business performance management processes given COVID-19?



Finance Leaders Are Looked to for Adjusting Routine Processes

Every finance leader has made one or more adjustments to routine business performance management processes in light of COVID-19. The average number of adjustments is 3.2; firms with revenue negatively impacted by COVID-19 tend to make more adjustments. Also, nearly every firm that is increasing emphasis on operational metrics is also developing forecasts for multiple scenarios.

Multiple responses allowed. n = 147.

Frequency of reporting activities for typical finance organization in response to COVID-19

Activity	Frequency
P&L Forecast	Monthly
Cash Flow Forecast	Weekly
Budget Variance Analysis	Monthly
Board Reporting	Monthly or More Frequently
C-Suite Reporting	Weekly or More Frequently
Business Leader Reporting	Weekly or More Frequently

Frequency (and Complexity) of Data Collection & Analysis Is Up
A majority of finance leaders are producing P&L forecasts more frequently than monthly and cash flow forecasts more frequently than weekly. And both the Board and the C-suite are demanding more timely updates from finance leaders, too. Fifty-six percent of firms are reporting *more* frequently than monthly. Budget variance analysis is the exception to higher frequency of activity: Budgets have remained relatively stable, and 77% of firms are still conducting variance analyses on a monthly basis.

n = 135-143.

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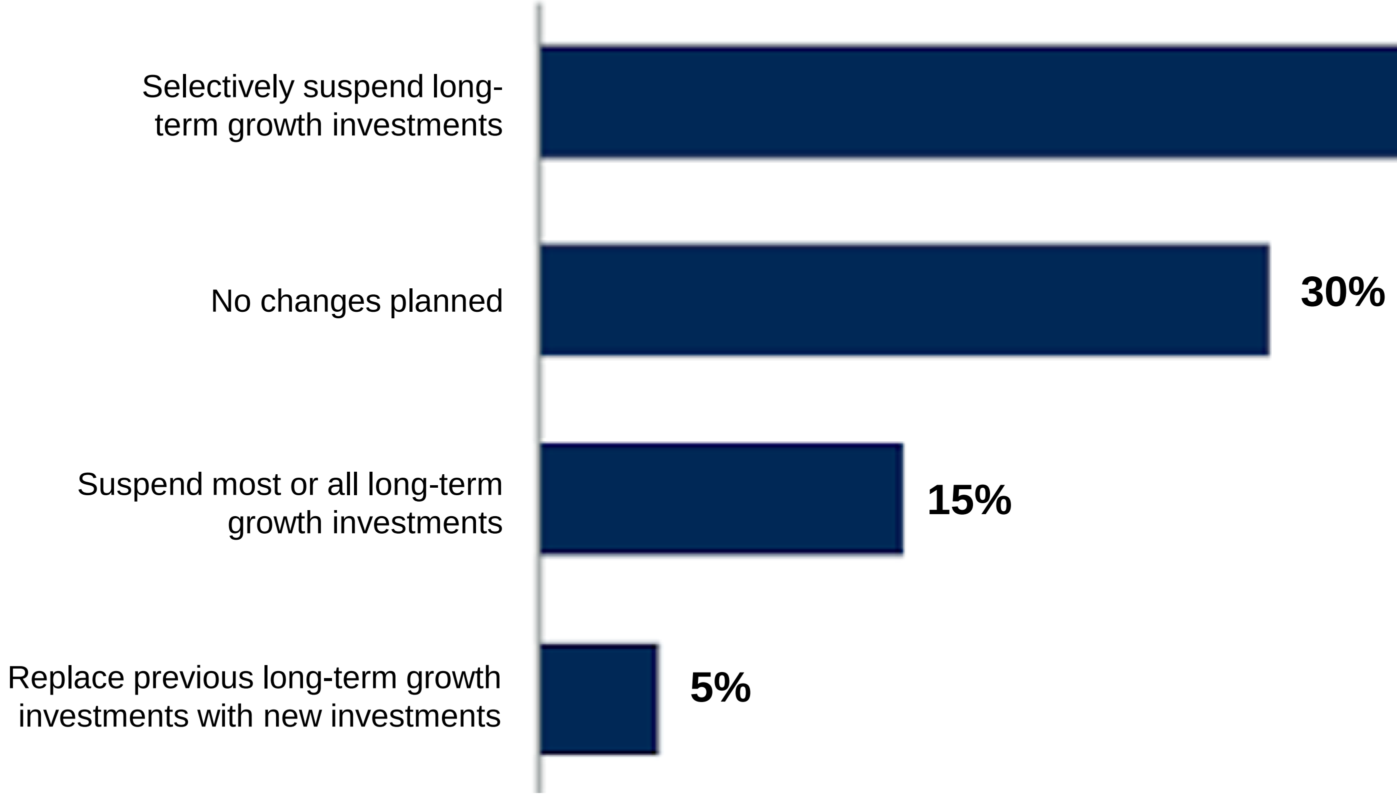
What changes are you making to investments with a 3-year or longer payback period given COVID-19?



Long-Term Investment Outlook
As scenario planning proliferation becomes the norm, it’s no surprise that 70% of finance leaders are also revisiting long-term growth investments in some way. So far, they’re taking more of a wait-and-see approach than suspending investments carte blanche. This is especially true for firms with less dire revenue forecasts. But the deeper the downside revenue forecasting scenario, the more likely a firm is to also suspend or selectively suspend most or all long-term growth investment.

n = 145.

What is your top business concern related to COVID-19 for the month of April?

Business-Related Concern	Frequency Cited (8-12 Apr)	Frequency Cited (2-6 Apr)
Cash (cash conversion cycle, AR/AP, cash flow, liquidity)	21%	24%
Macro-Pandemic Concerns (duration or severity of pandemic, overall economic health, macroeconomic uncertainties)	20%	13%
Revenue Losses, Reductions (in customer demand)	18%	26%
Employees (work from home, morale, safety, security, labor issues, payroll, Paycheck Protection Program, layoffs)	17%	22%
Other Issues (supply chain, logistics, governmental response, and firm-specific operations)	16%	12%

Concerns for April
Finance leaders this week tend to be most concerned with cash flow. Compared to the previous week, concerns expressed for macro-pandemic issues rose, and concerns related to employees and revenues fell. Some finance leaders began expressing concerns related to regulations and governmental response.

8-12 Apr: n = 94. 2-6 Apr: n = 136.

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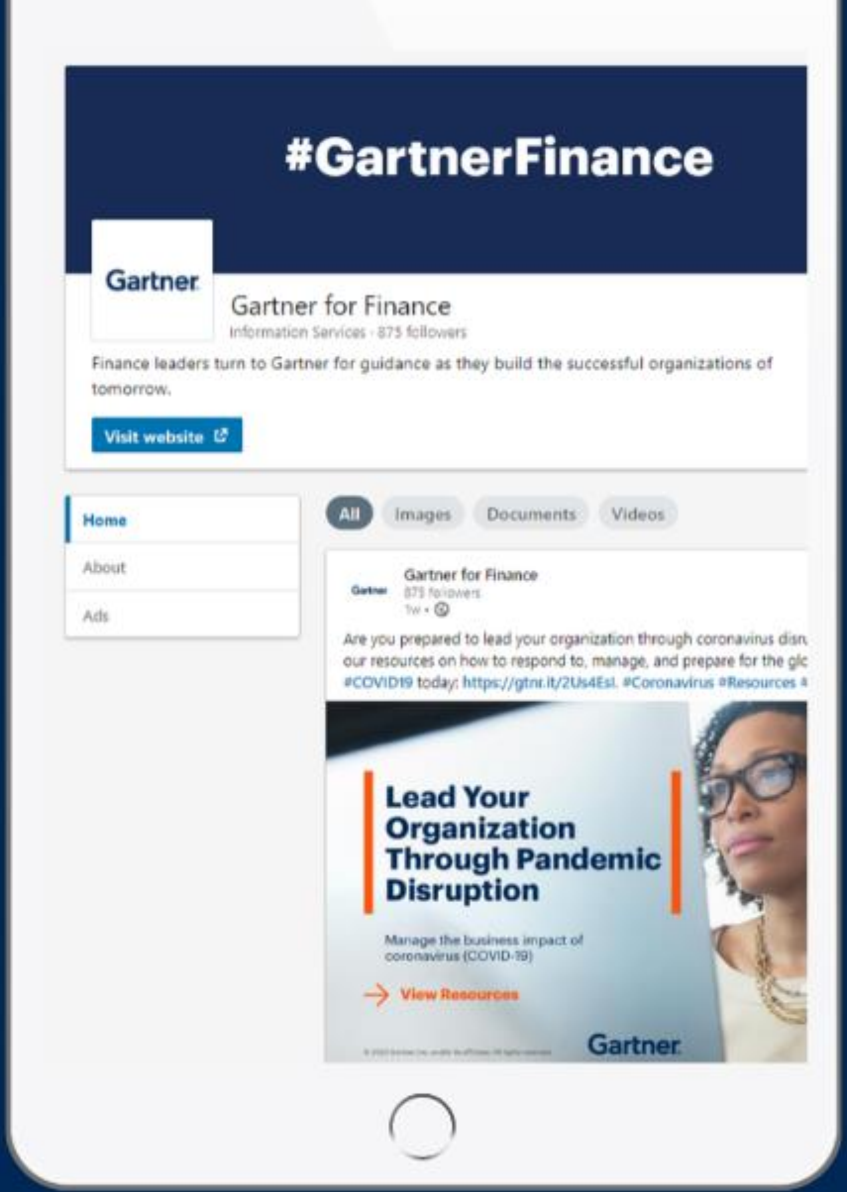

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View additional Gartner resources to prepare for the business impact of coronavirus:

gartner.com/en/insights/coronavirus

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