

Uncertain Economy Provides Opportunity

The current environment is the perfect time to position your company for growth when the economy improves. And, CFOs are best positioned to lead this charge forward, say these advisors from Grant Thornton.

The state of the economy in the first part of 2008 seems to be growing bleaker. In a recent survey conducted by Sourcemedi, more than 66 percent of respondents said they believe the U.S. is already in a recession, while another 16 percent believe the country will slide into recession during the year. On top of general economic concerns, credit markets are in turmoil.

As a result of these two influences, companies are faced with a tightening credit market with less liquidity and often more expensive debt that is available only with more strings attached.

When viewed through a different lens, however, all of these factors present a greater opportunity and a necessity for Finance to play a bigger operational role for keeping the company focused on its core business issues. When faced with a down economy and limited access to financing, companies often focus on short-term issues rather than on executing longer-term strategies. So, what better time for CFOs and

Finance to step into the role of catalyst for innovation and operational improvement across the enterprise?

Consider that the myriad activities that occur in any business all flow through Finance in some manner, and as such, the CFO truly understands and influences what's going on within the company.

Grant Thornton has identified seven strategies that CFOs and finance professionals can employ to help their companies weather the downturn and, in some cases, put the organization in a leadership position when economic conditions improve.

Focus on Margins

When faced with the prospect of deteriorating performance, many companies' first reaction is to cut costs, while maintaining sales levels. However, improving margins through selective trimming of customers and/or products often produces a larger increase in net income than simply cost-cutting. Re-examining what they sell, who they sell to and what price they get will lead to better

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decision-making around sales efforts.

The downturn can be used as the catalyst to re-evaluate customer profitability and product profitability, especially in light of pricing pressures. This analysis provides a platform to re-examine direct and indirect spend, which can lead to significant margin improvement. Focusing on margins by reducing unprofitable sales may result in significant institutional resistance, but a clear analysis of the financial realities is one of the key ways the CFO can add value.

Follow the Money

Cost containment is another key area that requires the CFO's attention and focus on how to quickly identify areas that would provide the most substantial savings. Look no further than the financial statements and the trial balance. Cost containment and performance improvement opportunities pour from almost every line item. It's simply a matter of looking at the numbers, truly understanding



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the driving factors behind the numbers and devising solutions to address those factors.

For example, the trial balance can quickly reveal the greatest areas of spend in indirect and sales, general and administration (SG&A) costs. Finance should perform an assessment of the spend in high-dollar categories to better understand what their companies buy, from whom, at what quantity and at what cost.

They also need to thoroughly

understand the current market conditions for each category, as many suppliers may be willing to give a better deal, especially under current pressure to maintain *their* sales levels. As part of this process, CFOs need input from key members of the executive and operations management teams.

Companies are often surprised that there is a 5 percent to 20 percent savings to be had in certain areas, such as transportation, machine parts, maintenance and repair services, information technology products and services, office supplies, advertising and marketing, legal services, travel, temporary labor, utilities and telecommunications.

Many businesses are surprised at how much they can actually save if they do their due diligence. Some businesses have been using the same suppliers for so long that they assume they are getting the best deal, in terms of quality and price. That's just not always the case. Companies must continually explore opportunities, but unless Finance is driving it, it very likely will not happen.

Proactively Manage Supplier Relationships

In addition to the spend analysis described previously, the health of key suppliers should be monitored regularly, particularly with critical suppliers. CFOs need to be aware of any issue that might impact a supplier's ability to deliver essential goods and/or services.

Besides the recurring risks that suppliers face, economic uncertainty often leads to a range of financial distress — ranging from a supplier's inability to obtain its inputs all the way to a supplier's bankruptcy. Thus, besides monitoring the financial health of critical suppliers, Finance needs to ensure that alternative sources are lined up in case a current supplier needs a quick replacement. In some cases, a company might even consider offering incentives to suppliers, to ensure that suppliers are able to meet their needs.

Proactively Manage Customer Relationships

A key point here is to make sure that sales efforts are being targeted at the right customers and that economic stress doesn't impede collections. The CFO should be certain that up-to-date credit checks and financial analysis have been performed on all significant customers. Many companies wait too long to understand the financial health of the customer and, should a problem exist, they often are unable to collect.

The CFO needs to understand each customer's position as well as the risks that his/her company is taking doing business with each customer. Most companies have processes in place to run credit checks and obtain financial information on new customers. Yet many are surprised when long-time customers can't pay, and by the discomfort of requesting a credit check or updated financial information. CFOs cannot afford to take for granted that any customer — longstanding or new — is able to pay its bills in a down-trending economy.

Finance should also monitor customer account agings. As customers become stressed, they often stretch suppliers so that the vendor ends up with large uncollectible accounts. Even worse, if a customer goes bankrupt, not only is it likely that receivables will go uncollected; there is also the risk that a company will have to give back certain receipts from the 90 days preceding the bankruptcy.

Consider Tax Opportunities

This is an area in which CFOs should have lots of visibility. Companies should be reviewing their tax accounting methods to determine if any tax exposure or opportunity exists. It is more important than ever now for taxpayers to identify potential Internal Revenue Service (IRS) audit risk areas. Being proactive in connection with risk issues, by making appropriate accounting method changes, can protect a company against the imposition of interest and penalties.

Additionally, a thorough account-

ing method review can uncover a host of opportunities that could improve cash flow, either by deferring revenue recognition or accelerating deductions for tax purposes. Many accounting method changes are easy to request.

Key questions a CFO should be asking to make sure the company is taking advantage of tax benefits include: Are you confident that you have taken full advantage of Treasury regulations and IRS procedures that allow the deferral of revenue (and the acceleration of deductions)? Have you conducted a fixed-asset review? (Is property being depreciated using the proper recovery period and method for tax purposes?) Have deductible repair costs been improperly capitalized for tax purposes? If you are unsure about answers to these questions, there is likely room for tax savings.

Seek Investment Opportunities

Take advantage of current market conditions to change your company's competitive position. Many are holding every dollar close to the vest, when now is really a perfect opportunity to be investing in the future. With current market valuations, there may be a chance to acquire key competitors for bargain prices or to add complementary businesses. Investments in IT could be appealing right now, based on attractive pricing due to reduced demand.

These investments could also help increase the efficiency and cost effectiveness of finance and business processes. Additionally, valuable employees may have been freed up by underperforming companies, and you may be able to hire some strong talent that wasn't previously available. Also, suppliers of capital equipment may offer price concessions that were not available. And of course, real estate is an area where advantageous deals might be found currently.

The need for robust financial analysis on capital investments has never been more important. CFOs need to ensure they utilize rigorous return on investment analyses and

work closely with their executive management team regarding investment priorities and related strategies.

Transform Finance, Transform the Company

Much progress was made in the 1990s to shift the role, or at least the perception, of Finance from that of scorekeeper to that of business partner. The popularity of shared services and enterprise resource planning (ERP) implementations created significant efficiencies. Then there was a massive shift in focus to internal controls that, while providing many benefits to companies, reinforced the perception of Finance as a command-and-control organization.

Now, with internal controls solidly in place and understood by the organization, Finance is better positioned than ever to lead the organization through good times and bad. And, while a complete transformation process could take months, a few simple steps can push the process.

First, think lean and be innovative. CFOs can assess business processes in a collaborative manner, both within the Finance organization and across the enterprise, and the same concepts that apply to manufacturing apply to finance.

Break down your processes into simple activities and eliminate, consolidate or change any activities that are excessively manual or non-value-added. For example, look at invoice processing activities within your procure-to-pay process. How many approvals are required, and are they manual or automated? Consider consolidating or outsourcing this activity if it has not been done already, or shift invoice entry to suppliers.

Next, look at the value of the reports you are providing to the rest of the organization. Do they contain information to proactively make decisions, or are they full of useless information delivered after the close is completed? Go lean on reports as you did with processes and eliminate, consolidate and standardize.

Third, put your budget in the recycling bin. Even in a stable economy,

chances are that the budget would have been irrelevant the day it was finalized. Why spend so much time on a political nightmare that often drives poor decision-making? Start your company down the process of a rolling 15- or 18-month forecast. Implemented and managed in the right way, it will help your company plan better and react faster to changing market conditions — and it will be much less painful. You can't make it happen overnight, but there is no better time than during down economy to position the company for growth going forward.

Implementing the strategies above will not only help CFOs weather the economic downturn and put their companies in an enhanced competitive position when market conditions improve. These changes will also plant the seeds for positive changes throughout the entire organization, while placing the CFO in the role of the star quarterback who is directing the game plan.

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TAKEAWAYS

>> One recent survey indicates more than 66 percent of respondents said they believe the U.S. is in a recession, and another 16 percent believe recession is imminent this year. Also, with credit markets in turmoil, companies are facing tightening credit markets with less liquidity and more expensive debt, with more strings attached.

>> The current environment creates an opportunity for CFOs and Finance to step into the role of catalyst for innovation and operational improvement.

>> CFOs should focus on key areas: margins, spend and receivables, supplier and customer relationships, tax and investment opportunities and transforming the company to position it to take advantage of the economy — when it improves.



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