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Thriving in Uncertain Times:

Strategic CFOs offer advice for dealing with economic downturns

“Uncertainty” might be an understatement when it comes to the current business and economic environment. With rising inflation and interest rates, geopolitical turmoil and ongoing fears of recession, many CFOs today are trying to navigate their companies through uncharted waters.

We spoke with several strategic CFOs to get their advice on the best ways to not just survive, but to also thrive during these uncertain times.



Stay Connected to Your Client's and Their Needs

Phil Murray, CFO, Camp Gladiator

The COVID-19 pandemic presented tremendous uncertainty for Camp Gladiator, which offers outdoor group fitness experiences to clients. But the company retained 97% of its clients during the pandemic. While most indoor fitness centers were forced to close, Camp Gladiator thrived due to its safe and accessible outdoor fitness programs.

Keeping clients engaged was the key. Personal trainers checked in regularly with clients to make sure they stayed safe but also committed to their fitness goals. The company's goal was to give clients confidence and encouragement in the midst of uncertainty — to be stability in the storm.

The company performed wide-ranging scenario planning exercises in which they game planned for how things might go for the business. This included potential revenue declines of 20%, 40% and even a massive decline scenario of 60%. Once you've modeled these scenarios, you can more effectively plan for them.

Times of uncertainty may reveal unexpected new opportunities. Camp Gladiator added a virtual class option so clients who were concerned about exposure to the virus could participate more safely. This presented an opportunity for the company to connect with clients and serve them on a different platform. The company's performance exceeded its plans and they enjoyed a growth year in terms of new members.

Another key is maintaining flexibility since there's no way to predict exactly where things are going to go. Be careful to not get locked into terms or pricing structures that are untenable over the long term. Plans for new product and service rollouts might have to be shelved for awhile if realizing viable margins isn't realistic right now.



Align Technology Investments with your Strategic Objectives

Lynn Atchison, Board Member

Investing in technology or a tech-enabled service provider like Finance as a Service is important regardless of the economic environment. In fact, remaining on the technology cutting edge could be even more important during uncertain times. But how can CFOs defend new technology investments to board members during times of economic uncertainty?

The first step is to describe to board members how the new technology or tech partner aligns with the company's strategic objectives. In other words, what role does the technology investment play in helping you accomplish the things you want to do over the next one, three or five years? The technology can't be force fed into your strategy — it has to fit naturally.

Next, you must address cost. Be upfront and realistic with board members about how much the new technology will cost and what it's going to yield, beyond just ROI. For example, will it help position your company as an industry technology leader, which could result in new clients and higher sales?

Keep in mind that when you choose to invest in a new technology or tech partner, you are foregoing other things that you might invest in later. Not only will the technology consume financial resources, but it will also take up employee bandwidth, which isn't unlimited.



Reset the Tone and Direction with Employees and Stakeholders

Steve Isom, CFO, Bloomerang

During times of uncertainty, it's important to reset the tone with your employee base and your leadership team. This is especially true with software and tech companies, where most employees (especially younger ones) have only experienced times of rapid growth. Explain to these employees why rising interest rates negatively affect growth and the business impact of higher-cost capital.



Isom's keys to thriving in uncertain times boil down to understanding how your business operates. This starts with scenario planning. If your original strategic plan was based on a strong economy, low inflation and low interest rates, throw this out and develop a new plan. Then pressure test both your top line and your bottom line based on current conditions.

Also be sure that you understand unit economics. During times of uncertainty, growth at all costs may not make sense if Customer Lifetime Value no longer supports it. You need to know how much it costs to acquire each customer so you can determine if your long-term operating model is viable in the current conditions.

Your most important job as CFO is to "protect the house" and maintain cash flow.

It's also critical to manage spending. Start with your vendors, contracts and leases: Which ones have been negotiated and which ones can be terminated if they're no longer needed? Look especially for duplicate and underutilized tools and excess licenses. Begin with the least painful cuts, like redundant and under-utilized systems and not filling positions that aren't essential. Reserve the most drastic cuts, such as layoffs, unless they're absolutely necessary.



Track Meaningful KPIs

Jessica Hamilton, CFO, ActiveProspect

ActiveProspect, a SaaS platform, took its first PE investment from Five Elms Capital in 2020 and grew 61% in 2021.

activeprospect

One of their biggest keys to success since then has been measuring the right data and KPIs so they can collaborate with investors better. They now have access to triple the amount of data than they did before the Series A investment.

During these times of uncertainty, the company has focused primarily on balancing with the Rule of 40 and focusing on their customer acquisition costs (CAC) and CAC payback period to boost ROI. Before the pandemic, the company was laser focused on ARR growth at all costs, with little concern for the bottom line or sales efficiency metrics. Now they're taking a more balanced approach — they're equally focused on ARR growth and the Rule of 40, which is a principle that a software company's combined growth rate and profit margin should not exceed 40%. This helps ensure capital efficient growth and wise spending.

By carefully monitoring their CAC and CAC payback period, ActiveProspect is able to benchmark their sales, marketing and product development costs against industry averages. If companies are meeting or exceeding industry averages, CFOs can have confidence in signing off on growth initiatives because they have the data to support the decision. For ActiveProspect, the industry average for CAC payback is 18 months but there are closer to 13 months, which means their sales and marketing investments are paying off for them better than industry averages.



Embrace a Digital Transformation

Rey Madolora, Fractional CFO, El Contador

Regardless of the economic environment, it's critical that companies embrace digital transformation in order to remain competitive. This is especially true during times of uncertainty. Companies shouldn't be spending money supporting the back office which can be managed with a Finance as a Service provider. They can better use those funds for research and development and sales and marketing. Digitization can help companies reallocate these funds.

Digital transformation will future-proof businesses while enabling scaled growth. Scale is achieved by maximizing revenue growth and reducing back office spend as a percentage of revenue over time.

Over the past decade, the digital transformation has made the CFO's role more operational. Closing the books and publishing reporting packages has become more automated due to cloud-based general ledger and finance and accounting systems and applications supporting business intelligence, dashboarding and reporting.

Having a digital operation is table stakes to compete in today's market. This goes back to change management and getting other people in the company involved in the digital transformation by giving them a seat at the table and making sure they feel heard. While automation isn't likely to replace humans in finance and accounting anytime soon, it will make humans more productive and allow companies to achieve more with smaller teams.



Make Bold Moves

Bolanle Williams-Olley, CFO, Mancini-Duffy

It's critical to identify the right levers in your organization early on so you can react quickly to what's going on and take appropriate steps. More specifically, which levers are most important when it comes to increasing revenue and cutting costs? Deepening relationships with your key vendors can help you in this area so you're not constantly reacting to changing circumstances

Reacting too late to the situation on the ground can be the death knell for businesses during times of uncertainty. Don't be afraid to speak up if the situation calls for it.

Mancini-Duffy made a bold move by acquiring another company in order to grow quickly and diversify its client base, despite the prevailing uncertainty. The companies shared synergies and complemented each other well when it came to areas of service and industries served.

In addition, they also downsized their office space because they planned to move to a hybrid workforce. Their goal was to create an open community space where employees would look forward to coming in and collaborating face-to-face with each other. Mancini-Duffy moved into its new office space on the same day they completed their acquisition.



Partner with Outsourced Providers for Non-Core Functions

David Dolmanet, CFO, Brycomm

Outsourcing non-core business functions like finance and accounting holds special appeal during uncertain times by allowing companies to lower their operating expenses, especially expenses related to human resources.



Growth is non-linear from a hiring and retention standpoint. In other words, companies can try to beef up staff ahead of anticipated growth or play catch-up after the fact. By using Finance as a Service (FaaS) to outsource finance and accounting functions, companies can staff up to their growth baseline and use outsourcing to add incremental capacity so additional staff isn't a permanent fixed cost.

When adding staff, companies should strive not just for capacity but also for capability.

With the expertise offered by FaaS service providers, companies can add capacity from a process improvement standpoint while improving efficiency. This is a great way to leverage capacity and capability — it becomes a multiplier effect.



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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