

Excerpt from

Gartner Business Quarterly

Proven Guidance for C-Suite Action

In this issue: How to Rebuild Better

How One CFO Is Laying the Foundation for Postpandemic Growth

by Oana Lupu

Periods of disruption offer functional leaders the opportunity to mold their companies into efficient growth leaders.¹ Organizations that made bold capital investments during the 2008 financial crisis generated significantly higher shareholder returns in the recovery phase compared to their peers.²

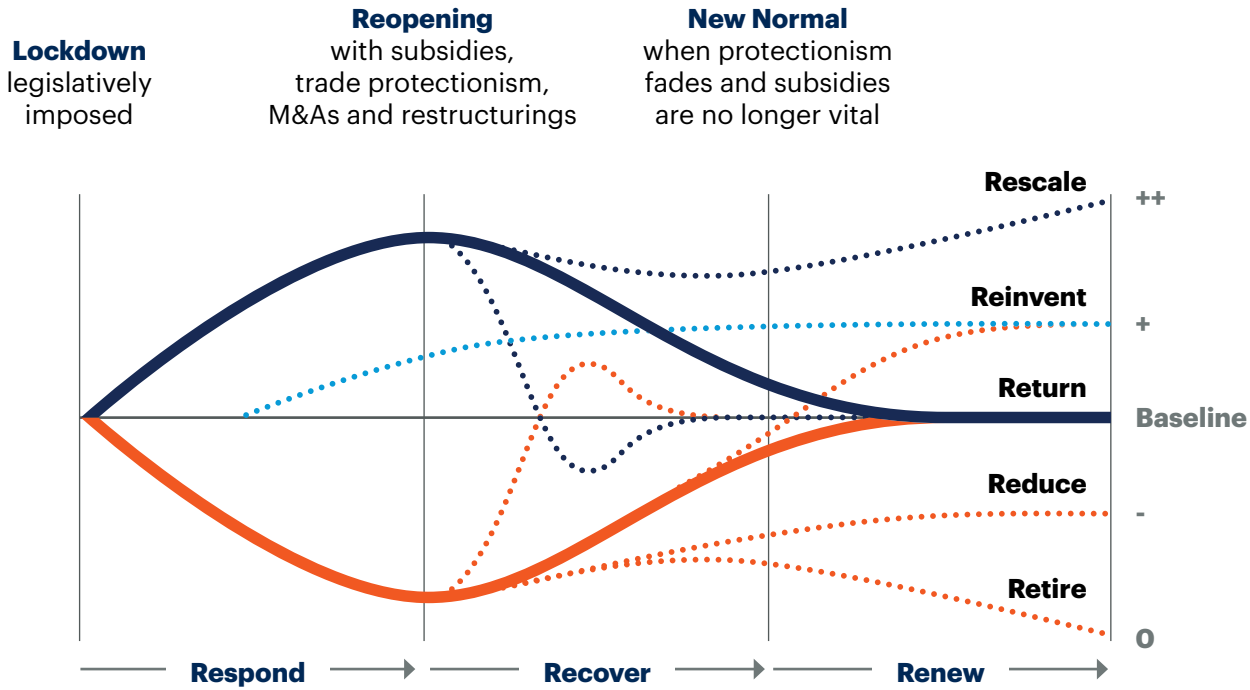
Kevin Cornett is the CFO of ZO Skin Health, a maker of medical-grade skin care products, including over-the-counter and prescription pharmaceuticals sold by dermatologists and other cosmetic physicians in more than 100 countries. Over the course of his career in finance and management consulting, he's seen firsthand that the choices companies make during downturns shape their trajectories for years to come. Recognizing how high the stakes are during the lockdown, he's been keeping two questions front and center when making decisions with the leadership team:

- How do we want to come out of this crisis from a market perspective?
- How can we balance the need to protect cash and market share in the short term with the need to invest for growth in the long term?

This way of thinking aligns with our postpandemic planning framework — a tool that helps executives reimagine their company's strategic priorities for the "new normal." For each revenue-generating area of the business, five possible outcomes exist (see Figure 1).

1 Excerpt from Gartner Business Quarterly 3Q20

Figure 1. Postpandemic Planning Framework



Source: Gartner

- Compared to prepandemic levels, parts of your company (e.g., business units, product lines, delivery channels, etc.) will do one of the following:
- Generate more revenue (**rescale**)
- Generate new revenue (**reinvent**)
- Generate the same amount of revenue (**return**)
- Generate less revenue (**reduce**)
- No longer generate revenue (**retire**)

CFOs and their executive teams should identify areas to lift or sustain, and they should consider where to reduce or retire elements of the business. Imagining how different parts of the company will adapt to the postpandemic reality can inform the strategic resource allocation decisions CFOs make today.

A Vision of ZO Skin Health in the New Normal

ZO Skin Health sells its products through medical offices and through an e-commerce site that is a partnership between ZO Skin Health and its

physicians. Cornett told us that he and his CEO believe that coming out of the pandemic:

- **E-Commerce Revenue Will Rescale.** People will continue to enjoy the convenience of online shopping, so this channel will likely account for a higher portion of revenue. The company is looking to increase online sales in the U.S. and expand e-commerce internationally, starting with Canada.
- **Brick and Mortar Revenue Will Reduce as a Percentage of Total Revenue.** Clients who avoided their doctor’s office during the lockdown may choose to shop online more frequently. The company expects in-person sales to increase incrementally in the new normal, but not fast enough to keep up with the projected growth in online sales.

ZO Skin Health is watching customer behavior and the macroenvironment to test whether these two beliefs continue to hold true. CFOs must monitor business metrics closely, be flexible and adapt as health and economic conditions evolve.

How Picturing the Postpandemic Reality Helped Inform Decisions

This process of monitoring and projecting has informed Cornett's choices about how to balance survival with growth, and it's helped him explain the rationale behind his recommendations to the CEO. For example, the company decided to:

1 Prioritize Investments in E-Commerce

ZO Skin Health had three major IT projects planned for this year: a new website with improved e-commerce capabilities, a warehouse management system and a business intelligence solution.

New website: Because online sales are expected to play such an important role in the new normal, funding for the e-commerce project continued as planned. The company is launching a new website designed to improve reliability in response to higher web traffic and to support international expansion plans.

Warehouse management system: The rollout of this system was delayed for a few months to prevent burnout among warehouse staff, who are adjusting to the increased volume of smaller packages from online orders.

Business intelligence system: This has been put on hold to preserve liquidity. While room for improvement exists, management decided current data and analysis capabilities are sufficient.

2 Offer Free Shipping

It may seem counterintuitive to take on new costs at a time when everyone is trying to reduce existing ones. But Cornett believes this decision was essential to boosting online sales in the near term and supporting the rescaling of e-commerce over the long term. He has found ways to make up for these additional costs by controlling operating expenses. The company is considering whether to make this a permanent incentive.

3 Retain Sales Staff and Introduce Drop Shipping

Even though sales in doctors' offices will likely decrease as a percentage of total revenue in the new normal, they will still play an important role in generating revenue and raising brand awareness for the company. And Cornett realized that to protect as much of its share of that market as possible, the company must be proactive.

To preserve its physician-sales rep relationships, which are crucial to the success of its business model, ZO Skin Health decided to keep all of its sales representatives. The sales team quickly adapted to serving physicians remotely. The staff has been conducting calls and virtual education webinars instead of making in-person visits. The reps have also started using social media to target patients, which has helped boost revenue.

ZO Skin Health also introduced a drop ship program so that doctors don't need to mail products from their homes while their offices are closed. Taking over this responsibility had downsides for the company: The process is high-touch, and warehouse workers must manage a much higher volume of smaller packages than they used to. But the company realized that helping physicians maintain their businesses and free up time for patients would build loyalty and generate sales.

4 Rightsize Staffing in Company-Owned ZO Skin Centres

ZO Skin Centres, a line of hybrid spas and medical clinics, are an important part of the brand, so the company is not planning to retire them, even though in-person product sales will be lower after the crisis.

When these U.S. facilities closed, ZO Skin Health furloughed its hourly employees. This is the only labor force reduction the company has made. It let the company adjust staffing levels in response to the sudden drop in demand. Hourly employees qualified for expanded unemployment benefits provided by the federal government during the pandemic. But each location's salaried manager is still on board — the manager's role and institutional knowledge will be as important in the new normal as it was before the pandemic. In the meantime, managers have temporarily shifted their responsibilities to include taking orders by phone, managing curbside pickup and planning the rollout of safety protocols for reopening when the time is right.

Early Evidence of Success

Cornett said he believes the decisions made early in the crisis have laid the foundation for long-term growth. ZO Skin Health's initially pessimistic pandemic revenue projections have not been realized, thanks to a sharp increase in online sales, the introduction of drop shipments, and the ability to service existing customer and physician accounts virtually. The April launch of a new sunscreen product exceeded pre-COVID-19 sales forecasts. And some physicians who had previously turned down the opportunity

to partner with the company have opened new accounts after competitors who laid off sales reps became difficult to reach, Cornett told us.

To shape the company's path forward, ZO Skin Health's leadership team will continue to revisit assumptions and incorporate lessons learned into strategic decisions.

¹ Efficient Growth Behaviors to Begin Modeling During the COVID-19 Downturn

² Recommended Cost Optimization Strategies and Tools for Finance Leaders

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