The Hackett Group
World Class Defined and Enabled

# Responding to the coronavirus pandemic

## A FINANCE GUIDE

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# A finance guide for responding to the coronavirus crisis

## Introduction

The global public health and economic crisis triggered by the outbreak of the COVID-19 pandemic has created an unprecedented set of challenges for companies. Many authorities have imposed stay-at-home restrictions that affect finance's ability to continue to provide essential services to internal stakeholders, and a recession in Q2 is now a certainty.

This document offers guidance for finance organizations on how to respond to the immediate and near-term repercussions of the coronavirus outbreak.
It covers both the actions that finance organizations are advised to take right now, if they haven't done so already, as well as an overview of emerging actions observed by our Advisors in working with our members. We will update this guide when new information becomes available.

# A finance guide for responding to the coronavirus crisis

## How to read this guide

The key to many of the responses will be collaboration across organizations – with HR for health and welfare of staff, with IT to enable remote working of most staff – and supply chains, including BPO providers.

This briefing provides an outline of the key imperatives for:

- Finance service continuity
- Cash preservation
- Scenario analysis
- Intelligent cost reduction

We have also included a quick guide to other available resources through The Hackett Group's Executive Advisory programs.

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# Finance service continuity

For finance, working remotely is more than just taking the laptop home. The function must continue to deliver critical financial services such as closing the books and initiating payments, so the company can pay strategic suppliers, process incoming cash and make payroll. While other parts of the company may be able to work remotely via web-based platforms, finance must safeguard sensitive information, so staff must use the company's secure VPN. Consider that:

- Staffing levels may fall significantly due to shelter-in-place restrictions, illness and caring for family.
- The ability to collect planning and forecasting information may be severely disrupted by the lack of virtual capabilities of different business units.
- The proliferation of legacy systems can block the flow of critical information and affect the ability to deliver support for business partners and management.

## Critical Actions

### Immediate

- ✓ Identify essential staff and critical resources to maintain finance operations
- ✓ Communicate any adjustments to staff roles and responsibilities
- ✓ Identify critical processes to determine what can/cannot be done remotely
- ✓ Work with IT to evaluate VPN capacity to spread out network demand
- ✓ Ensure everyone has access to a laptop or make plans to move desktops offsite
- ✓ Take turns working onsite in small teams or one individual for critical processes
- ✓ Shift to frequent intraday check-ins to monitor essential activities
- ✓ Cross-train employees to ensure backup in case a staff member falls ill
- ✓ Keep internal stakeholders informed about service changes or availability of information
- ✓ Ensure business partners are in the loop and communicate more frequently
- ✓ Engage HR to ensure staff has all the support they need and understand policies

### Near-term

- ✓ Contact cloud vendors to add more licenses and increase capacity
- ✓ Assess the effectiveness of the service continuity plan weekly or even more frequently
- ✓ Monitor external and internal developments to update response protocols
- ✓ Ensure security of now-remote devices
- ✓ Develop backup plans for business units that cannot deliver critical information
- ✓ Evaluate the virtual work capabilities of key external service providers
- ✓ Capture lessons learned from March/Q1 in a remote-work playbook

# Cash preservation

In times of crisis, cash is king, and there are already troubling signs that liquidity is drying up. For example, the Fed has had to repeatedly intervene by buying up corporate debt and is moving to guarantee money market funds, so there will be continued demand for corporate commercial paper. Highly leveraged organizations, and companies in several sectors (airlines, hospitality, etc.), will be hit the hardest as sales take a nosedive and cashflow dissipates.

- Many companies went into this crisis with record-high leverage ratios and may find it difficult to maintain adequate coverage.
- U.S. companies had $1.3 trillion tied up in excess working capital in 2019, which they must now optimize to free-up internal cash to offset the loss of external sources of funding.
- Because cash was plentiful and cheap, companies borrowed heavily to repurchase stocks and increase dividends, depleting the amount of cash on the balance sheet.

**Critical Actions**

**Immediate**

- ✓ Draw down on credit facilities
- ✓ Review debt covenants to identify (and communicate) potential violations
- ✓ Define weekly collection targets and re-plan touchpoints based on value not volume
- ✓ Stress-test the cash position and inventory levels to identify immediate liquidity risks
- ✓ Redeploy the T&E budget
- ✓ Prioritize payments to strategic vendors/suppliers
- ✓ Increase frequency of cash forecasting
- ✓ Create a cash task-force to monitor key cash metrics daily
- ✓ Cease stock buyback programs and reduce or eliminate dividends

**Near-term**

- ✓ Tighten cash management practices to eliminate the accumulation of idle cash
- ✓ Optimize working capital by working with AP and AR and adjusting payment terms
- ✓ Consider speeding up or making new asset sale decisions
- ✓ Tighten up AR process through more proactive collections
- ✓ Cascade dollar value and key WC metrics (DSO, DPO, DIO) to raise cash awareness
- ✓ Review and strengthen key financial controls to accommodate virtual payments
- ✓ Review and shorten the duration of the excess cash investment portfolio
- ✓ Evaluate counterparty credit risk on a weekly basis, including bank partners
- ✓ Introduce financing mechanisms to support weaker supply chain elements

# Scenario analysis

In 2008, many companies had to toss out their budgets and start from scratch. The current financial crisis and resulting recession are forecast to be even worse. Finance must leverage its cross-enterprise view and external data to run new "what-if" analysis to determine base and worse-cash scenarios, so management has an up-to-date view of what's ahead and businesses can formulate interim strategies. Of course, these projections will vary wildly as analysts are working with incomplete information that is changing all the time.

- To develop possible scenarios – and due to disruptions in internal information flow – finance must narrow its inputs to include critical elements, such as Inventory, Sales and Shipment, and analysts must get comfortable with best-guess assumptions.
- While organizations that have already invested in advanced analytics will have an easier time conducting what-if analysis, others will have to make do with spreadsheets.

**Critical Actions**

**Immediate**

- ✓ Use data from previous crises with new information to run what-if scenario analyses
- ✓ Increase P&L forecast frequency by focusing on selected items, e.g., Sales, Inventory
- ✓ Determine reliable sources of data to ensure integrity and relevance
- ✓ Update the Board of Directors about strategic and tactical plans
- ✓ Issue earnings warnings, if necessary, to prepare the Street for quarterly calls
- ✓ Focus FP&A/management review on proactive gap planning, not variance explanations

**Near-term**

- ✓ Formulate new plan building on what-if scenarios and realign focus
- ✓ Engage business partners and FP&A resources with key constituents
- ✓ Communicate scenarios internally to provide transparency
- ✓ Reach out to external stakeholders to communicate immediate/midterm strategies
- ✓ Tap external analytics services to quickly ramp up capabilities where needed
- ✓ Monitor changes in internal/external conditions to validate and update scenarios
- ✓ Adopt a dynamic planning approach to refresh existing targets
- ✓ Reconsider providing earnings guidance on quarterly calls given uncertainty

# Intelligent cost reduction

When growth plummets, there is a tendency to slash cost through company-wide reductions in operating budgets and headcount. Given the depth of the economic decline, such measures are and will be necessary. However, arbitrary cost cuts can backfire if they undermine the company's ability to survive in the longer term, when recovery starts. This is an area where finance must work closely with business and functional leaders so that cost-reduction decisions are made by analyzing short- and longer-term risks and benefits.

- The lack of existing functional and business leadership collaboration can result in uncoordinated responses to the crisis, in terms of decisions on where to cut and where to continue to invest.
- The absence of central data repositories can hamper the ability to access financial and business information to use as inputs into the creation of what-if analyses.

## Critical Actions

### Immediate

- ✓ Establish a cross-functional cost-reduction committee to make coordinated decisions
- ✓ Manage labor commitments through closing open positions and potentially freezing hiring
- ✓ Stop all non-essential spending
- ✓ Use modeling to determine the impacts of cost-reduction on longer-term sustainability
- ✓ Examine third-party consulting spend
- ✓ Work with HR to explore other labor-cost saving techniques, e.g., voluntary unpaid leave
- ✓ Partner with operations to evaluate production facility capacity, given drop in demand
- ✓ Collaborate with procurement to triage third-party spend

### Near-term

- ✓ Rapidly evaluate CapEx and OpEx projects to decide what to continue/defer/stop
- ✓ Decompose into ongoing focus areas using a value creation framework
- ✓ Evaluate longer-term financial repercussions of branding/reputational risks
- ✓ Leverage existing digital technologies to increase process' cost-effectiveness
- ✓ Consider expanding use of in-flight digital projects that require near-zero upfront cost
- ✓ Benchmark process cost to identify gaps vs. world-class finance functions

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# Conclusion

**NO BATTLE PLAN SURVIVES CONTACT WITH THE ENEMY**

Uncertainty about the development of the coronavirus globally, infection rates, government responses and duration of the pandemic are high.[1] Finance leaders must consider that:

- Short term-fixes may become longer-term solutions if current expectations that governments restrictions on people movement last longer than a few weeks.
- After the immediate response, invoking BCP and necessary improvised responses, a longer-term plan must be developed. Using business relationship management to understand changes in business demand is key.
- Scenario planning is a necessity to develop measured responses to a variety of scenarios and timelines.

[1] - Imperial College London COVID-19: Imperial researchers model likely impact of public health measures, March 17, 2020.

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# Additional resources

## Please log in to the Advisory Member Portal before clicking on the links below.

**UPCOMING WEBCAST**

Leading Practices to Respond and Recover Operations from the Coronavirus Outbreak

**Mar 27, 2020** - The global outbreak of coronavirus is rapidly sweeping the globe with dramatic impacts on the macroeconomic environment, global supply chains, and the financial performance of firms.

**HACKETT CORONAVIRUS RESPONSE RESEARCH**

Hackett is making all coronavirus related research from all advisory programs available to all advisory members including finance. This research can be accessed here. This research covers different aspects of coronavirus response that are relevant to finance organizations more in depth, including talent aspects in HR guide and GBS aspects in GBS guide and technology aspects in IT guide.

All finance-specific coronavirus response research is available here on the finance member portal, published alongside all other finance research.

**ADVISORY**

Contact your advisor or account manager with any questions. We are here for you in these difficult times

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