

**Solving for liquidity,
profitability and
enterprise value during
uncertain times**





We're all in this together

The COVID-19 crisis is driving fundamental changes in consumer values, supply chains, and routes to market, knocking companies off balance. CEOs and their teams struggle to compensate for depleted or zeroed sales and revenues and increased costs from responses to the crisis.

The most responsive organizations are already making up for lost time and positioning themselves to take advantage of the void left by others who are struggling to survive.

Immediate action is required to address the short-term liquidity challenges, solve for costs and profitability and generate funding to invest in new opportunities that arise.

Immediate **finance and liquidity** issues are top concerns for CEOs

CEOs are faced with plummeting sales and revenue, and increased costs. Interventions to adapt require investments in key technologies, processes and people. For some, liquidity has become a matter of survival.

As cities, states and complete countries are shut down—sales and revenues have plunged, or in some cases, zeroed—no industry is spared.

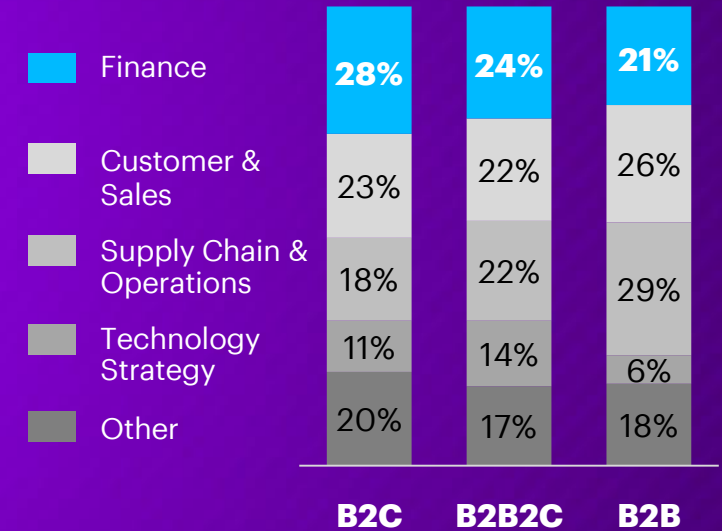
- Many retail chains have been forced to close all stores. With no sales, several chains have announced that they have only a few weeks of cash left.
- Travel companies like airlines and hotel chains have announced major cost reduction efforts and furloughed their employees.
- Energy companies are struggling with a one-two punch—less transportation demand and lower oil prices.
- State and local governments are reporting a 20–30 percent drop in sales taxes and revenue on top of fast-rising healthcare expenses.¹

Companies and organizations are spending materially more to ensure continued operations, manage supply chain disruptions and safeguard their employees.

- Alcoholic beverage companies have moved quickly to transform breweries into hand sanitizer production lines.
- Online and grocery retailers are scrambling to hire and expand their distribution capacity to cope with the spike in demand.
- Automotive companies are partnering with medical device manufacturers to produce ventilators.
- Progressive quick-serve restaurants have shifted to pickup and delivery-only business models while announcing new programs that allow employees to take two weeks of paid leave, or up to four weeks if tested positive with COVID-19.

Finance issues make up, on average, one quarter of CEO discussion topics as they relate to the COVID-19 crisis.² And rightly so—42 percent of S&P 500 companies are at considerable risk of bankruptcy in the near future.³

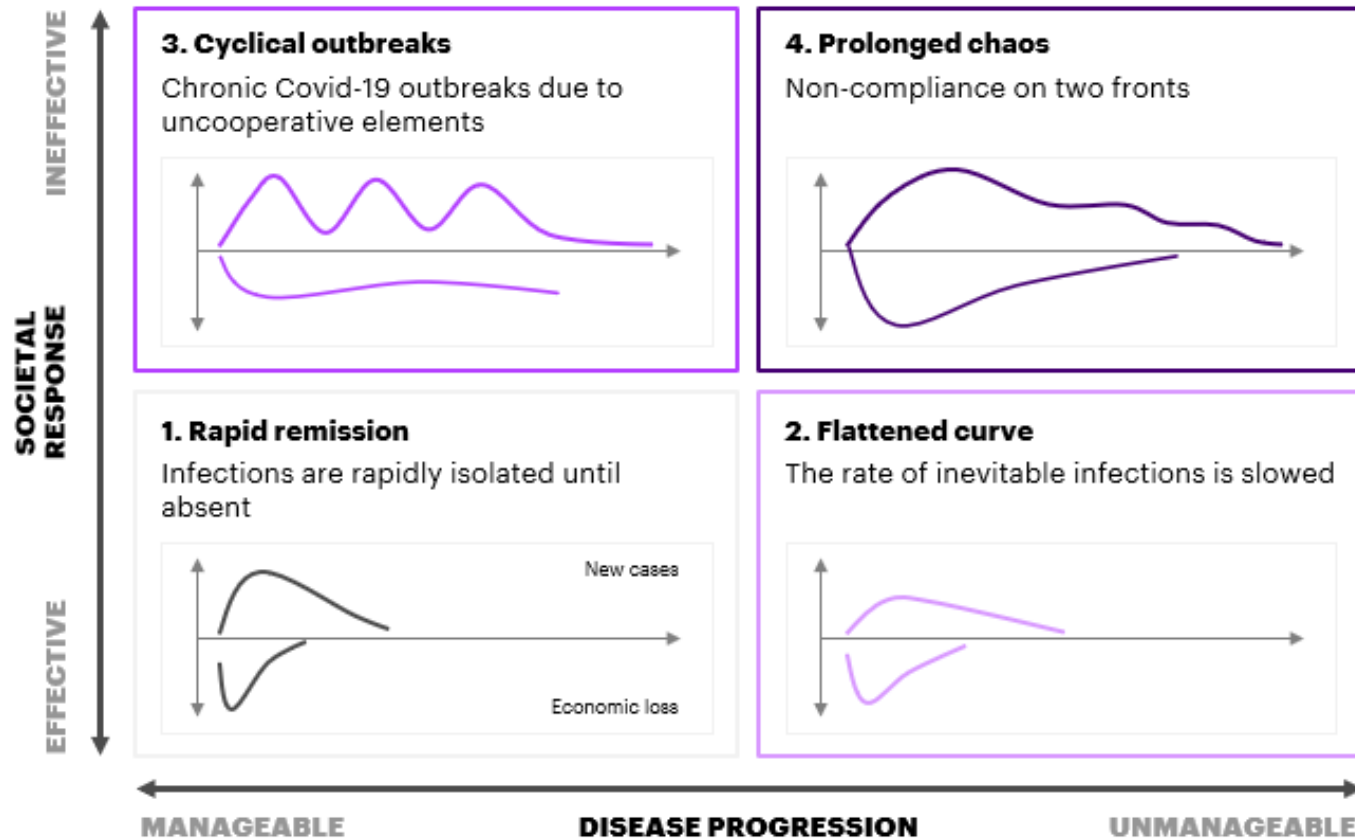
Transcripts of share of earnings and other C-level speeches talking about each topic⁴



Altman Z-score analysis indicates that **nearly half** of S&P 500 companies were in the distress zone compared to 32 percent before the crisis.⁵

The question on every CEO's mind: How long will this last?

There are four scenarios that will likely vary by region, industry and individual company



Source: Accenture Research, April 2020

Rapid remission

The disease is contained, and life returns to normal swiftly. Government measures work quickly to stabilize the economy.

Flattened curve

The rate of infections is slowed but does not go into remission. The economy shrinks in near-permanent ways. Society bends but does not break, pulling together to sustain government measures.

Cyclical outbreaks

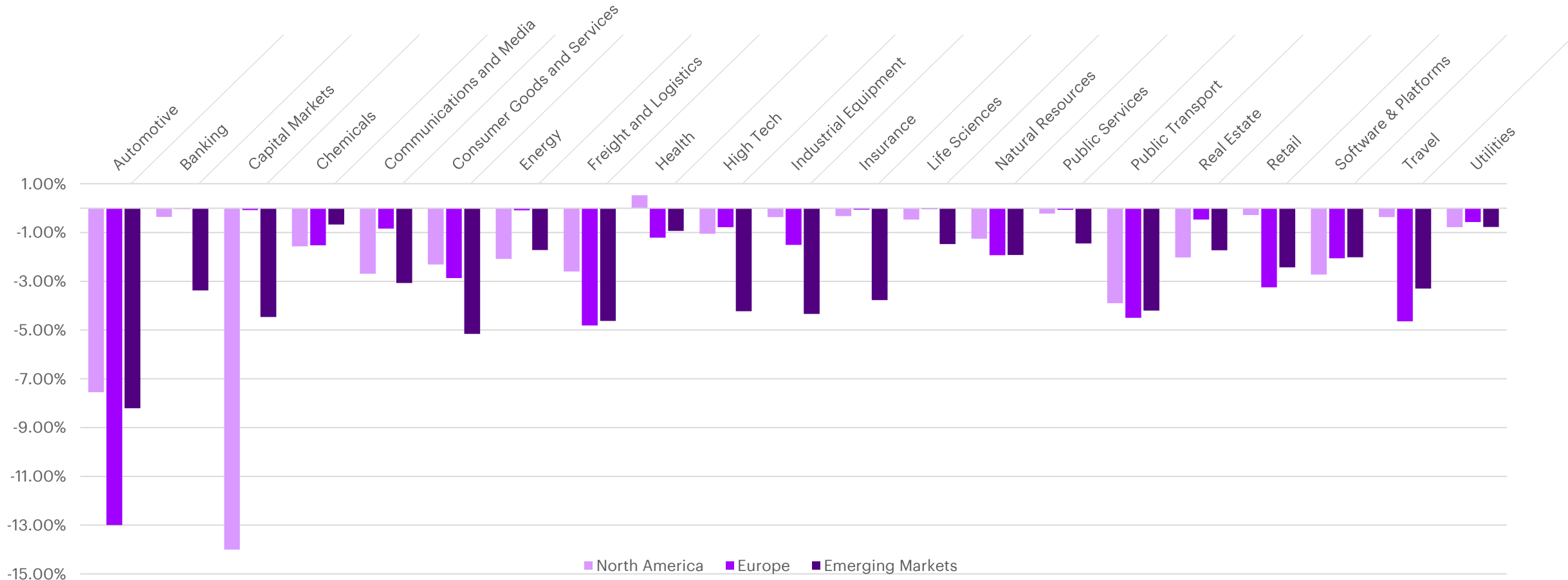
Infections are controlled in past locations, but spread to new hot spots, and rebound in old. Patience wears with social distancing, opening up societal fissures.

Prolonged chaos

Efforts to control the virus seem useless. Governments and societies are strained to the point of breaking. The economy is limited to necessities only and inflation soars.






The financial impact will vary by industry, region and company

GDP by industry: Change of 2020 forecast pre- and post-COVID-19



Source: Oxford Economics, Accenture Research, April 2020

Multiple financial levers can be pulled to increase liquidity and outmaneuver uncertainty

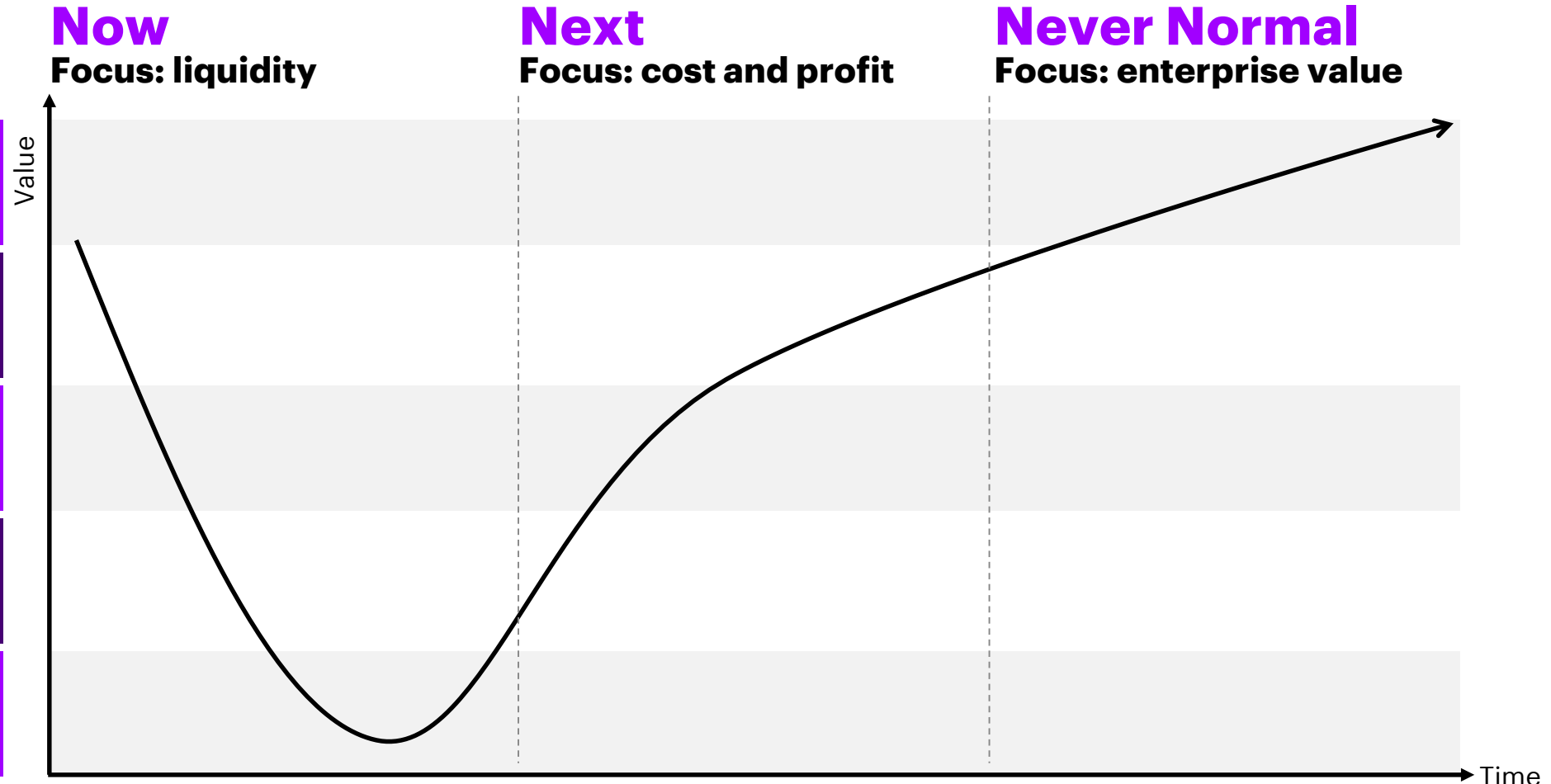
Levers	 Manage liquidity	 Financing and credit	 Eliminate or reduce costs	 Government aid programs	 Portfolio management
C-suite questions	Where can I find immediate opportunities to generate cash and alleviate my liquidity position?	How can I leverage credit financing and manage debt more favorably?	How can I reduce costs, reset the baseline and variabilize fixed costs for the new reality that will emerge from this crisis?	What are the governmental aid programs available for us, and what are near- and long-term implications of enrolling in them?	What should be my future business portfolio and which low-performing assets or parts of the business will no longer serve me in the new reality?
Sub-levers	<ul style="list-style-type: none"> • Revenue management • Cash management • Working capital optimization • CapEx portfolio 	<ul style="list-style-type: none"> • Financing options • Debt management 	<ul style="list-style-type: none"> • SG&A • Manufacturing • Procurement • Logistics and distribution • Outsourcing / talent model • Technology transformation (e.g. Cloud) 	<ul style="list-style-type: none"> • Financing options • Debt management 	<ul style="list-style-type: none"> • Divestitures • Acquisitions • New partnerships • CapEx • Ecosystem
Relevance	Finance + business	Finance	Entire business	CEO + finance + legal	CEO + finance + strategy

Source: Accenture Strategy client analysis, April 2020

Financial levers pulled in the Now and the Next set the foundation for success in the Never Normal

Financial levers

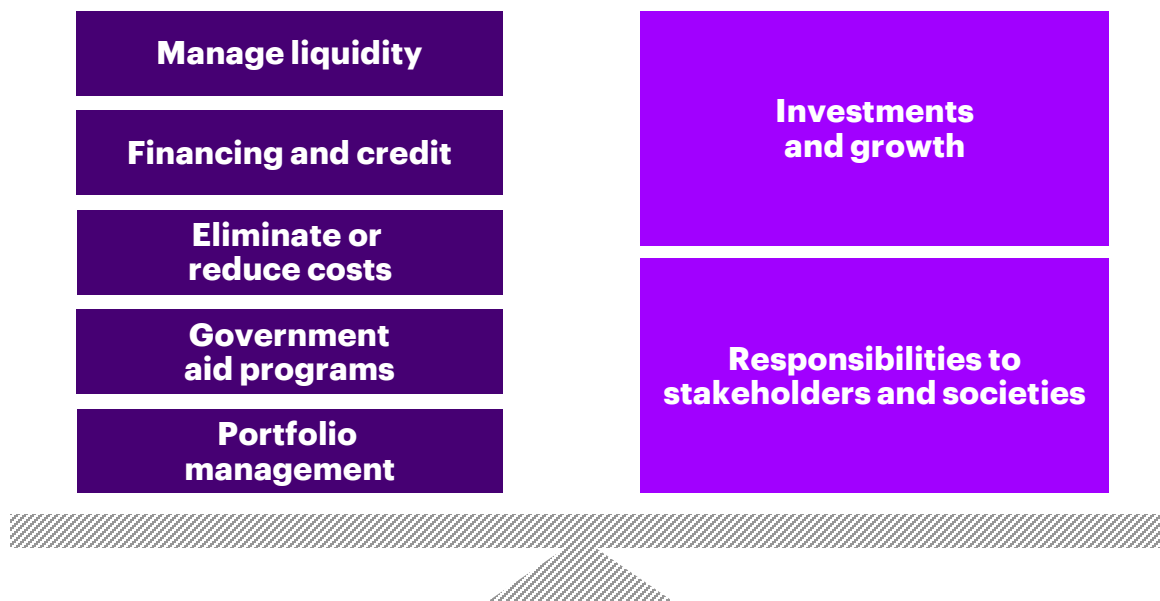
	Manage liquidity
	Financing and credit
	Eliminate or reduce costs
	Government aid programs
	Portfolio management



Financial interventions should be balanced with growth

Although the financial priorities will shift over the next months, **companies that will emerge stronger are the companies that best balance short-term liquidity and cost pressures in the Now with the right investments in new growth opportunities in the Next** and their responsibilities towards stakeholders and society in general.

However, **this recession is different than past recessions**. Sure, there are lessons learned, but we are also in uncharted waters where companies have to find their own course to **manage through uncertainty**. While some shifts are temporary, other things will never be the same: The new normal will be “never normal”.



Based on an analysis of 4,700 companies across three global recessions (1980, 1990, 2000), a strategy which optimizes defensive and offensive plays yields the highest probability of success after a downturn.⁶

Leadership mindset and strategy employed	Success rate*
Prevention: minimize loss and downside risks	21%
Promotion: focus on potential upside benefit	26%
Pragmatic: reduce expenses and make selective investments	29%
Optimization: focus on operational efficiency and investment in existing and new businesses	37%

*The probability that a company employing this strategy will flourish after a slowdown, achieving better than previous financial results and outperforming key rivals by at least 10 percent in terms of sales and profit growth.⁷

How can I rapidly generate cash to improve my liquidity now?

Take the liquidity control tower to the next level.

Most organizations have set up a financial control tower yet, they still lack real-time visibility and understanding into their liquidity positions. Few, if any, use analytics and behavioral modeling to predict what liquidity will look like based on business decisions. Finance should take full and centralized control of all liquidity decisions, supported by cash management analytics solutions that incorporate business and regulatory insights. This visibility and the analytics can help drive maximum value from the capital structure and free up stranded cash.

Model and optimize working capital.

Working with the business and leveraging data, the liquidity control tower can model working capital pain points and help pinpoint key actions to generate cash. Predictive analytics help proactively identify and monitor invoices with a high likelihood of rejection and disputes. Likewise, increased visibility and controls can ensure that the right discounts are being applied in accounts payable. Finally, reducing SKU complexity can greatly simplify and streamline cash management.

Review CapEx portfolio and governance.

A liquidity control tower can help organizations manage CapEx by ensuring better capital allocation decisions and improving certainty on in- and out-flows of cash. The liquidity control tower team provides insights to challenge predictions on CapEx returns and paybacks and provides both CEOs and CFOs control of all decision-making before the investment is made. The liquidity control tower also monitors results throughout the investment in all areas of the organization.

Generate up to

30%

increase in operational cash⁸

With the implementation of a liquidity control tower, an aircraft manufacturer could reduce spare parts inventory by \$200 million through the highs and lows of travel.

A food and beverage company could improve days sales outstanding and reduce working capital up to \$660 million by rationalizing credit terms across business units and countries.

Can and should we take advantage of government stimulus programs?

Evaluate stimulus programs available, taking careful consideration of near- and long-term implications.

Most governments impacted by the virus have announced significant COVID-19 stimulus programs to address:

- Funds for healthcare systems, covering testing, equipment and R&D for vaccines
- Support for low-income workers and those who lose their jobs
- Paid sick leave for workers who test positive for COVID-19
- Support for small and medium enterprises (SMEs), which are likely hit the hardest by the shutdowns. In some countries, the tourism sector is a focus.
- Broad tax rebates and deferrals for individuals and businesses

Depending on the industry and level of financial distress, companies can apply for specific tax rebates/deferrals and sometimes financial support. However, in our view, the conditions and the rules have not been very clear.

Careful evaluation is required to make sure that the benefits outweigh any unintended consequences.

Comparative fiscal response by key markets (as % projected investment of GDP)⁹

Japan: 20%



England: 15%



Spain: 17%



The U.S.: 10%



Australia: 16%



India: 1%



Germany: 15%



How can I improve profitability next?

Reset the company's cost baseline for the new reality

Many companies have resorted to eliminating or drastically cutting costs. However, these immediate measures are not sustainable in the long run. Once the crisis stabilizes, the next priority is to reset the company's cost baseline for the new reality. The past certainly won't be a reference for the future and this year's budget will likely need to be redone. New consumer values have surfaced, new opportunities will present themselves and new ways of working will become engrained into the organization. It is important to reset the new cost baseline, leveraging the visibility and analytics provided by the liquidity control tower.

Variabilize costs as much as possible

Managing in uncertain times means minimizing risks and variabilizing costs as much as possible. A good example is technology: moving to the cloud and software-as-a-service variabilizes fixed technology costs such as data center operational costs and software licenses. The same applies to supply chain and

manufacturing: companies should be asking where they could outsource production or distribution and logistics to third-parties and reduce fixed costs and risks. Creating the right ecosystem of partners can improve financial flexibility in addition to de-risking the business.

Balance cost cutting with growth

The right balance between cost/profitability and reinvesting for growth is important. New opportunities will arise from this crisis. The current competitive landscape will change. This is the time to truly understand changing customer behaviors and preferences. Continued focus on cost reduction will provide the funding to invest in these new opportunities and future growth.

Drive an ongoing culture and behavior change in the organization

This is a unique opportunity to drive a broader ownership culture for costs in the organization and to mobilize around ideas leading to smarter ways of working and spending money. This can generate additional savings year over year that can be reinvested in growth.

Achieve

15-20%

**reductions in SG&A
in 12-18 months¹⁰**

“After closing all department stores across the region and a sudden shift to ecommerce, we established a rapid recovery nerve center. Also, in collaboration with the CPO, COO and CFO we created a value case and plan for releasing \$400M of OPEX.”

– Large retailer

Does **technology** play a role in improving profitability?

Re-prioritizing technology to reset cost baselines, variabilize costs and enable growth is paramount in the Now to ensure maximum impact in the Next and Never Normal.

Although it is necessary in the Now to potentially reduce technology costs and services, technology will likely be the catalyst to successfully guide companies both financially and operationally through the Next and the Never Normal.

Technology has and will continue to efficiently enable the remote workforce and ensure business continuity with heightened support services, internet connectivity and stable applications.

Going forward, technology will continue to be crucial in ensuring an organization re-positions itself to meet demands of any remaining or new market that has emerged as a result of the pandemic. Technology solutions that leverage cloud, modern architecture, automation and agile delivery will not only drive efficiency, but enable organizations to scale to meet business/customer demands, rapidly deliver new products to market and open-up new customer channels.

Technology levers

Define bold solutions to rapidly optimize non-core technology while establishing foundation for growth



Cloud infrastructure

Accelerate adoption of cloud for the rapid provision services, to variabilize IT costs, increase resiliency and performance, and deliver scale in a technology-enabled cost-efficient manner



Modern architecture

Achieve **fit-for-purpose architecture** that creates flexible and adaptive business processes and capabilities



Technology automation

Aggressively deploy **tech-enabled automation and AI OPS** across business capabilities



Agile delivery / DevOps

Reliably build **sustainable and secure technology solutions** at pace to enable business agility, growth and profitability outcomes

Revenue generation

Use technology solutions to pivot the business to capture new market opportunities or protect against revenue decline

Cost management

Create greater variabilization of cost base, reduce CapEx needs, rest the cost baseline and gain greater predictability of costs

Business efficiency

Ensure business resiliency, support ongoing business operations and leverage technology to drive business optimization

In the **Never Normal**, reinvesting and taking advantage of new opportunities becomes key to unlocking full enterprise value.

Truly understand the changes in customer behavior resulting from this crisis.

As with any crisis, COVID-19 will likely lead to changes in customer behavior, the ways people work and what they value. Understanding these trends early is critical to capture these opportunities, grow and become even stronger.

Reevaluate the competitive landscape.

This crisis has the potential to drastically change the competitive landscape in some industries; some of the current competitors might not survive while new ones might emerge. Running scenarios to better understand the new competitive landscape can drive the future growth strategy and opportunities for M&A and new partnerships.

Reinvest for growth.

Implementing discipline around cash and cost management, powered by analytics and strong controls, together with a culture that fosters an accountability for the company's costs and a continuous dialogue around better ways to spend the company's money will generate further efficiencies year over year. These efficiencies should be reinvested in strategic initiatives to capture the new growth opportunities and emerge stronger from this crisis.

With the right measures, your company can emerge stronger from this COVID-19 pandemic.

Towards the end of 2020 or in 2021, new opportunities will start to surface. It is important to plan to capture these new opportunities ahead of the competition.

Balance to survive and thrive

Great leaders will be defined by how they lead strategically and operationally in moments of crisis.

As CEOs and their teams wrestle with the financial implications of market and operational uncertainties, they should proactively focus on economic viability, cost efficiency and competitive moves.

This balanced approach to bolstering total liquidity, improving profitability and setting the course for ever greater levels of enterprise value will allow enterprises to not only survive—but ultimately thrive.

Contacts



Aneel Delawalla

Managing Director,
Accenture Strategy,
Global Enterprise Value
Targeting Lead



Robert Willems

Managing Director,
Accenture Strategy,
Global ZBx Lead



Stephanie Gorski

Managing Director,
Accenture Strategy



Manish Chandra

Managing Director,
Accenture Strategy,
Supply Chain &
Operations Strategy



Benigno Herrera

Managing Director,
Accenture Strategy,
Supply Chain &
Operations Strategy

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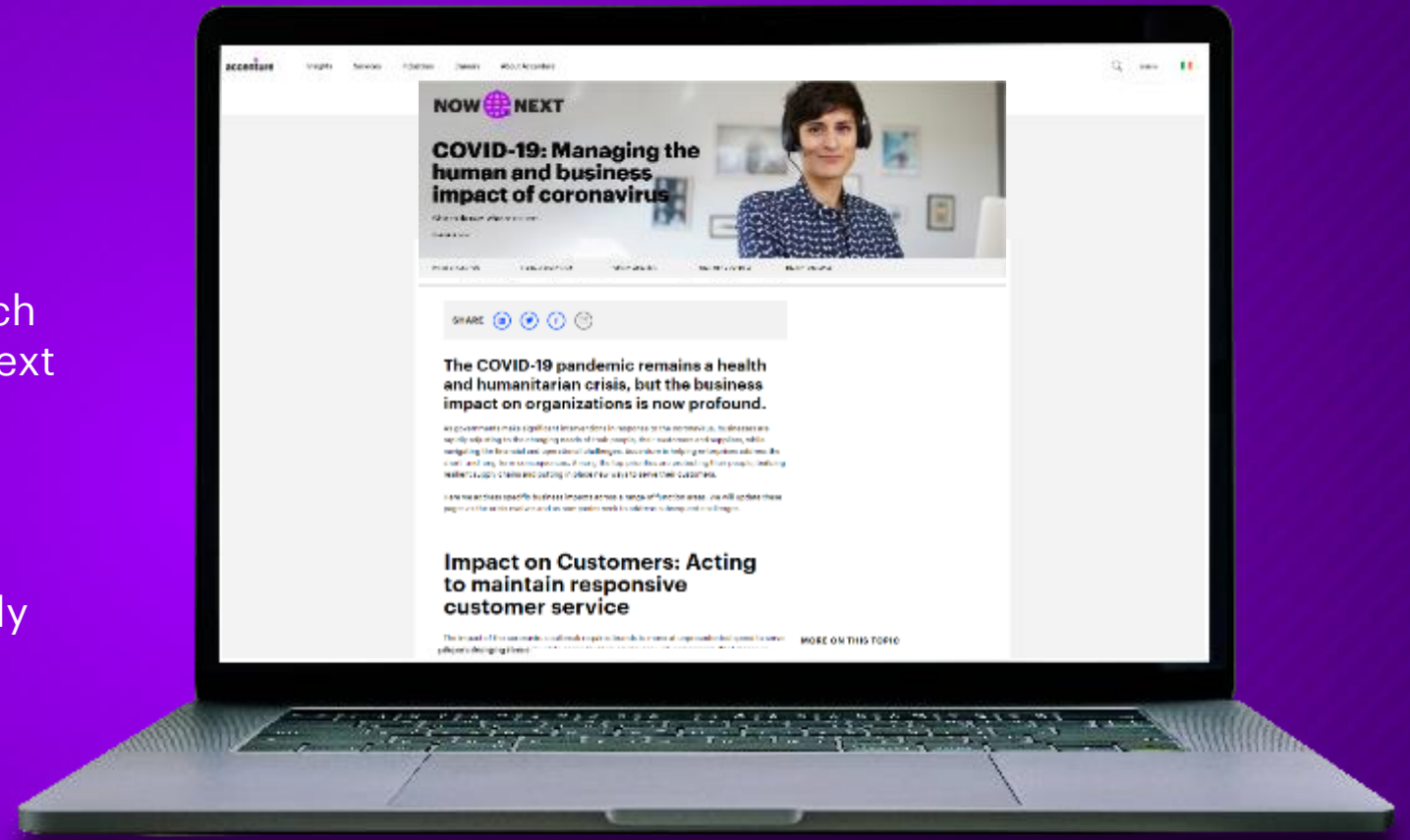
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10. Based on Accenture projects and delivered outcomes

To help our clients navigate both the human and business impact of COVID-19, we've created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions which can be taken now, and what to consider next as industries move towards a new normal.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

[VISIT OUR HUB HERE](#)



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