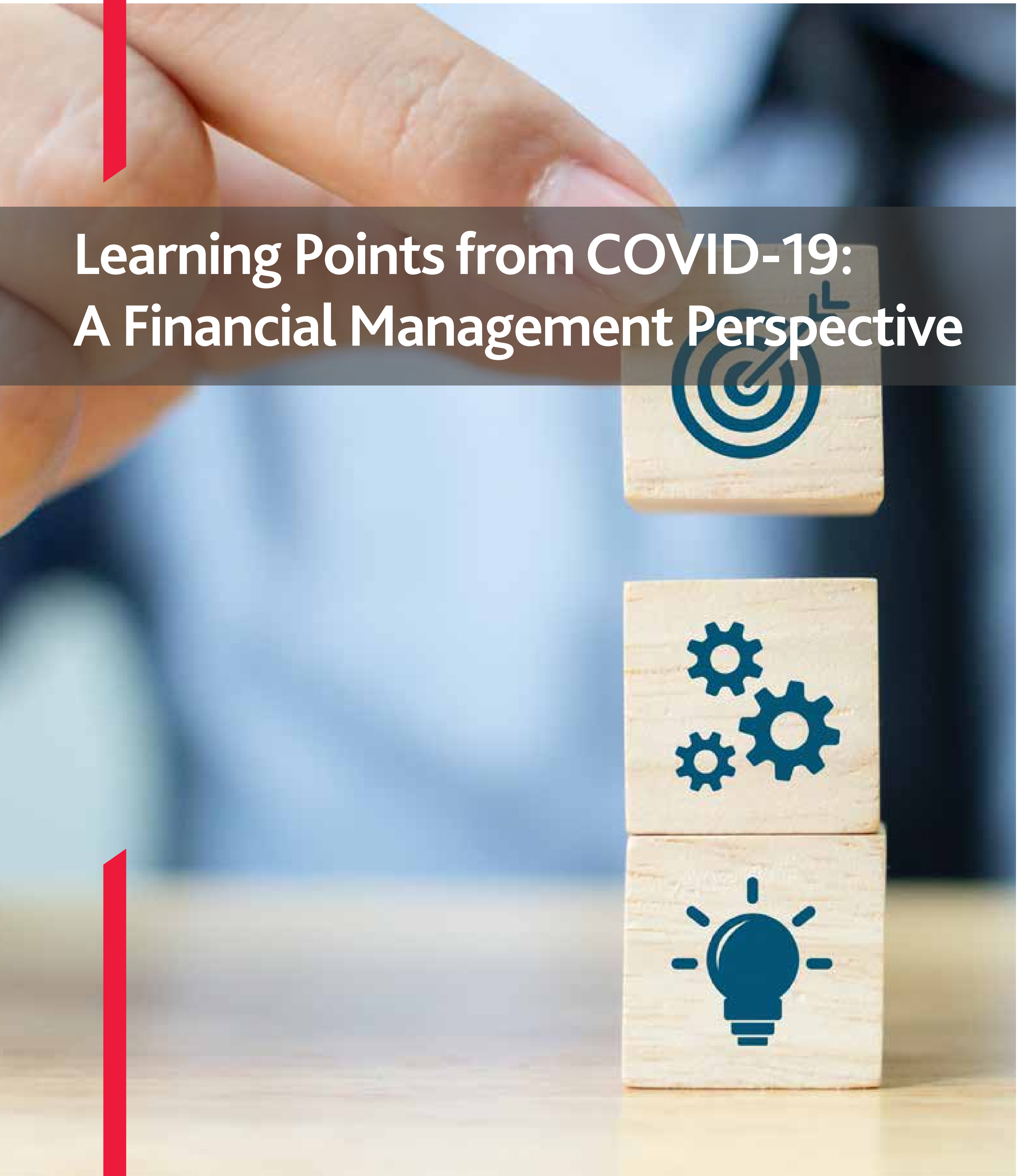
Learning Points from COVID-19: A Financial Management Perspective



Content

Background

Through this pandemic, businesses have come to learn the need to adapt and transform in order to survive. As quoted by Peter F. Drucker: ***"Change is the norm; unless an organisation sees that its task is to lead change, that organisation will not survive."*** As technology helps to bring the world together, it also poses a risk to businesses.

Let us discuss on a few areas that would affect how the accounting industry might transform to adapt to the business world's ever-changing needs:

- Automation and Digitisation
- Cost Optimisation
- Transition of the Accountant to an Advisory Role
- Omni Channel Approach

Automation and Digitisation

COVID-19 has paved the way for digital transformation as businesses shift operations to cope with office closures, restricted movement and multiple interruptions.

While the Government has long encouraged firms to use more digital technology in their processes, COVID-19 has brought into stark relief its relevance and usefulness at a time when companies have had to activate their business continuity plans, said Minister for Communications and Information S. Iswaran on Tuesday (March 31). A Mckinsey study showed that we have seen the equivalent of five years of consumer and business digital adoption in eight weeks since the COVID-19 pandemic started. Furthermore, in Singapore, take-up rate for e-payments in businesses has risen sharply – as much as 50,000 businesses have adopted PayNow Corporate since April this year (Budget 2020).

Several obstacles that has previously prevented businesses from the adoption of new innovations:

- Bureaucracy
- Reluctance to disrupt existing ways of working, with the mentality of 'how things have always been'
- Workers worry of being made redundant once their jobs are automated
- Employers worry that workers are not technology savvy, hence resources are wasted if technology has been adopted, but not widely used
- Digitisation only applies to some sectors

However, more businesses are seeing the value of increased digitalisation in the light of the COVID-19 pandemic. Businesses see the value proposition - whether it is working remotely, or transacting with business partners around the world - and also for employees to understand why digital technologies are very relevant and useful.

What should companies look out for while adopting new innovations?

1. ***Digitalisation is journey, and not something where one needs to "jump into the deep end in one fell swoop"***

    a. Both employers and employees can take incremental steps, while having an overall strategy, and identifying the capabilities and additional resources needed to

reach the end point. Constant review and realignment of objectives are necessary to meet the future, ever-changing needs.

b. Companies must also develop a roadmap that allows innovation to flourish and guides the training agenda for employees.

2. Build a culture that drives innovation

a. Such a culture demands renewed thinking regarding strategy and a mind-set change. Employers will have to relook their fundamental framework of how they work, operate and reward.

b. A company's culture and appetite for change can often be a powerful driver. Senior executives should be developing long-term strategies that drive innovation and give their employees a useful framework within which innovation is nurtured and encouraged.

3. Build up skills to disrupt. A data-driven culture can power digital transformation but simply acquiring more information is rarely sufficient

a. Companies on a digital transformation journey often collect large amounts of customer data, which can be a potent new source of new business opportunities. But in order to realise these benefits, companies must marry these with new skills in their employees – in using data to draw insights and discern actionable improvements.

Cost Optimisation

COVID-19 continues to plague the global economy, with no definite endpoint in sight. With a growing list of bankruptcies during the pandemic, many businesses, irrespective of its size, has started a series of cost-cutting measures. In Singapore, more businesses are announcing salary cuts or prompting staffs to go on unpaid leave, which has cast a dark cloud over many industries (Tang, 2020).

A focus solely on cost-cutting brings several problems, including:

a. A siege mentality which drives the company to aim low and keep both innovation and cost-cutting incremental.

b. Reduce in product quality and therefore a drop in customer satisfaction.

c. Centralised cost-cutting measures, for instance an across-board-cuts which neglect the initiatives that may be the nuclei of the post-recession growth.

d. Laying off staffs which would discredit employee and make recovery more difficult.

What is Cost Optimisation?

A research conducted by Gulati, Nohria and Wohlgezogen, 2010 shows that 17% of the companies in their study did not survive a recession; 80% of them had not recovered their prerecession growth rate; and only a small number of companies flourished and outperformed their competitors after an economic downturn. The research further states that companies that master the delicate between cost-cutting and investment in growth will perform well after a stagnation (Gulati, Nohria and Wohlgezogen, 2010). These companies lower costs selectively by emphasising on operational efficiency than their competitors do, even as they spend approximately comprehensively in the future by investing on other assets. This is what we called the "Cost Optimisation". In simplified term, cost optimisation is defined as a business-focused, continuous practice to drive spending and cost reduction while increasing business value. The key essence of cost optimisation is to reduce business cost for the short term without sacrificing the long term.

How do businesses identify cost optimisation opportunities?

1. Benchmarking

- The use of comparative metrics helps a company to analyse its environment and discover new areas

that may require additional funding or optimisation. Benchmarking against top industry performer would give the company an external and independent perspective on how well the company is operating and an overview of areas of improvement opportunities. For example, a company can compare its capital expenditure as a percentage of revenue with the cross industry number to indicate how much on or off target an organisation is from the global average for similar industries. With reference to the competitors' better practice, it triggers a fact-based discussion to a new and improved set of operational practices within the organisation. On the other hand, benchmarking validates assumptions whether the company is performing well and whether they shall continue doing.

2. *Transparency*

- Companies often struggle to understand their true costs due to the complex issues rooted in the systems, processes, and competencies across the organisation (Deloitte, 2016). Hence, many companies exercised budgeting and cost control to manage income and expenditure. It forms the baseline against which the actual expenditure and forecast expenditure of each department is reported. Based on the budgeting plan, risk management will then held a further level of reserve to cover unforeseen circumstances. Bringing in that transparency into the entire system will allow every department or function to be seen more than just as a cost centre.

3. *Communication*

- Cost optimisation opportunity can be identified by encouraging close collaboration and joint idea-generation sessions with every stakeholders, including employees. The basic premise for generating ideas is that the people who perform the work must own the initiative, from idea to recognition of bottom-line impact in financial accounts. It is essential, precisely, to ensure a credible quantification of the financial opportunity combined with the predicted ramp-up of the cost savings over time.

Transition of the Accountant to an Advisory Role

An accountant's role has evolved over the years with the introduction of technology, especially so in the recent years. With technology, many time-consuming accounting functions can be automated, such as payroll, audit and tax preparations. This should be seen in positive light as accountants can then spend more time on analysing those data and provide more business insights; instead of worrying how technology will affect their billable hours. There will always be a need for the human element – ***human intelligence*** and ***judgment***.

While jobs do disappear with the introduction of technology, new ones are created as well. With an increase in data, automating routine task could free up time from these menial tasks to properly identify issues. Accountants will soon then be an advisor to Management via data analysis and consult for businesses to provide sound business solutions.

Technology will help improve data accuracy and lowers the liability risk for accountants. In addition, fraud detection can be more efficient, adding an extra layer of protection for the accountant and their clients.

The accounting industry will still be relevant amidst the rise of technology. This can be done by embracing technology. When technology can be maximised, the accountant must also upgrade in order to be well equipped to utilise and integrate technology into the accounting process. This will inevitably increase the value of the future accountant.

This is by far the most trying times for accountants. In today's world, change is becoming a norm. Every company should be well equipped with enterprise risk management to ensure its survival and to evolve with changing times. It is no longer the survival of the fittest, but the ability to adapt the fastest.

Omni Channel Approach

"The world will never go back to the way it was" says ServiceNow's CEO Bill McDermott, in response to COVID-19, and he is not alone with such a view on the future. With countries under lockdown and with Circuit Breaker closer to home in Singapore, there is an inevitable shift in how customers consume goods and services. One very observable change is how we are more apprehensive to viewing and transacting goods and services physically, crippling demand and sales for companies at large. This however, is not the case for all companies.

Some relatable examples are Domino's Pizza and Wingstop who have seen an increase in sales through this period and have since seen their stock price rise 29% and 40% respectively since the start of the year despite food and beverage (F&B) services industry taking a huge hit. They are amongst the many companies that have come out on top through this period. Their secret? ***Omni Channel Approach.***

What is Omni Channel?

Omni channel is defined as "seamless and effortless, high-quality customer experiences that occur within and between contact channels. Such channels include not just storefronts of offices where transactions are physically made, but also ecommerce, social selling, digital marketplaces etc. The Omni Channel Approach enhances customer experiences and provides more channels for customers to purchase be it on web, mobile or in stores. It allows companies to drive traffic and sales as well as integrate customer touchpoints.

How does Omni Channel work?

Below is an illustration of Mattress Company ABC applying the Omni Channel Approach:

1. Customer visits ABC's website and adds a super single mattress to their cart, but leaves without completing checkout.
2. An email with "$50 off first purchase" is sent to the customer but was never opened.
3. Customer is then prompted with advertisements for the same super single mattress and "$50 off first purchase" coupon on social media platforms e.g. Instagram, Facebook, YouTube.
4. Unable to engage customer for a week, ABC modifies its strategy and pushes corporate social responsibility (CSR) efforts they have done to respond to the worker dormitory situation and provided quality mattress for some of the workers who sleep on thin mattresses on the floor.
5. The advertisement on Facebook engages the customer and directs her back to the ABC's website.
6. After reading about the CSR initiatives on ABC's website, customer scrolls through the queen mattress section, chooses a product and enters shipping information, however does not complete the transaction as she decides she needs to try it before purchasing and abandons the purchase.
7. ABC identifies customer address close to one of their Holland Village store.
8. Couple of days later, mails a physical letter to invite the customer to visit their Holland Village store with an attached "$100 off queen mattress purchase" coupon.
9. Customer heads down to store to try the mattress and finds that she likes it and proceeds to purchase the mattress. Cashier processes transaction and is prompted that this customer had received a $100 off coupon and applies the discount for the customer although she did not bring the physical coupon.
10. Customer leaves ABC store as a thoroughly satisfied customer.

Companies with Omni Channel strategies future-proof themselves and are in a better position to serve their customers in the long run. Simply creating additional channels is insufficient. Rather, building an architecture that integrates different channels allows the business to quickly adapt to changing customer needs.

In conclusion, as the world looks toward a future deeply affected by the COVID-19 crisis, opportunities in automation and digitalisation, cost optimisation, accountants adopting an advisory role as well as the Omni Channel approach lurk. Harnessing such opportunities better position companies to embrace the new normal and emerge on top, future-proofing their businesses.

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