Why CFOs Need to Take Immediate Action In Order to Survive the Upcoming Recession

THE FINANCE MARKET RESEARCH

Introduction

The wave of troubling economic news only seems to be getting worse. Inflation isn't subsiding, while the Fed's interest rate hikes are causing loans and mortgages to increase. The price of fuel is skyrocketing, and rent is through the roof. Investors are cautious about funding due to falling valuations and many companies have begun the dreaded process of layoffs. To top it all off, the stock market has officially entered bear market territory for the first time since March, 2020. It's no surprise that many economists are predicting a recession on the horizon.

As a result, companies quickly started making the switch from growth at any cost to cutting expenses and efficient growth. This started a chain reaction of decisions that may or may not be best for the company in the long run. This report will give expert advice on common actions taken during a market downturn, some of their mistakes, and tips for coming out of the inevitable recession even stronger.

Part 1: Reducing Expenses

1 Cutting Headcount

After conducting a simple P&L report, many companies realize they are in financial trouble and begin by cutting headcount. Employees are usually the biggest and most glaring expense in an organization and therefore are the first to go when the market takes a downturn.

Expert tip: *Efficiency is key!*
CFOs need to analyze how each department and employee contributes to the company. This is known as the law of diminishing marginal returns and finding that perfect sweet spot of employee efficiency is the key to maximizing revenue. For example, if a sales team of 16 people is reduced to 15, would the department be able to handle the same workload? If it's in marketing, what effect does that person have on generating new leads and the cost of acquisition. As an alternative option, can that person be replaced by a freelancer or agency?

2 Evaluating Salaries

Reducing expenses isn't only about cutting headcount.

- One way to cut down on expenses is by creating higher targets and goals for the team. This will lead to paying less bonuses while simultaneously getting more out of the same resources.

- In addition, there is plenty of room for cutting costs by evaluating salaries and doing an ROI analysis as well. This works both for individual contributors as well as in a team setting with other employees who do the same work. For example, in a team of 15 Sales Development Representatives, where one of them is making 20% more than the rest of the team, management needs to understand why. Is that individual contributing 20% more, or maybe it was a salary negotiating mistake by management. If they are indeed better than the rest, maybe they should get promoted or rather raise the bar higher for the rest of the team. If not, maybe it's a good time to consider removing those who are costing more and not producing more in order to get a better ROI from employees.

Expert Tip:
On the flip side, many CFO surveys show that the recession is expected to be over by the second half of 2023, with the economy making a recovery by then. Therefore it's important to understand the long term implications of cutting headcount in an expected "short" recession. Having to rehire employees less than a year after layoffs can be an expensive and difficult process in today's employee market, and can quickly erase any money that was saved. Lastly, CFOs need to consider the implications on culture and team morale once layoffs are introduced.

3 Reducing Subscription Costs

After evaluating, and potentially going through with reducing headcount, companies will look for other ways to cut costs. This usually pans out by focusing on recurring costs such as software subscriptions. Here are 3 ways to greatly reduce subscription costs through simple checks and evaluations:

- **Tip 1: Unused licenses**
  The first thing to focus on is reevaluating systems that the company doesn't use. There can be forgotten subscriptions or ones that aren't used to their full potential. For example, if the VP of Sales bought a software tool for VOIP calls which included 20 subscriptions for all of the Account Executives in the company, a quick check by the CFO can help the company realize that only 12 Account Executives are actually using the service. In addition, employees who left the company and still have active accounts (such as Slack) is another common occurrence where monthly payments are being burned. Identifying systems that the company no longer uses in any number of ways can save thousands of dollars per month.

- **Tip 2: Reducing packages**
  Oftentimes, when a company takes on a new software service, they think that using the premium package will give them the most out of the service. For example, an organization that uses Monday.com and started off with the Pro Package, can reevaluate their usage and realize that in reality they can accomplish everything they need with the Standard Package. A small downgrade like this can add up to a hefty sum when there are dozens or hundreds of users per month.

- **Tip 3: Renegotiate contracts**
  A quick look into the company's existing contracts will give the CFO a good idea of what each software deal is. Now is a good time for rethinking or renegotiating contract prices, especially for those that are expiring in the near future. For example, if the company's accounting software contract with Freshbooks is expiring at the end of the month, it might be a good idea to research competitor prices and use that for negotiation. In times like these, many companies are willing to negotiate and lower prices, and you might even find a cheaper software that fits better for the organization

- **Tip 4: Duplicate Softwares**
  Without spend management, many companies end up with duplicate software subscriptions- different companies that provide the same service. For example, a company might use both Lusha and ZoomInfo for databases of prospective clients, but in reality they both do the same thing. Canceling one of them will both save money and keep the team more organized and efficient.

Expert Tip:
The integration report function in FP&A software solutions such as Datarails or Anaplan, allows users to download a comprehensive list with all of the softwares that your company uses along with details such as number of users, payments, and package options. Having them all in one report will help the finance team make better decisions about each one.

4 Using One Company's Product Packages

Companies like employing "the best of breed" technique when it comes to software solutions by picking and choosing the best products in each category. While Slack might be the organization's communication software of choice, Zoom the video meeting solution, and Workday the best HR solution, a company can save a lot of money by sticking with the same parent company for all of their software services.

[Microsoft](#) has Office, Teams, and HR Dynamics, while [Google](#) has Meet and Chat. If your organization already has Microsoft Suite or Google Workspace (G Suite), then the organization can get Microsoft Teams or Google Meet and Chat for free as part of the package. Using the full list of services from one company can cut down tremendously on costs and keep everything in one system- even if they aren't all the employees' solutions of choice.

Expert Tip: ***Control spending!***
Today, many department managers can spend without an official approval process, meaning misunderstandings and inefficient spending occurs frequently. Softwares such as Tipalti and Mesh Payments have spend management and approval flow functions, making the process smoother and more controlled. In addition, they integrate with many FP&A software solutions which helps create up to date planning and forecasting scenarios to better understand the long term implications of additional spending actions.

Part 2: Being Proactive- What Can you do to Scenario Plan?

1 **One department that works extra hard during market downturns is the finance department.** Everything that happens both inside the company and in the general market influences the organization one way or another. This is especially true when companies are trying to cut down on costs, as there are always repercussions involved.

Expert Tip:
In the current market volatility, it isn't a good idea to sign on yearly or multi year deals for a financial planning software. Customer sentiment and markets change overnight, and organizations' needs and budgets change just as quickly. While many companies do annual subscriptions, it is best to switch the focus on ones that provide flexible and monthly contracts. Accounting software Tipalti is a great example of a monthly payment service in the automated payments sector, while Datarails is one of the only FP&A solution softwares with a monthly subscription and flexible contracts.

2 **Canceling subscriptions and reducing headcount is not the only way to prepare for the incoming recession.** There are also proactive ways to prepare for all possible scenarios and increase company efficiency. Companies that implement FP&A software solutions will be able to conduct scenario planning and make the best decisions possible for the organization. With all of the extra work needed to analyze and plan in a time period of uncertainty with a recession on the horizon, organizations need more financial automation in order to fill the gap. Software solutions such as Datarails and Anaplan, are significantly cheaper than bringing on another finance expert to give that boost, and they will also provide far more value in the long run through forecasting and scenario planning.

Click here for the top 10 FP&A software solutions on the market today

Expert Tip:
The biggest example of "automation being cheaper than employees" is Microsoft. Since the 2008 Great Recession, their revenue has nearly tripled but they have kept their finance department's headcount flat, simply by investing in financial technologies and automation. This has made their finance department far more professional and accurate, all while saving a huge amount of money on salaries.

3 **In order to be prepared for future possibilities and their implications on the market, CFOs need to analyze all different kinds of scenarios and how they will affect the company's revenue**. Finance teams often find themselves with a significant larger workload during volatile times, and that's in addition to the regular day to day budgeting and month end close that is already a full time job. In times like these, other department leaders need to step up and contribute by helping the finance team identify and understand where the weak points are and how to improve them. All of the increased contributions from other employees and analysis of the potential outcomes and scenarios will be far easier to conduct with an FP&A software solution.

Expert Tip: *Be proactive fast!*
While most FP&A software tools take a long time to implement (4-6 months), one solution, Datarails, has a much shorter implementation time of 1-2 weeks for initial output and only 6-12 weeks for full implementation. This is because it is one of the only Excel based financial planning softwares on the market, meaning that anyone who knows Excel can contribute and understand the system in minimal time.

Conclusion

Many organizations jump to cash saving conclusions in times like these, but there needs to be a strategy involved as well. There are many ways to save money on subscription costs and other monthly expenses that contribute greatly to cashburn. In addition, using FP&A tools will help companies understand the long term implications and forecasts that each action will cause.

CFO checklist for immediate action:

- Reduce headcount when needed- but only after a thorough understanding of all of the implications involved.
- Cut down on subscription costs. This can be canceling unused licenses, renegotiating contacts, or using one company's solutions for all your needs.
- Proactive scenario planning. Using FP&A software solutions will help the company gain better insights into each action's implications and how it will negatively or positively affect the company.