GUIDE

Navigating turbulent economic times: A CFO's perspective

How to safeguard your business's future amidst financial uncertainty

What can lead to challenging economic conditions in the UK?

In terms of recessions, they are often defined as two consecutive quarters of GDP (Gross Domestic Product) decline. **This can be triggered by several things, such as a banking crisis, a stock market crash, or a housing market crash**. These types of events seriously reduce the liquidity in a country's economy.

There are unpredictable events (such as natural disasters) to consider too, which can disrupt supply chains and affect the way businesses interact with one another. And activity among central banks can also have an impact. If interest rates have increased drastically, this can lead to less borrowing, which ultimately reduces economic activity and lowers the demand for goods and services.

With regards to a cost-of-living crisis, **a big contributor towards this is inflation**. When inflation occurs, the value of money is essentially degraded, leading to lower purchasing power for consumers. If wages don't match this inflation, workers can struggle to keep up with rising costs. And this inevitably leads to a cost-of-doing-business crisis too, as companies aren't immune from the higher bills being faced.

The UK economy has been affected by a number of events over many years, including Brexit, the pandemic, and the war in Ukraine. When you add all these factors together, it's almost the perfect storm for unfavourable economic conditions. However, even if the outlook seems bleak, there are always actions finance and procurement teams can take to protect their respective businesses.

How does a poor economic climate affect businesses?

A turbulent economy has a range of effects on organisations. For a start, **it can make it difficult to plan or strategize**, as the future becomes more uncertain. Companies will be busy simply trying to survive, so strategic growth will likely be off the table. They'll also be under greater pressure to differentiate themselves, as competition can be fierce during desperate times.

There are often drastic fluctuations when trading within a volatile market, making business operations more unstable (as there is less consistency or predictability around monthly orders, revenue, and outgoings). On top of this, **organisations will likely see lower demand for their goods and services**, as the customers/businesses they serve will have less disposable income.

Companies will also have higher running costs, as suppliers, landlords, and energy providers will be charging higher rates when inflation is high. This makes it more difficult to maintain offices and other premises.

When it comes to finance and procurement teams specifically, they'll be under increased pressure, as they are the ones tasked with improving the business's financial picture. They'll likely have to work longer hours to achieve this and will possibly have a smaller budget/fewer resources when completing their daily tasks. **They may have to take on more responsibilities** too if the workforce has been reduced.

Our annual Finance Trends Report highlighted that **82% of finance professionals are worried about economic conditions impacting their company's profitability over the next 12 months. And only 33% believe their organisation's leadership are prepared for future crises**. This demonstrates the need for a strong CFO to breed confidence within finance and procurement teams during turbulent times.

Why is the CFO so important when navigating turbulent times?

The CFO's role has changed significantly over the past few years, in a way that has made them even more crucial during an economic crisis. **They're now key strategic advisors within organisations**. CEOs lean on their CFO heavily when making high-level business decisions. This trend perhaps started during the pandemic when financial insights were critical for ensuring survival. The same is necessary during other economic crises too.

Finance and procurement teams generate financial performance reports, but these reports ultimately end up in the hands of the CFO. It's up to the CFO to communicate this financial data to the board, to ensure it is presented in a comprehensible manner, and to be a key driver of actions that confront major challenges. They must also be confident these reports are accurate and current, by implementing effective processes within the finance function.

The CFO is also the ultimate authority when it comes to financial compliance. They need to be sure everyone in the department is operating in line with the latest regulations (so that penalties can be avoided). **Given their position at the top, they are uniquely positioned to spot strengths, weaknesses, opportunities, and threats in relation to financial proceedings.**

Communication is an essential part of their role, as they have the power bring departments together and share transformative insights.

How to protect your business during uncertain economic times

Our top tips:

1. Gain a true understanding of market conditions

The first consideration is for finance and procurement teams to stay up to date with the latest market conditions. This is especially important during turbulent times, as the market will likely be subject to sudden change. By having awareness around these developments, they can formulate an adequate response (which may involve pivoting to either be more cautious or bold).

They should monitor macroeconomic indicators like GDP, inflation, and interest rates, to determine what impact these will have on the company. Additionally, it's wise to monitor how your specific sector is being affected, by looking at social media, industry publications, or related outlets. Staying in frequent contact with industry experts, customers, suppliers, and partners is another way to gauge the environment.

It's also smart to **assess the response of competitors**, as their path may be the one you need to take too. It's up to finance leaders to ensure employees are given the necessary time and resources to keep on top of these market indicators.

2. Manage spend effectively

CFOs must prioritise spend management if they are to reduce costs during financial instability. When this is done effectively, they can free up resources to weather the economic storm and better position themselves for recovery. Part of this involves **prioritising critical expenditures and avoiding unnecessary outgoings** where possible.

Finance and procurement teams should **conduct a thorough spend analysis to identify exactly where unnecessary spend is occurring**. Organisations can also look to **negotiate better pricing terms with suppliers**, optimise their inventory management, boost general efficiency, and dedicate more of their energy on activities that generate a lot of revenue.

The best way to streamline these tasks is to harness the power of technologies such as Clou-based spend management software. These tools make it easier to enforce tighter internal policies, which are essential for eradicating maverick spend and adhering to budgets.

Our top tips:

3. Avoid cost reduction mistakes

It can be tempting for finance managers to cut costs in any way possible during challenging circumstances. But some cost-cutting measures will do more harm than good in the long run. This is why they must be strategic in the approach they take, **eliminating waste and boosting efficiencies rather than cutting costs in key areas**.

A common cost reduction mistake businesses make is cutting corners from an operational perspective. This often leads to a lower quality of output, which creates poor outcomes for both internal and external stakeholders (especially customers). Another mistake is focusing on short-term financial goals that aren't sustainable. Many will look to reduce their marketing spend too, but this will negatively impact their long-term sales pipeline.

Downsizing the workforce is often seen as a quick way to cut costs. But **organisations need all the expertise, creativity, and talent they can get when trying to solve complex financial problems**, so discarding their best talent in counterintuitive. Many businesses will also put any kind of innovation on hold to save money. But technology can hold the key to greater efficiency and cost-effectiveness in the finance/procurement realm.

Our top tips:

4. Maximise cash flow

Cash flow management is one of the most important responsibilities for finance departments during an economic downturn. Many organisations will put some cash aside for such a rainy day. Assets aren't enough though. Bills are paid for with liquid cash, so if this isn't available operations will come to a halt. Businesses will inevitably face reduced demand during economic turbulence, so they must find ways to counteract the associated shortfalls if they don't have savings.

For a start, finance and procurement teams can look to **optimise their receivable process, shortening the sales process and speeding up the way they collect money**. They can do this by automating invoicing, creating incentives for early payments, and putting stricter measures in place when payments are overdue. **Finance leaders can also look to source new lines of credit to boost cash flow**. This could involve finding better financing options from lenders or staying on the lookout for helpful government schemes.

Diversifying your product offerings is another smart move to make. Being reliant on a single product/service can be a very risky strategy. By diversifying you can widen your customer base while generating additional revenue streams too.

5. Report dynamically

Real time visibility of financial data is a must for CFOs if they are to make informed decisions. Decisions carry more weight when times are tough, so they must be made quickly and confidently. Dynamic reporting allows businesses to be more agile in this regard, which is key for survival when the economic landscape is changing rapidly.

Thankfully, modern finance and procurement teams are starting to embrace new agile methods. One such approach is continuous accounting. This strategy ensures they **analyse financial performance every day**, rather than waiting for month-end to look back on outdated information. Forward-facing finance is another philosophy that is highly beneficial. With this, **accurate forecasts/projections are prioritised**, rather than being a backward-facing function.

To implement these approaches, companies should consider **automating the way they collect, store, and present data**. Cloud-based software is a powerful tool for collating/accessing data in real time, as this technology allows employees to complete their work regardless of the time or their location.

Our top tips:

6. Focus on data integrity

Data is quite simply king today. But some organisations may be focused on the quantity of data they have rather than the quality of it. CEOs and CFOs will be informed by financial data when strategizing. So, if their business's data integrity is poor, they'll likely make some misguided and costly decisions.

To ensure best practices are upheld around data integrity, business leaders should **arrange regular data management training for employees**. Internal controls should also be put in place, such as data validation between colleagues and layers of access. And it's important to **have a clear audit trail too**, to maintain visibility around actions taken.

Automated data entry can improve data integrity, as it eradicates the human error that might occur when information is inputted manually. Some companies will struggle with multiple versions of the truth due to disparate systems. **Cloud technology facilitates seamless cohesion/ integration across departments**. This means financial datasets become more consistent and complete.

7. Plan for multiple scenarios

Scenario planning becomes more important than ever during a crisis. If it's done effectively, it enables finance and procurement teams to prepare for a whole host of potentialities in a rapidly changing environment. This means they can move quickly whenever one of those scenarios comes to pass.

They should think about key financial metrics and **map out the effects of low/high performance in relation to these metrics**. So, for example, with aspects like customer behaviour, supply chain stability, and product demand, they can project what the outcomes are likely to be when these fluctuate one way or the other. **Contingency plans can then be developed for each scenario accordingly**.

These plans should be very detailed, **outlining specific actions to be taken, the timeframes involved, and the individuals who will be accountable for each task**. This ensures plans can be actioned at pace as there is no ambiguity around how to respond to a circumstance. If necessary, key stakeholders can be forewarned of these contingency plans to further minimise confusion.

Our top tips:

8. Prioritise risk management

Risk management is heavily related to scenario planning, but it has a deeper focus on minimising the damage of negative outcomes (rather than predicting the impact of both positive and negative occurrences). Risk management allows CFOs to identify financial threats that could damage the overall organisation. They must have effective ways to detect these looming dangers so they can pivot quickly.

Effective governance is a core component of risk management. **Finance leaders must ensure their teams are operating/reporting in line with the latest legislations**. Failure to do so can lead to heavy fines (which are particularly damaging during a cost-of-doing-business crisis). When the economy is suffering, the government may introduce many finance-related regulations, so businesses must find a way to stay on top of this.

Technology can be a big help with governance. More often than not, Cloud-based software solutions will incorporate legislative changes as part of their ongoing updates. Such systems make it easier for finance managers to root out non-compliant/fraudulent behaviour too, as there is far greater clarity around how people are working.

9. Streamline processes

The automation of manual tasks is a proven way to streamline operations. Not only does this save staff time, but it also allows them to focus their attention on more value-adding tasks. This has the added benefit of boosting employee satisfaction, as they're no longer bogged down with repetitive admin.

When finance and procurement teams operate inefficiently, they're using energy and resources unnecessarily, which inevitably leads to higher costs. It's wasteful from an environmental perspective too. A lack of sustainability can lead to reduced income, as customers today want to work with green organisations.

A scattergun approach can also create confusion within finance departments. A lack of order in relation to processes is ultimately going to harm productivity. **Standardisation goes a long way to solving this problem**. When tasks such as budgeting, forecasting, data analysis, and supplier management are standardised within a unified digital platform, the number of steps involved can be cut down and consolidation is no longer needed.

Our top tips:

10. Promote a culture of agility

Not only is it important to for CFOs to implement agile processes, but they must also be sure to breed a culture of adaptability within their workforce too. If there are many people who are averse to change in the organisation, this can be extremely limiting during periods of economic turbulence.

All leaders within the business must **demonstrate an openness to innovation via their actions and messaging**, so that others follow in their footsteps. This helps to get all departments to buy into the ethos too. If it was only the finance and procurement teams possessing this trait, they'd likely encounter resistance when trying to progress projects with other functions.

There should be a regular analysis of the methods being utilised across the company, so that improvement can be an ongoing outcome. The recruitment process heavily influences the culture that prevails too. **When hiring, finance managers should prioritise individuals who aren't afraid to challenge existing ideas/structures**. And they should **create an environment of continuous learning**, giving employees dedicated time to master new systems and research emerging trends.

Our top tips:

11. Break down communication barriers

It's particularly important during a crisis for there to be open communication channels across all departments. As a result, data can be exchanged seamlessly, and issues can be escalated with ease when urgent action must be taken. It makes collaboration easier too and allows for negative myths/rumours to be extinguished during tense times.

It can be very unhelpful when organisations are broken up into disconnected silos. When different teams are working within their own bubbles, this inevitably worsens productivity and harmony, with nobody pulling in the same direction. Whereas when finance and procurement teams can collaborate with other functions, they have access to the bigger financial picture and can contribute to wider business objectives.

Managers should ensure **instant communication tools are in place** so the whole workforce can stay connected. Ideally, they should **use some form of productivity tool too**, such as an overarching platform that integrates all their systems. This level of integration ensures everyone is singing from the same hymn sheet.

12. Incorporate the latest innovations

CFOs should leverage technology to improve financial reporting. Digital solutions can compile vast amounts of data instantly. This task would otherwise require a huge time/energy investment from employees. Technology can play a part in spotting patterns or flagging issues too, which may have been missed with the naked eye. Business decisions are ultimately driven by data insights, and during an economic downturn all decisions must be near-perfect. Automation boosts data accuracy by virtually eliminating human error.

The likes of AI, Machine Learning, and the Blockchain are changing what is possible from an analysis perspective for the spend management and accounting functions. And software solutions within the finance realm have enhanced the monitoring of key metrics, with dashboards that go into granular detail. Instant visibility of these metrics allows CFOs to tailor their response accordingly when an opportunity presents itself.

When businesses **ditch outdated traditional methods and replace them with Cloud-based systems**, they suddenly have a far more cost-effective operation. On-premise systems require significant ongoing financial outlays and in-house expertise simply to maintain/protect them. With the Cloud, this is all outsourced to the provider as part of the service. Cloud technology is accessed remotely, meaning financial data isn't just more secure, but it can be viewed quickly in a time-sensitive scenario too.

Next Steps

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- We hold a reputable track record of supporting organisations in their digital transformation journey via our PACE programme
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It is possible for finance and procurement teams to embrace the digital era confidently - even if you have critical legacy applications to integrate. The Cloud can help deliver positive changes now, and in the future.

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Advanced Financials

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Find out more

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Find out more

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Find out more

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Find out more

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Our experts can help to tailor your route to the future, so that your Cloud migration is seamless. This way you can streamline and secure your work without distracting from it.

What are the benefits of the PACE programme?

Pace yourself

Our Start, Flex, and Ultra plans help to simplify the jump from on-premise to Cloud services. Our standardised templates help to make the migration as smooth as possible. Additionally, customised options are available for organisations that request them.

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With our onboarding, we'll help to get you up and running as fast as possible with your new Cloud technology. Our Customer Success Managers provide valuable reminders, as well as insights around best practices that boost productivity, efficiency, and financial health.

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Structure your payments in a more manageable way, with complete transparency and no hidden costs. Updates, maintenance, and support are all included with your service. On-premise systems require onsite infrastructure and maintenance, which can be costly. With our Cloud technology, all your upgrades and fixes are managed by us, so you can focus on what you do best.

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Hopefully this was a helpful guide for navigating turbulent economic times. If you'd like to find out more about the ways our solutions can help your business (both now and in the future), be sure to get in touch today.

Get in touch

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