



# CONSERO

Financial clarity and efficiency made easy

## A Recession Playbook for Managing Finances and Operations

Today's economic environment presents CFOs with more uncertainty than many have ever faced in their careers. This makes it critical to devise a playbook for how your organization will move forward during these uncertain times.

Consero recently hosted a virtual CFO Roundtable in which several CFOs discussed how they are doing this. Participating in the panel were John Araki, CFO for RecoveryOne, a digital health company; Craig Fryar, COO for BankingON, a digital mobile banking firm; and Raj Lakhani, CFO for CORE Business Technologies, a payment solution and revenue management company. The roundtable was moderated by Tony Esposito, Director, Private Equity and Venture Capital for Consero.

### Facing Hurricane Force Winds and a Crucible Moment

Craig Fryar noted the "hurricane force" winds that JPMorgan Chase CEO Jamie Dimon referred to recently as well as recent comments from Sequoia Investments that we're heading for a "crucible moment that's unique in the history of modern business." The companies that fare well in this environment will be those that are adaptive and agile, said Fryar.

"The response I often get from CFOs is that they really aren't sure because they don't know how to measure the optimization and utilization of their teams and resources in terms of executing the business objectives."

Fryar establishes a framework CFOs can use to characterize key measures for efficiency and effectiveness as opposed to financial models "that would bluntly say we need to cut 15% because we're short on revenue," he said. "Instead, I advocate looking at department or business unit metrics that reveal issues in customer support, or we're not quite making it in converting our funnel. These can show you how efficient and effective you are and help you make progress on digital transformation."

“

You might be doing good business right now and have loyal customers, but how efficient and effective are you?

— Craig Fryar

## Managing Resources and Spend Strategically

Esposito asked the panelists what they recommend CFOs do to manage resources and spend strategically in the current high inflation and rising interest rate environment.

"It's fun times out here right now," joked Araki. "CFOs sometimes are told that they need to cut OpEx by a certain percentage while doing such-and-such. In other words, they are asked to do more with less. As you make hard choices, it's important for the leadership team to understand what you're going for because that will drive all the decisions."

CFOs can sometimes get lost in the numbers, Araki added, but they forget that not all dollars are equal or contributed linearly. "Do the work early and think through these scenarios so you have a framework when you have to implement," he said. "Otherwise, it could look haphazard, and you end up making decisions that aren't ideal in the moment."

"Don't delay the inevitable," added Fryar. "We started thinking through some of the scenarios we're now starting to see a while ago and made sure our leadership team was aligned on our objectives, so everybody is pulling in the same direction. This can be where the culture really starts to crack."

Lakhani quoted from the ancient book  
The Art of War →

“

In war, prepare for peace.  
In peace, prepare for war.  
What I believe this means  
is that we should optimize  
at all times.

— Raj Lakhani

## Reevaluating Pricing Strategies in 2023

Soaring inflation and rising interest rates are affecting all aspects of business planning today, including pricing. Esposito asked the panelists how companies should be reevaluating their pricing strategies in 2023 given this.

"Every problem also presents opportunities," said Lakhani. "In a stable inflationary environment, it's not as easy to raise prices. But with high inflation, companies are more open to having the dialog, so that's an opportunity. But you still need a rationale to explain it to them."

"We have found that clients are remarkably willing to work with us when it comes to pricing if we're upfront and transparent with them," said Araki. "Explain the cost pressures you're facing and that you're just trying to maintain your margins. Everybody is going through the same thing so don't be hesitant to have these conversations if you feel like this is what will be best for your business."

Fryar encouraged CFOs to think creatively about the different levers that can be brought to the conversation. "If you want to raise prices, what else can you bring to the table? Maybe a multi-year term or some kind of staggered discounting. What benefits do you offer to your customers and how do you leverage that by tweaking the levers?"

Lakhani stressed the importance of making sure that salespeople don't lose compensation if prices are raised. "Create sales incentives in such a way that your company's bottom line is met but salespeople also can earn their commissions," he said.

"Compensate to motivate the desired behavior," added Fryar. "Don't penalize salespeople for a market downturn."

## Positioning Your Company for Funding or a PE Exit

Esposito cited data from a recent Pitchbook report in which venture capital demand outpaced supply by 145% coming out of the fourth quarter of 2022. This effectively means that the same number of companies are competing for 50% of the capital that was available last year. In private equity, the number of deals fell just five percent in 2022 compared to 2021, although deal sizes were smaller.

Given this, Esposito asked the panelists how businesses should position themselves in 2023 to be more attractive for the next round of funding or a PE exit.

"There are different opinions about whether the worst is over, or we'll continue to have more pain this year, but nobody really knows," said Araki. "But there seems to be a unanimous opinion that in any market with this kind of dislocation, there's a flight to quality. Line items on the P&L that have been forgotten the past few years are being rediscovered, like net income, gross margins and EBITDA."

“Do the work early and think through scenarios so you have a framework when you implement. Otherwise, it could look haphazard, and you end up making decisions that aren't ideal in the moment.”

— John Araki



"Presentable margins that are repeatable and real and a line of sight toward things like cash flow and positive EBITDA — these are the things that are playing well in the market now and providing a real leg up on the competition."

Fryar said he was going on record saying things will get worse before they get better. "We're in for some tough sledding ahead," he said. "The VCs and PEs I've talked to are looking for broader client concentrations where one or

two clients don't make up the majority of revenue. Money is expensive now and it will be for awhile." Given this, Fryar said he highly recommends scenario-based planning so companies don't have to rely as much on external and expensive funding.

Companies with a strong value proposition — whether it's faster, better or cheaper — can still attract funding even in a tight market, added Lakhani.

## Keeping Management and Employees Motivated

With the tough sledding ahead, Esposito asked the panelists how companies can keep management and employees motivated amidst all the economic uncertainty.

"We're emphasizing clarity of purpose for our company and clarity of career paths for employees," said Fryar. "We're making sure employees know they have an opportunity to grow in their skills and compensation with our company. We want to give them reasons to stay longer than a year or two."

"For us it all boils down to culture," said Araki. "This word gets tossed around a lot but what does it really mean? For us it means being as authentic and transparent as a leadership team as we can possibly be with employees. We can't compete compensation-wise with the Googles and Facebooks but we've attracted an incredible team mostly because of our culture and what the company is all about and stands for."

Lakhani stressed the fact that employees usually don't leave companies — they leave managers. "Most companies don't invest enough in management," he said. "You also have to genuinely work toward improving the lives of your employees. Things like encouraging them to leave work on time and not micromanaging them. Create a semblance of sanity and don't cause panic all the time."

## Outsourcing in the Face of Rising Labor Costs

**97%** of CFOs who responded to a recent Consero survey said they expect their labor costs to continue rising amidst the war for talent and in the remote work era.

— Tony Esposito

Given this, he asked the panelists what are the key considerations when deciding whether to outsource or build capabilities in house.

Lakhani quoted another classic book in answering this question: "In The Wealth of Nations, Adam Smith wrote that division of labor increases productivity. In other words, people are more likely to innovate when they can devote all

their attention to a specific task and innovation leads to productivity.

"The big companies I've worked for used this dictum very efficiently, whether they realized it or not," he added. "They have an ecosystem of outsourcing providers they can reach out to at any time to help execute their plan if this is more efficient than doing it themselves."

Lakhani pointed to Consero as a good example of an outsourced service provider who has the knowledge and experience to handle finance and accounting more efficiently than many companies can handle this in-house. "It's difficult to replicate this in a short period of time," he said. "If time is of the essence, you have to consider an outsourced company like Consero."

Esposito pointed out that finance is the second most popular outsourced function. IT is the most popular outsourced function, followed by finance and accounting, payroll and customer service.

## Outsourcing Using FaaS and Consero Global

Consero Global offers outsourcing of the finance and accounting function via Finance as a Service (FaaS). To learn more about FaaS and how it can help you manage costs during an economic downturn, schedule an introduction by visiting: <https://conseroglobal.com/request-a-consultation/>

## About Us

Consero was founded in early 2006 with the goal of providing small and mid-market companies with a superior alternative to building and maintaining an in-house finance function.

Consero is the pioneer of the Finance as a Service (FaaS) category. They are disrupting the way PE and VC-backed companies and Investment Management firms set up and scale their finance department. Consero's FaaS model combines cutting-edge technology, processes, and people in a fully-managed solution to deliver precise financial visibility and improved operational scalability.

To learn more, visit: [www.conseroglobal.com](http://www.conseroglobal.com)

