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BUSINESS GUIDE

17 Growth Levers CFOs Can Pull Now

Economic recovery will come. Position your business to take off running when it does.

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Economic recovery will come. Position your business to take off running when it does.

As interest rates tick up and recession fears linger, finance leaders face a challenge: Protect cash flow while setting the stage to move fast when the cycle shifts.

The trick is to find levers to pull during leaner times that lay the groundwork for growth. You've likely cut discretionary spending and have contingencies for various scenarios. Now, revisit your business plan, take stock of your competitive position, and find ways to innovate with smart investments.

Peter Melby, CRO of tech services provider New Charter Technologies, says that in an economic downturn like those he weathered in 2001, 2008, and 2020, finance often has a gut reaction: Cut deep and cut soon. But markets ebb and flow, and finance needs to mind the changing winds and not overcorrect.

"Translating that feeling of anxiety or panic into almost a strategic flowchart is so important," Melby says. "'If this happens, then I'm going to do this, and then I predict that this will be the result.' It gives you the ability to sleep at night. You're not lying awake thinking of the uncertainty. You've got parameters and a plan in place, and you know what to watch for."

If you haven't yet, assess your working capital. In addition to the standard cash flow statement, it's useful to keep a close eye on free cash flow, which excludes non-cash expenses and interest payments and adds in changes in working capital. That gives you a good view of the funds available to implement growth strategies like adding new products or services, making strategic hires, or even acquiring a competitor or supplier.

Once you have a handle on cash, implement a rolling forecast methodology that allows you to continuously update your assumptions. This will help you dynamically adapt as conditions change.

Here are more growth-oriented moves to consider as you chart your path to a more prosperous future.

1. Focus FP&A on the future to inform today's moves

Assemble the team that forecasts the company's financial performance. Create models that account for trends in the business and the broader industry and economy. Smaller firms may forecast four to eight months out, while a larger enterprise could look one to three years into the future.

At the heart of FP&A is collecting and analyzing financial data from across the organization to answer forward-looking questions like, "Should we make that acquisition?" or "What new products should we launch?" Which leads us to…

2. Diversify revenue streams

Diversification is an essential strategy during an economic downturn that pays off long term, and it also applies to sales channels. Restaurants that didn't offer delivery or pickup along with dine-in service during COVID-19 were hit hard, for example. But those that added new products often thrived — remember stories about how fine-dining restaurants like Chicago's Alinea pivoted from carefully curated in-house experiences to selling at-home meal kits, including a full Thanksgiving meal for $325 and up? Pizza shops did the same on a smaller scale, while stylists mixed clients' hair dyes and packaged them with gloves, shampoos, and DIY instructions.

What new products might you develop with your existing resources that are complementary to what you sell today? Could you launch new services that build on your existing capabilities? A landscaping business can start offering design assistance or holiday decorating services. If you sell furniture, what about lighting or decorating services?

3. Explore alternative sales channels

There are many ways to sell your products or services: subscriptions, memberships, branded ecommerce, online marketplaces, channel sellers, licensing, and more. Manufacturers could add a direct-to-consumer website. If you have a nascent indirect sales channel — or any newish sales channel — now might be a good time to strengthen it. Competitors may be pulling back.

Like new products, new sales channels translate into new customers that will hopefully spend more with you going forward.

4. Identify and evaluate what's new

Businesses should always watch emerging markets, customer segments, and technologies that might create opportunities. It's especially important during an economic downturn to take advantage before competitors do. ChatGPT is raising concerns in schools and workplaces. Do you have the expertise to educate staff on how to properly use these types of tools? Virtual and augmented reality are ready to go beyond gaming. Manufacturers of complex equipment could develop interactive training.

Being Acquired During a Downturn

In 2020, during the height of the COVID-19 downturn when many investors were scaling back, New Charter executed several strategic acquisitions. Melby says that investors get more discerning during tough economic times, but that doesn't mean their appetite to spend has disappeared.

But you can't look for investors just because you need cash to weather the storm. Desperation isn't something that private equity, venture capital, or more traditional lenders find attractive.

"People want to give cash for an investment plan," says Melby. "During COVID-19, there was economic risk in investing, but we chose companies that had that market advantage."

When the economy is struggling but you hold a strong competitive position, that's a sign to investors that you're worth betting on. If you're outpacing competitors in a downturn, why wouldn't you do the same in a flourishing economy?

"If you're suffering from a 5% attrition, it's easy to look at that and think you're struggling and undesirable because you're losing customers," says Melby. "But if your market is seeing 30% attrition, suddenly you become a very attractive target for investors. Look past what's happening in the next 12 months. What's your long-term value proposition? If you have a strong one, and you're open to outside investment, tough economic times can be a great time to seek it out."

In 12 to 18 months, today's emerging techs and business models will be mainstream, and early movers with proven expertise will have an expansive market.

5. Consider partnership or mergers

An economic downturn often seeds a rise in mergers, acquisitions, and other partnerships as businesses look to access new markets and capabilities. If you've been toying with a creative partnership, now may be a good time to act. According to a CFO.com survey conducted by Wakefield Research and sponsored by NetSuite, only 27% of CFOs expect to cut the budget for M&A activity due to recession concerns — making it the least likely area to be slashed among all the options given. There are solid reasons for that.

If you have the capital, acquiring a supplier, partner, or competitor can quickly expand your market share. If an acquisition is beyond your reach, a merger with an adjacent company can give you access to a ready-made customer list that's primed for your product or service. Even referral partnerships are worth exploring right now. You never know who's willing to help you acquire new customers, for the right price.

Next, work to make marketing a growth engine.

6. Get strategic about selling

You might be tempted to cut marketing during a downturn. Don't. That same CFO.com survey shows marketing/advertising is the top area CFOs plan to cut in the event of a recession, with 42% saying it's on the block. Swim against that tide.

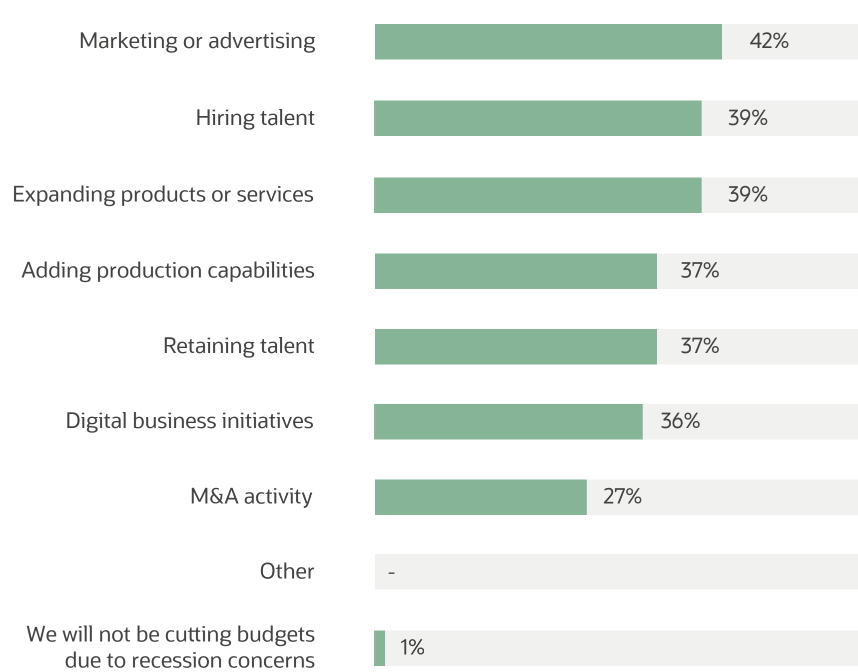
It's more important than ever that customers and prospects think of you when they need what you sell. Modern marketing tactics can affordably raise your competitive profile and expand relationships with existing buyers, which is not only good for you now but will also set you up for long-term success.

7. Hone your brand message

If you've never embarked on a messaging and branding exercise, now is a great time to do so. Ad hoc marketing approaches work only to a certain point. You have to shape the brand you're putting out into the market to emphasize your competitive differentiators and really connect with target customers.

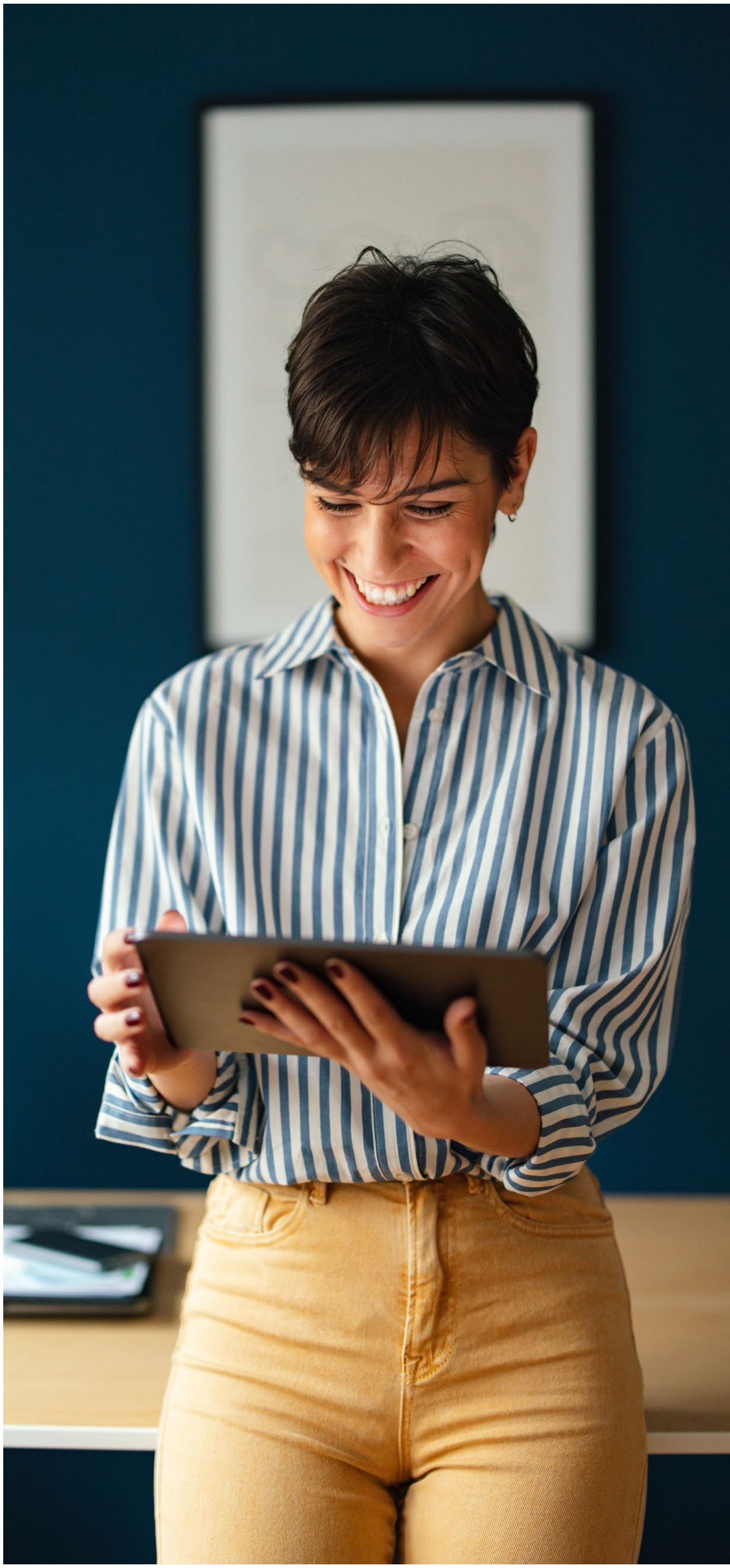
Where do you see cuts to your organization's budget due to recession concerns?

(Asked among those who have the title of Chief Financial Officer at their organization)



Pro tip: Create a message house — that is, a structure to keep your team on-message — that serves as the basis for all your marketing communications, and make sure it's backed up by a solid brand voice and tone. Maybe you focus heavily on customer service. Emphasize that! If your brand is about convenience, tout your excellent configure, price, quote capabilities. Know why you stand out, and then communicate that value to customers.

A strong brand, backed up by employees who understand and stay on a consistent message, is a growth superpower. The right pitch to the right market can attract and retain customers even when economic conditions are tough.



8. Leverage digital marketing

Lots of smaller companies rely heavily on traditional customer acquisition methods, like networking or referral programs. If you haven't invested in digital marketing, it's a good time to do so. When cash is tight, customers often spend time online hunting for the best deals, so you need to make sure you're showing up in search via a digital marketing effort.

If you have an in-house marketing team, consider refocusing them on digital. If you don't, there are agencies that can help you get this right and are likely looking for business now.

Whichever route you take, pay-per-click advertising, social media marketing, and Google ads get your company in front of the right eyes and increase your search engine mojo. Hone email marketing strategies to target both new and existing customers. Experiment, A/B test your tactics, be flexible, and be willing to invest for the long run.

And remember, it takes time to get noticed by Google. Start now so that when the economy recovers, you'll be on your way to greater market penetration and lower customer acquisition costs.

9. Double down on partnerships and collaborations

Don't abandon current collaborations that help you reach new audiences. Keep going to local networking events, partnering with complementary businesses, being active in industry groups, and maintaining your referral relationships. They're low-cost strategies that help you keep a high profile within your local market.

Tried-and-true partners that are having a tough time will appreciate you continuing with programs that bring them business. When you both come out the other side, you have a more loyal collaborator.

10. Brainstorm ways to stand out

What's the competition doing these days, and where are their efforts paying off? Look for ways to differentiate and compete on value, not price. Are your products higher quality? Do they come with a longer or more comprehensive warranty? Do you offer top-notch customer service? Fast and free shipping?

Find a value that your competitors don't offer and make it your own. Or better yet, find a value that your top competitor is winning on and compete. Do they offer free consultations? Can you match that and thus keep your staff busy?

11. Increase efficiency through technology

There are two ways to increase earnings and profitability: Sell more and/or spend less. But even in tough economic times, there are only so many places you can cut costs before you hurt your ability to serve customers. While it might seem counterintuitive, an investment in technology, particularly automation, now may give you the operational efficiencies you need to weather the storm and set yourself up to run a tight ship no matter what the economy is doing. It can also enable growth without new headcount.

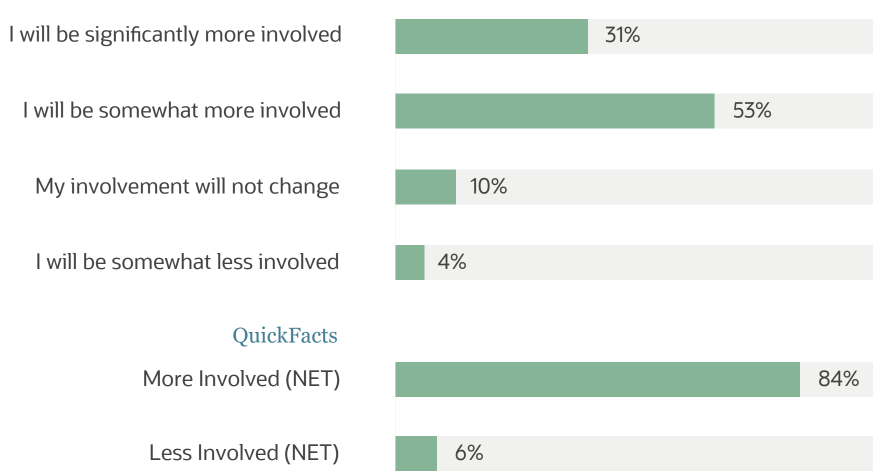
Without tech, you can't grow at the same pace as competitors that embrace the future. And many are: The CFO.com survey shows that 84% of CFOs believe they will be more involved in developing a technology strategy in 2023 versus 2022, and only 36% of CFOs are likely to cut digital business initiatives in the case of a recession. Savvy CFOs know that tech is not the place to cut spending during a downturn. On the contrary, they're doubling down.

12. Embrace automation

Automating repetitive tasks, such as data entry or basic customer service interactions, can reduce labor costs and free employees to focus on higher-value tasks like sales or product development. Yes, automation technology requires an investment, but it's much more achievable now.

How do you expect your role in developing a technology strategy to change in 2023 compared to 2022?

(Asked among those who have the title of Chief Financial Officer at their organization)



You want your valuable employees spending their time on activities that generate revenue and set you up for growth, not on rote tasks that can easily be handled by technology.

Happy customers are your best source of new customers. Maybe a client's singing your praises, but their contacts aren't able to buy from you now. That could change, though, in six months, so don't neglect these two levers.

13. Strengthen buyer relationships

We all know it's far less expensive to sell to existing customers than to acquire new ones. So when times are tough, double down on maintaining strong relationships with clients.

In fact, it's a solid goal to come out of an economic downturn with at least as many customers as you went into it with.

> To build trust and positive relationships, maintain open and honest communications. Focus on how you can help clients meet their goals — make it all about them. If there are changes happening in your business, keep them abreast of how they might be impacted.

It's All About 'Empathy and Connection'

New Charter, which offers managed IT services, was in a tough spot in 2020 as its SMB customers frantically looked at ways to reduce spend or delay payments. Melby could have strictly enforced contract terms or terminated service for non-payment, but he didn't want to lose loyal customers. So he employed a method of "empathy and connection" instead.

"If you're treating people poorly because you're solid in your contracts and need to preserve cash flow, that might preserve things in the short term, but customers aren't going to forget," Melby says. "What we've found is a better alternative is being proactive about meeting customers where they're at."

New Charter didn't wait for buyers that were highly impacted by the 2020 downturn to call. The team went to customers and asked how they could help. They got on the same side of the table to talk about what a mutually beneficial arrangement might look like so that the customer was still receiving critical services, but New Charter wasn't providing features and services for free.

"It's compromise, while having the faith that spending will come back," he says. "We strengthen those customer relationships by being empathetic, authentic, and business-oriented. That's how you keep customers for the long haul. Just be proactive so you're in control of the conversation."

Learn More

CFO's Guide to Automation. Finance automation promises to improve accuracy and governance, shorten month-end closes, lower DSO, and more. But getting automation right takes time. Processes must change, and people will need training. This report discusses the benefits and challenges.

Employ your digital marketing team to respond quickly to inquiries and complaints. Particularly in an era when questions and criticisms are often posted in social forums, you need to be Johnny-on-the-spot when customers reach out, not only to keep their business, but to make sure prospective customers see that you're responsive. There should be at least one employee whose role is to quickly respond to comments and escalate as needed.

14. Get creative with customer incentives

Everyone likes perks and feeling like they're part of the club. Your longtime or high-spending customers should be rewarded, so if you don't already have one, consider setting up a loyalty program that rewards consistent buying with free features or regular discounts. Offer incremental rewards that make them feel they're getting more value for spending more money.

How can you keep existing customers from going bargain hunting — and likely then staying with that new provider?

Loyalty programs can help, but something as simple and low-cost as a thank you note or phone call goes a long way. Maybe host a happy hour or lunch-and-learn event for customers, or send some swag when they make a purchase or renew a contract.

People Power

Smart talent management is a growth strategy, especially in a tight labor market. Often, the first place organizations look to cut costs is with headcount. This can be a mistake, particularly in a period of record low unemployment.

Instead, use these strategies to get more productivity from employees and to contain payroll while not hamstringing your ability to grow. Technology is key — no one wants to spend hours on rote tasks that could be automated.

It's All About 'Empathy and Connection' (Continuation)

Still, sometimes clients simply are not paying their bills on time, and it becomes unsustainable. Now what?

"The first thing the CFO has to look at is fair pricing and payment terms," says Janet Schijns, CEO of technology and telecommunications consultancy JS Group. "Customers stretch those payment terms as long as they can, especially with recurring revenue purchases. What used to be a 30-day pay cycle is now 90 days, if they pay at all. So what does that mean? Do you shut off their service? If you do, will they pay or just move to another provider?"

Most CFOs don't want to be in the loan business, and adding interest onto late payments takes accounting effort. A better bet might be adjusting payment terms to specify a shut-off date rather than a penalty for non- or late payment. Or, it might be time to revisit your stance of not accepting credit cards — paying that 1.5% - 3% processing fee means you get paid on time every month.

15. Communicate more than you think you need to

Employees want to feel that they're invested in and working toward a common goal. Now isn't the time to hold your strategic cards close to your vest. Keep team members informed, and make sure you're actively listening to their feedback. Keep motivation high by offering incentives where you can, and we're not talking "mandatory fun" like an in-office happy hour or Taco Tuesday. Let them work from home a few days a week or offer discretionary PTO, for instance.

Clearly communicate goals and progress toward meeting those goals. By keeping employees involved in your company's growth strategy and current situation, you'll be better positioned to emerge from a tough economic climate in a strong position and with a strong workforce.

16. Grow and keep your talent

Employees today, especially millennial and Gen Z workers, are looking for defined career paths and to gain new skills. Low-cost options for professional development, like LinkedIn courses or shadowing programs, are smart investments, as is management training for your front-line people leaders. Remember, it's usually less expensive to train employees versus paying top dollar for talent that already has needed skills. And, people don't quit jobs, they quit (bad) bosses. Dollars spent on professional development engender loyalty now while ensuring employees have the expertise you need when it's time to grow.

When You Must Cut Headcount

Sometimes, no matter how creative you are, you have to slash payroll. Schijns says that's fine, but don't be lazy about it because that can hamper growth.

"Just laying off 20% of your staff across the board is a really easy thing to do, but is that what's best for you in the long run?" she asks. "The problem is that work has changed so much that a lot of companies' operating models are already broken. Why not take an opportunity to pivot smartly?"

She points to recent data from the American Marketing Association showing that a typical B2B customer spends only about 17% of their product acquisition time engaging with salespeople. So why would you unilaterally cut 20% of both the marketing and sales staff? Wouldn't it make more sense to cut 10% of marketing and 30% of sales and focus on making the remaining salespeople more effective?

Learn More

Got Goals? This Metrics Framework Gets You There. An objectives and key results — OKR — framework breaks big, hairy company goals into concrete, achievable steps. It gives employees, managers, and teams the tools and KPIs they need to know they're moving in the right direction. The OKR methodology is popular with startups and tech giants alike, and success depends on access to complete and current data. CFOs and finance leaders are ideally suited to drive this effort thanks to their insights into key metrics. In this guide, we lay out a roadmap to OKR success that can move your culture from top-down to employee empowerment.

17. Consider contractors or temporary staff

If you need to hire, consider bringing on contractors or temporary staff instead of permanent employees. Not only can you likely save on payroll this way since they'll be working only the hours or projects you specifically need them for instead of instead of clocking in for 40 hours per week, but you'll save on the cost of benefit packages, too.

This is also a fantastic strategy for evaluating potential full-time employees before bringing them on board as growth takes off.

The Bottom Line

Ultimately, businesses that survive tough economic times and position themselves to thrive afterward have one thing in common: adaptability. They pivot fast in response to changing market conditions, are open to new ideas and approaches, and take calculated risks.

"When the economy comes back, what's the first behavior your customers are going to exhibit?" asks Schijns. "What are your specific indicators that the economy is coming back? It isn't just enough to know where to make cuts in a downturn. You have to know where to make investments as things start rebounding."

Take the example of Hertz, she says. During COVID-19, the company sold off a significant portion of its fleet as people stopped traveling. Once travel came roaring back, Hertz was in a tough spot, without enough cars to fulfill demand. It's those kinds of situations that CFOs must be able to forecast, and that takes understanding of the market, an acceptance of risk, and a plan to bounce back when things return to normal.

The good news is that economic downturns are typically short-lived: According to the National Bureau of Economic Research, the average recession since 1854 has lasted about 17 months. If you're able to stay nimble, listen to your customers and the market, make strategic investments, and keep your eyes out for new opportunities, you'll survive the storm and sail into calmer waters in a strong position.

When You Must Cut Headcount (Continuation)

Another factor Schijns advises CFOs to consider is the "talent hoarding" trend. The job market was so tight for the past couple of years, with report after report saying there weren't enough workers for jobs, that companies started snapping up talent where and when they could, at significant salaries. Now they're faced with laying off people they just hired. Rather than panic and just cut the highest-paid workers, though, Schijns says to plan for the long haul.

"The CFO has always been the keeper of the money, the defender of earnings and profit," she says. "Now they have to become the keeper of the operating model and defender of long-term growth. They have to be involved in helping the company recast how they're measuring success, and part of that comes in the form of human resources."

What markets or adjacent technologies present the most opportunity for the next three to five years? Don't cut headcount in those areas. Are you considering automating certain processes in, for example, finance or operations? Then that becomes a more sensible area to make cuts. Be strategic.

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