CFO Actions in Response to COVID-19

Week of 23 March 2020

Early approaches and ideas shared by CFOs

Against the backdrop of declining economic activity and a sudden stop to cash flows driven by the COVID-19 pandemic, CFOs need quick, peer-vetted perspectives to ensure they are taking the right actions for their organizations, their employees, their shareholders and themselves.

Conversations among 200+ CFOs on 24 March 2020 revealed a number of actions underway in two key areas:

- Financial Performance
- Business Operations

Financial performance

Financial performance

Most CFOs acknowledge that Q2 2020 is when the adverse impact of COVID-19 will really manifest in financial statements. They are beginning to shift their attention away from immediate crisis mode and toward thinking through financial implications, including minimizing downside impact on the business and cost and liquidity management.

CFOs are trending toward four approaches.

- Using the crisis to drive urgency on cost discipline.
- Reducing employee costs while treating layoffs as a last resort.
- Securing access to credit to preserve liquidity.
- Integrating worst-case scenarios into financial plans.

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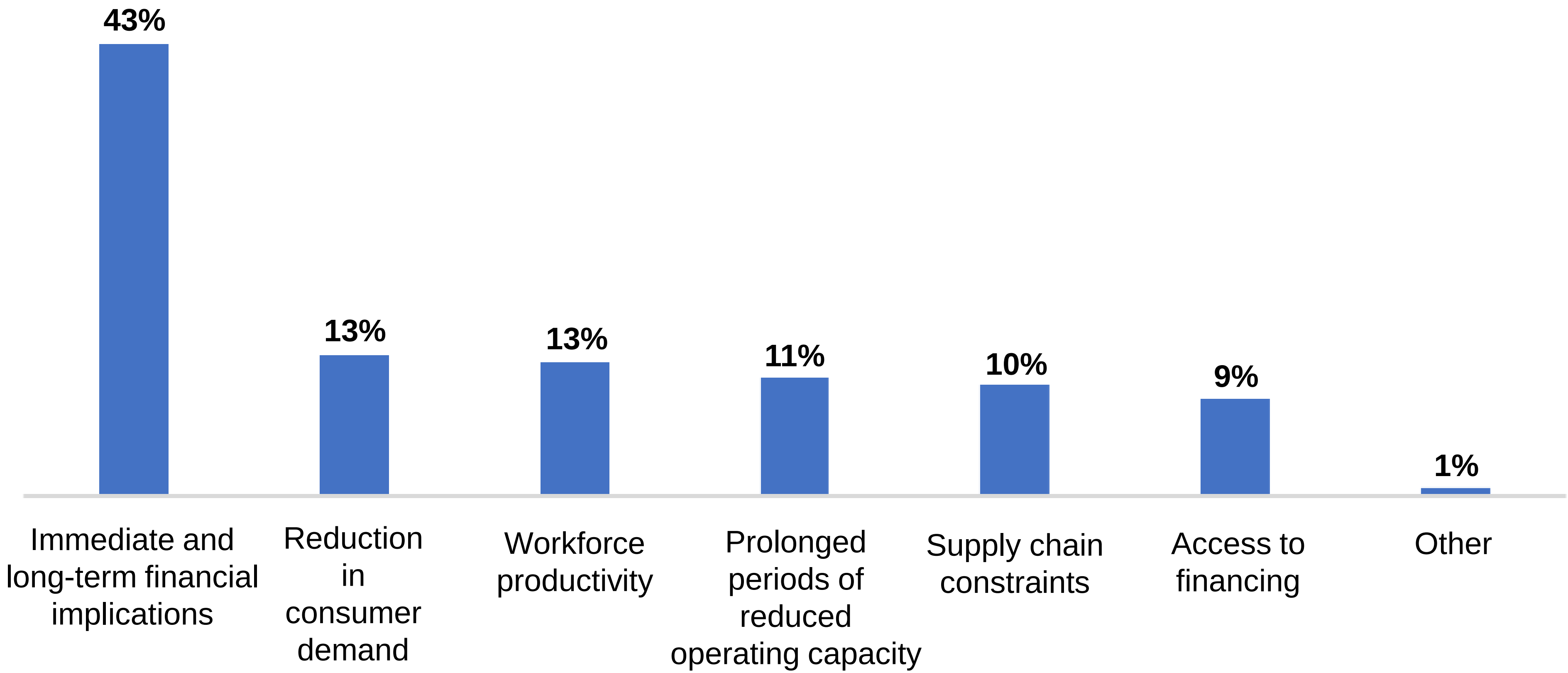
Chart 1: CFOs' top concerns related to the impact of COVID-19 on their business

Respondents selected up to three; Percentage of CFOs responding (n = 143 CFOs)



Note: Percentage of respondents selecting "No Answer" is not shown.

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Using the crisis to drive urgency on cost discipline

With revenues all but certain to decline in Q2 2020, CFOs are championing the cause for increased cost discipline. The timelines for cost savings initiatives that were previously pushed back have now been brought front and center.

Actions CFOs are taking include:

- Leading cross-functional “value-capture” teams with HR, facilities and other functional heads to identify cost savings opportunities, treating the current situation like they would a major acquisition.
- Deferring all non-essential IT operational expenditures, mainly since work can’t happen in the office. Despite this, most are continuing to invest in IT capex to support remote work and preserve the path to long-term cost savings.
- Conducting light zero-basing of capital projects, asking businesses for ideas of what could be cut and what is fundamental.
- Freezing marketing spend or moving it completely to social media.
- Freezing spend on audio visual equipment or supplies for any office.
- Re-evaluating real estate footprints and looking for cost savings opportunities in rent agreements.
- Negotiating with vendors to “share” the cost and apply discounts on ongoing contracts.
- Cutting spend on conference sponsorships, not just immediately but also looking out into the summer and fall.

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Reducing employee costs while treating layoffs as a last resort

Even as they prepare for a potentially precipitous revenue drop in Q2 2020, CFOs say that their companies are prioritizing job preservation to keep everyone employed, even if it requires pay cuts.

Strategies CFOs are considering here include:

- Stopping all non-billable hiring, but still doing mission critical hiring on billable headcount.
- Assessing the financial implications of furloughs in terms of the ability of preserve benefits to furloughed workers, and ways to avoid automatically triggering a severance package.
- Modeling out scenarios for tiered salary abatement in the range of 5-20% across Q2 2020. One CFO talked about a “share the pain” program at corporate, in which the levels of director and above would receive a 3%, 5%, 10%, and 20% reduction in pay for at least 6 months.
- Cascading salary cuts—deepening cuts at the upper levels of the organization, and lightening cuts at the lower range of the organization. Committing to making employees whole if there is positive cash flow at year end.
- Establishing decision points for suspending 401k safe harbor provisions, discretionary, fixed match and non-elective contributions in accordance with IRS guidelines.
- Re-assessing bonus pools rather than base pay and what it means for the accruals on the books this year.

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Securing access to credit to preserve liquidity

CFOs continue to be worried about liquidity and are meeting with banks to determine if they should draw on credit lines as a safety net. They are faced with banks' demands for realistic forecasts of the company's financial positions and encountering processing delays of up to 6 weeks because of the higher volume of demand for credit and credit line increases.

Actions CFOs are taking here include:

- Adding more transparency to their communications with banks by sharing their 30-, 60- and 90-day plans for cost containment and potential divestment assets.
- Re-assessing cash needs and sources and doing daily updates to cash outlay needs on at least a 2-month rolling basis.
- Preparing multiple 12-month, forward-looking forecast scenarios for their banking partners, and using the worst case to secure funding and comply with covenants.
- Negotiating leeway on their audited financial statements to meet covenants by asking banks to accept draft audit reports through the next three months.
- Refinancing debt given the low interest rates using fixed-rate swaps.
- Renegotiating loan agreements with banks.

Integrating worst-case scenarios into financial plans

The uncertainty surrounding the longevity of COVID-19 has reinforced the need for rigorous scenario planning with equal attention to base- and worst-case scenarios. In many cases, the worst-case is becoming the base-case.

Actions CFOs are taking here include:

- Establishing triggers and stress tests for how adverse performance can get before the company starts to trip on its covenants with banks and need to take protective measures.
- Categorizing revenue losses as ‘deferral’ or ‘permanent’ to understand cash flow implications.
- Revisiting longer-range plans on a weekly basis to check liquidity.
- Instituting a weekly rolling 12-month forecast to anticipate revenue scenarios and their impact.
- Modeling the impact of competitor actions (e.g., obtaining rival firms’ inventories at a lower price).
- Assessing the impact on cash flows of renegotiating payment terms with suppliers and customers.

Business operations

Business operations

Aggressive social distancing in response to COVID-19 continues to create major business operations challenges across industries, chief among them being maintaining worker productivity in a remote work environment.

As a key member of the corporate “task force” that plans and sets up work protocols, CFO approaches have fallen into three areas:

- Expanding access to tools required for remote work productivity.
- Continuing to invest in employee safety.
- Using employee morale as the instrument to drive productivity.

Expanding access to tools required for remote work productivity

What used to be a 5-minute office conversation now requires a 30-minute scheduled meeting, which is slowing down operations. Many CFOs report working with their IT teams to acquire user-friendly applications and educate employees on how to best integrate these applications into their work.

Some approaches include:

- Switching to group chat applications (e.g., Microsoft Teams) to reduce the number of meetings that need to happen to make rapid decisions.
- Launching a virtual IT help desk on the organization's group chat application to help troubleshoot remotely.
- Granting home-office stipends to gain access to IT equipment (e.g., modems/wifi cards, routers) needed to work effectively in a remote environment.
- Monitoring VPN usage to ensure sufficient VPN access points for 100% remote work.

Continuing to invest in employee safety

With the growth in new COVID-19 cases showing no signs of peaking, CFOs are continuing to reinforce the importance of preserving employee health and safety.

Actions they are recommending here include:

- Running shorter shifts with fewer people to reduce contagion possibilities.
- Segmenting teams (e.g., A team & B team) to rotate on different shifts.
- Checking workers' temperature before shifts using technology such as thermo-cameras.
- Enlisting medical experts to join weekly all-hands video calls to help answer questions and give employees confidence that they are watching the health risks closely.

Using employee morale as the instrument to drive productivity

As remote work has become the norm across industries, many CFOs are devising strategies to maintain and improve employee productivity. Many employees are anxious about managing the rigors of a challenging job with the need to balance family and home-schooling requirements.

CFOs mentioned a variety of actions to boost employee morale, and hence productivity.

- Adding additional billing codes for time spent on caregiving responsibilities and increasing PTO for people with caregiving responsibilities. One CFO mentioned up to 80 hours of additional sick leave for family or self-care related to COVID-19.
- Instituting “hazard pay” to at-risk employees (e.g., drivers who must deliver to hot zones like Seattle).
- Encouraging virtual “hangout” time. This can take the form of virtual happy hour, or a session to “share successes” across the team.
- Instituting a “Silver Linings” sessions with the team, where each week they share new ideas on how to make the most of the situation. This could be a new process change or a policy shift, or even just being able to have a picnic with their kids over the lunch hour.
- Increasing work-hour flexibility to accommodate caregiving or home-schooling responsibilities.
- Asking employees to let managers know in advance if they can’t finish tasks, so workloads can be redistributed, and asking managers to be understanding in this environment.

Questions on the horizon

Questions on the horizon

- How long will take to get back to pre-COVID revenue?
- How are companies dealing with potential takeovers or establishing rights to limit potential shareholder activity in their base?
- How are companies communicating narrow enough ranges of performance that will be useful to investors?
- How are companies thinking about whether to defer merit increases and bonuses?
- How do we reduce reliance on tenuous supply chains, especially depending so much on China for manufacturing?
- What steps can be taken to improve the morale of on-site employees?
- What are the best strategies to navigate and communicate potential workforce reductions (e.g., furloughs, layoffs) to employees?

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

gartner.com/en/insights/coronavirus

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