

## The new economic environment

### A CFO perspective

*There's no denying these are turbulent economic times. Successful enterprises will focus on value, exploit opportunities and act with speed. CFOs are well-positioned to help create a more intelligent, dynamic and integrated enterprise to navigate the new economic environment. Many CFOs will have an opportunity to have a strong hand with their enterprises in shaping operational decisions and strategic direction.*

### The emergence of a new economic environment

Initially confined to a financial crisis, the U.S. economy officially sank into a recession last December and is part of broader fundamental economic distress globally.<sup>1</sup> Even before experts officially recognized the recession, 62 percent of CFOs and senior executives said they were pessimistic or very pessimistic in their outlook for the U.S. economy and 57 percent believed it was already in recession.<sup>2</sup>

Companies are placing unprecedented constraints on access to credit and capital. Meanwhile, falling demand and increased price sensitivity can be expected as consumers and enterprises cut back. In this new environment, disruptions are likely in supply chains and arrangements with partners and customers. As firms fail or are sold overnight, industries such as banking, financial markets and automotive are quickly restructuring.

Yet, despite the turbulent times, Warren Buffett continues to believe in the long-term prosperity of sound companies and predicts most will be setting record profits over the longer term.<sup>3</sup> Those that survive and thrive will focus on maintaining a strong franchise, sticking to fundamentals and limiting exposure to unnecessary risk. At the heart of this new economic environment is a need for greater transparency to manage short-term financial matters, review and validate or reset company strategy, reprioritize projects/investments, interact with the board to assure priorities are correct and take decisive actions.

### Leading in turbulent times

Cash flow is central to survival and strategic flexibility. As a result, even more power now shifts to CFOs as they become key players, even leaders, in major decisions. They have an opportunity to lead a survival plan for the corporation that identifies opportunities to restructure, preserve capital and streamline operations, as well as tap into new growth opportunities. The survival plan should:

- Focus on value
- Exploit opportunities
- Act with speed.

A *focus on value* means conserving capital and cutting expenses where little value is being created, as well as redeploying capital to activities, products, markets that generate growth, margins and true differentiation. It means doing more with less, focusing on the core of the franchise and realigning relationships to tightly manage volatility and risk. In reaction to changing market dynamics, opportunities may also exist to structurally reduce expenses and create value. CFOs should ask couple key questions to help the enterprise *focus on value*.

How do I do more with less or be more effective with the same within Finance and across the organization? Have you:

- Structured an enterprise-wide approach to profit improvement?
- Driven a structured approach to increasing efficiency and enhancing effectiveness of Finance?
- Reduced your structural complexity (processes, systems)?

How do I rethink where capital is deployed? Have you:

- Created multi-dimensional views of segment, service and product profitability?
- Inspected all significant business cases for rigor, payback, return and risk?
- Eliminated proposals that do not fit the survival plan?
- Re-engineered cash and investment management?

Companies also need to position themselves to *exploit opportunities*. The potential severity of the downturn will create opportunities to gain share and build key capabilities. Winners will have a vision for what moves could reshape their industry to their advantage. CFOs should seek to leverage financial and nonfinancial data to generate timely, relevant insights.

Have you:

- Driven fact-based perspective to manage the business?
- Interwoven market intelligence with valuable customer and financial insights?
- Monitored financial and operational key performance indicators and key risk indicators?

To win, companies will need to *act with speed*. Winners will be the fast and agile. Is your financial management and information model scalable and flexible enough to navigate ever increasing change and provide the necessary control?

Have you:

- Set process and data standards to create “financial truth”?
- Optimized the Finance operating model including Centers of Excellence, shared services, outsourcing?
- Put in place global process owners to drive standards and best practices?

The urgency of the new economic environment provides a unique opportunity to overcome organizational inertia and barriers to strategic transformations to create more intelligent, dynamic and integrated enterprises.

## Conclusion

Predicting the economic future is a difficult business. But CFOs have an opportunity to enhance their role as a trusted advisor, help protect the enterprise's franchise, improve their enterprise response to turbulent times and help the enterprise reprioritize.

## How can IBM help?

- **Intelligent Cost Reduction:** Help to identify opportunities to restructure, preserve capital as well as streamline operations
- **Finance Transformation:** Help to define your Finance strategy and operations improvements to improve the transparency of your data
- **Business Performance Management:** Help to leverage your information assets to support and enhance business planning and performance
- **Business Risk Management:** Help to integrate risk and compliance management into the overall business strategy and execution to assess, manage and optimize business risks
- **Finance Enterprise Applications:** Help to design, architect, select, implement, integrate, manage and realize the benefits of technology solutions across the enterprise

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