

Five Essential Actions to Take Now

By Chris Brennan, Angela Caswell-LaPierre, Sean Kracklauer

The global coronavirus pandemic has produced a humanitarian crisis unlike anything we have ever seen, with sudden and dramatic disruption across all industries and markets. One thing is clear: Companies must respond effectively moment to moment as they receive insights with each news cycle. They must also be prepared to act swiftly and aggressively to counter each disruption and protect their most valuable assets, while anticipating the next turns and moves ahead.

The five essential actions that follow can yield a significant, positive impact in the near term. These actions can also be catalysts for meaningful performance improvement in the longer term as crucial first steps to close the performance gap. In fact, top-performing companies operate at 57% less cost, which, for a \$10 billion organization, equates to approximately \$200 million in cost savings from general and administrative (G&A) efficiency alone.

1 Protect your employees and keep them informed and engaged.

WHAT YOU NEED TO DO NOW:

First and foremost, companies must prioritize the health and safety of their workforce throughout the pandemic. Organizations must also provide employees with the tools and support they need to perform their jobs productively amid rapidly evolving directives. Communication that is timely, transparent and two-way is essential to keep employees informed and sustain their connection to the organization. Lastly, this period of virtual work presents a unique opportunity for employees to use self-directed learning tools to further develop their skills.

HERE IS HOW:

- Provide employees with the resources and systems support they need to work from home. Utilize online collaboration tools to maintain a sense of community and boost productivity.
- Communicate clear, job-specific guidelines to ensure employees understand what is expected of them to meet customer needs and sustain operations.
- Make employees feel supported and valued by coaching them through challenging situations and recognizing extraordinary efforts.
- Encourage employees to use up to 40 hours of time to focus on learning and development.
- Direct managers to conduct daily check-ins with employees through team calls, virtual collaboration site interaction and one-on-one or email/text/chat conversations.
- Create a weekly enterprise workforce pulse survey with five areas to assess:
 1. Sense of personal well-being/safety
 2. Level of connectedness with company
 3. Level of engagement with their team/manager
 4. Satisfaction with virtual enablement tools
 5. Sense of value contribution
- Use formal and informal feedback mechanisms in the near term to gauge employee sentiment and surface issues/barriers that need to be addressed quickly.
- Engage human resources to conduct workforce-related scenario planning and build contingency plans to ensure preparedness amid novel and uncertain circumstances.

2 Defend your financials.

WHAT YOU NEED TO DO NOW:

To protect current liquidity, revenues and earnings and mitigate impacts on stock price, bond and debt covenants, companies must accelerate forecasting frequency and provide executives with visibility to daily/weekly versus monthly/quarterly insight.

Decision-making under conditions of high uncertainty requires taking calculated risks predicated on imperfect and ever-changing data. This will require frequent scenario planning and simulations to test multiple planning hypotheses, making optimum use of the best information available.

HERE IS HOW:

- Prepare for an environment of tighter credit and investigate ways to secure additional funding sources at a reasonable cost.
- Stress test your cash position, inventory levels, and short- and long-term liabilities to identify areas of significant financial exposure. Update models as new information arises.
- Take immediate and aggressive cost-out actions to reduce expenses (e.g., travel and expenses, hiring freezes, operating expense/capital expense diligence, and consolidation of work).
- Evaluate your labor costs and current workforce management processes and practices for opportunities to reduce cost. In most firms, this is an orphan category of processes that no single leader owns. For example, we have seen two companies identify savings opportunities of \$200K and \$500K per week, respectively, in the form of labor leakage and unscheduled overtime. Optimizing worker hours will enable them to keep more employees at work and buffer the expense of other employees who must self-quarantine.
- Utilize cross-functional crisis teams to execute mitigation strategies in real time as new risks are identified.
- Focus on improvements that deliver information faster and increase executive visibility into demand trends, daily sales activity, supplier risk indicators and production data.
- Accelerate communication with key stakeholders, including the board, vendors and investors.

3 Safeguard your supply chain.

WHAT YOU NEED TO DO NOW:

This environment poses a unique need to manage both demand shocks and supply disruptions. To counter demand shock, companies must proactively identify and analyze an array of scenarios and use that analysis to prioritize and plan their response. Supply disruptions also require an analysis of scenarios to identify the imbalances between supply and demand by product and geography. Companies will also need to prioritize channels and customers, and then apply that prioritization to execute solutions.

HERE IS HOW:

- Develop a rapid demand shock response plan: How will we implement leading options? How do we sequence key activities?
- Analyze supply and demand scenarios to project shortages. Understand the percentage of suppliers in high-risk regions. Prioritize options and define allocation rules.
- Monitor the following key crisis indicators daily:
 1. Demand impacts: percentage of change in unit volume sold; percentage of change in net revenue; average unit selling price
 2. Supply impacts: percentage of change in units produced; percentage of change in days of inventory on hand; percentage of change in available unit capacity
- Develop a supply disruption rapid response plan: Which resources need to be mobilized to closely manage the situation? How will we make decisions and track those centrally?

4 Preserve your cash.

WHAT YOU NEED TO DO NOW:

Companies may find that to deal with disruption they need to inject liquidity into the end-to-end supply chain through customer and supplier terms management and/or strategic inventory builds.

Accessing sources of excess cash within current working capital management practices will mitigate the impact and help organizations support their supply chains in weathering the storm. US companies had \$1.3 trillion tied up in excess working capital during 2019 – an increase over the previous year.

HERE IS HOW:

- Create a cash task force to monitor key cash metrics weekly, if not daily.
- Define weekly cash collection targets. Replan all customer touchpoints by value, not volume.
- Tighten up accounts receivables processes by putting in place (or strengthening) proactive collections processes, minimizing errors that can delay payments, and optimizing billing frequency.
- Make sure that credit risk processes are robust and up to date, and incorporate last-minute information given the current fluidity. Monitor established customers for payment behavior changes.
- Introduce liquidity mechanisms, such as financing solutions or payment terms support for smaller customers and suppliers, into the supply chain.
- Monitor daily demand fluctuations and supply limitations closely to ensure that cash is not invested in the wrong inventory.
- Cascade key metrics and the dollar value of each day of working capital metrics (days sales outstanding/days payables outstanding/days inventory outstanding) across all operational decision-makers to raise cash awareness in daily activities.
- Tighten up end-to-end procure-to-pay processes, especially around invoice timing and payment terms operations to minimize leakage.
- Review stocking parameters and consider temporarily streamlining the product portfolio to allow buffering of strategic stocks.
- Identify alternate supply sources or substitution opportunities for stock keeping units at risk.

5 Fortify your infrastructure.

WHAT YOU NEED TO DO NOW:

While the focus understandably has been on short-term business continuity, it is important to consider the demands on the information technology (IT) function over the coming months and reprioritize effort and investments quickly. Focus should be on fortifying the infrastructure to sustain virtual work and collaboration over a period of time – possibly indefinitely as operating models may shift to new, post-pandemic norms. Agility will be key: IT must monitor connectivity, throughput and productivity, and make adjustments rapidly if needed.

That said, recognize that this is also not the time to compromise strategic IT initiatives. As the largest G&A spend category, IT is a ripe target for cost cutting. However, doing so without a clear and thoughtful action plan and value assessment carries a high risk of jeopardizing long-term competitiveness and the ability for the business to recover quickly.

HERE IS HOW:

- Review and segment the IT demand portfolio by critical must-do's and reprioritize projects based on capacity and level of investment. Eliminate or defer lower-priority initiatives.
- Assess and strengthen security protocols in light of the number of employee devices currently used to access services. Educate employees about security guidelines for systems and collaboration tools to prevent hacking and other intrusions.
- Make sure your IT operating model can sustain support for the spike in virtual work and collaboration over time. This may require additional remote IT support and security capacity.
- Ensure you have sufficient collaboration tools for enabling productive, virtual work and touchpoints throughout the day. Work with service providers and vendors to deploy collaborative tools, such as virtual whiteboards, that fill gaps in current services.

About the authors

CHRIS BRENNAN

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Chris Brennan has more than 20 years of experience assisting executives at Fortune 1000 companies, focusing on large-scale

transformational improvements within the finance, human resource and supply chain functions. His expertise covers a wide range of industries and business sectors, including retail, manufacturing, transportation, media and entertainment, consumer packaged goods, food and beverage, and financial services. Key clients include FedEx, Ryder, Procter & Gamble, Pepsico, Target Stores, Tyson Foods, Yum Brands, 7-Eleven Stores, Fannie Mae, Fidelity Investments, Stanley Corporation, Wyeth Pharmaceuticals, Rio Tinto, Terex, ExxonMobil, Xerox, General Mills and General Electric. Prior to joining The Hackett Group, Chris was a partner at KPMG Consulting.

ANGELA CASWELL-LAPIERRE

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Angela Caswell-LaPierre has over 20 years of industry and consulting experience. She has particular expertise in

leading and integrating global business services operations, global finance transformation projects, enterprisewide transformation management offices, global SAP enterprise resource planning system implementations, process reengineering, change management, and enterprise cost reduction programs. Before joining The Hackett Group, Angela held senior leadership positions at Johnson & Johnson, Pfizer and Interpublic Group, and has directed a number of engagements for Fortune 500 companies undergoing transformational change.

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Over the past 20 years, Sean Kracklauer has advised Global 1000 businesses on strategy, organizational structure and process




redesign. He has worked extensively in finance strategy, business performance management, planning and budgeting, financial reporting compliance, and functional design for business intelligence systems. His fields of expertise include leading large-scale cross-functional projects to improve the effectiveness and efficiency of general and administrative service delivery by identifying the optimal strategy, structure, sourcing and enabling technologies to achieve business objectives. Sean has served clients, with revenue from \$5 million to over \$100 billion, in the financial services, technology, pharmaceutical, telecommunications, energy, health care, retailing, consumer packaged goods, software, broadcasting and manufacturing sectors.

This is a crisis in multiple respects, so it is helpful to adopt the principles and characteristics of a crisis response: a war room that integrates multiple teams working parallel with key leaders who are using a key crisis indicator dashboard to govern responses. Without that mindset, response and recovery will take longer.

Act now to protect your employees, financials and future

Backed by our unparalleled benchmarking data and best practices repository, as well as experience across the full transformation life cycle, The Hackett Group can help you identify areas of cost reduction, increase organizational agility, and make transformative changes to your operating model to create a more resilient organization. We are armed with know-how, tools and experience to support these goals – and ready to assist.

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