Insideview

Changing Role of Chief Financial Officers in the Current Crisis

IN THE ACTUAL CRISIS, ENTERPRISES FACE DWINDLING FINANCIAL RESOURCES AND THE BOTTOM FALLS OUT OF A LOT OF BUSINESS. CHIEF FINANCIAL OFFICERS (CFOs) ARE IN THE EYE OF THE STORM. HOW DOES THEIR ROLE CHANGE?

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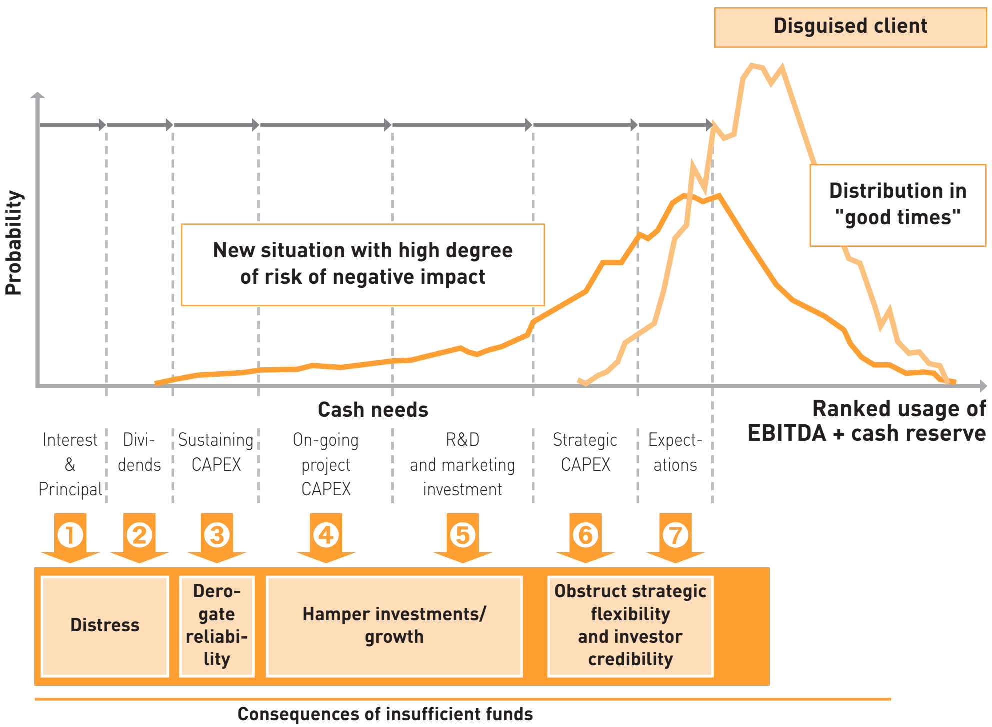
What are the key implications for the CFOs in the current crisis managing the company?
Within the context of the current crisis the CFO plays a critical role in managing the company through rising challenges: Some experts expect several quarters of negative earnings after a unprecedented boom within the last 5 years, volatilities of key profit drivers like commodities, FX or interest rates are expected to be much higher than in the past, demand in many business models is expected to further shrink and last but not least funding/refinancing sources will be scarcer and more expensive. In short: CFOs are really in the eye of the current storm!

Which concrete levers should CFOs pull in the current environment?
Key is to have a clear contingency plan in place, based on different scenarios, what could happen within the next 24 month. Given that the average performance of companies in 2007/2008 in terms of profits and return on capital was much higher than at any time in the past 40 years, cash flow and liquidity projections that really taking into account, how bad things could get, are from utmost importance. This extreme crisis planning exercise should throw out the traditional planning mode and should strictly focus on free cash flows and liquidity needs, actually broken down on a daily, weekly and monthly basis. These scenarios should take into account different macroeconomic scenarios plus company specific risks. Based on that the CFO should be the driving force in developing a contingency plan (see exhibit) in the event, that these scenarios should actually come to pass.

What are the key success factors in developing such a contingency plan?
In the best-run contingency planning efforts, the CFO manages the work in a centralized approach, assembling a cross-functional taskforce that includes managers from production, distribution/sales and supply chain. They assess not only the cash and liquidity needs on a daily, weekly and monthly basis, but also all levers to create short-term liquidity. These levers include a short-term working capital optimization program, a capital expenditure (CAPEX) streamlining program and a short-term cost-hunt program. For example, by optimizing working capital by billing earlier, enforcing payment terms, reducing safety stocks, and improving production planning, additional one-off cash can be generated, which is in some cases higher than the current annual operational cash flows. In addition, reevaluation of the portfolio and extracting value from suppliers should be part of that a contingency plan.

Thank you for this interesting conversation.



Systematic contigency plan – client example on rigorous model and staged measures