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THE FUTURE CFO

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GROWTH

Never mind the profits: which metrics work in a downturn?

With trading conditions deteriorating and a recession imminent, finance chiefs are looking beyond the conventional indicators to show the fundamental strengths of their businesses to investors

Ben Edwards

Chief financial officers face a barrage of challenges as they head into the new year. Inflation is surging around the world, interest rates are being cranked up at a faster pace than expected and several developed economies are facing the prospect of a deep recession. The Office for Budget Responsibility has warned of the biggest decline in UK living standards in the UK for six decades.

As the economic pressures mount, most CFOs in this country consider expanding their businesses to be their main priority over the next two years, according to research by Gartner. Yet most are also braced for falling revenues and rising costs in the short to medium term, with 91% of UK finance chiefs polled by Deloitte in October expecting a decline in their firms' operating margins over the next 12 months.

With this in mind, many are turning to financial indicators that can highlight the underlying health of their companies even if top-line growth is stalling.

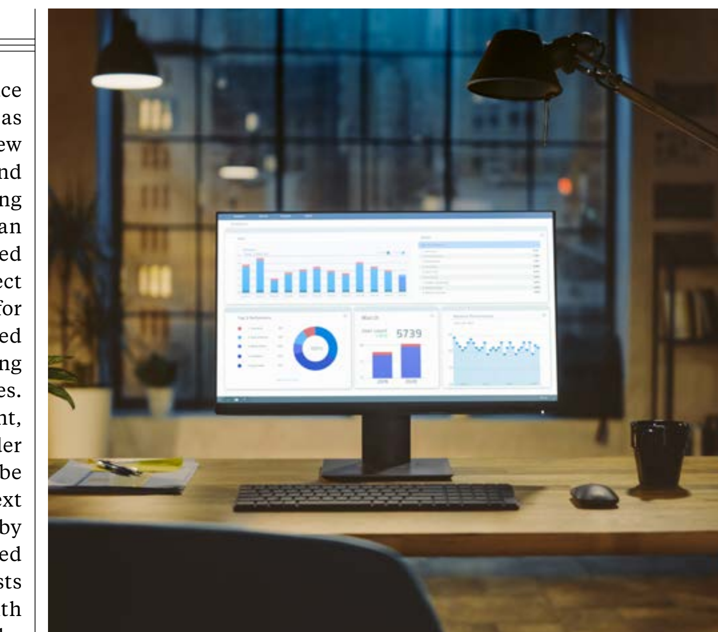
Edmund Reese, CFO at fintech business Broadridge, focuses on three key things during downturns. The first is client retention, which might mean adjusting payment terms to help a debtor experiencing economic difficulties and ensure that it remains a going concern.

The second is "capital strength", which entails maintaining liquidity, particularly if the business believes that cash flow could become an issue in the longer term.

The third factor to focus on is an accounting ratio known as operating leverage, which concerns a company's cost structure. If the revenues of a company with a high operating leverage – that is, a large proportion of fixed outgoings relative to variable costs – increase, that tends to have a more beneficial effect on its profit margins. But, if revenue falls, that same high leverage can be problematic, because the firm is generally more limited in its ability to reduce its cost base.

"You need to scenario plan and identify the levers that you can pull at the right times," Reese says. "If you're just reacting to situations as they unfold, you're likely to overreact or underreact. But, if you can do all of those things, you can win through the recovery."

Some organisations will track the same set of numbers regardless of the wider economic conditions, although some of these may demand closer attention.


gorodenkoff via iStock

"We're going to be very focused on productivity to ensure that we're managing our labour as carefully as we possibly can," reveals Scott Bogard, CFO of Exacta Land Surveyors. "We still have many opportunities to improve productivity in our operations. We would expect our crews to be able to do more in any market, so we're going to keep pushing on that."

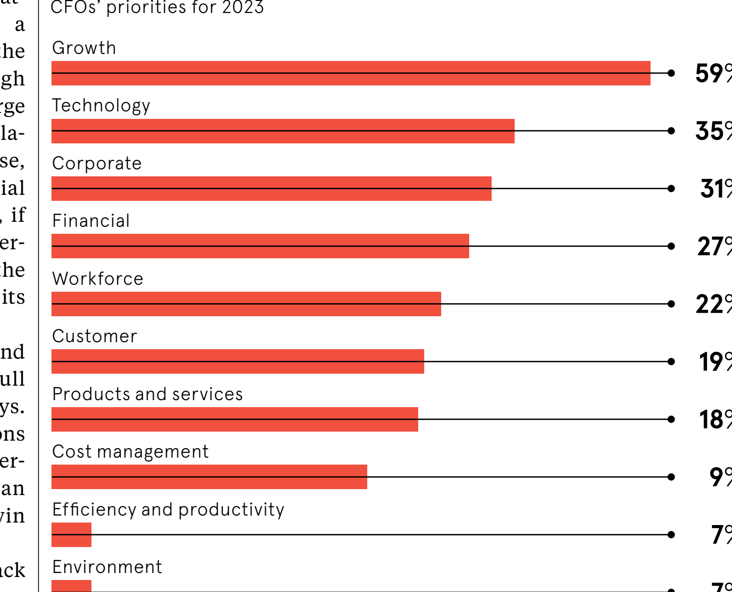
Downturns often create opportunities for a more established company to increase its market share if these put smaller competitors out of business. This is another metric that can show the basic strength of a business even if its revenues aren't growing.

"With strong liquidity, we would expect to be able to take share in the market," Bogard says. "We can really focus on winning new clients to make up for the fact that some of our existing ones might be doing a little less business for the foreseeable future."

CFOs are coming under increasing pressure to provide regular guidance on performance, which can be a challenge when trading conditions are so uncertain, notes Matt Benaron, co-founder and director of VantagePoint Consulting.

TARGETING EXPANSION IN A RECESSION

CFOs' priorities for 2023



Gartner, 2022

He says that the question "I know a lot of CFOs struggle to answer is: what will the forecast look like in 12 months if something big changes over that time? The finance chiefs who'll fare better throughout this period will be those who have invested in tools that enable them to better predict outcomes and equip them to say: 'If we were to pivot the business in this direction, the likely financial results would be as follows.' That is what will differentiate CFOs who can be real enablers in a period of lower growth."

It's also important, Reese adds, for CFOs to manage people's expectations in the wider business with respect to the best way to handle a downturn. "Every recession is different, so you must realise that what you did yesterday isn't necessarily going to be the right thing and suffice today," he stresses.

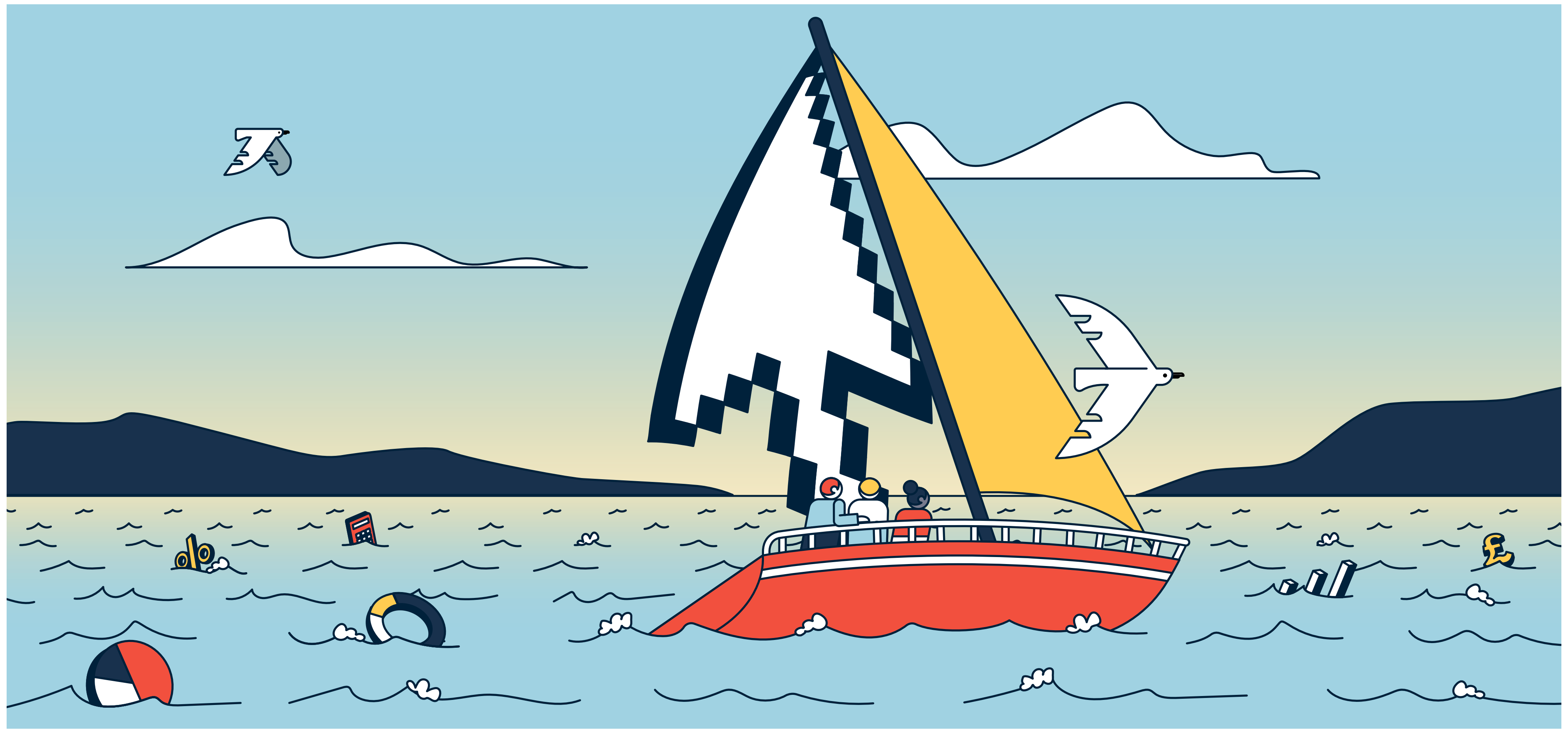
That means it's important to be adaptable – for instance, by abandoning guidance on certain metrics if the company has had to change its plans because of an unforeseen change in the market.

Organisations may increasingly point to non-traditional metrics as signs of success, particularly those relating to environmental, social and corporate governance (ESG).

Benaron notes that many shareholders are paying closer attention to these aspects too. As more and more institutional investors adopt ESG frameworks to assess risks and opportunities, "that will create new metrics, all of which will drive share price and, potentially, profitability", he predicts. "The potential challenge is that sustainability projects often come with higher short-term costs rather than savings, so there will be a conflict between investment in sustainability versus investment in initiatives that drive short-term profitability."

Technology also has the potential to open up other non-traditional metrics by enabling organisations to obtain information they may not have previously tracked, such as figures indicating the efficiency (or otherwise) of their supply chains.

"This is really about maximising and better harnessing the data that CFOs have access to," Benaron says. "Our message to finance chiefs is: look at more granular data. This will enable you to pick up on trends that can influence decision-making and to gain insights that may help you understand performance in a way that traditional reporting tools don't allow for."



DIGITALISATION

All hands on tech

The quest for greater cost-efficiency is driving ever more automation in finance, but CFOs must take several key factors into account if they're to digitalise the function successfully

Laurie Clarke

With corporate investment in automation, analytics and risk management systems on the increase ever since the start of the pandemic, research suggests that finance chiefs are planning to splash out even more on IT over the coming year.

Digitalisation is a necessary consideration, given its potential to reduce costs, shorten processing times and boost productivity. But, while some CFOs are venturing into more advanced tech, such as artificial intelligence, others have only just locked down a cloud provider.

To create a fully digitalised finance function, you first need a solid foundation on which to start building its basic features. So says Richard Beeston, CFO for Ozone, the provider of an application programming interface that supports open banking. He stresses that it is crucial to "get the underlying accounting policies, transaction processing, financial control and regulatory reporting processes all working effectively", whether digitised or not.

Beeston's recent experience of working with startups and scaleups has shown him that "it's these basics that enable a company to adopt digital solutions in a considered manner, thereby avoiding the dreaded prospect of having to rebuild its systems at some point".

He adds that cloud-based accounting systems allow for automated bank reconciliation, account coding, billing and payments, while easing compliance processes such as tax returns. More cloud-based extensions can be layered on top of the basic program, including enhanced reporting functionality and the integration of HR and payroll systems. Harnessing the full potential of cloud-based accounting tech should in turn reduce the team's burden of repetitive and mundane tasks.

Beeston foresees more such integrations over the next two years, "as well as the uptake of software that can handle the extraction, consolidation and integration of financial information from the vast numbers of software-as-a-service solutions that are being used daily by all functions. The finance team is invariably best placed to identify which third-party systems are being used – or being paid for but not used – across the company."

Recent research by Gartner suggests that CFOs are prioritising back-office automation as a way to boost efficiency in areas including revenue management, general accounting and internal IT services. McKinsey estimates that 40% of financial activities can be automated. Expediting this process is becoming more of a priority for many finance chiefs, as their firms deal with soaring inflation and the prospect of a global recession.

But firms need to be circumspect when approaching any new tech project, warns Deborah O'Neill, a partner at management consultancy Oliver Wyman who specialises in helping big companies through complex digital transformations.

> **The top priority for CFOs will be to focus more on adaptability, collaboration and decision-making in their departments**

"Some organisations have been undertaking very large projects, which are complex, time-consuming and expensive, that have had mixed success in moving things forward," she reports. "We have worked on a lot of programmes where there's been tension between how much has been spent and what has been achieved."

To avoid such an outcome, companies must pinpoint all the problems they're intending to solve at the outset, says Dr Hassaan Khan, head of the school of digital finance at Arden University. Once they have done that, "they can then select a case where technology is likely to produce a return on investment and they can track the results and learn lessons from that pilot before adopting it on a larger stage. It will be a very iterative process."

As companies face mounting economic pressures in 2023, they will invest in improving the financial management and agility of their businesses, according to research provider TechMarketView. The firm expects that "this will result in a boom for technology in areas such as real-time demand forecasting and the management of the supply chain, inventory and accounts receivable. The focus will be on achieving improved visibility, predictability and resilience."

Many enterprises have adopted basic enterprise data analytics, but TechMarketView predicts that more powerful technologies, such as advanced analytics and artificial intelligence, are set to play a growing role. Indeed, there is an increasing expectation on financial software providers to embed such functionality into their products.

O'Neill reports that some finance chiefs are becoming more comfortable with using powerful analytics and AI to crunch data and forecast crucial trends ranging from costs in the supply chain to consumers' purchasing habits.

"Where the business is making purchasing or promotion decisions, these are ripe areas for real-time predictions," she says.

But uptake has been slow so far. A survey of CFOs in 89 large companies by EY last year found that, although 92% had started digitalising their departments, only 11% were at an advanced stage.

Khan notes that British firms have generaly been less inclined than their equivalents in other developed economies to adopt more advanced IT. This is evident in the financial services sector, where blockchain technology is being used by multinationals ranging from US bank Wells Fargo to French insurer Axa Group.

The human element of the finance function's digitalisation process is crucial yet often underappreciated, according to Khan.

"The top priority for CFOs will be to focus more on adaptability, collaboration and decision-making in their departments," he says. "People skills go hand in hand with utilising technology."

But finding such skills in the recruitment market is an ongoing problem for finance teams. Nearly 40% of the CFOs surveyed by Deloitte in Q3 2021 reported that their businesses had faced either significant or severe recruitment difficulties in the preceding three months, for instance.

One of the key aims of technology adoption – freeing people up to do more interesting and valuable work – should make jobs in finance more appealing to talented professionals.

"I think finance has historically been viewed as a blocking function as opposed to an enabler," O'Neill says. Adopting advanced digital technology, she argues, can help to transform finance into a function that's seen by the rest of the organisation as more of an inventive, value-adding business partner.

Commercial feature

The strategic role of the CFO in 2023

With the help of big data and cloud-based finance apps, the CFO is making a comeback as the strategic partner to the CEO as businesses prepare to navigate a challenging economy in 2023

Traditional finance departments have long been seen as a collective of 'bean counters', primarily concerned with spreadsheets and numbers. But, finance leaders are fast becoming essential partners to the CEO, providing data and insights that form the basis of future business strategy.

"Today's finance leaders have an opportunity to develop their role into something that is central to their organisation, helping to identify innovation, efficiency and future strategy," says Anita Szarek, global CFO of business spend solution Pleo.

Recent research suggests that there is indeed a shift in how CFOs work. The latest McKinsey Global Survey on the role of the CFO reports that today's finance leaders are frequently involved in long-term strategy and management decisions, and two-thirds are involved in digital transformation. 97% of business decision-makers see a dynamic change in the CFOs influence across the business, particularly in operations, marketing and legal teams, according to Pleo's soon-to be-published The State of Business Spending report coming in January.

This combined responsibility for crisis management, technology and strategy is exactly what Szarek sees as her remit as a CFO, in both current and previous roles. "What we are seeing is an awareness that CFOs need to embrace digital technology to drive efficiency and reduce costs," she says. "But that is only half the story. Adopting automated and digital systems in finance also allows the CFO to identify new opportunities for efficiency and innovation."

In recent years, Szarek has seen enormous growth in the technology sector, meaning CFOs were expected to direct money towards anything that promised continued growth. "One head of talent reported they had to fund new positions because the cost of not hiring people was actually higher than the cost of hiring them. It was about driving growth, being extremely ambitious and taking lots of risks," says Szarek.

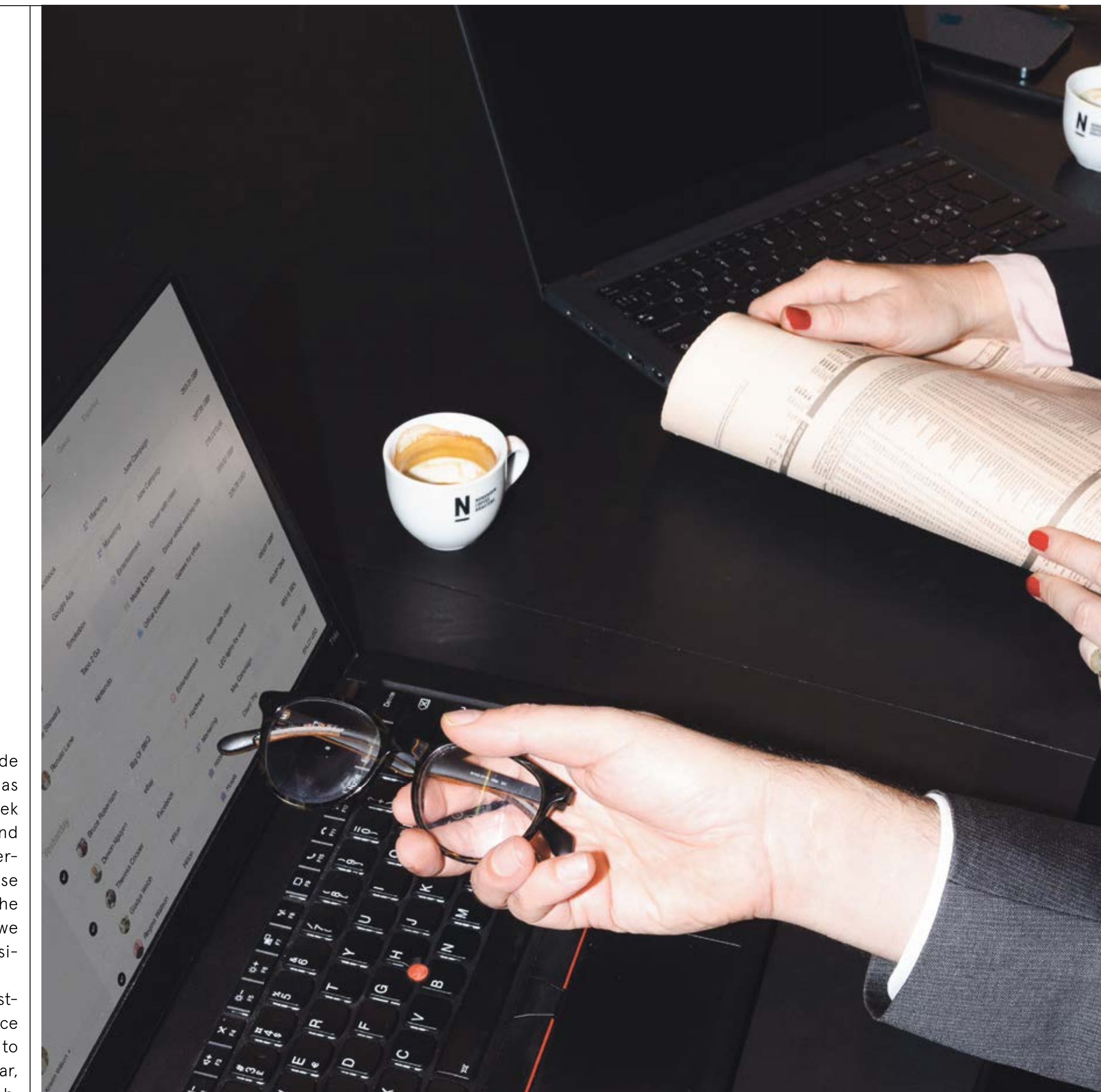
With the recent pandemic, global supply chain challenges, inflation and an impending recession, that attitude has changed. "Today, I see my role as CFO as providing visibility," Szarek says. "I take on board the KPIs and targets, I look at where we are performing well or not, and then I use data to show the business what the future looks like and what levers we might want to pull to steer the business in a certain direction."

As CFO, Szarek focuses on forecasting and scenario planning. Her finance strategy team has grown from 4 to almost 50 people in the last year, reflecting the importance of this job. "Our objective is to help the business deliver better performance, and that requires better forecasting. It's about moving away from focusing on growth to focusing on the efficiency of our growth." Better forecasting ultimately means making better decisions earlier. For example, Pleo recently cut 15% of its headcount after a period of rapid growth over several years. "We did that to be proactive," explains Szarek. "We know that we are heading towards a recession, and while we have a lot of cash on the balance sheet, we know the runway is going to be extended, so we need to make a correction to be ready for the future rather than trying to respond when it happens."

Making these earlier and more informed decisions is possible with quality data. Powerful technologies such as cloud computing, AI and machine learning mean that today's finance leaders can analyse thousands of data points across multiple systems in near real time, identifying trends and deviations with more speed and accuracy.

"Data means I can go to my leadership team and say, these are the KPIs; this is how we are performing," explains Szarek. With visibility over the enterprise data that matters most, CFOs can be a voice for change within their organisations. The key is knowing what the impacts of these insights will be on efficiency and performance.

When selecting digital tools, Szarek advises fellow CFOs to look for best-of-breed cloud solutions that use APIs that can work together in a single ecosystem. "You might start with Pleo, which can capture data for expense management, invoices and reimbursements. Then you could add accounts receivable and cash flow management. Together those three systems can provide a powerful insight into working capital and how to drive efficiency in our cash flow," she says.



> **What we are seeing is an awareness that CFOs need to embrace digital technology to drive efficiency and reduce costs**

Of course, these tools bring automation to key finance processes, but saving time is just the beginning of the story. "The real power is in providing better insights and forecasts so the business can make better decisions earlier," says Szarek.

CFOs may need to push themselves into this strategic role rather than waiting to be invited, notes Szarek. For example, in some organisations, the business still sees the CFO as someone who focuses on accounting, book-keeping and cost optimisation. For finance leaders that find themselves in this position, Szarek's advice is to first build their skills and second build their team.

"If you want to be a strategic partner, don't just focus on cost-cutting; look for opportunities to drive growth and innovation," she says. This is easier if you structure the finance team so that some people sit within business units that are closer to the business. "I have people that I call finance business partners who sit in the business, and they're thinking about growth and sharing challenges so that we can use tools and data to start to address these challenges."

Second, Szarek says CFOs must become extremely familiar with data tools, models and governance. "You need to think through and redesign your data infrastructure and governance. In most companies, people hate processes. So make it your job to build in the processes and structure by identifying and implementing the right data tools. When you have that, you can play a fully strategic role."

To discover how your company and its finances can be prepared for 2023, visit bit.ly/cfo-webinar

PLEO

Three tips for today's CFOs

The rise of financial data and the increasing strategic importance of cash flow planning present CFOs with an opportunity to become a strategic partner to the CEO. There are three key behaviours that can separate a good CFO from a judicious one.

Stay close to the business and be curious
Strategic CFOs diligently attend meetings and communicate across the business. They situate their team in various departments to gain a birds-eye view of the organisation. The CFO should know what the commercial team is struggling with or how the sales team are performing.

Data first, second and third
The CFO has access to a wealth of data that can inform other parts of the business. To be seen as a strategic advisors, they must identify where they can share data reports to improve someone else's process or efficiency.

Step outside the comfort zone
If a company has a challenge with design and they don't have the capacity to solve that problem, a proactive CFO can seize the opportunity to lend support. They can ask questions, understand the problem, and help with creating project management or a suitable process using their unique resource.

Bloomberg via Getty

PAYMENTS

Chomping at the bitcoin

Surveys suggest that the appetite among merchants to accept crypto for their goods and services is strong. But would the undoubted advantages of doing so outweigh the risks?

Charles Orton-Jones

The first documented purchase using bitcoin involved fast food. In 2010, Laszlo Hanyecz spent 10,000BTC buying some takeaway pizzas from a fellow crypto enthusiast. The value of the transaction at the time was about £25. If he'd curbed the carbs and hung on to that money, he'd have been worth about £5bn at bitcoin's peak.

Hanyecz later explained that he had "no regrets" – someone had to get things started.

Where is it possible to spend cryptocurrencies on consumer goods today? Starbucks takes crypto via the Bakkt app, while Home Depot accepts a range of coins via the Flexa checkout systems installed in its DIY stores. In fact, more than 15,000 businesses worldwide take bitcoin, according to research published in Q2 by jobsite Zippia.

Other studies have indicated a strong pent-up desire among both merchants and consumers to shift to crypto. Based on surveys conducted in December 2021, Deloitte's *Merchants Getting Ready for Crypto* report suggested that as many as 85% of organisations had placed a "high priority" on enabling crypto as a payment option. The key reason for this? Customer demand. The surveys found that 64% of consumers had a significant interest in digital currencies, while 85% of merchants believed that crypto payments would be ubiquitous among suppliers within five years.

The cryptocurrency meltdown that has occurred since that research may have dented their confidence. Bitcoin has plummeted from £38,000 at the end of 2021 to about £14,000 as this report goes to press.

> "Stablecoins are far more suitable for merchants just gaining familiarity with crypto and digital wallets

Cryptos tend to move in sync and, sure enough, other prominent coins – including ethereum, solana and dogecoin (Elon Musk's favourite) – have suffered similar crashes.

Such factors present some fundamental questions for any business that's thinking about accepting cryptocurrencies. Apart from the practical matters of how to process payments, are the reasons for doing so sufficiently compelling, given the risks posed by the terrifying volatility associated with crypto?

Let's start with the advantages. "There are several pros for businesses," says Roman Matkovskyy, assistant professor of finance and accounting at the Rennes School of Business. These include "faster processing times, particularly for payments from abroad; potentially higher transparency; and lower transaction fees. There is no cost for direct crypto payments from a customer and a maximum transaction fee of 1% if these are routed via a tool such as Coingate or Bitpay. That compares with the standard fee of 2.9% plus 30¢ per transaction for most credit card processors."

The cost of sending crypto from one wallet to another depends on both the coin and the activity on the blockchain used. A fundamental mechanism of bitcoin and other cryptos is to reward participants for processing transactions. If activity on a blockchain increases, or there is a backlog of payments for processing, these rewards increase to incentivise more processing. Being one of the early cryptocurrencies, bitcoin suffers from inefficiencies, so its transaction costs are relatively high. The same goes for ethereum, for which the 'gas fees', as these costs are known, tend to vary between £12 and £35 (although they spiked above £500 for a spell in 2020). This makes only higher-value transactions justifiable. A substantial import order using ethereum, say, might save significantly on traditional payment methods.

But parallel technologies offer radical improvements. The Bitcoin Lightning Network enables the smallest tradable unit of a bitcoin – a satoshi, valued at 0.00000001BTC – to be sent. Up to 1 million transactions a second are possible on the network and the fee per transaction is less than 1¢.

"The Bitcoin Lightning Network can theoretically replace existing payments for fiat transactions," says Matkovskyy, who cites Solana Pay as another promising project with low fees.

Volatility is the problem that puts transaction fees in the shade. There's no point in saving a percentage point on processing costs if the currency you're trading in loses 10% of its value in a week.

But there is a way to avoid volatility altogether. Stablecoins are cryptos that are pegged to a traditional currency such as the dollar. They include tether, binance USD and dai. These enable their users to hold virtual dollars without their capital leaving the crypto universe.

"Volatility can be removed completely from crypto payments for both seller and buyer," says Jordan Bentley, product manager of crypto at FIS, a provider of payment tech to banks. "Customers are shown an exchange rate at the point of purchase, often locked in for 15 minutes, and merchants can choose to receive settlements in fiat, offering certainly regarding the amount."

Bentley adds that the use of stablecoins can keep the risk at bay for the long term. "Stablecoins such as Circle's USD coin, which is pegged at 1:1 to the dollar, remove volatility from payments, enabling rapid settlements," he says. "They are therefore far more suitable for merchants just gaining familiarity with crypto and digital wallets."

But not everyone agrees that stablecoins are deserving of their name. For example, the most popular stablecoin, tether, stands accused of lacking transparency. There are theories that it may not have the reserves it claims, which would make it vulnerable to a run if enough holders were to cash out. Indeed, *The New York Times* recently published an article with the headline "Tether: the coin that could wreck crypto".

The founder of dogecoin, Billy Markus, recently opined: "To anyone worrying about binance and/or tether collapsing, if either does it's pretty much game over."

To be able to accept crypto payments, you must choose a wallet or crypto banking service, such as Nexpay, BitPay or Worldpay.

The Geneva office of Saffery Champness, a provider of trustee services to asset managers, is planning to accept crypto payments via Coinify. It will be able to accept 25 currencies, including bitcoin and ethereum.

"Our firm needs to transact with crypto-native clients, but crypto is not core to our business," says its director of marketing, Siobhan Moret. "Using a merchant service like Coinify is a good option for us. It's quick to set up and inexpensive. It offers payment options in a wide variety of coins and it converts to Swiss francs almost immediately. This offers us maximum flexibility at low pain."

On top of the technical challenges of accepting crypto payments, there are compliance matters to consider. In the UK, the financial services and markets bill that's making its way through Parliament should, once enacted, give the government new legal powers over certain crypto-related activities.

15,174

businesses worldwide were accepting bitcoin payments in April 2022

Zappia, 2022

The Financial Conduct Authority regulates some fiat-to-crypto exchanges – Coinbase, eToro and Kraken, for instance. But it did not approve the Bahamas-regulated FTX exchange, which imploded in November with the loss of an estimated £6.5bn in customers' funds.

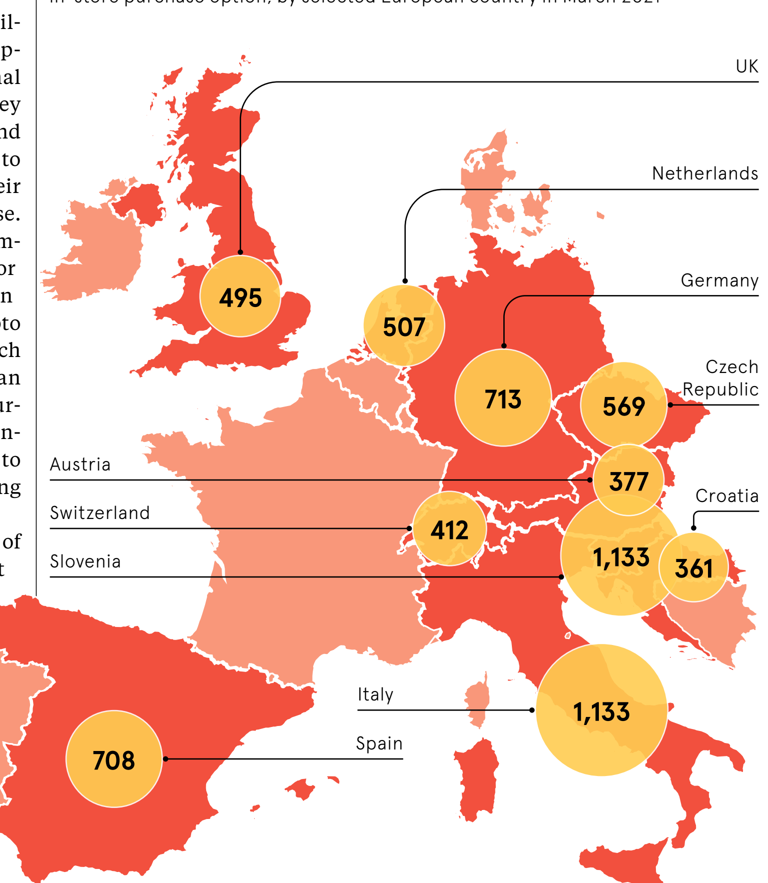
Yet, despite all the downsides associated with it, crypto will be the next big thing in B2B and B2C payments – if the claims of parties with an interest in its success are to be believed. A recent survey by Pymnts.com, a news website for the payments industry, for example, has indicated that 23% of merchants are already accepting payments via crypto-native wallets.

People are sceptical about crypto and the claims made by its proponents with good reason. Accepting payments in pounds, dollars and euros may not be sexy and the transaction fees are certainly steep. But the CEO of your high-street bank is unlikely to disappear with all your money in his suitcase.

One of the oldest mottos of commerce is *caveat emptor*: let the buyer beware. For any entity thinking about taking crypto payments, perhaps it should be a case of *caveat venditor*: let the seller beware.

GAINING ACCEPTANCE?

Number of businesses that either had a crypto ATM or offered crypto as an in-store purchase option, by selected European country in March 2021



Statista, 2021

TREASURY MANAGEMENT

The search for liquid refreshment

As the economic outlook darkens, many firms are shelving their growth ambitions and focusing on their cash position, obliging CFOs to strike a delicate balance in lowering costs and raising capital

Jonathan Weinberg

Reducing expenditure without harming key operations has become a critical consideration for CFOs as the UK economy falters. At this time of great financial uncertainty, the task of raising capital also requires them to make increasingly tough choices.

Dan Wells is the founder and CEO of GrowCFO, a network for financial leaders. He reports that many businesses have left themselves little room for manoeuvre, having cut their costs to the quick over the past two years.

It's important for finance chiefs to "proceed with caution", Wells warns. "Many out there are under pressure to reduce costs, but cutting back too much can lead to the collapse of a business, while not cutting enough can hinder its profitability. CFOs must build trusted relationships with the wider business and collaborate regularly with other teams to create additional value. This can be achieved only when all departments are working harmoniously together."

Wells adds that, while many CFOs will turn to the capital and debt markets to replenish their cash in the difficult times ahead, such finance will become more expensive as business valuations fall and the costs of borrowing rise. He suggests that they should "first explore opportunities to raise cheaper funds, such as asset-based lending and invoice financing".

Phil Tarimo is head of debt advisory services at the Dow Schofield Watts consultancy and a former specialist in corporate finance at RBS and Yorkshire Bank. He says that lenders will be scrutinising applications more closely than they have been for some time. They will apply more exacting stress tests to management forecasts to ensure that a business can continue meeting its repayment obligations "if things don't go according to plan".

Tarimo warns: "In assessing the merits of using external finance, businesses need to be confident that their return on investment will be greater than the cost of the finance raised and can be delivered in an acceptable time frame."

Borrowing without ensuring that there's enough slack in the facility to allow for unexpected bumps in the road is a risky move, he adds. Such bumps could vary from an unforeseen cost overrun on a firm's IT upgrade project to a sudden reduction in demand for its products.

Finding alternative ways to raise funds during times of great economic turbulence is no easy task, observes Vicki Taylor, principal at commercial finance provider Growth Lending. She says that, while many options are available, choosing the most appropriate ones can be "overwhelming for business leaders". Taylor recommends that CFOs choose a lender with experience in their industry.

But borrowing clearly doesn't appeal to everyone. Only 20% of small and medium-sized enterprises view debt finance as necessary for fuelling growth, according to Growth Lending's recent research report, *Don't Bank On It*.

This might suggest that cutting costs is a more attractive option for most, but Taylor argues that "the perception that good business owners are able to manage, even when cash flow becomes challenging, is detrimental. Being proactive and raising cash before it becomes a problem is inevitably what will separate the businesses that succeed from those that fail. Persistence is also key to success in this respect. Businesses should prepare to be tenacious and approach several lenders if they wish to get the best match for the right price."

> Being proactive and raising cash before it becomes a problem is inevitably what will separate the businesses that succeed from those that fail

While cost-cutting is an obvious survival tactic when times are hard, it can cause huge headaches. For instance, a study published in September by risk management consultancy Kroll concluded that CFOs were "woefully in the dark" about data security. Its research report, *Cyber Risk and CFOs: overconfidence is costly*, warned that cutbacks in this area could result in serious unforeseen problems.

"CFOs often aren't fully aware of the financial risks presented by cyber threats until there's an incident," says Greg Michaels, MD and global head of proactive services in Kroll's cyber risk practice. "At that point, they must get involved not only in the recovery – including permitting access to emergency funds and procuring third-party suppliers – but also in cybersecurity strategy and investments."

Many other costs – office rents, for instance – will be difficult, if not impossible, to renegotiate, while it's typically hard to reduce headcount without spending considerable sums on redundancy payments. One area that does offer significant potential for cost savings is energy consumption. This has become a board-level concern in 80% of companies, according to research by npower Business Solutions.

As energy prices soar, businesses must ensure that they're not using their heating and aircon systems any more than necessary, warns Richard Fletcher, director at IES, a consultancy specialising in the environmental impact of buildings. But he adds: "At the same time, if they push their energy-efficiency measures too far, they risk compromising the health, safety and productivity of their employees."

Fletcher suggests that companies can make a few simple changes to how they run their facilities and, potentially, cut their operational energy costs by more than 20%. The process starts by forming a clear picture of consumption, including where the energy comes from (hedge or wholesale), and predicting future usage patterns.

"The goal is to find a trade-off between energy savings and comfort enhancement," says Fletcher, who adds that "decisions need to be made at board level to achieve the right balance in this tug of war".

HEADING INTO CREDIT-CRUNCH TERRITORY

UK CFOs' perceptions about the availability of debt finance for business

	Q1 2022	Q2 2022	Q3 2022
Very hard to get	0%	1%	6%
Somewhat hard to get	18%	26%	33%
Neutral	24%	30%	32%
Somewhat available	41%	28%	25%
Easily available	17%	15%	4%

Deloitte, 2022

Commercial feature

Finance outsourcing: the next wave of transformation

With CFOs increasingly expected to act as change leaders within their organisations, outsourcing finance functions could be critical to business growth

The business landscape is one defined by change. To remain competitive, organisations need to be willing to adapt and evolve and never has there been a more apt time for chief financial officers to demonstrate their mettle.

An undesirable combination of recession, high inflation and a talent shortage has put finance teams in unchartered waters. Against this backdrop, the CFO - once the cornerstone of bookkeeping and compliance - has emerged as a key strategic partner, expected to drive business decisions and deliver growth.

Ian Halliwell, marketing director at financial software solution firm Xledger UK, says: "Traditionally, the role of CFO was a retrospective one, responsible for reporting historical financial performance and maintaining the status quo … to survive and thrive in this challenging environment, CFOs now need to develop a forward-looking view to identify potential risks and capitalise on opportunities. Real-time data will be essential in enabling CFOs to achieve this."

CFOs must demonstrate an ability to respond quickly to change, whether it is new regulations, entering a new market or adopting new business models. Fortunately, advances in technology and data can provide the tools to empower CFOs and their wider teams to make informed decisions at a pace that would have previously been unthinkable.

However, it is not simply a matter of gathering data but understanding how to leverage that data to assess risks and opportunities, spot areas that need attention and provide context to decisions.

"Mid-market businesses often face challenges in gathering data and the insight required to scale their business at pace and remain competitive. Outsourcing the finance function enables businesses to run leaner, more efficient finance departments and frees CFOs to focus on more strategic roles," explains Halliwell.

Over the past decade, international markets have widely adopted accountancy services. Xledger UK, which began its operations in Norway over 20 years ago, says forward-looking businesses in the UK are now following suit.

"The arrival of cloud-based technology has made a huge difference. It unlocked the market by bringing a whole new dimension of flexibility to finance management," says Xledger Group CFO Knut Rønning, commenting on the Norwegian market's evolution. "Remote and secure access to data, coupled with sufficient complex functionality to support mid-market organisations' specific needs, meant that new opportunities opened up to CFOs needing to support the transformation of their business and design new processes," he continues.

On top of resources and competencies, Rønning explains that this also provided accountancy partners with easier access to insights, allowing them to add "a new kind of value to their customers … through real-time reporting and analysis."

Many businesses are navigating a talent shortage in finance leadership positions. Data published by the Institute of Chartered Accountants revealed a 36% decline in accountancy applicants year-on-year between June 2021 and June 2022.

It is a challenge that Simon Rowe, partner at accountancy firm Milsted Langdon, says has become all too common. But a widespread shift to remote working has precipitated the trend towards outsourcing and presented firms with a new opportunity to transform their financial capabilities.

"Prior to the pandemic, there was a tendency for firms to keep their finance function in-house, but the events of the past few years have demonstrated how effectively and successfully finance functions can operate remotely," says Rowe. "Firms which previously felt that outsourcing to accountancy firms was the reserve of larger businesses are increasingly recognising that the same technology is accessible to them," he adds.

When waters are calm, businesses may be able to "fumble their way through", but through uncertainty, economic difficulty or when the prospect of a new project or merger and acquisition arises, CFOs will be called upon to provide meaningful context around financial performance to senior leaders and stakeholders.

Outsourcing is revolutionising finance departments with the added benefit of third-party knowledge, an undeniable boon in today's complex landscape.

Rowe concludes: "If a business only has in-house capabilities, the only business they know about is their own. Using an outsourced system enables CFOs to tap into much broader industry knowledge and experience."

> CFOs now need to develop a forward-looking view to identify potential risks and capitalise on opportunities. Real-time data will be essential in enabling CFOs to achieve this

Q&A

The CFO evolution

Simon Rowe, partner at Milsted Langdon, discusses how accountancy services are reshaping the finance function

Q What is at stake for CFOs today?

A We are living through incredibly challenging economic times. CFOs face a host of different pressures, including finding the right people. A lack of training over the past 5 to 10 years means the finance sector is now contending with a shortage of skilled talent and data know-how.

Following the pandemic, we saw a huge differentiation in the financial health of businesses. Some have acquired significant cash reserves, while others are struggling. For the former, there will be a huge opportunity over the next 18 to 24 months to expand their operations, enabling CFOs to use their unique position to build new capabilities and create value. Increasingly, finance teams will need to be skilled in harnessing technology and data at speed, adapting forecasts and providing scenario modelling.

Q How important is it to be ahead of the curve?

A In a competitive market, businesses will undoubtedly benefit from first-mover advantage. CFOs need to be able to unlock value and drive innovation at scale. Outsourcing accountancy will be at the heart of this.

We help clients to spot opportunities that may not be visible through legacy systems and make proactive decisions. If companies fail to use the right data and, more importantly, fail to connect the dots and understand how to use that data to grow the business, it poses a very real risk to the future success of the business.

Q Why has Milsted Langdon partnered with Xledger UK?

A We wanted to be closer to our clients and understand their businesses better. Often accountancy can be fixated on past events and performance, but we want to be in the current. There was a real synergy with Xledger UK. It's important that our clients have all the data at their fingertips and that this data is easily accessible. When we built our outsourcing division, DG Finco, we wanted to partner with a software provider that could enable us to achieve this. That's why we chose Xledger.

Firms hear the word 'outsource' and think it means it will disappear offshore and that they will lose control of their finance … but the opposite is true. We aim to make that knowledge more accessible, not less. We are there as a partner and a guide and have the industry knowledge and experience to help businesses grow.

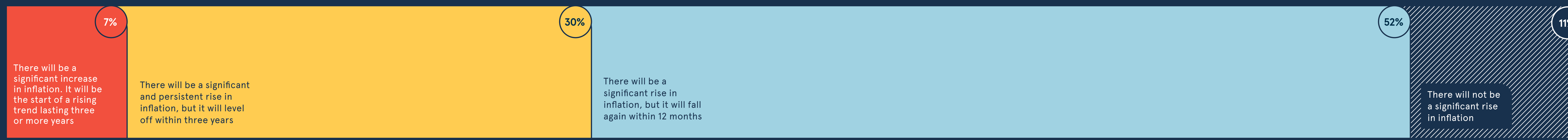
For more information visit xledger.com/uk/finance-outsourcing

xledger empowering ambition.

INFLATIONARY EXPECTATIONS

UK CFOs' views on scenarios for general price inflation in 2022 and beyond

Gartner, 2022



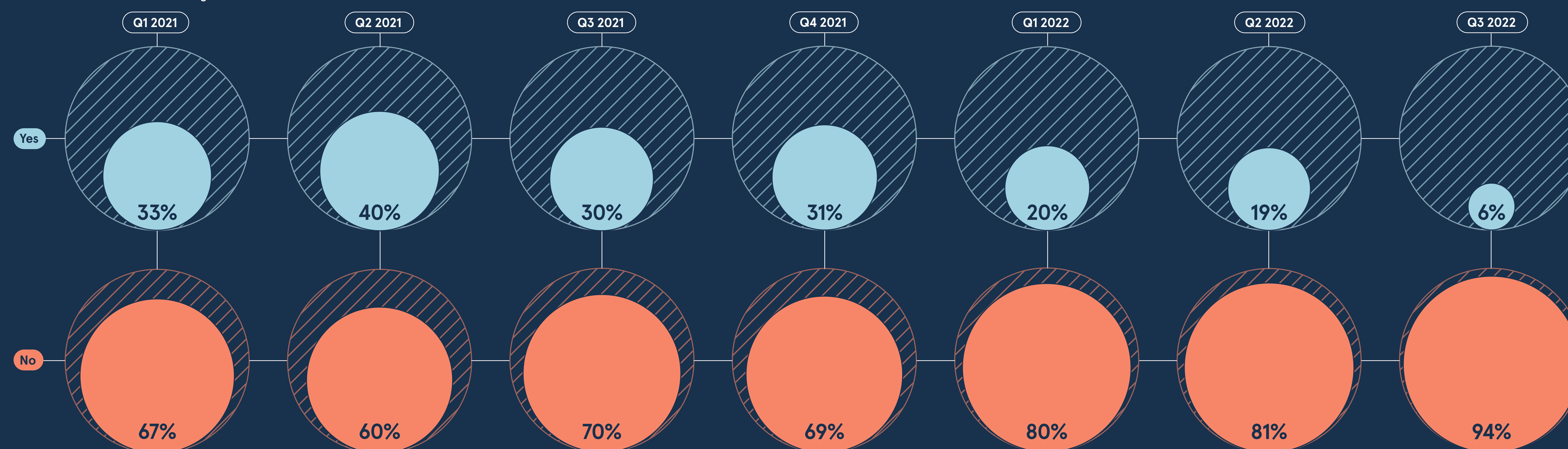
HOW CFOs APPROACH RISK IN A RECESSION

The medium-term outlook for UK plc is not a happy one. Supply chain pressures keep pushing up costs, geopolitical and climate risks are becoming more daunting, while the unprecedented turmoil in Westminster has added a further layer of uncertainty for British firms to handle. How do their finance chiefs see their prospects over the coming year?

APPETITE FOR RISK

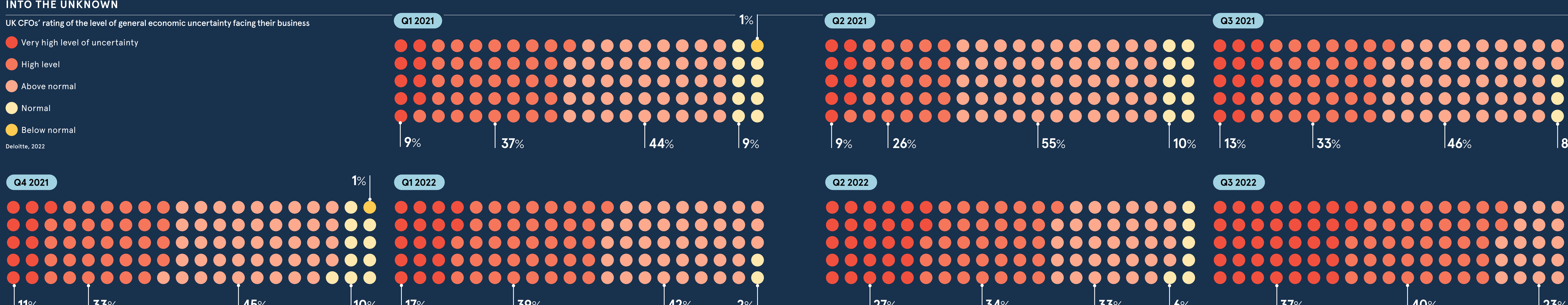
Share of UK CFOs who think it's the right time to take more risk on to the balance sheet

Deloitte, 2022



INTO THE UNKNOWN

UK CFOs' rating of the level of general economic uncertainty facing their business




acoblund via iStock

STAKEHOLDER RELATIONS

Blow-by-blow accounting

A downturn is not only a test of CFOs' strategic skills. There is a fine art to disseminating information to anxious stakeholders and keeping them onside, especially when the news isn't good

Ouida Taaffe

Central banks have put an end to ultra-cheap borrowing, yet inflation is still rising while both consumers and businesses are looking to cut back. That's a potential perfect storm for CFOs. You don't have to be a crypto exchange to feel the chill.

Equity investors will want clarity on the risks they are running and the likelihood of dividends. Lenders will want to be sure that their capital will be returned and that the interest rate rewards them suitably for the credit they are giving. Employees, suppliers and customers will want to hear that the business is on a healthy footing. Promising them that you'll conjure up a unicorn will not cut it.

"It's all about being transparent," stresses Naresh Aggarwal, associate director, policy and technical, at the Association of Corporate Treasurers. "Making stuff up and/or not telling the whole truth is the worst thing. Although we have a lot of data now, anyone communicating results based on that material has to be clear about the information it really provides."

But what if a company finds itself under a particularly harsh spotlight? Take a business that's at the centre of a fast-moving energy crisis as consumers struggle with inflation, for instance.

"A confluence of factors in energy has made things move at pace," says Stuart Jackson, CFO of Octopus Energy. "That makes it even more important for us to communicate more fully and more frequently."

Jackson reveals that Octopus built its own data ecosystem under one roof to wrangle vast volumes of material, including meteorological data. That, he says, has given it some advantages over the industry's legacy players when it comes to analysis and disclosure.

But how can a company collecting so much data know what is pertinent – and how can it ensure that it's not a 'black box' to its investors?

"It's not always obvious, judging from the data that goes in at the top, what will come out at the bottom," Jackson says. "This is probably the most complex business I've worked in. But we have developed tools to help us explain what things mean to our shareholders. This also helps with the cadence of reporting."

> Although we have a lot of data now, anyone communicating results based on that material has to be clear about the information it really provides

When times are tough, it can be tempting for firms to be economical with the truth. Is staying quiet ever a sensible strategy?

"You cannot play the strategy of flying under the radar. It's important to control the narrative," says Rajesh Gupta, CFO of OakNorth Bank. "The only way to do that is to ensure that your stakeholders understand the facts, the context and the basis of your views. I'm biased towards providing more fulsome information, but you have to do that in a sharp, concise format that they can understand."

As firms have many stakeholders – including investors, employees, customers and suppliers – coming up with a single message that satisfies everyone looks like a stretch.

"Investors vary in what they want," Gupta says. "We have some long-term investors who believe in serving 'the missing middle'. They will give us the space to work through the cycle. But we also have subordinated debt investors who care a lot about the creditworthiness of our asset portfolios. They are looking to understand the extent to which that credit profile will create risk."

He says that he tends to give both groups a lot of detail to work with, adding: "There are no multiple versions of the truth at OakNorth."

Aggarwal believes that, although most people respond sensibly when they hear the truth, the key facts must be delivered carefully to them in the context of a broader story.

He explains: "You need a clear plan on your medium-term prospects, which will be harder to put together. That plan has to apply to the whole business and you've got to maintain the confidence of staff, customers and suppliers."

Maintaining the confidence of stakeholders when many of them will be anxious can be tough on CFOs and their departments, which may feel the stress of having to deliver the right information to a jittery audience at the right times.

"For CFOs, recessions mean a lot of learning about the business, themselves and the people they engage with," Aggarwal says. "The reality is that it's not business-school stuff that's tested; it's the soft stuff."

Jackson observes that there is "undoubtedly much more pressure on the team when markets become volatile. Maintaining supportive, trusting relationships with your shareholders becomes more important than ever in a recession. You're all in it together. At Octopus we have both financial and strategic investors – and the nature of our dialogue with them can differ."

> The only way to control the narrative is to ensure that stakeholders understand the facts, the context and the basis of your views

Gupta agrees that a downturn calls for more communication with investors, "because there is more drive for people to understand how things are going. At OakNorth we tend to see a 15% increase in the number of requests to talk, but there's likely to be more pressure on publicly traded companies than on privately held firms like ours."

He adds that, in times of great uncertainty, CFOs must be as transparent as they can be with investors and other stakeholders.

"You have to be able to separate anecdotes from facts and be clear when you are making a judgement call as opposed to a decision that has detailed evidence to support it," Gupta stresses.

What can finance chiefs – particularly those who are new to a firm and its stakeholders – do to obtain help with the all-important "soft stuff" that Aggarwal highlights?

Rajeev Raichura, CFO of lending platform ThinCats, has spent two decades in the profession, but has been in his present role for less than a year. He says that he attends "CFO events and roundtables, which can be supportive, but it's about the strength of your professional network overall. I'm very fortunate to have some great mentors. I know that they would help me through any issues if I were to ask them."

The stress test imposed by a recession gives stakeholders in a business the chance to see what the organisation is really made of. Has it tried to wriggle out of its commitments or to paint too rosy a picture of what's occurring? Can it be relied on? For the best-run businesses, a recession is when they build trust and work even more closely with their stakeholders.

"Institutional funds have invested heavily in us, so having good reporting is part of the quid pro quo," Raichura says. "It's the nature of what we do."

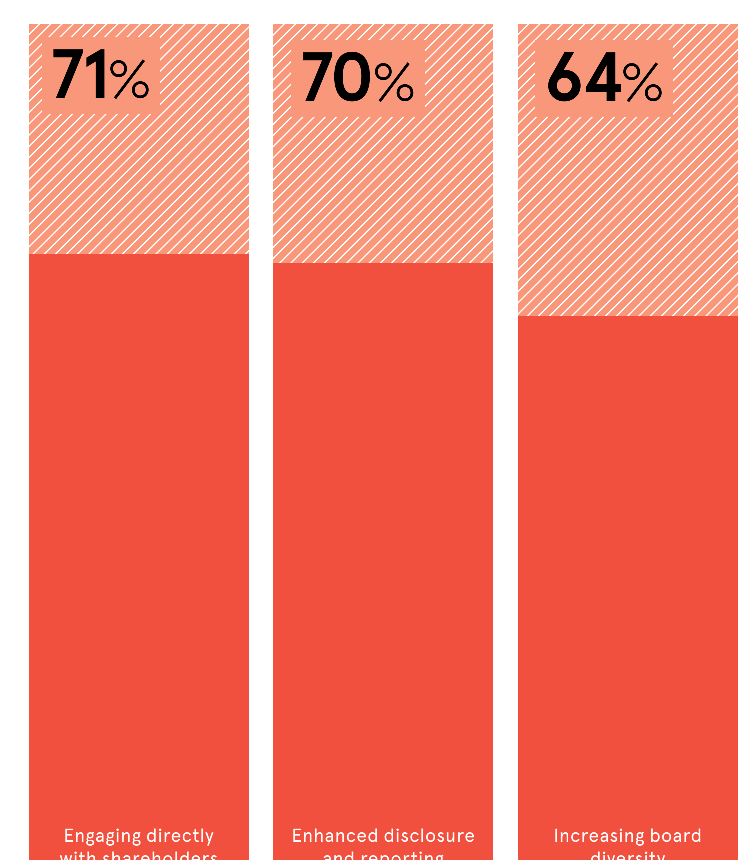
And, while recessions are tough on businesses and their CFOs, they do offer opportunities. For example, investors start to look forward to understand how the company will perform on the other side of the downturn as markets shift.

"In conversations with banks, we are increasingly seeing interest in ESG credentials," Jackson reports. "They have made commitments that they want to fulfil. It's the same on the equity side."

Is it possible to talk too much to your stakeholders? There is one danger in being ultra-communicative, according to Jackson. "There's a risk for the CFO in times like this that you can end up constantly debating fine points," he says. "But you still need to run the business."

TRUST AND TRANSPARENCY

Share of directors who think the following actions could increase stakeholder trust



PwC, 2022

Commercial feature

Why data, diversity and development are the CFO's responsibilities

The 21st-century CFO must master risk, management information and diversity of talent, as well as financial controls

The role of the CFO has continued to grow and evolve, becoming ever more visible through the Covid pandemic as pressures mounted during a period of unprecedented uncertainty. Having the right leadership team has always been mission critical, especially in a crisis, but the CFO role is the executive committee seat that has perhaps evolved the most in recent years.

More to CFOs than accounts

The finance chief is no longer simply responsible for managing risk and balancing the books. CFOs are now business leaders helping shape strategy, enable growth and manage company performance. And this is in addition tol shepherding the organisation through the next phase of emerging risk, facing external and internal scrutiny and challenging cost pressures.

While the management and mitigation of risk is critical, the CFO – often as CEO designate – plays a central role in driving value. Their remit often extends to enterprise-wide transformation efforts, like attracting and retaining a diverse range of talent, leveraging new technology, data and analytics and facilitating a range of corporate activity, from M&A to fundraising and capital management. The CFO is also frequently responsible for communicating the company's financial position and corporate messaging to the market, working in close partnership with investor relations. A truly vital role in a challenging market.

This is exactly why diversity is such a crucial component to the CFO role and the changes CFOs will make, says Martha Harvey-Jones, global co-head, CFO and finance practice at Leathwaite.

> Having a broader range of individuals with different views and professional backgrounds avoids groupthink and helps to build a better, more sustainable business

"Having a broader range of individuals with different views and professional backgrounds avoids groupthink and helps to build a better, more sustainable business," says Harvey-Jones. "More businesses are also now looking at candidates currently in technology, risk and business- or people-leadership roles to work in the finance function."

Development is central to CFO role

Just as the CFO must be adaptable to the changing needs of the business, so the business must understand that it may need to adapt the CFO role in the future – and more frequently, too. There has been a considerable increase in turnover among CEOs, CFOs and COOs, providing an opportunity for businesses to embrace interim talent so they can concentrate on making the right appointment at the right time.

This short- to medium-term placement is becoming more common as businesses appoint an individual who is not only adaptable, but who has the specific skills and experience required for the next phase of development.

There are some compelling cases for appointing CFOs on an interim basis. Today, a business may require a degree of consolidation before a growth period where a CFO with M&A experience might prove more suitable.

In time, CFO roles may be recruited on a more medium-term basis, engaged for specific change and growth programmes within the business.

Some companies are already using interims to improve succession planning. Executive interims with broader experience may join not as CFO themselves, but as a mentor to the next generation of C-suite or other internal candidates being incubated by the business.

Keeping one step ahead

Today's CFO has a broad remit and relies heavily on data and advanced analytics to function effectively. The right technology is required to not only manage the business, but deliver meaningful insight to underpin sound business decision making. Good data allows a business to make good decisions, but more importantly, at the time they need to be made.

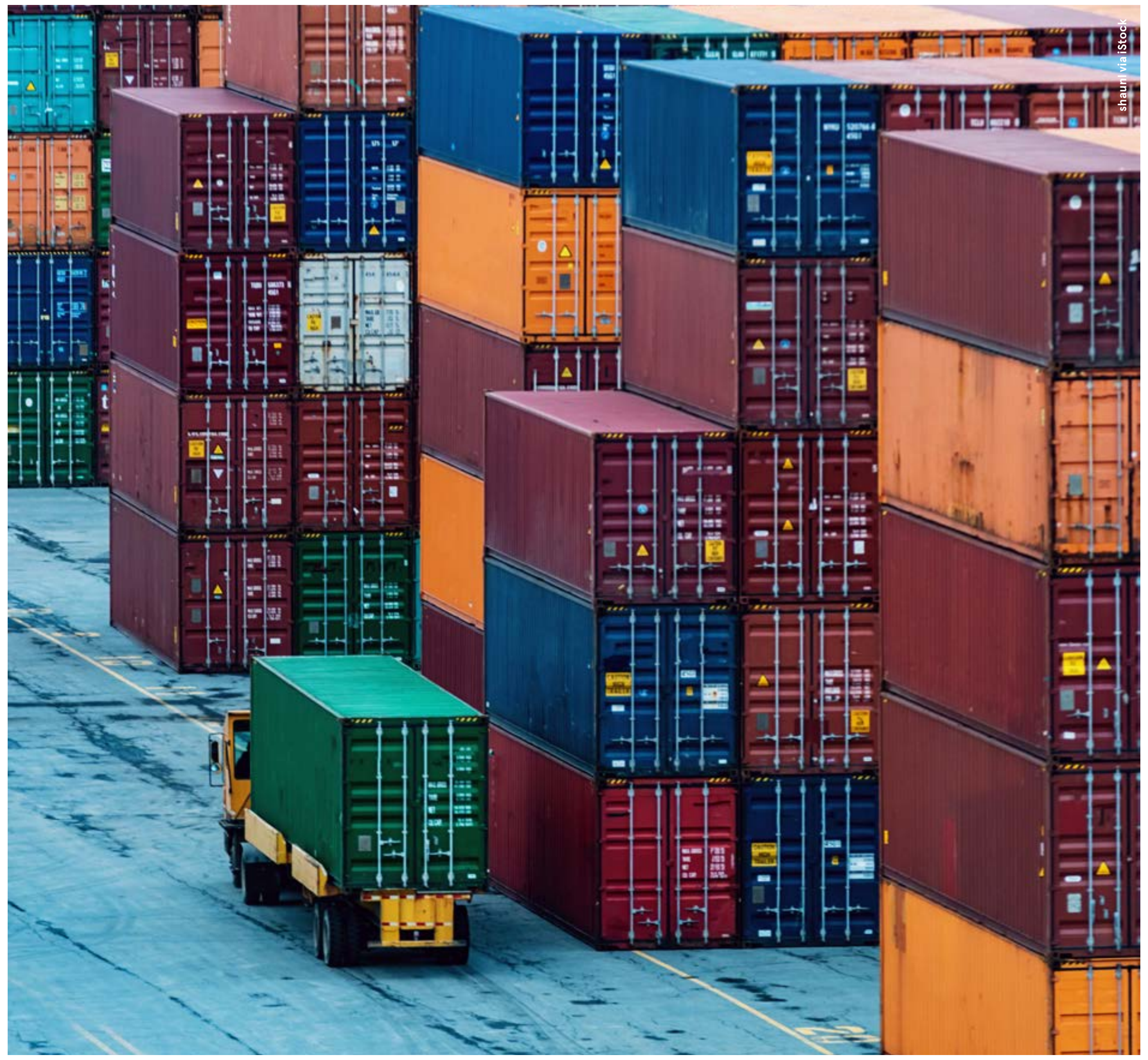
However, almost every business struggles to rid itself of legacy technology. Even if there is a chief technology officer in post. As an engaged primary user of data, technology is more and more within the wheelhouse of the CFO.

Digitalisation has given rise to monumental changes in the business world. Now more than ever, firms must prioritise speed, decisiveness and flexibility.

This means that problems cannot be concentrated within the scope of one individual, such as the CEO, says Tom Pemberton, global co-head, CFO and finance practice at Leathwaite.

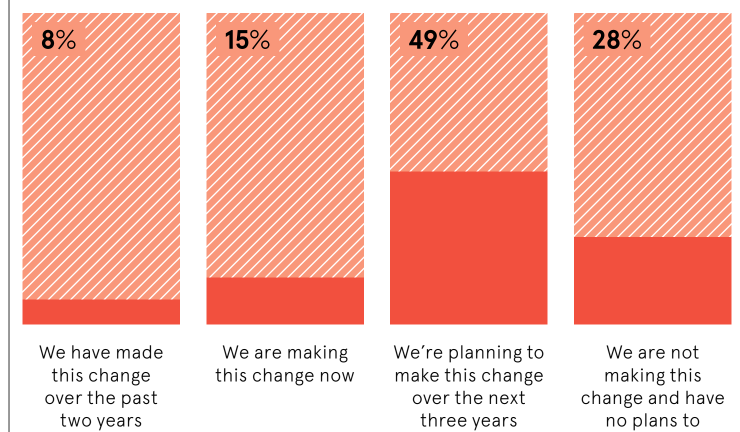
"CFOs must support their CEO by adding strength, depth and breadth to the C-suite function across business governance, technology and human capital if businesses are to succeed and be sustainable in the future," he concludes.

For more information please visit www.leathwaite.com



DEALING WITH THE SUPPLY CHAIN'S CARBON FOOTPRINT

The extent to which supply chain executives in organisations worldwide have addressed scope-three emissions through circular-economy strategies



EY, 2022

COMPLIANCE

Domino effect: can firms hack the new rules on supply chain risk?

Companies are increasingly being held responsible for what happens in their supply chains, but many are ill-prepared for the regulatory changes ahead

Daniel Thomas

When a 2020 report alleged that thousands of Chinese nationals belonging to the Uyghur ethnic minority group were being forced to work in factories supplying big western brands, it cast a stark spotlight on global supply chains.

Companies including Nike, Apple and Dell vigorously denied any knowledge of the abuses, but the scandal generated negative publicity around the world and added to the unease felt by consumers and law-makers about where and how our goods are made.

Regulators have since moved quickly to find ways of holding companies responsible for misconduct across their supply chains, be it human rights abuses, worker exploitation, inadequate health and safety practices or environmentally damaging processes.

But, with big fines looming for those found guilty by association, many companies are ill-prepared for the big changes that lie ahead.

> Industry-leading organisations look to integrate ESG into every step of the procurement process

Perhaps the biggest piece of legislation coming down the track is the EU's proposed Supply Chain Act, which is likely to be passed in 2023. It will oblige larger EU companies to uphold high standards across their entire supply chains or face potential legal action and financial penalties.

They will also have to set up processes to identify, prevent and remedy supply chain risks and report publicly on their progress. Foreign companies operating in the bloc are likely to be subject to these rules.

This follows similar laws passed by Switzerland, France and, most recently Germany, whose Supply Chain Due Diligence Act will come into effect in 2023 and be expanded in 2024 to cover any firm employing more than 1,000 people.

The German legislation will also force businesses to tighten up their processes while threatening fines of up to €800,000 (£690,000) or 2% of average annual global turnover. They would also face exclusion from competing for public contracts for up to three years.

The ISN consultancy helps companies to track environmental, social and corporate governance (ESG) information across global supply chains. The firm's senior director of ESG, Rick Dorsett, believes that regulators around the world will only tighten their grip on this issue.

"Historically, value chains have been excluded from many requirements for tracking, as legislative bodies wanted to start with the basics before delving into the details of the operations," he says. "But, as baselines have been established, organisations' value chains have been attracting more scrutiny. This has resulted in increased demand to report on, and improve the impact of, their operations."

Companies already risk severe reputational damage if they use third-party vendors or contractors that are fined for corruption or identified as using forced labour. Consumers and investors are also increasingly prepared to cut ties with offending brands.

The prospect of tough new rules and potential fines will generate even greater incentive to change, yet Dorsett reports that many businesses are unprepared for what this might entail.

Keeping tabs on several vendors and contractors in numerous markets is already a hard task, he says. But many firms are still developing their own ESG policies and are lagging when it comes to tracking the performance of their partners.

EQS Group, a specialist in digital compliance tools, explained what to expect from the EU's forthcoming legislation in a recent blog post. It warns that affected companies will be required to ensure compliance across "all activities related to the production of goods or the provision of services", spanning both upstream and downstream relationships. Firms "must therefore check exactly where the supplied goods come from, how they were produced and what consequences this had for the environment and climate. In the case of imports from [the Global South], checking the entire supply chain may well prove a greater challenge."

Most regulations governing due diligence in the supply chain will apply to big businesses, but SMEs are likely to be affected indirectly. In the long term, larger trading partners will expect them to review their own supply chains and obtain assurances of compliance.

Many SMEs lack the resources to do this, says Tina McKenzie, UK chair of policy and advocacy at the Federation of Small Businesses, although she adds that most are "eager to play their part. Our research shows that 66% of small suppliers hold at least one kind of verified standard."

McKenzie wants the government to do more to help smaller firms identify and mitigate risks in their supply chains, noting that they typically lack the resources bigger companies possess to dedicate to this. Small businesses whose supply chains stretch beyond the UK also need "clear guidance and signposting" about where they are affected by regulatory changes overseas, she stresses.

Dorsett recommends that companies preparing for the new rules should act now to head off supply chain risks. This means first identifying where their suppliers are based and assessing the relevant material risks in those regions.

He adds that firms also need to establish a baseline for the status of ESG and health and safety data availability in their supply chain, so that they can start developing strategies to ensure compliance.

"Industry-leading organisations look to integrate ESG into every step of the procurement process," Dorsett says. "They begin by including ESG criteria in their requests for proposal; conduct risk assessments based on company geography; integrate ESG clauses into their contracts; and educate their supply chains on their internal ESG initiatives and how their vendors fit in."

This is a lot to ask from smaller businesses, which are likely to be struggling with pressing problems such as skills shortages, soaring inflation and the possibility of a lengthy recession. Yet statutory measures to ensure supply chain due diligence are clearly gathering momentum in many countries, so companies will have to respond.

That may present challenges, but brands that uphold good standards will doubtless remain in their customers' good books. This will only benefit their bottom lines.

Commercial feature

The vital role of financial planning and analysis in uncertain times

During times of economic uncertainty, finance has a key role to play in guiding an organisation through the storm

With rising interest rates and increased inflation, 2022 has turned out to be anything but predictable. As we move towards 2023, the 'growth at all costs' approach is out the window and the era of 'profitable growth' is here.

Over the past decade, many businesses, especially in the venture world, never thought of the word 'profitability'. And why should they have? Demand was high and cash was cheap, so capital was rightly invested in the business to drive growth. Times were good.

But with such a focus on maximising revenue and accelerating growth, many businesses became complacent. They lost focus on tracking forecast accuracy, didn't understand their unit economics and couldn't build paths to profitability – three core KPIs of business health.

As capital gets more expensive and the investment environment dries up, companies are being forced to make strategic (sometimes difficult) decisions to navigate through the storm, and it's the finance team's time to shine.

"There is a lot less margin for error," says Taimur Abdaal, co-founder and CEO of Causal, a business planning platform. "If you're not intentional about making a shift to focus on your economics and manage cash burn, you could be in trouble. It's time for companies to really understand the levers of their business, and invest in what's working."

Understanding their business levers means that companies need to look beyond their financial data to gain a clear understanding of unit economics, which starts with understanding and trying to improve on both the lifetime value of a customer (LTV) and customer acquisition cost (CAC).

"Once you have a baseline understanding of your unit economics, you can begin strategising on how to improve on them, and that's where business planning comes in," says Abdaal.

During the bull run, finance teams largely relied on financial data such as general ledger (GL) revenue to forecast growth, sometimes by adding a simple growth rate. Businesses would look at the market growth projections and match their growth to that, which is not scientific at all. With every penny mattering so much more than before, it's up to the finance team to build accurate business plans that are based on financial and operational data – leads, conversion rates, product usage, etc. The snag: pulling that data into spreadsheets and then analysing it effectively is a laborious, error-prone and complex task.

> Finance needs to automate manual tasks so they can spend their time figuring out where the business needs to go

"What we're seeing is that accurate forecasting has become crucial for the future of businesses," says Abdaal. "Many have started to look away from spreadsheets at tools that can directly integrate with systems like CRMs and data warehouses and so on, so they can plan with the right frequency and accuracy."

This ability and need for continuous planning have pushed finance teams into the limelight as they share insights and plans across the business, acting as strategic advisors guiding executive teams and department leaders on key decisions.

"We're seeing that change because finance's time needs to be freed up. They need to automate their manual tasks so they can spend their time figuring out where the business needs to go," says Abdaal.

The move to a sustainable growth approach also means a change in business culture. "It's easier to make that cultural shift today than it was a year ago. In 2021, if you wanted to take things slower and scale up efficiently, you would have faced a lot of resistance from investors," says Abdaal.

To help with this more cautious approach, Abdaal suggests firms should adopt a revenue-led planning framework that ensures companies only increase costs in line with revenue growth and can therefore better allocate resources. That means providing accurate forecasts that are continuously fine-tuned.

"If you're super accurate with revenue forecasting, then you'll have a much clearer idea of how much money is sensible to spend on increasing that revenue," says Abdaal. "And that comes from having the right data flowing into that model, so taking revenue modelling extremely seriously should be the starting point."

The most successful companies are also the ones that measure the performance of their finance teams based on the accuracy of their forecasting, he says. "For most companies, it will take a big cultural shift to start taking forecasting seriously, and having forecast accuracy as a core KPI is the best way to incentivise people to care about it."

For more information, visit causal.app

CAUSAL

Q&A

Spreadsheets in modern finance

Taimur Abdaal, co-founder and CEO of Causal, a next generation spreadsheet built for finance, shares his thoughts on the future of spreadsheets

Q Why is finance so reliant on spreadsheets?

A They're incredibly flexible and incredibly powerful. You can use a spreadsheet to get a computer to do pretty much anything you can think of. The downside is that, because they're so flexible and you can use them for pretty much anything, it does mean that for any specific task, there is probably a better solution. When it comes to financial modelling, you can do it in a spreadsheet, but once you reach a certain level of complexity, it becomes difficult to make and track changes, which can lead to mistakes.

Q What tasks are best suited to spreadsheets?

A Spreadsheets are great for ad hoc stuff. They're great for prototyping, but when you're building anything more permanent that needs to be used by more people than just the owner of the spreadsheet, you want to start thinking a bit more about the right tool to use.

Q What are the limitations of spreadsheets?

A Building and maintaining models in spreadsheets gets very unwieldy because of the way that formulas work – often the person who wrote the formula will be the only person who understands it. When you connect to different systems and pull in data from your accounting system or your CRM, pulling that data in is very manual. And when it comes to presenting or collaborating with others, spreadsheets can easily be broken, so it's hard to truly collaborate.

Q Why do finance teams need to look beyond the spreadsheet?

A What's important to finance is enabling them to free up their time so they can spend more of their efforts on being proactive. You want computers to do all the stuff that doesn't require human judgement and you want humans focusing on things that humans are uniquely good at – working with other people and using their knowledge and their expertise. Spreadsheets haven't actually changed in 40 years or so, so that's what we are trying to do with Causal – create a tool that's purpose-built for modelling and financial planning.


Martin Barraud via iStock

LEADERSHIP

From odd couple to dynamic duo

A lack of alignment between finance and IT is having a detrimental impact on decision-making in many firms. Their respective leaders would be well advised to work on the relationship

Christine Horton

In an age where data-led decisions have become the standard, there are worrying signs that many finance chiefs have yet to plug themselves fully into the data ecosystem.

A research report published by software firm Workday, *The CFO-CIO Partnership*, points out that more than half of CFOs are still basing financial choices for their businesses on gut instinct. The most common reason they cite for this is that the data on which they could be basing such decisions isn't readily available to them.

Some CFOs feel like they're living in the dark ages when it comes to getting hold of this material, reports Workday's vice-president of product strategy, Tim Wakeford.

Their problems often stem from the technology that many companies use, such as data warehouses, he says. These are meant to store and organise the mass of data drawn from various operational and core processing systems.

"Creating a report or conducting financial analysis requires the extraction of data from the warehouse, but this data is accurate only at the time it's loaded and refreshed from legacy systems," Wakeford says. "Business intelligence tools that create reports and analysis based on the contents of data warehouses are highly likely to be out of date. This renders any resulting insights unreliable, making finance leaders feel that data is not readily accessible for them to make decisions at the point of need."

Another barrier to finance's digital maturity is the continued use of legacy systems. Forward-thinking CIOs are viewing this as a chance to rethink their traditional enterprise resource planning software by adopting agile new tech that streamlines IT functions and offers better access to data.

Organisations are also becoming increasingly complex, notes Mark Bodger, director at tech consultancy ICit Business Intelligence.

"Usually, data to support decision-making is held in disparate systems, such as finance, sales, HR and operations," he says. "As businesses evolve through organic growth or acquisition, the problem becomes more challenging to solve as each new area of the business brings its own data systems to add to the company's stack."

But the problem is broader than the simple inability to access useful data. In many instances, the CFO and CIO are out of step with each other on three key matters: data and insights; tools and technologies; and skills and capabilities. A survey published in November by FT Longitude revealed that full alignment between the finance and IT functions was lacking in 31% of organisations. It also found that 41% of CIOs did not participate in key meetings concerning finance.

The C-suite colleagues seemed happy to blame each other's departments for this dysfunctional situation too. CFOs cited a lack of financial literacy within IT while CIOs cited a lack of tech literacy within finance as major barriers to the digital transformation of their firms' finance functions. It's clear, then, that organisations need to equip both functions with the tools and skills they require to improve interdepartmental cooperation.

Wakeford has a straightforward recommendation for firms seeking to promote a better working relationship between finance and IT.

"It's important to have people sitting in the CIO's team who understand finance and people within the CFO's team who understand the importance of data," he says. "This level of common knowledge can help to create a shared language between finance and IT, leading to more effective transformation."

> **The CFO can be successful only if they are fully integrated across the board as a voice of, and to, the team**

Tamsin Ashmore, CFO of IT consultancy Ultima Business Solutions, argues that achieving the right commercial outcomes is less about aligning finance with IT and more about establishing the latter function as the foundation of business-wide support.

This entails "ensuring that all information and processes are both fit for purpose and accessible as needed, forming the basis of intelligent decision-making," she says. "Fundamentally, this is about the digitalisation of information and how it is used as business intelligence. The true success of business intelligence is how it is integrated across the enterprise. It should capture all data – financial and non-financial – and use this to create insights and even promote a culture of success."

Ashmore adds that successful CFOs cannot rely on accounting stats alone. "In an agile, disruptive world, it's the operational data that drives the right finance outputs and longer-term direction," she stresses. "The CFO can be successful only if they are fully integrated across the board as a voice of, and to, the team. It is more important than ever to inform broader strategic thinking and influence relationships that matter, whether those are internal or external to the organisation, so that the right tools and insights for decision-making are available."

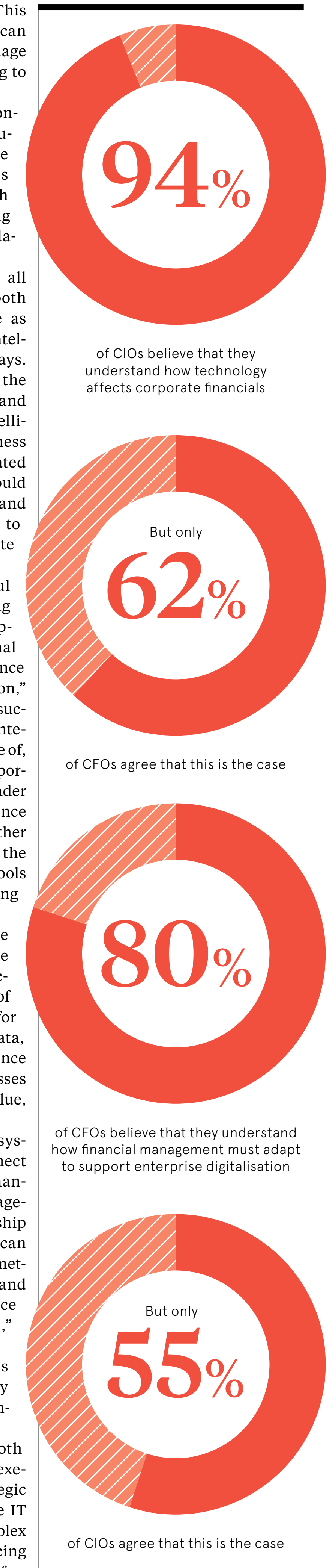
There are clear benefits for the finance team in working more closely with IT. Improving access to data, and the quality of that data, is a key opportunity for CFOs and CIOs. By rethinking data, technology and skills, finance chiefs can help their businesses to generate and preserve value, according to Wakeford.

"By investing in appropriate systems, CFOs can instantly connect to data from any enterprise management, human capital management or customer relationship management system, so they can unify their ESG and financial metrics. The result is a complete and up-to-date view of performance against all measurement pillars," he says.

Similarly, cloud-based systems offer agility and can quickly adapt to changes such as the enactment of new regulations.

Bodger says: "Ultimately, both functions exist to support the execution of the company's strategic goals. The CFO will look to the IT team to help solve often complex problems, both in customer-facing operations and in back-office information systems. The benefits of an agile business to the CFO ensure that opportunities are seized rather than lost because of a backlog of IT projects. As we have seen in recent years, those businesses that adapted quickly not only survived; they became market leaders."

If they can cooperate effectively, IT and finance have the power to create a new C-suite 'power couple' and set the foundations for a data-driven enterprise. Establishing a clearer line of sight between the offices of the CFO and the CIO will give the business access to better, more reliable data that will complement financial information and, ultimately, enable the finance chief to make better decisions.



Commercial feature

Business-travel recovery demands data-led budgeting

CFOs and finance teams need to embrace digital transformation to plan and manage business expenses more effectively in the coming downturn

As organisations adapt to the post-pandemic era, business travel is booming again. In the first six months of 2022, companies recorded 82 million miles of business travel expenses, almost double the amount recorded in the first half of 2019, according to data published by Webexpenses.

"There's been a huge bounce back in travel, so while the shape of working has changed, people's need to go and interact with people face to face hasn't," says the company's CEO, Adam Reynolds. "Video calls have been a huge benefit to certain industries, but they are not a replacement for business travel."

Often companies may still use video conferencing tools for short meetings or introductory calls but will revert to in-person meetings to close sales or for detail-rich conversations where a more personal communication style is better suited.

"Video calls are fine for 20 or 30 minutes, but, after that, your concentration starts to drift a little bit, so when you're doing something that might last a couple of hours, face-to-face is easier," says Reynolds.

Hybrid working has also brought a new layer of complexity to video conferencing. When some decision-makers are in a room together, and others are dialling in, conversations can quickly be thrown out of kilter.

While companies are eager to get back on the road to see clients, the tougher economic backdrop means organisations need to be more efficient with their business travel usage. That also requires CFOs and finance teams to budget and plan more effectively than they might have been able to in previous downturns without access to dynamic data.

"Historically, finance teams would have provided figures at the end of the month as a summary of what the business has done," Reynolds explains. "Now we're seeing dynamic finance teams provide an ongoing summary of their company's position and what that looks like in the future. If the pandemic taught us anything, it's that things can change at the drop of a hat, so you've got to have that dynamism in terms of understanding what's happening right now and how to react to that."

> **Now we're seeing dynamic finance teams provide an ongoing summary of their company's position and what that looks like in the future**

The pandemic also highlighted the need for CFOs and finance teams to embrace digitisation and dispense with legacy paper-led processes. "A lot of organisations were coming to us and saying they can't process their invoices because they're coming in manually, and we've got no one in the office," says Reynolds. "That's a very simple one we can practically solve because that process can be digitised."

Tech can also help organisations be more efficient by automating administrative tasks such as filing expenses that delay people from doing their jobs, a particularly pertinent concern during a downturn. A quarter of workers said they struggle to do their jobs effectively due to outdated processes and a lack of appropriate technology, according to Webexpenses' Covid-19 Technology Report.

"Anytime an organisation is asking someone to do something that's not helping them do their job is detracting from their potential to grow or survive," says Reynolds. "If you're sat at the end of the week for a couple of hours doing your expenses, that's not what the organisation really employs you to do."

Using expense management and invoice processing software like Webexpenses allows businesses to automate tasks and operate more efficiently while also using AI technology to proactively spot spending trends and patterns more effectively than someone manually combing through an Excel spreadsheet.

"We are a tool to help support the finance team, not drive the finance team," says Reynolds.

CFOs who are not embracing digital transformation are ultimately putting their organisations on the back foot at a time when they need to be agile and hyper-alert to shifts in the operating environment.

"Anyone that's not proactively providing information is not servicing the business as it needs," Reynolds continues. "What technology can allow you to do is free your employees and harness them to do their jobs."

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STRATEGY

Braced for impact: a challenging checklist

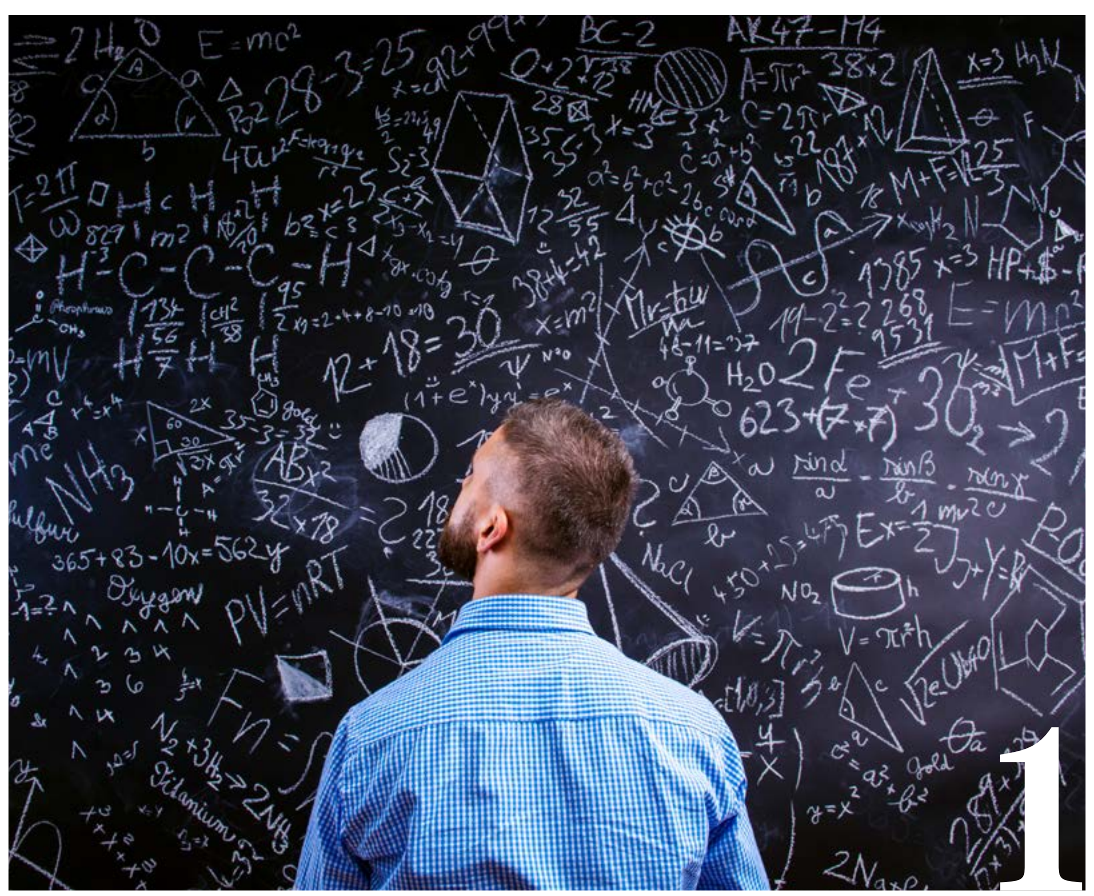
UK firms are facing turbulent times in the coming year. What key steps can their finance chiefs take to help them ride out the storm?

Josh Sims

Given the growing number of portents, it's hard to avoid the conclusion that 2023 will be a notably tough year for business. Wise CFOs will already have been responding according to the needs of their companies. But the tenor of these responses is markedly more defensive than it was this time last year. It's going to be more about cost reduction now.

That's small wonder. As Deloitte's autumn 2022 European CFO survey suggests, finance chiefs are feeling "an all-time high" in their financial and economic uncertainty, topping the previous peak of spring 2022. In the UK, 57% are pessimistic about the financial prospects for their companies and sectors. Only a bold 13% say that they are optimistic about what 2023 will bring them.

So far, so gloomy. "But there's still scope to be optimistic," says Knut Ronning, CFO of financial software specialist Xledger. "The business environment that will shape the coming year can create good opportunities too. It's a great time for acquisitions, for example. That's not to say the situation isn't demanding. You still have to make your value proposition very clear."



Preparing for the unexpected

An unprecedented confluence of inconclusive macroeconomic events – including political upheaval in Westminster, Russia's war on Ukraine, Covid-related supply chain disruptions, energy insecurity and climate change – makes 2023 exceptionally hard to read.

"In the past, CFOs would be dealing with some of these forces, but not all of them at once – and that means we're in uncharted territory," observes George Giannetsos, CFO at training company PeopleCert. "I think that means limiting attempts at understanding to two key questions: how deep will the recession be and how long will it last?"

Michael Taylor, economist and director at Coldwater Economics, adds: "The key task for CFOs, more than ever, will be to prepare for the unexpected. This interaction of complex systems is giving rise to non-linear results. That gives the year ahead a volatility that is incredibly hard to analyse. The only reasonable response is to prepare a company's finances accordingly."

Cut debt and keep tight control of cash flow, he recommends. That's perhaps all the more important given the often conflicting signals: significant interest rate rises and a recession, yet a tight labour market and, until recently, strong margins.

"Interest rates may come down, but then we may see huge inflation if the Ukraine situation worsens or complete deflation if the economy goes into depression," Taylor says. "The problem is, we have no idea."

Protecting margins and balance sheets

"The biggest challenge will be coping with this environment of high costs, rising interest rates (domestically and abroad) and contracting output, with the Bank of England predicting recession lasting until mid-2024," says Deloitte's chief UK economist, Ian Stewart.

Deloitte identifies cost reduction and building up cash reserves – "defensive balance sheet strategies" – as the top CFO priorities, as was the case in 2009 and 2020.

With cost increases baked into negotiations with suppliers – many of which will look for more frequent resetting of their terms – many markets will be more price-sensitive. CFOs will need to either limit cost increases by locking in longer-term supplier agreements, say, or cutting their unit costs. They could also revise prices upwards – trickier still given the inflationary situation.

This is likely to require a laser-like focus on cash flow or the good fortune to have high margins. The traditional tactic of keeping prices lower than the competition to win market share won't be easy. It's also going to mean playing hard ball with less dependable customers by limiting their credit or locking down more stringent terms of trade, while offering discounts to early payers.

Acquiring and retaining talent

A survey by Gartner Finance in September suggested that recruitment would be the biggest challenge for CFOs in 2023. The worsening economic conditions since then will have prompted many to scale back their hiring plans. But Jordan Relfe, CFO of property services company Lifeproven, says that doing so can "create uncertainty", which may have "quite the opposite to the intended effect in filtering through a company's culture, trust and brand in a way that can take years to re-establish, if at all."

He adds: "You need more openness and honesty with your team to garner the resilience that these challenging times require. That translates into the quality of work and, in turn, generates more work."

But even those who don't cut back face a shortage of labour because of the pandemic. Employers must still deal with trends such as the great resignation, a less mobile workforce and a shortage of skills. CFOs will have difficulties finding employees with their preferred traditional problem-solving and strategic business thinking skills, rather than those adept at technology.

Finance chiefs will need to reassess recruitment efforts to ensure that key roles are prioritised and to utilise talent already available in house. All of this increases the competition for good candidates and pushes up salaries, with inflation further complicating the situation.

Higher pay alone won't solve the problem, especially in the broader context of low employee morale. Employers will need to look at their employee value proposition afresh with a view to making it more human-centred and flexible. There will need to be greater opportunity for growth, with budgets allocated accordingly. This is particularly the case as diversity, equity and inclusion becomes a competitive differentiator between employers.

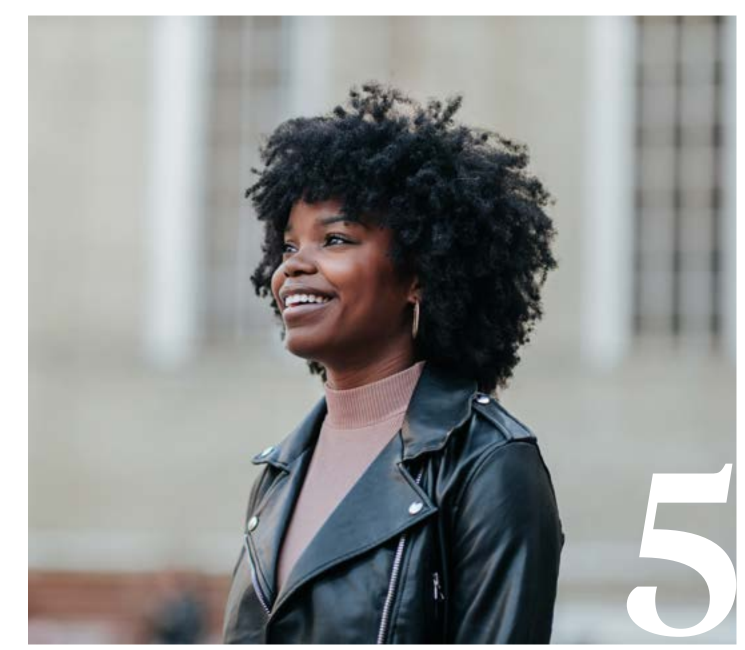
Raising capital

Rising interest rates and the impact on the cost of business borrowing and on the willingness of lenders to offer appealing terms can only encourage CFOs to reassess the need for alternative sources of finance. Indeed, according to Deloitte's survey, CFOs rate credit as more costly than at any time since 2010.

This is especially the case if borrowings are due to mature over the next three years, during which a doubling or even tripling of interest rates and a consequent outflow of cash is not impossible. Taking the long view and sounding out potential investors sooner rather than later would be a wise move, but so is developing the coldly realistic position of a readiness to give up full ownership of the business.

Keeping funds within the business by postponing planned dividend payments, for example, may be a necessity, as could achieving cost savings through improved energy efficiency. But it's also a signal of the company's longer-term stability.

Deleveraging is an option in this climate too, says Taylor, who adds: "This might even be the time to try to diversify your portfolio because the risks are so high in any one particular sector. The return on capital might not be great, but at least you would survive."



Finding focus

Limited resources will need to be utilised with better efficiency than ever. The question, Ronning suggests, is how to focus on your business's key drivers "to allow a pause on less critical projects".

This requires improved analysis and an actionable understanding of the business's processes. Investment in software is important, but so too is recruitment that enables senior managers to delegate more of their day-to-day tasks and concentrate on what's vital.

Dedicating resources to improving intelligence at this time may feel counterintuitive, given the general tendency to avoid committing large sums. But, as the recession of 2008-09 showed, such an investment can prepare a company for rapid growth once the economy recovers.

Better performance management information – obtained in part by strengthening partnerships between sales, products and supply chain managers – could prove crucial to improving customer relations and increasing profits. Enhancing data through a bolder approach to advanced digital tech, automation, machine learning and IT processes can also inform smarter and, often, faster decisions.

Commercial feature

Why profit-optimisation software could be the CFO's secret to success

Some of the world's biggest companies are turning to profit-optimisation software to generate dynamic and individualised pricing across all their different sales channels to win business and optimise profitability

Has it ever been more difficult to sell? Inflation, unpredictable supply chains and volatile stock markets have left CFOs with a headache as they try to keep costs down, maximise margins and optimise their pricing and offers to increase sales.

To achieve this in 2023, CFOs will need the ability to make decisions and take actions at speed to adapt to rapidly changing market conditions. They must embrace pricing innovation, quote automation and product configuration via profit-optimisation technology to win business ahead of competitors.

Yesterday's tools and solutions aren't enough to solve today's problems. Businesses that use manual spreadsheets to manage their pricing or create quotes are being left behind by competitors who are responding in seconds with individualised pricing and offers.

"The first quote often wins," says Grad Conn, chief marketing officer at profit-optimisation software leaders, PROS. "If you don't get a quote instantly or within minutes or hours, then you probably won't win that deal. And is the quote optimised well? Does it give good detail? Is it tailored well enough? Does that price take into account market conditions? Is the deal even profitable?"

PROS has become the best kept secret of CFOs at the world's leading companies. The PROS platform uses AI to manage pricing and costs in real time. AI makes sense of company data and integrates market factors so businesses can give customers individualised pricing immediately to increase conversion, margin and profitability.

"Most companies manage their pricing lists and catalogues maybe once a year," says Conn. "But if you use Amazon, for example, the price is dynamic and will change dozens of times depending on hundreds and even thousands of factors – availability, transaction history, shipping costs etc. If you search for something on Amazon now and go back five minutes later, the price will likely have changed." Optimising pricing by taking market factors into account provides the most optimal pricing in the market, and maximises margin and profit.

Another challenge businesses face today is the complexity of a huge catalogue. For businesses with thousands of SKUs, manually updating pricing in real time would require the dedicated mathematical genius of thousands of staff round the clock. Instead, AI seamlessly integrates with businesses' CRM and ERP solutions to make sense of the data and maximise the value of every single transaction instantly.

CFOs are also plagued by a slow sales approval process. Approvals for quotes often require agreement from multiple people in different departments, but by advising and agreeing on targets or floor pricing, quote approvals can easily be automated. PROS is helping many companies significantly reduce their quote times, including a global building-products manufacturer, who was able to reduce their quote times from over two days to an average of 30 minutes.

This combination of AI and automated processes has had a direct impact on the profitability of hundreds of companies. Data from 131 PROS customers revealed an average margin improvement of 200 basis points, up to a high of more than 500 basis points. Revenue also increased by an average of 8% and in some cases 100%. Average operational efficiency saw gains of 67% and often as high as 96%. For example, a Fortune 100 global IT company tapped into the power of PROS and achieved a 1.9% margin uplift, a 25% reduction in quote-cycle time and a 111% increase in quotes year-on-year.

But just as customers don't want to wait for the best price, CFOs don't want to wait for a return on investment. So, how long does it take to see those kinds of results with this approach to profit optimisation? A host of businesses have seen returns in the same quarter they integrated the software, while others have enjoyed returns within days. PROS recently helped a global energy company generate more than \$3m of incremental revenue in the first six months and more than \$8m in the first year.

As CFOs prepare for another year of volatility, fast and intelligent profit optimisation will be critical to maximise margins, revenue, growth and profitability. The most forward-thinking CFOs are swapping spreadsheets for profit-optimisation software as they undergo digital transformation driven by the buying behaviour and volatility of today's market. This approach could be the difference between thriving and surviving in 2023.

67%

the average operational efficiency and productivity gains of companies using the PROS platform

Find out how to drive profitable growth at www.pros.com

PROS

We've helped these organisations cut their energy waste and reduce costs.

John Lewis, York

OUTSTANDING RATING	REDUCTION IN CARBON EMISSIONS	PROJECT BUDGET
BREEAM	**35-40%**	**£15m**

Riverside Museum, Glasgow

ANNUAL SAVINGS	GAS SAVINGS	ELECTRICITY SAVINGS
£52.3k	**26%**	**18%**

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