

# CFO Response to COVID-19

Week of 4 May 2020

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# Introduction

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

Group discussions with 75 senior finance leaders on 5 May 2020 revealed ongoing actions in three main areas as attentions shift from immediate problems to the impact of the pandemic on the remainder of 2020:

- 1. Cost structure impact of COVID-19**
- 2. Scenario planning and budgeting process improvements**
- 3. Return-to-work strategy**

# **Cost Structure Impact of COVID-19**

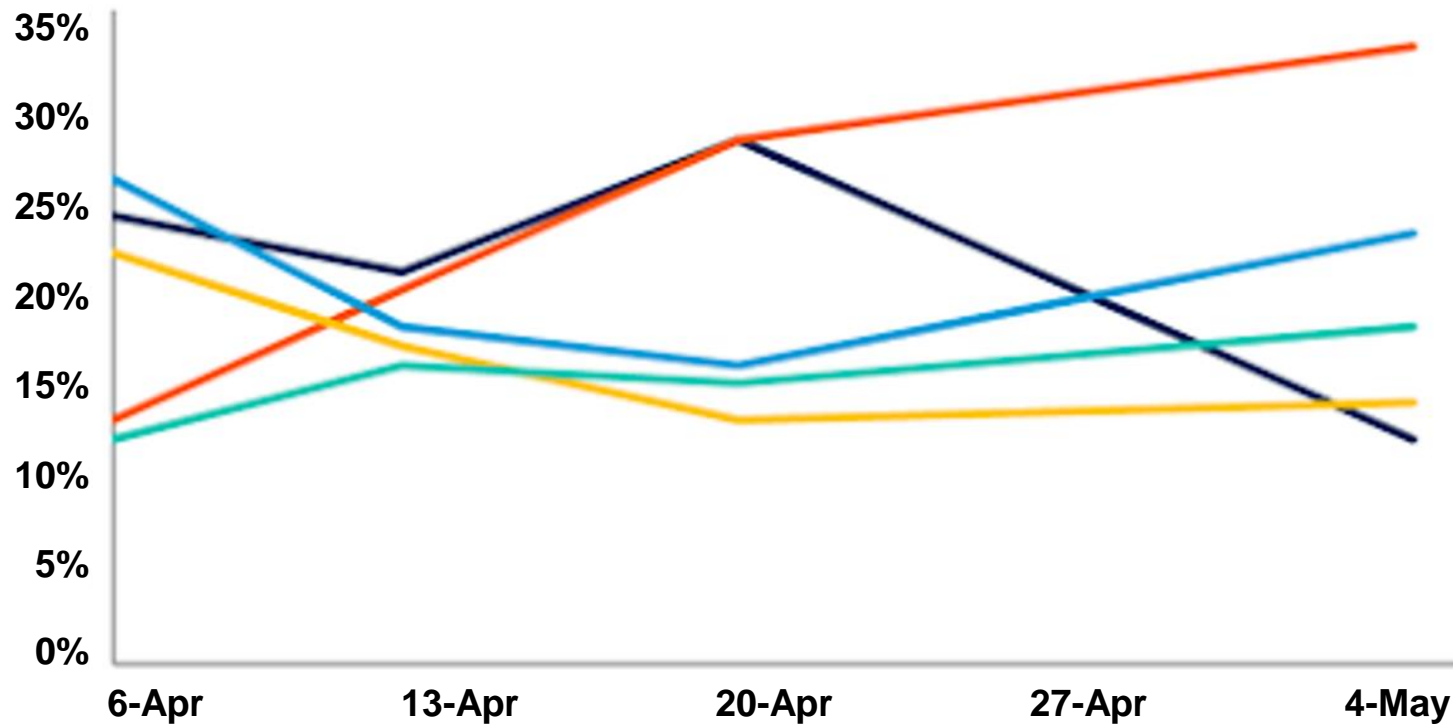
# Cost structure impact of COVID-19

Cash was senior finance leaders' top business concern through April, but 88% of senior finance leaders are now prioritizing different concerns (see Figure 1). Most have decided how they'll protect their assets and cash flows, giving themselves the breathing room to shift from addressing immediate problems to positioning their companies for the rest of 2020.

Appropriately, senior finance leaders are asking how to change their companies' cost structure in response to COVID-19 – which costs to preserve, which to remove and which to reintroduce, when. Senior finance leaders are guiding their businesses in applying the following three principles to cost structure evaluations:

- 1. Delay Non-Essential Capital Investments to Protect Strategic Costs:** Evaluate the portfolio to identify what should be considered for divestment; shift costs saved from delayed non-essential spending; continue funding maintenance capital investments; reduce or delay incremental capital investments.
- 2. Determine What Costs Don't Need to Return:** Partner with real estate leaders to determine how to use remote work to reduce the company's footprint; evaluate the cost impact of new distribution models; pressure-test what T&E spend is and isn't necessary.
- 3. Bring Back Labor Before Other Costs:** A plurality of senior finance leaders (49%) plan to begin hiring again before reintroducing other costs (see Figure 2). After hiring, CFOs are most likely to bring back T&E (46%) and capex investments (41%).

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



## Key Finding:

Senior finance leaders tend to be most concerned with macro-pandemic issues as they look ahead to May. When compared to data from previous weeks, their uncertainty of the duration of the pandemic has grown in importance, whereas cash flow has decreased in importance.

- Cash
- Revenue loss, reduced demand
- Macro-economic concerns
- Employees
- Other issues

6-Apr n = 135. 13-Apr n = 94. 20-Apr n = 61. 4-May n = 73.

“Cash” includes cash conversion cycle, AR/AP, cash flow and liquidity. “Macro-pandemic concerns” includes duration or severity of pandemic, overall economic health and macroeconomic uncertainties. “Employees” includes working from home, morale, safety, security, labor issues, payroll, Paycheck Protection Program and layoffs. “Other issues” includes supply chain, logistics, governmental response, business continuity and firm-specific operations.

# Figure 2. What are the first three costs you will reintroduce if/when revenue begins to return?



## Key Finding:

The most common costs that CFOs plan to reintroduce are hiring (49%), travel & entertainment (46%), and capex investments (41%).

n = 138.



# **Scenario Planning and Budgeting Process Improvements**



# Scenario planning and budgeting process improvements

Senior finance leaders have led a rapid transformation in how their companies plan, and as they become more comfortable with new processes, they are considering what is still required to improve and how to use the current situation to make permanent improvements where appropriate. Senior finance leaders are improving scenario planning and budgeting processes by:

- Implementing budgeting methodologies that previously met resistance (e.g., zero-based budgeting, rolling forecasting),
- Applying more resources to scenario planning to make it sustainable, granular and applicable across decision-maker levels and silos,
- Designating a ‘devil’s advocate’ for each budget review, and
- Reallocating resources to technology that reduces workloads through streamlining and automation.



# Return-to-Work Strategy

# Return-to-work strategy

Regional differences in pace of recovery, inconsistent government guidance and an uncertain pandemic trajectory continue to complicate plans for when and how to safely return to work. Senior finance leaders continue to plan for a voluntary, phased return to work with social distancing policies like A/B teams. Other ideas offered by individual leaders include:

- Follow the strictest reading of guidelines from relevant authorities (e.g., Center for Disease Control, Occupational Health and Safety Administration).
- Create a 'trusted middle' to coordinate reopening, consisting of leaders with operational expertise, including a leader responsible for liaising with health officials.
- Communicate how the organization will protect employee health before even inviting employees to voluntarily come back.
- Bring customer-facing roles back to the office last, if at all.



# Questions on the Horizon



# Questions on the horizon

How to determine costs introduced by COVID-19 that are temporary vs. will remain in the future

How changes in customers business plans change costs

How changes to interactions with customers affect T&E costs

Whether leaders have enough certainty about assumptions to scenario plan less frequently

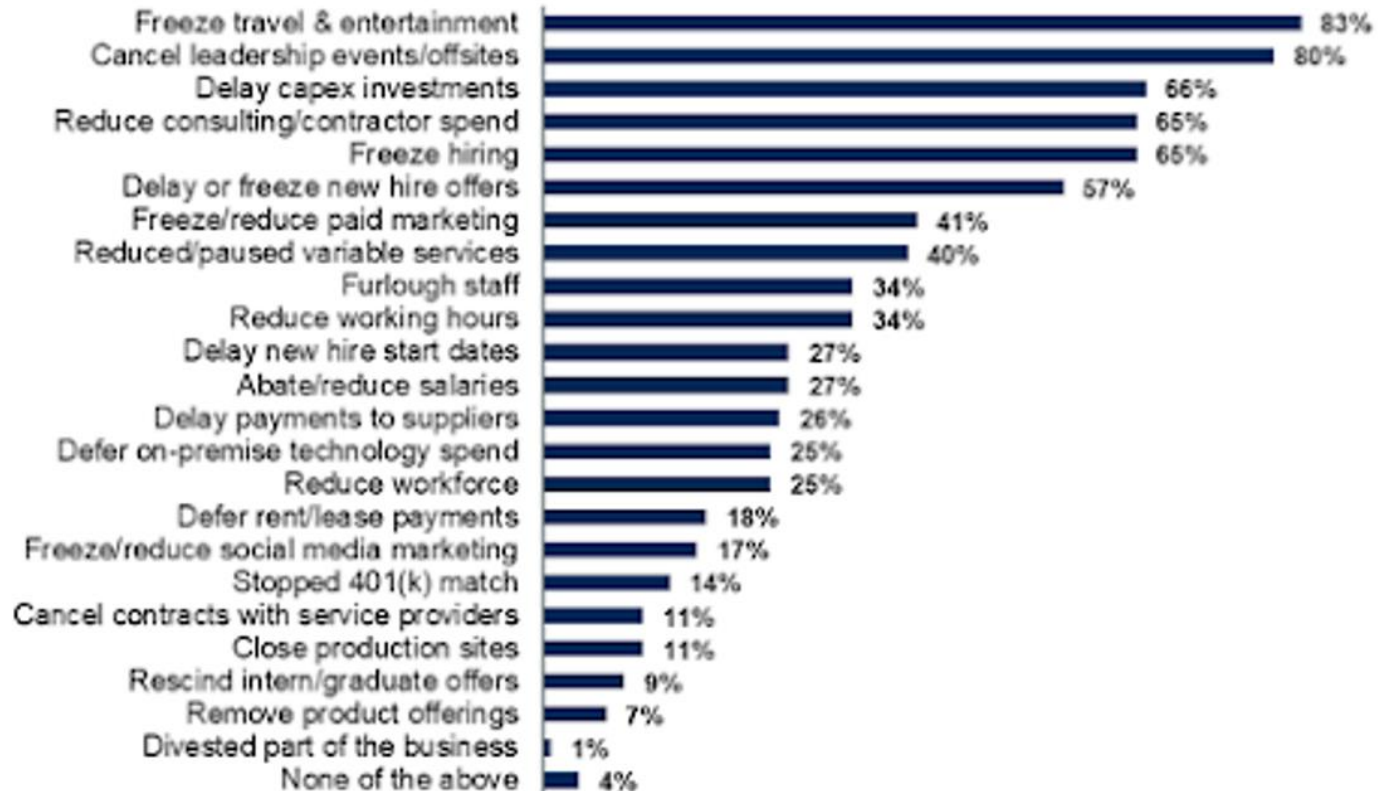
What, if any, pent-up demand to forecast

How increased productivity & engagement from working-from-home translates to the 'new normal'

How to make leaders comfortable with employees working-from-home even after stay-at-home orders end

# **Additional senior finance leader data collected**

# Figure 3. What cost reduction actions has your organization taken or do you plan to take in May/June in response to the COVID-19 pandemic?



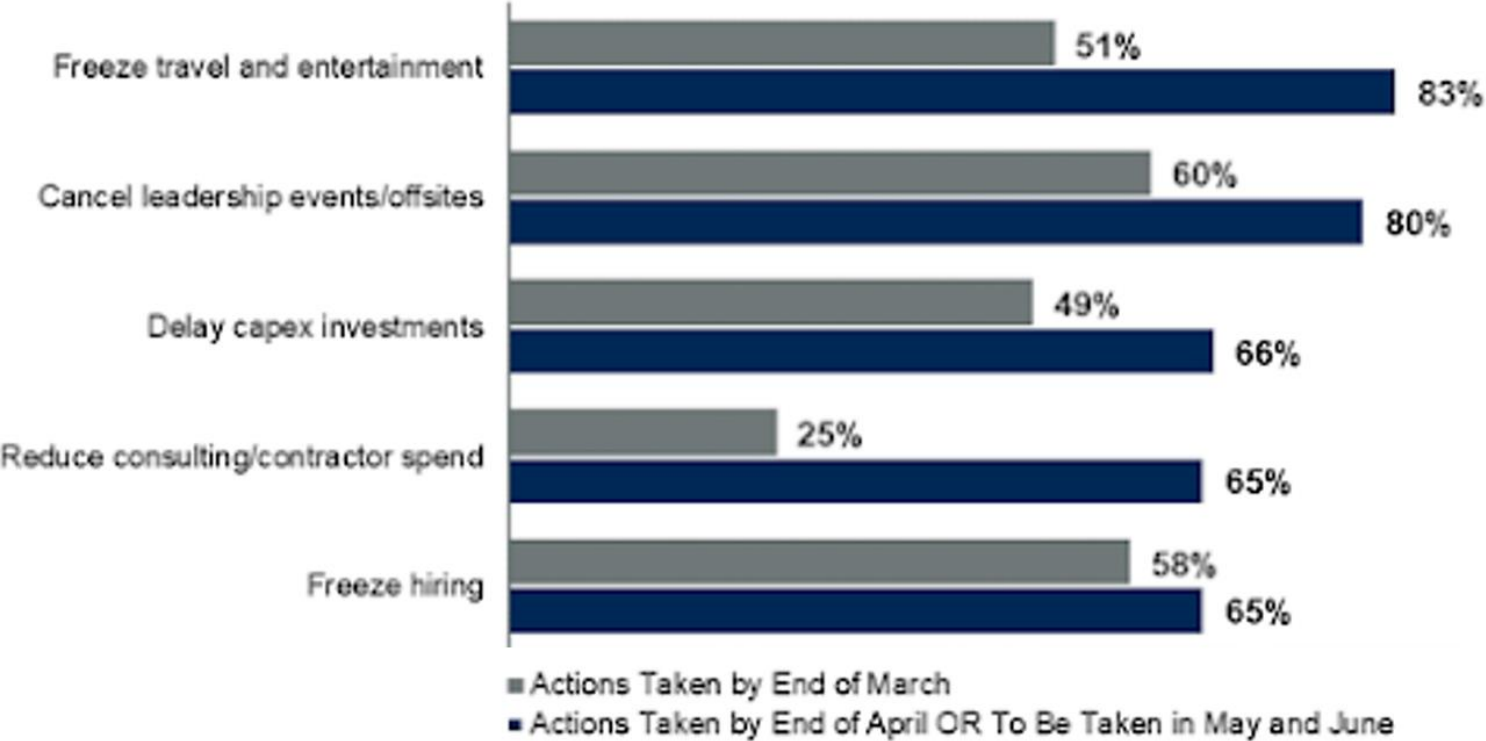
## Key Finding:

A majority of CFOs have (or plan to) reduce costs by freezing travel & entertainment (83%), cancelling leadership events/offsites (80%), delaying capex investments (66%), reducing consulting/contractor spend (65%), freezing hiring (65%), and delaying or freezing new hire start dates (57%).

The least common cost reduction action is divesting part of the business (1%).

Multiple responses permitted. n = 161.

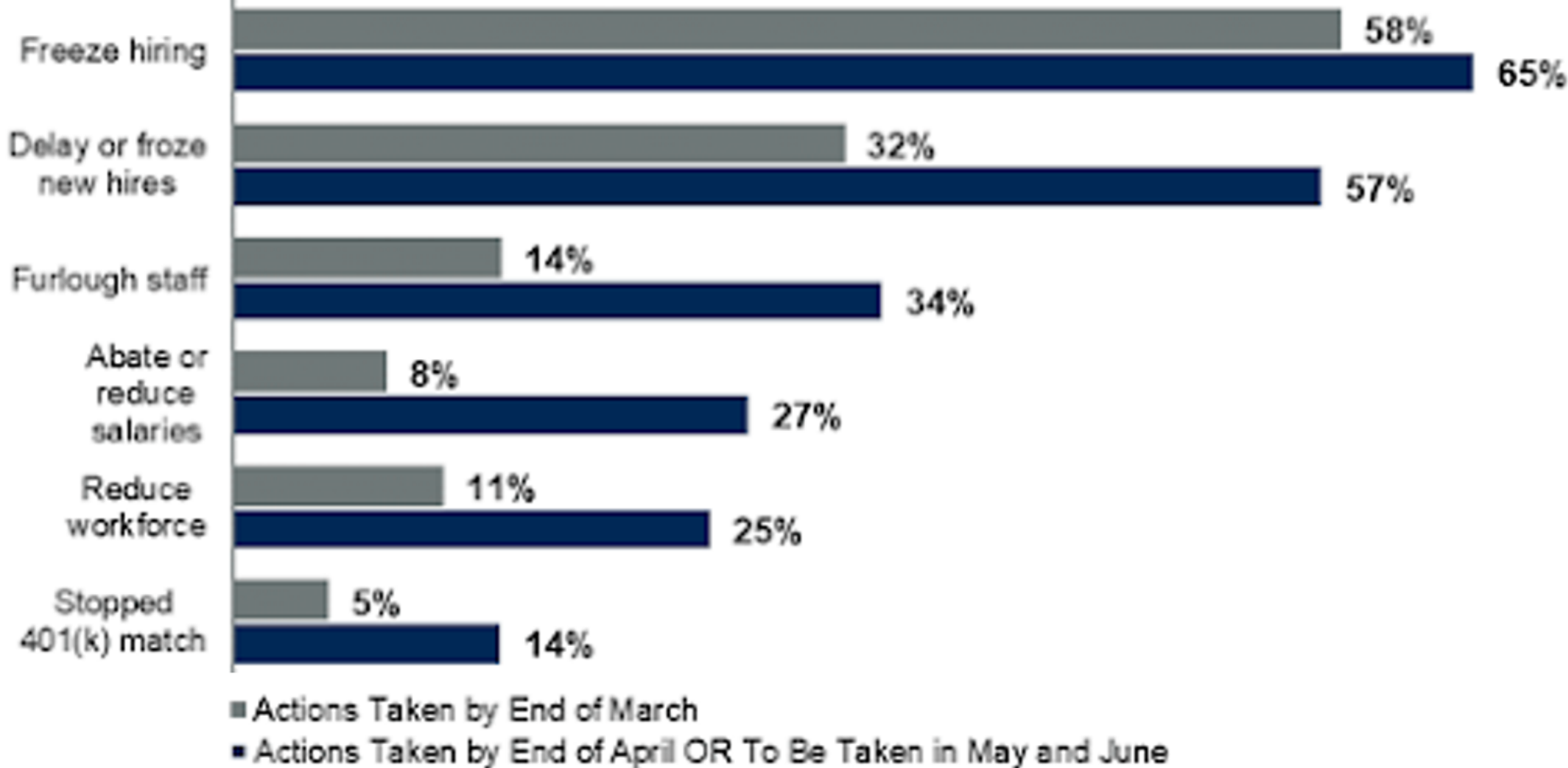
# Figure 4. Most Likely Cost Reduction Actions



**Key Finding:**  
A total hiring freeze is 2.5 times as likely as a workforce reduction, nearly twice as likely as furloughs, and slightly more likely than a delay or freeze of new hire start dates. Delays in capex investment are currently 2.5 times more likely than delays in supplier payments.

End of March n = 317. End of April OR May and June n = 161.

# Figure 5. Employment Cost Reduction Actions



End of March n = 317. End of April OR May and June n = 161.



# Table 1. What is the most difficult action you'll have to take in May in response to COVID-19?

Action	Frequency Cited
Employment/employee benefits (furloughs, terminations, wage reduction, bonus reduction, eliminating 401(k) match, recruiting freeze)	62%
Cost (reducing expenses and budget, restructuring)	14%
Decisions Related to Workplace Reopening (how to decide, when, social distancing)	10%
Other (communications, operations)	14%

## Key Finding:

An overwhelming majority of senior finance leaders say employment and employee benefit-related actions like furloughs, terminations, reductions in wages and reductions in benefits and bonuses will be the most difficult actions they'll have to take in May in response to COVID-19.

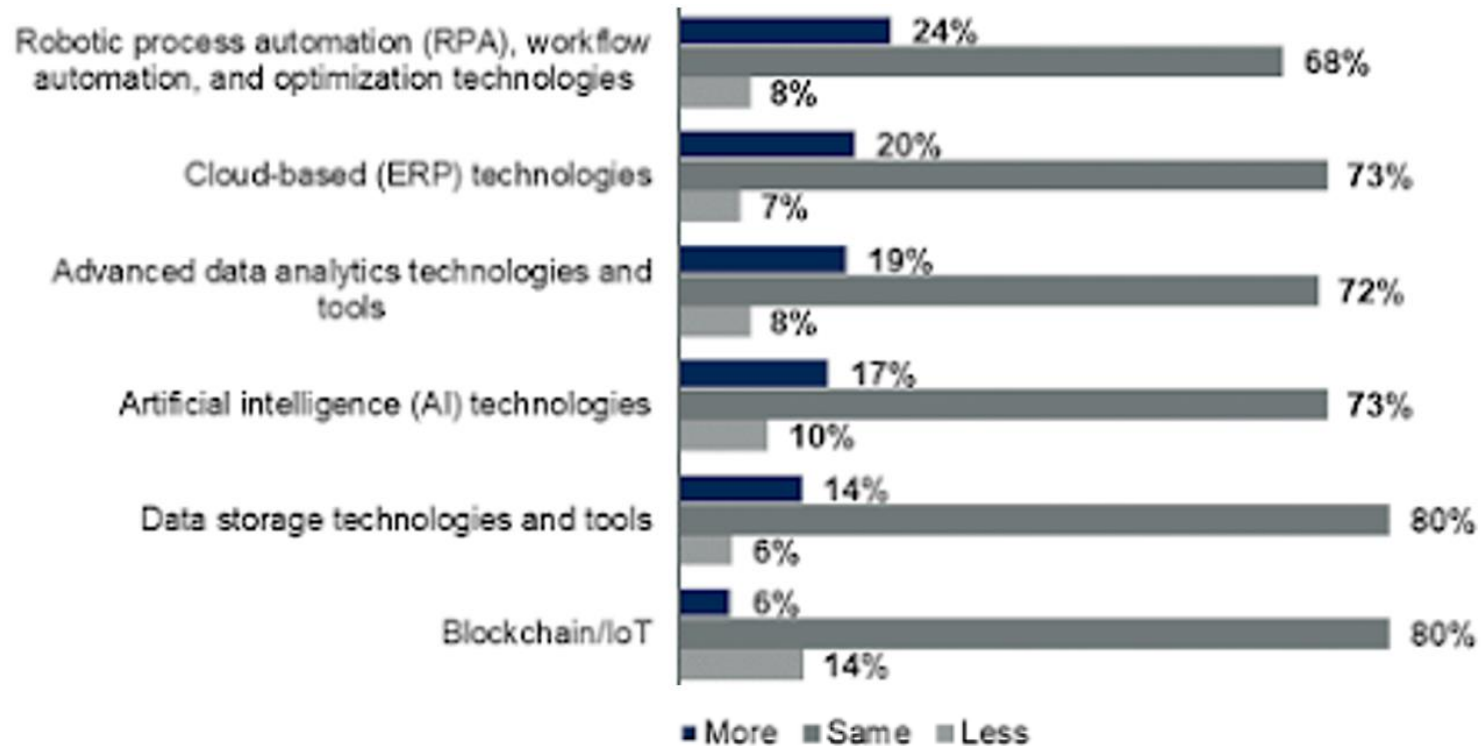
n = 58.

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# Figure 6. Due to COVID-19, do you anticipate investing more, less or the same amount in the following technologies?



## Key Finding:

The areas most likely to see more investment according to our survey on future finance technology were robotic process automation (RPA), workflow automation, and cloud-based ERP technologies.

The area most likely to see less investment was blockchain/IoT.

n = 153-159.

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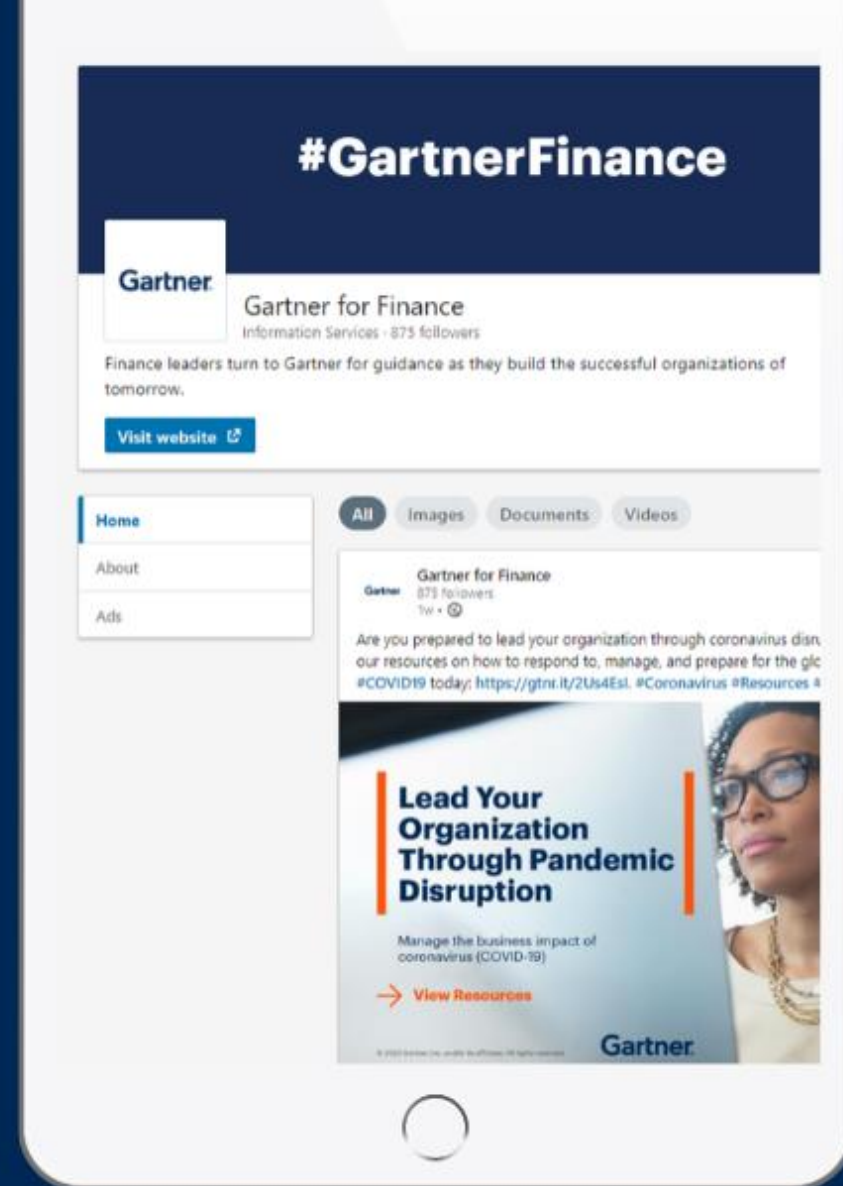
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