

# CFO Response to COVID-19

Week of 20 April 2020

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# CFO approaches and ideas | Discussed 21 April 2020

As the COVID-19 humanitarian crisis and economic fallout unfolds, 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 100+ CFOs on 21 April 2020 to glean actions underway in the four key areas listed below, and detailed at length on the next several pages.

- Recessionary Scenario Planning
- COVID-19 Specific Costs
- Return-to-Work Strategy
- Opportunities Created by COVID-19

# Recessionary Scenario Planning

In the wake of grim economic forecasts, CFOs are in the unenviable position of balancing pandemic response planning with recession planning. While maintaining cash flow and liquidity is as important as ever, navigating the uncertainty about the duration of the recession has emerged as a top business concern across the last three weeks. The percentage of CFOs citing macroeconomic uncertainty as a concern has more than doubled since the beginning of April (see Figure 1).

# Figure 1. What is your top business concern related to COVID-19 for the month of April?

Business-Related Concern	Frequency Cited (15-19 Apr)	Frequency Cited (8-12 Apr)
Cash (cash conversion cycle, AR/AP, cash flow, liquidity)	28%	21%
Macro-Pandemic Concerns (duration or severity of pandemic, overall economic health, macroeconomic uncertainties)	28%	20%
Revenue Losses, Reductions (in customer demand)	16%	18%
Employees (work from home, morale, safety, security, labor issues, payroll, Paycheck Protection Program, layoffs)	13%	17%
Other Issues (supply chain, logistics, governmental response, and firm-specific operations)	15%	16%

**Concerns for April**  
 Senior finance leaders continue to be most concerned with cash flow/liquidity. Compared to previous weeks' polling, cash flow and the uncertainty of the duration of the pandemic has grown in importance, whereas revenue losses and employee issues have become less pressing.

15-19 Apr: n = 61. 8-12 Apr: n = 94.

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# Recessionary Scenario Planning, contd.

CFOs are increasingly expecting that there won't be a quick V-shaped recovery, and short-term concerns such as figuring out how employees work remotely are giving way to longer-term concerns about preparedness for a prolonged U-shaped, "Nike Swoosh" or W-shaped recession.

CFOs shared that they are responding to the uncertainty surrounding the duration of the recession in the following ways: incorporate "double-dip" recession scenarios in cash flow plans, and track leading indicators to anticipate the shape of the economic recovery.

## **Incorporate "Double-Dip" Recession Scenarios in Cash Flow Plans**

Most CFOs are being conservative in their assumptions about the duration of the recession and the speed of the economic recovery. The absence of a proven vaccine, and the re-opening of US state economies that have not even seen a peak in new infections, are leading almost 60% of CFOs to prepare for the possibility of a second wave of infections that would dampen any near-term economic recovery. CFOs are responding by: re-assessing the potential impacts of a second wave on revenues and cash flows; lengthening the duration of worst-case scenarios to early 2021; re-forecasting how much excess cash is needed to fulfill supplier commitments while keeping staff employed; and negotiating with banks and creditors to secure payment holidays, agree on relaxation of existing debt covenants, and expand lines.

## **Track Leading Indicators to Anticipate the Shape of Economic Recovery**

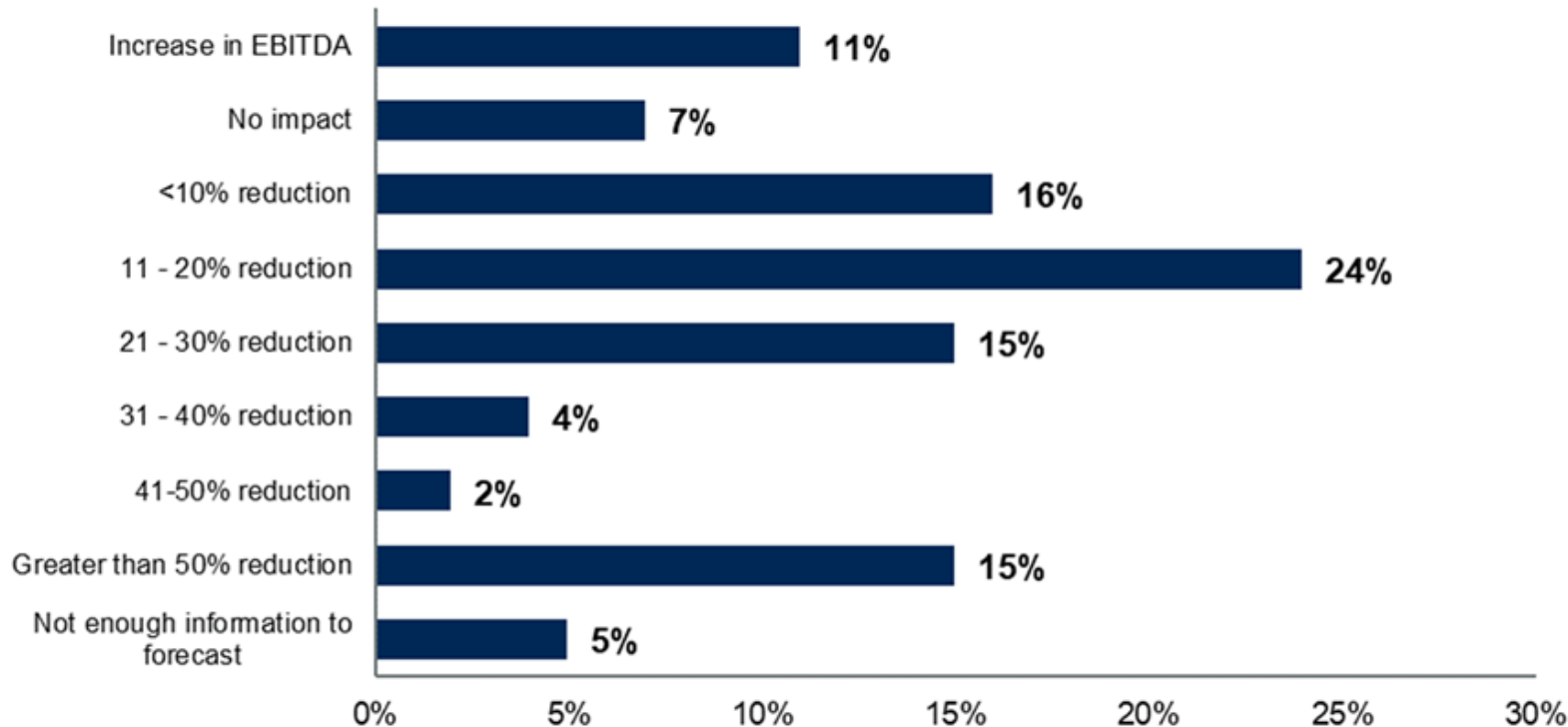
The COVID-19 economic slowdown is a legislated recession, driven by government actions such as quarantines, lockdowns, travel restrictions and border closings. CFOs are realizing the importance of looking at overall macroeconomic and socio-economic health indicators. CFOs are: monitoring jobless claims and commodity prices for signs of a resurgence of economic activity; tracking the rate at which people are integrating back into society by examining mass transit ridership rates, foot traffic at retail centers and businesses and airline traffic; and monitoring the speed with which more accurate and faster testing methods become widely available.

# Cost Impact of COVID-19

A majority of companies expect a bigger-than-10% reduction in EBITDA in 2020 relative to 2019 (see Figure 2). Yet many CFOs have been quite measured in their cost-cutting measures to date, largely avoiding big reductions in headcount. However, they are still coming to terms with the temporary and permanent impact of COVID-19 on their cost structure.



# Figure 2. What is your forecasted impact on FY 2020 EBITDA (or equivalent metric) relative to FY 2019?



**EBITDA Forecasting**  
Approximately 85% of senior finance leaders expect revenue to be negatively impacted by COVID-19. This metric has been consistent across the prior two weeks. Furthermore, there is a huge spread in companies' 2020 EBITDA forecasts: 18% expect either no impact or an increase, while 40% expect a decrease of up to 20%.

n = 99.

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# Cost Impact of COVID-19, contd.

Although COVID-19 has necessitated higher direct costs (such as hazard pay, cleaning and disinfecting, employee health monitoring and re-designing real estate footprints for social distancing), CFOs view the following cost strategies as value-adding: supply chain diversification costs, and give employees more freedom in choosing remote work tools.

## **Supply Chain Diversification Costs**

As COVID-19 has sensitized companies to the risks of consolidating supply chains in locations such as China, some CFOs are considering: shortening supply chains geographically so as to reduce the potential for shocks, even when it's not the most cost-minimizing option; "smoothing" the supplies of key raw materials across the year rather than varying supply according to seasonal demand; and reducing the dependency on single-source supply for key raw materials.

## **Give Employees More Freedom in Choosing Remote Work Tools**

CFOs recognize that remote work has created some hardship and direct costs for employees as they set up more comfortable work-from-home environments given the long duration. To support this, many have provided direct support to employees to allay those costs. Those who have report favorable productivity improvements and higher employee satisfaction. Some approaches they have been using include: provide lump sum payments to employees (rather than expense reimbursements) to set up home offices; increase paychecks by a fixed amount per month for the duration of work-from-home policies; offer bigger remote work allowances to employees below the average salary band to help them to get access to reliable connectivity; and explicitly tag COVID-19 related employee costs with new account codes in the general ledger to separate out their impact on cost structure.



# Return-to-Work Strategy

As companies are officially kick-starting their plans on how to re-open their premises, they are challenged by employee anxiety about returning to work, differences in the pace of pandemic recovery across regions, and inconsistencies in national versus local re-opening guidelines. In response, CFOs report their organizations considering the following strategies: stagger office re-openings based on local guidelines, and putting employees first in re-opening decisions.

## **Stagger Office Re-Openings Based on Local Guidelines**

Faced with disparate, and sometimes inconsistent, re-opening guidelines, CFOs are responding by: setting local socio-economic indicator triggers to track when to re-open offices and facilities; designating local leaders to monitor state guidelines and determine which employees need to report to office; partnering with leaders at other in-region companies for greater harmonization and consistency in how to position the re-opening to local communities; and closing smaller offices.

## **Put Employees First in Re-Opening Decisions**

Despite safety measures such as temperature checks and thermo-imaging, many employees remain anxious about their ability to return to work in the absence of widespread COVID-19 testing, as well as due to school closures. As a result, CFOs are taking the following actions: re-assessing the potential for less dense real estate footprints to incorporate social distancing in the workplace; moving to a hoteling setup where employees come in as needed but not have fixed spaces or desks; alternating work hours or the days employees are expected to come of the office using A/B teams to limit exposure to other employees; piloting a few facilities with safer public health conditions and limited inventory; delegating return-to-work conversations to middle-level managers who have a better sense for employee concerns and can respond with empathy; using an “opt-in” approach to help staff return on a voluntary basis to accommodate potential complications like childcare or health considerations; and mandating that vulnerable populations continue to work from home indefinitely.

# Opportunities Created by COVID-19

Even as they are besieged by cash flow and cost-cutting pressures, many CFOs are keeping their eye on opportunities to differentiate themselves vis-à-vis competitors and drive value-creating growth in this environment (see Figure 3).

CFOs cited many opportunities presented by the current economic crisis, including:

- Moving from an in-field sales to an e-commerce model to meet customer needs more efficiently.
- Buying back debt at historically low interest rates to lower interest burden.
- Capitalizing on the surprising pace and speed at which the leadership team/employees have adapted to the current situation when examining future opportunities.
- Obtaining talent with technical and digital skillsets to drive higher levels of process improvement and virtualization in a remote environment.
- Using the lockdown as an opportunity to re-think processes and identify new billable revenue streams.

# Figure 3. What opportunities does your organization have during and immediately after the crisis?

Opportunity	Frequency Cited (15-19 Apr)
Uniquely meet customer needs; forces new ways of doing business	28%
Workforce agility; faster digitalization	19%
Permanent lowering or restructuring of costs	19%
Increase market share (due to consolidation, better response than competitors or acquisition opportunities)	17%
Other or not sure or none	17%

**Opportunities Perceived**  
More than one-quarter of senior finance leaders cite the ability to uniquely meet customer needs as a key opportunity their organization has during and immediately after the crisis. Nineteen percent cite workforce agility and faster digitalization, and another 19% cite permanent lowering or restructuring of costs.

15-19 Apr: n = 47.

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# Questions on the Horizon

How big do companies expect will be the impact of a potential second wave of infections?

How fast will a proven vaccine or drug to combat COVID-19 be widely available?

How are others determining where, and to what extent, to make advance payments to protect supply chains?

How is the Paycheck Protection Program influencing others' decisions on workforce management?

How big an obstacle are school closures to employees returning to work?

If we are largely able to manage most finance processes remotely, should we expand work-from-home options?

How do I prioritize who comes into work, if work is equal and sufficient space between employees must be maintained?

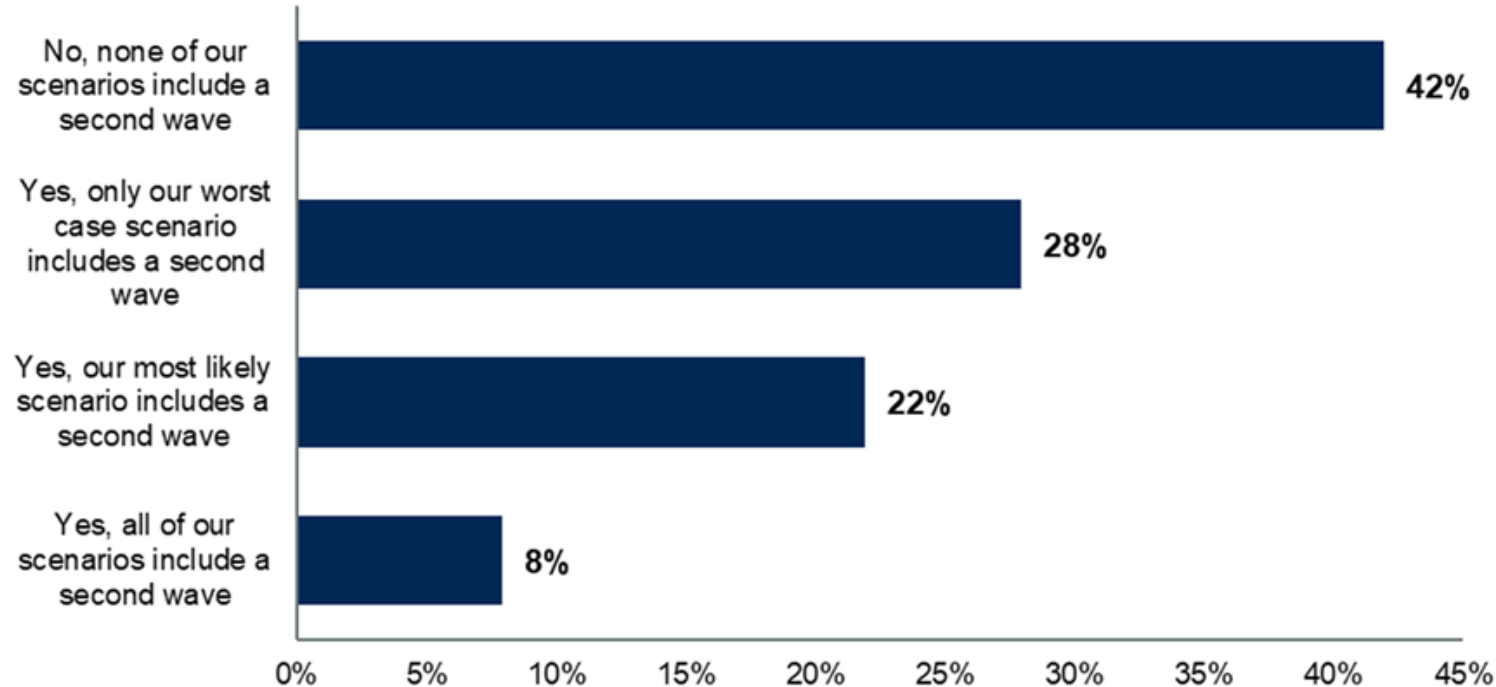
# Senior finance leader poll data | Collected 15-19 April 2020

This research shares survey data of 99 senior finance leaders on the following topics: scenario planning, business interruption insurance, employee work normalization and executive management team response.

## Key Findings:

- Three-fifths of senior finance leaders are considering a second wave of disease outbreak in their scenario planning.
- Although most firms did not have business interruption insurance prior to the pandemic, half of those organizations know that it will not cover the adverse impacts of COVID-19.
- Firms will predominantly depend on clearance from state or local authorities before employees return to their offices and/or facilities.
- Executive management teams tend to meet either daily or 2-3 times per week in response to COVID-19.

# Do your scenario plans include a second wave of disease outbreak?



## Scenario Planning

Three-fifths of senior finance leaders are factoring in the possibility of a second wave of disease outbreak in some, but not all of their scenarios. Interestingly, firms that are projecting a sharp (50% or greater) year over year decline in EBITDA tend *not to include* a second wave in their scenarios: Their base case is already conservative.

n = 97.

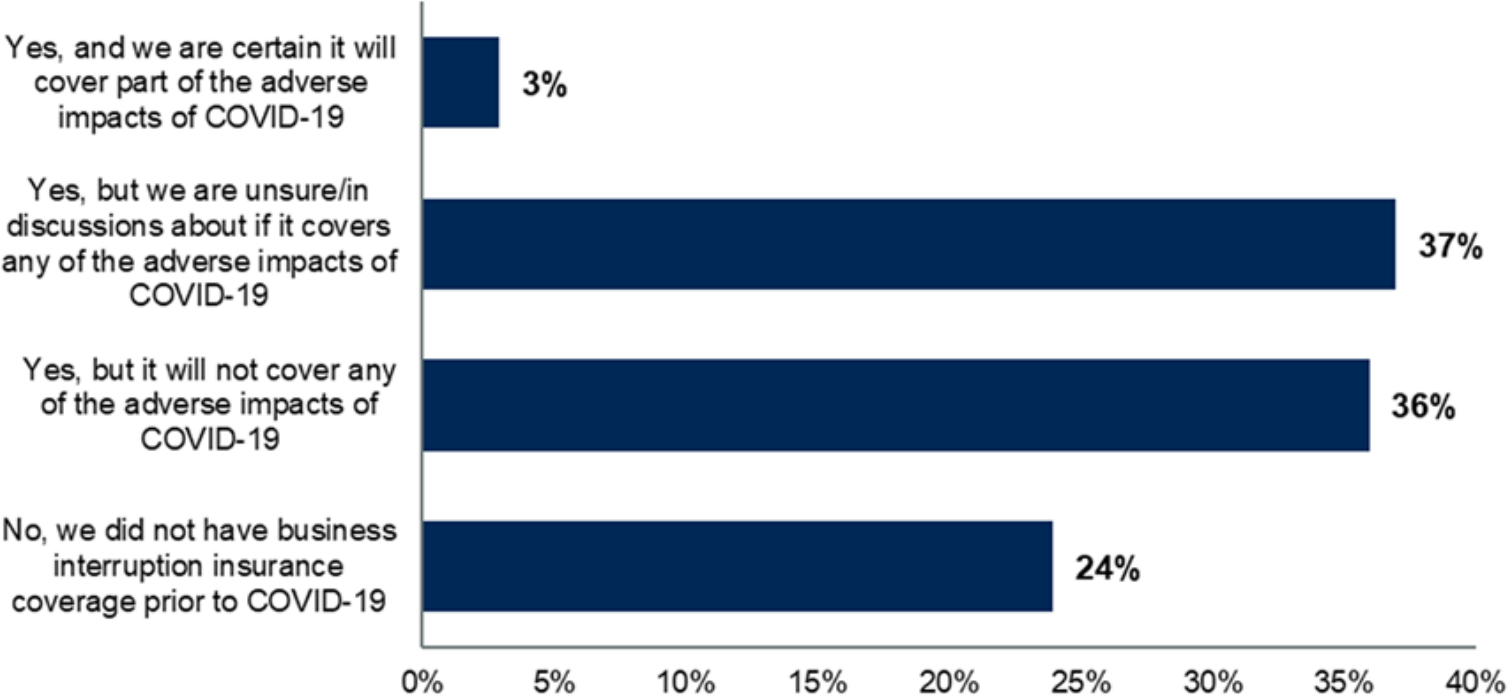
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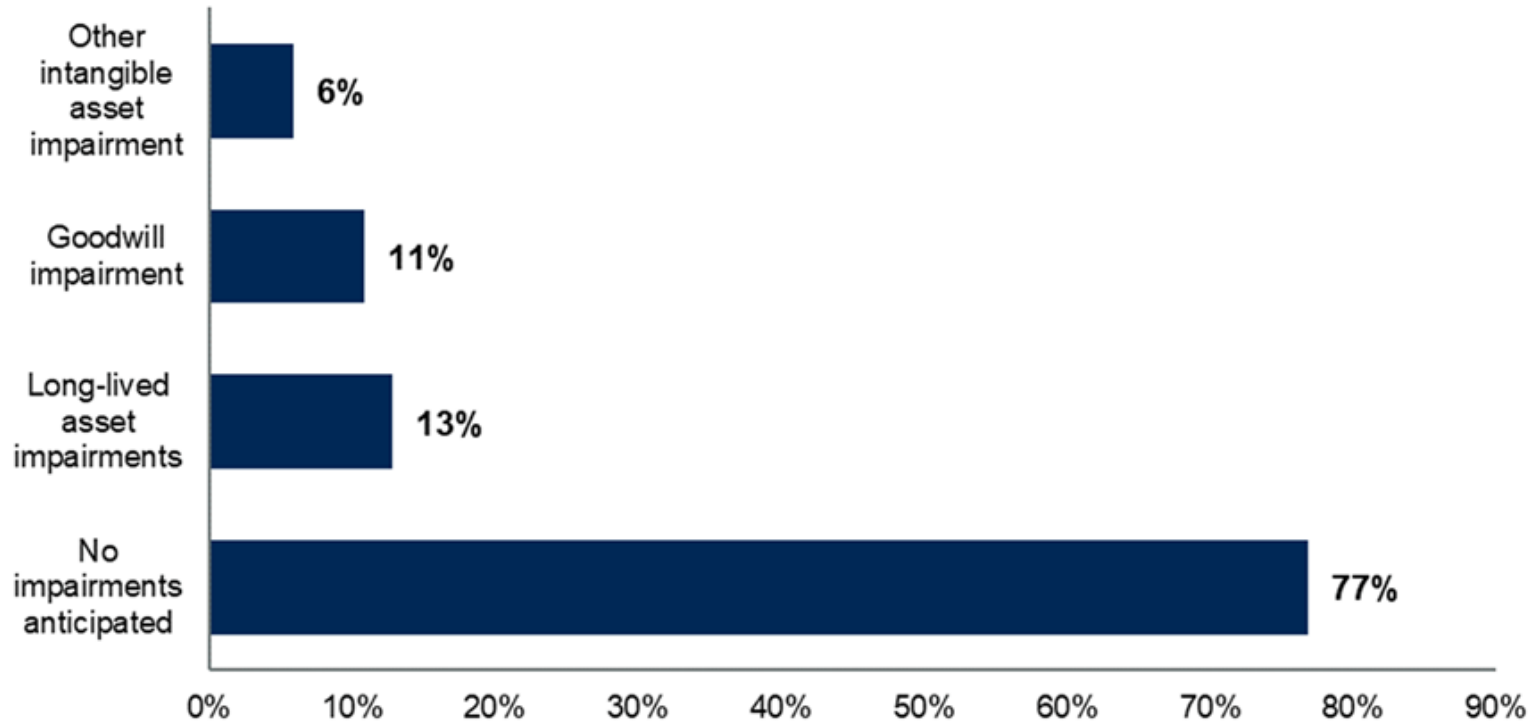
# Did you have business interruption insurance coverage prior to the outbreak of COVID-19?



**Business Interruption Insurance**  
Most senior finance leaders indicate that their firms *did* have business interruption insurance prior to the outbreak. Unfortunately, for one in three of these firms, they already know the insurance will not cover the adverse impacts of the pandemic. Most senior finance leaders do not expect any impairment losses due to COVID-19.

n = 97.

# Which of these impairment losses are you anticipating due to COVID-19?



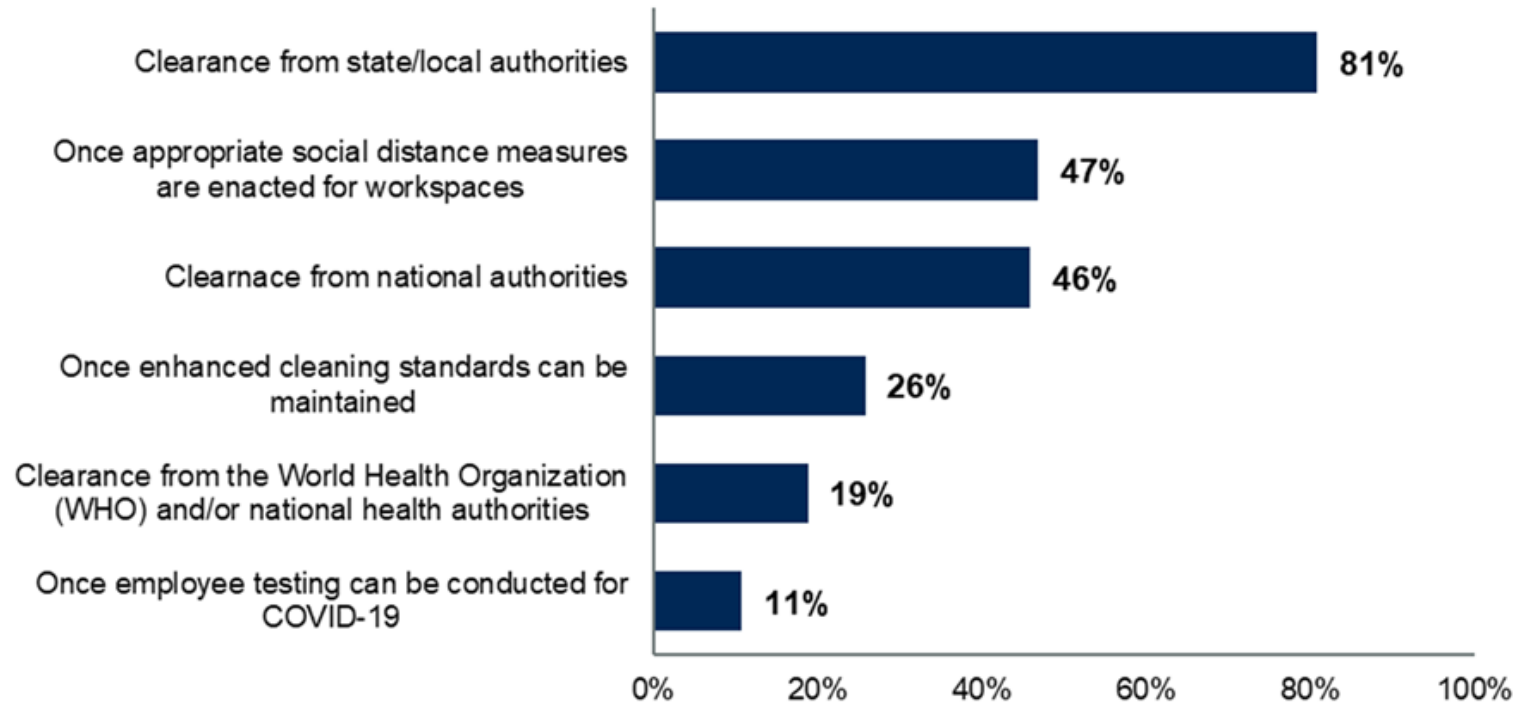
**Business Interruption Insurance, contd.**  
Most senior finance leaders do not expect any impairment losses due to COVID-19.

Multiple responses allowed. n = 99.

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# What must be in place for your employees to return to the office and/or facilities?



## Employee Work Normalization

Corporate real estate (CRE) leaders are bullish on employees returning to the office. Gartner's poll of U.S. CRE leaders found that nearly 86% expect their first nonessential employees to return to their office by July 2020. However, most senior finance leaders intend to rely on state, local or national authorities to guide their thinking on employee work normalization.

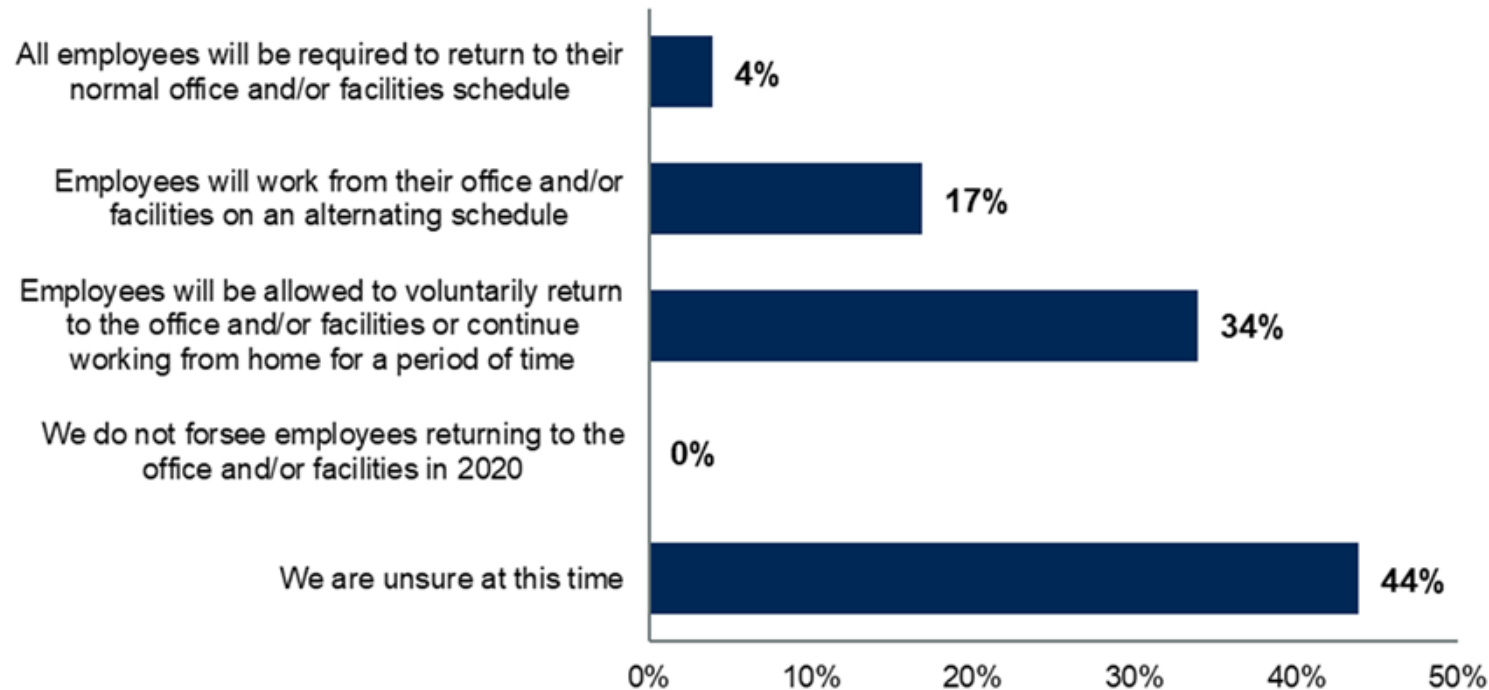
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# For employees who are not working from their normal office and/or facility, once their offices and/or facilities are re-opened, how will they be brought back into work?



## Employee Work Normalization, contd.

Perspectives vary on *how* employees will be brought back to work. While 81% of CRE leaders expect to stagger remote work, senior finance leaders are less sure on how this will play out. The only thing everyone agrees upon is that at least some proportion of employees will return to the office at some point in 2020.

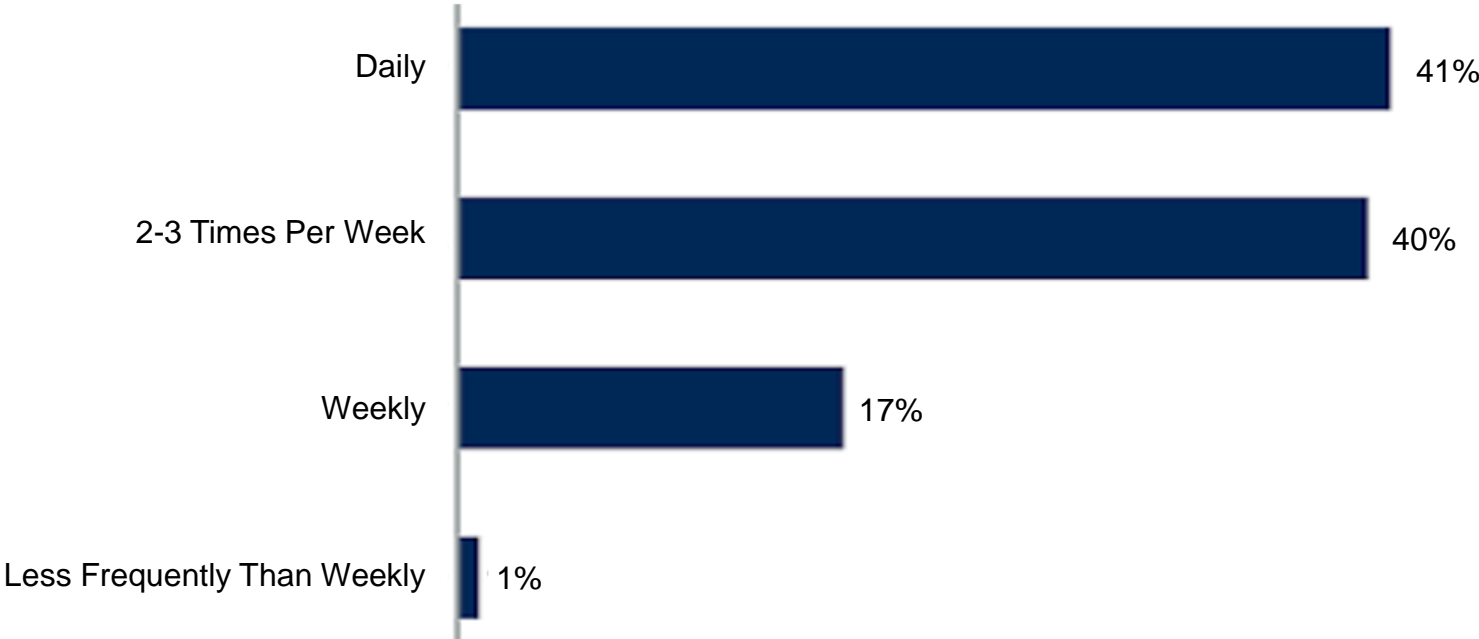
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# How frequently does your executive management team (e.g., CEO, CFO, CIO) meet as a result of COVID-19?



**Executive Management Team Response**  
Executive management teams are working in unison to make decisions in condensed timeframes and as a result have increased the frequency of meetings to either daily (41%) or 2-3 times per week (40%) as they continue to assess the impact of and formulate their responses to COVID-19.

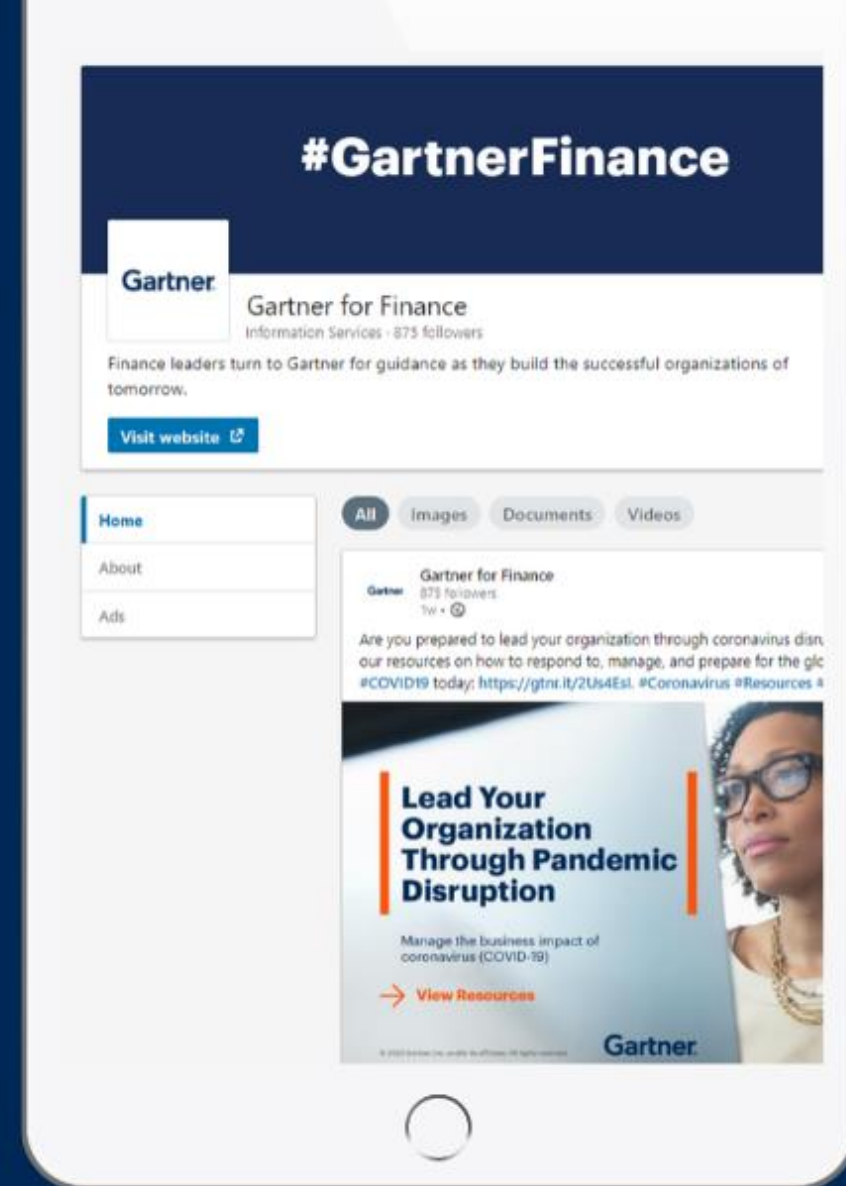
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