CFO Actions in Response to COVID-19

Week of 30 March 2020

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Early approaches and ideas shared by CFOs

As the COVID-19 humanitarian crisis and ultimate economic fallout evolves, CFOs need quick perspective to ensure they take the right actions for their organizations, their employees, their shareholders and themselves.

Conversations among 200+ CFOs on 31 March 2020 revealed a number of actions underway in four key areas:

- Cash Flow Management
- Cost Management
- Scenario Modeling
- CARES Act Evaluation

Cash Flow Management

Cash flow management

CFOs continue to be worried about the cash flow impact of this crisis more than the P&L impact, and this concern is growing as they're starting to receive requests from customers to delay payments.

While most CFOs have focused on reducing cash outflows to date, they recognize the need to turn their attention to managing cash inflows. In general, they are closely monitoring both customer and supplier actions. Specific steps CFOs are taking include:

- Closely monitor days sales outstanding (DSO)
- Estimate the customer default rate
- Identify and eliminate any slack that currently exists in the collections process
- Identify opportunities to get cash back into the U.S. from foreign locations
- Increase stringency around approval of supplier and customer payments
- Slow down cash outflows: Change payment terms and make supplier payments on a case-by-case basis
- Expedite payments to smaller and more vulnerable suppliers to prevent disruptions
- Build a dashboard to monitor cash inflows and outflows in real time

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Questions on the horizon

What strategies are others adopting to maintain cash inflows when customers are asking for extensions on their payments?

How long do companies expect to survive on the cash side without payments?

How do we distinguish between suppliers who won’t survive, those who need temporary help to survive, and those who are trying to take advantage of their clients?

Cost Management

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Cost management

Many CFOs have already taken advantage of “quick win” cost cutting opportunities such as canceling leadership offsites, freezing hiring, canceling conference spend, freezing T&E and delaying CAPEX investments (see Figure 1).

About three quarters expect to take additional cost cutting measures across the April-May timeframe. While only one quarter of CFOs anticipate zero-basing their budgets due to COVID-19 (see Figure 2), close to 60% expect to cut their SG&A budgets by more than 10% across multiple areas, with marketing budgets being the first cut (see Figure 3).

As CFOs start to shift their attention to other cost cutting avenues, we are seeing a focus in three areas in particular.

- Identify new ways to further reduce staff costs
- Seek short-term rent reliefs and reevaluate long-term real estate costs
- Critically question the need for third-party spend

Figure 1: Cost reduction actions taken so far

Percentage of senior finance leaders responding; multiple responses allowed (n = 317 senior finance leaders)

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Figure 2: Do you anticipate zero-basing your budgets due to COVID-19?

Percentage of senior finance leaders responding (n = 317 senior finance leaders)

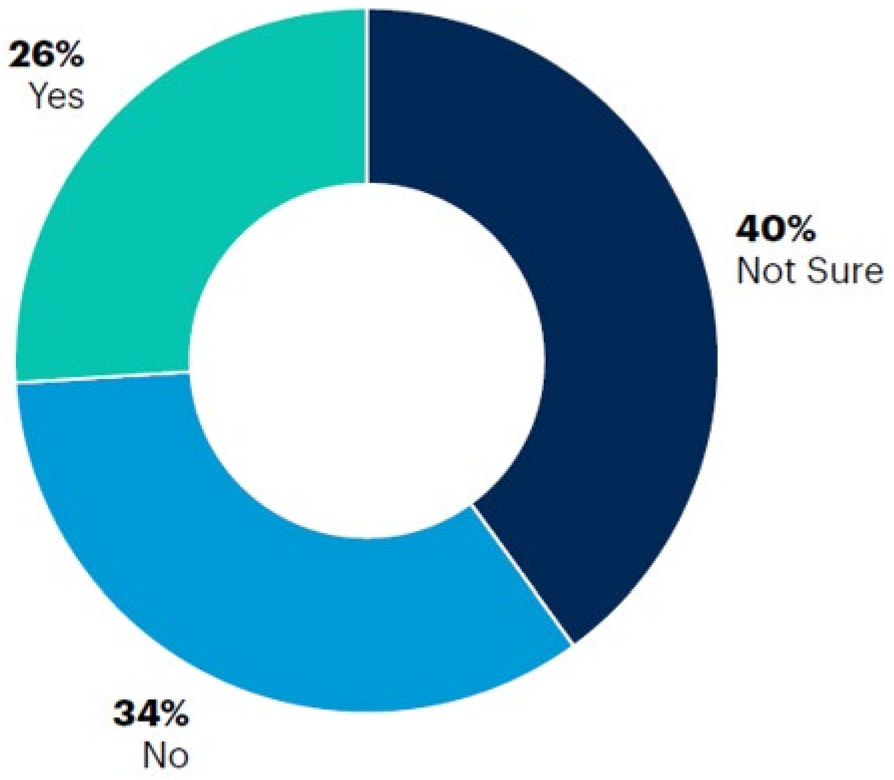

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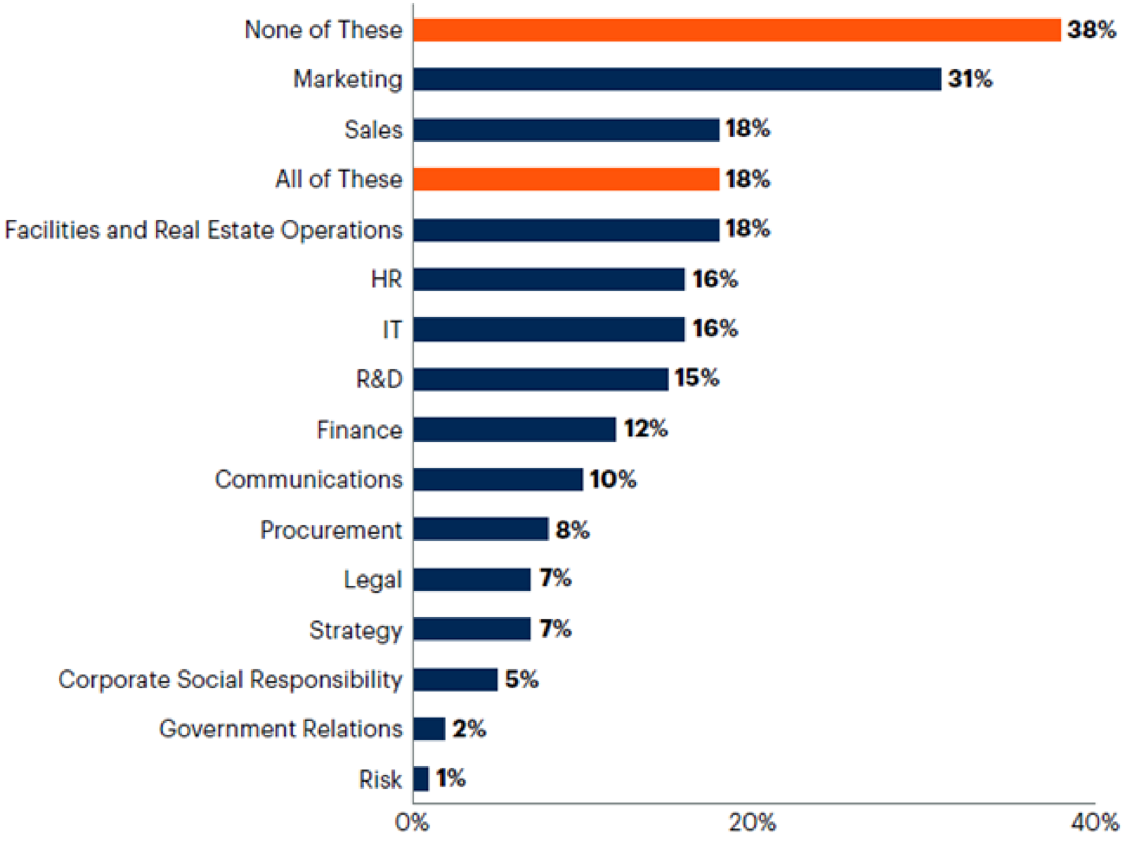
Figure 3: Which SG&A functions will likely have their budget cut by more than 10% in 2020?

Percentage of senior finance leaders responding; multiple responses allowed (n = 317 senior finance leaders)



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Identifying new ways to further reduce staff costs

CFOs continue to focus on job preservation but have started exploring methods beyond salary abatements and 401(k) match suspensions.

In general, given the sensitive nature of these staff-related decisions, CFOs are treading carefully to ensure they are well staffed to resume normal operations quickly when the crisis is over.

Actions they are taking or exploring include:

- Cancel merit increases for the year
- Offer part-time work arrangements as an option to staff
- Reduce the work week to four days
- Evaluate options for having staff work alternate weeks — i.e., one week on, one week off
- Encourage, and in some cases consider, mandating staff to take PTO, not just to reduce cost, but also to ensure they have the full workforce as soon as the crisis ends
- Cancel, postpone or shorten the duration of summer internship programs
- Reduce or eliminate the executive team's salaries to ensure employees continue to be paid as normal

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Seeking short-term rent reliefs and reevaluating long-term real estate costs

Many CFOs are exploring options to get short-term concessions on their rent payments but have received mixed responses from their landlords.

Some have been asked to pay the rent for April but are exploring concessions for May and June, while others have been asked to wait until further notice.

Some CFOs are using this as an opportunity to evaluate their entire real estate footprint and determine what changes they may want to make in the future (when their lease comes up for renewal), given the success they've seen with remote working.

Many anticipate remote working to become the new norm and the preferred choice for staff going forward.

Actions CFOs are taking include:

- Engage in a dialogue with landlords to request rent waivers for the next couple of months
- Carefully weigh the benefits of requesting short-term concessions against the cost of losing leverage at the time of lease renewal negotiations
- Identify opportunities for consolidating real estate portfolios over the long term

Critically questioning the need for third-party spend

Third-party is spend is an area ripe for cost reduction – and not just consultants, but also suppliers and contractors.

Actions CFOs are taking include:

- Identify areas where work can be brought back in-house, with a careful consideration of what it may entail from a staff skills development perspective
- Make business leaders justify existing and planned consulting spend to challenge if it's truly necessary
- Claw back the standard T&E portion of contracts to save some portion of the cost on these contracts

Questions on the horizon

Should we be cutting costs now for activities that will take place in the medium or long term — i.e., if the impact is felt six months out?

For companies that are trying to reduce CAPEX by converting it to OPEX, what strategies will they adopt later to convert that OPEX back to CAPEX?

What considerations will others use to determine whether to implement an across-the-board salary reduction or implement furloughs?

What are best practices in furloughing employees?

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Scenario Modeling

Scenario modeling

CFOs are under pressure to provide a reasonable view of when and how their organization may be able to bring business back to usual. Many CFOs are actively modeling multiple worst-case scenarios but caution their peers against going overboard with the number of scenarios. Most believe it's not worth looking at more than 2-3 scenarios. Actions CFOs are taking include:

- Model worst-case scenarios by different types of recovery patterns — i.e., U-shaped, V-shaped, Canoe-shaped — and model the impact to cash flow, solvency and liquidity under each recovery pattern
- Build out a scenario for two years of below-trend growth
- Treat the absolute worst-case scenario as one that has fixed cost and no revenue
- Rely on clinicians' and statisticians' view of the future to determine best- and worst-case scenarios
- Use the timeframe of recovery as the basis for determining scenarios — e.g., upside scenario of a return to normalcy in June and downside scenario of return to normalcy in September
- Rely on most recent information from the month of March to determine the change in impact in the second half compared to the first half of the month
- Establish firm trigger points to know when to move from one scenario to the next
- Document concrete actions to take in each scenario

Questions on the horizon

How do you know what type of scenario planning is right for your company?

How are companies approaching forecasting and returning to norm post-COVID?

CARES Act Evaluation

CARES Act evaluation

Most CFOs are still in the process of understanding all the provisions of the CARES Act and how they may be able to take advantage. Most are struggling because the advice they are receiving from external sources is very generic and the constant addition of definitions in the Act itself is requiring them to revisit it multiple times. A key concern for some CFOs is the unintended effects of the Act that may make applying for unemployment a more lucrative option for some staff.

Actions CFOs are taking include:

- Use HR (particularly staff that have experience with payroll) as an ally to understand Act provisions
- Appoint a member of the legal team to interpret the legislation
- Engage an outside firm to work with 2-3 internal folks with expertise in different areas
- Sett up a cross-functional team comprising representatives from HR, legal and finance to conduct a critical examination of Act provisions
- Reexamine all furloughs, layoff and hourly reductions in real-time as definitions are released to ensure they can take advantage of the stimulus
- Add pay codes in the ERP system to ensure that they are tracking COVID-19 related items appropriately and issuing new guidance to staff on categorization of certain items to ensure they match the codes that will be CARES eligible
- Identify ways to reposition the business as an essential service to take advantage of the vouchers offered by CARES
- Work with SBA-aligned banks to be prepared to apply for funds once available

Questions on the horizon

What are the potential unintended consequences of the new stimulus bill that we should be preparing for?

How do we overcome the potential challenge of workers gaining more on unemployment than they would on the job?

How can government stimulus package assistance be expedited?

How will the CARES Act treat employee count in portfolio companies?

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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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