THE FINANCE LEADER OF TOMORROW 2020 SURVEY

HOW FINANCE LEADERS VIEW THE WORLD: BEFORE AND AFTER COVID-19

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EULER HERMES

FOREWORD

I could not have started my new job as the Group CFO of Euler Hermes in April 2020 during a more challenging but also more interesting time. Like many of the respondents to this report, I was positive that we would achieve our growth ambitions in 2020. While we expected an economic slowdown and an increase in insolvencies, I was confident that we took the necessary actions to protect our top and bottom line. Now we are in a different world.

I strongly believe that every crisis represents a key turning point for finance leaders. We are crucial to combine data from various sources, to connect the dots and to be an advisor and influencer for the whole company. I see it as a necessity to maintain relationships with stakeholders – customers, suppliers, banks, regulators, and of course employees. Regular exchanges allow us to see difficulties before they appear in the P&L and to act early instead of reacting late.

Going forward, having some margin to maneuver during a crisis is crucial and requires from Finance Leaders to have a much more forward looking view. I am convinced that a fast reaction is the new reality. For this, new technologies are fundamental so that the focus is on the content and not wasted on spreadsheets. As in many other companies, we still have room for improvement. At Euler Hermes, we are already working on it.

I would like to thank all the Finance Leaders who participated in our first edition of the survey "The Finance Leader of Tomorrow". I hope you find our report insightful and we are looking forward to your feedback.

LOEIZ LIMON-DUPARCMEUR

Group Chief Financial Officer and Member of the Board of Management

EULER HERMES

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EXECUTIVE SUMMARY

In February 2020, we surveyed 847 senior financial decision-makers at businesses across Western Europe. One finding from the survey was that 75% of finance leaders believed their role in 2020 would be just as predictable or more predictable than the previous year.

Barely a month on, things couldn't have turned out more differently. The wholly unprecedented Covid-19 outbreak was dominating the agenda of every business. Within weeks, it developed from a seemingly distant problem to one dramatically impacting the way we work and live our lives. With circumstances still changing on almost a daily basis, things could hardly be less predictable.

Prior to the outbreak spreading across Europe, finance leaders were cautiously optimistic about the coming year. They were predicting better financial performance and were enthusiastic about the role that technology could play in driving their business forward, despite the threat of high political risk, the rise of protectionism and climate change. Our Economic Research Department identified those factors as representing a wall of fragilities, alongside excessive leverage in the corporate sector. Since the outbreak, finance leaders' sense of optimism dropped significantly; with the percentage saying they felt 'confident' about the coming year falling from 50% to 36% and those reporting feelings of stress increasing from 19% to 32%. Moreover, existing worries around late payments were being exacerbated and new concerns around sales and profitability also appeared.

Alongside the propagation of the virus and intensification of the crisis (we now expect world GDP growth to contract by -4,7% y/y in 2020), the way financial leaders view their priorities has changed. Previously, they saw leverage as a way to invest in technology, new products and new machines, but this has now switched to a focus on preserving working capital. The proportion prioritizing this increased from 17% to 30%, meaning it has become the top priority compared to other potential investment areas. Interestingly, technology kept a significant weight amongst these priorities, with 21% of surveyed people advocating for investing in digital technologies in May, compared to 22% before the outbreak. In a similar manner, the percentage of people mentioning that the need to understand technology was a key skill of a CFO increased (from 42% to 49%) but not as significantly as financial planning and strategic decision-making, which increased from 58% to 67% and from 49% to 56% respectively. Therefore, a focus on technology remains key, but this must be conditional on protecting the business from risk.

Even prior to the Covid-19 outbreak, risks around payment delays and client insolvencies were prevalent – affecting respectively 47% and 32% of businesses over the previous year. Since the outbreak, things have escalated further – with 65% saying payment delays had affected them in the past two months when asked in May. On top of this, prior to the outbreak only 44% of businesses said they felt 'fully prepared' to deal with payment incidents and only 40% said the same for 'client insolvencies'. Since the outbreak, these figures dropped to 31% and 35% respectively. We indeed expect global insolvencies to increase by at least 35% at the horizon of end-2021.

While there will undoubtedly be difficult times ahead for many companies, the in-depth interviews made us realise there is an overriding sense that, when the Covid-19 crisis eventually comes to an end, the underlying factors that were driving this confidence will return to the fore. Businesses that are well prepared to manage risks will emerge strongly, providing that they invest in technologies, protect their business from payment risks and better leverage their network.

This report explores the world through the lens of the financial leader – both before and during the Covid-19 outbreak affecting Europe. The findings are based on three phases of research, each conducted a month apart, speaking to over 1,000 finance leaders in total (for more details about the methodology, see p 20).

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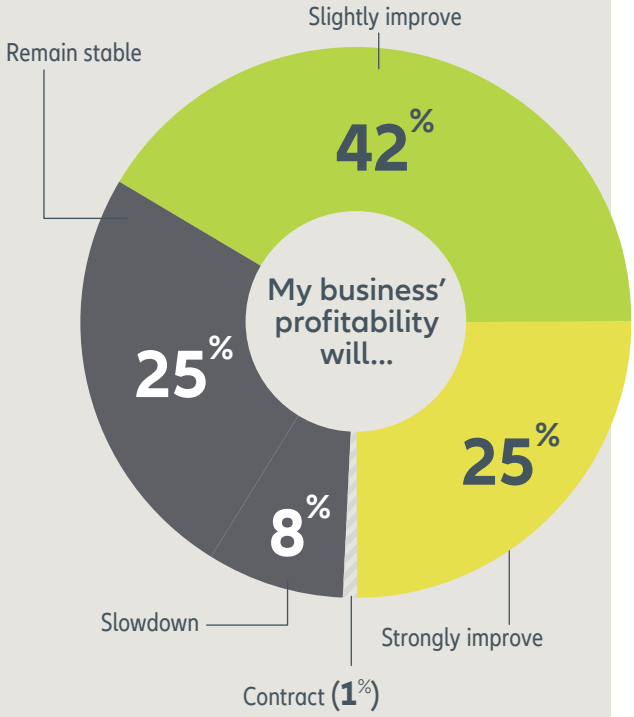
PRE-COVID-19: CAUTIOUSLY OPTIMISTIC

HOW CONFIDENT FINANCE LEADERS FELT ABOUT THEIR BUSINESS' PROFITABILITY AND TURNOVER



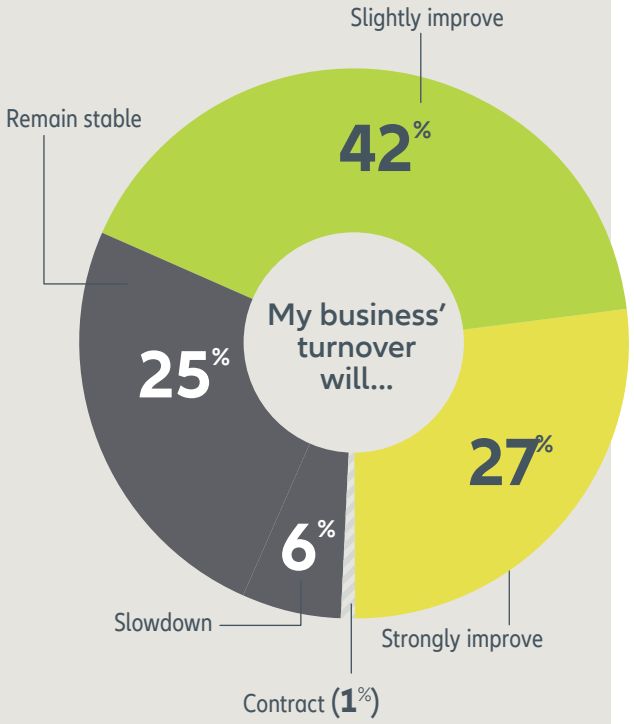


Fig. 1. In February 2020, business financials were expected to improve

Despite the somewhat turbulent political and economic circumstances of the past few years, coming into 2020 financial decision-makers in Western Europe were feeling relatively confident about the year ahead. Two-thirds of the senior financial leaders we surveyed before the Covid-19 outbreak in Europe predicted that their businesses' profitability and turnover would improve, with larger companies being especially optimistic for both indicators (76% of large businesses expected turnover to improve, and 74% expected profitability to improve, compared with 62% and 59% respectively for smaller businesses).

When finance leaders were asked how they felt about their role in the year ahead, the two most cited words were confident (50%) and optimistic (48%), with 70% of respondents listing at least one of these positive feelings.

At this time, the two most mentioned reasons for optimism were growing sales or profits, driven by an improving European economic situation and the adoption of new technologies, which we will explore later.

> **"There was optimism as we have seen good growth in all industries Europe-wide in recent years. The critical discussions that the European Union had held with Italy, Greece and Portugal were all overcome... Gross National Product's (GNP's) were fine and positively developing with 'okay' inflation. The unemployment rates had stagnated or come down too."**
>
> (Eva Kienle, CFO at SDAX listed business, Germany)

Since then, we have entered far less certain economic times with the Covid-19 outbreak hitting Europe and disrupting businesses across countries. The impact this has had on the economy has clearly affected finance leaders. Significantly, fewer said they anticipated improvement in turnover and profitability in the coming year - 52% and 48% respectively - compared to 67% and 69% before the outbreak.

The first phase of the survey was conducted from 5 February to 2 March 2020, prior to the main Covid-19 outbreak in Europe, with only a prescient 2% mentioning the virus as a concern at the time.

Aside from the financial aspect, the outbreak has also had a significant impact on the personal outlook that finance leaders have for the coming year. 50% said they felt confident before the outbreak, which dropped to 36% afterwards. Conversely, the number of people saying they felt 'stressed' nearly doubled and the number saying they felt 'scared' nearly tripled.

It is not all doom and gloom however. When asked after the outbreak about the reasons for hope, finance leaders mentioned technology, new opportunities being uncovered and a feeling that - while things are difficult at the moment - they would at some point return to a more normal state.

> **"At some point, it's going to be back to normal. Then you're going to get back to your strategy, and just execute on it."**
> (Fabrice Levy, CFO at Uberall, France)

This return may be some distance in the future, however. Our Economic Research department indeed anticipates a U-shape recovery - which will be supported by very accommodative policies - but a comeback to the level of production prior to the crisis will be visible from early 2022 only. We also expect the world economy to contract by -4,7% y/y in 2020.

WHEN THINKING ABOUT THEIR ROLE IN 2020, FINANCE LEADERS FELT...

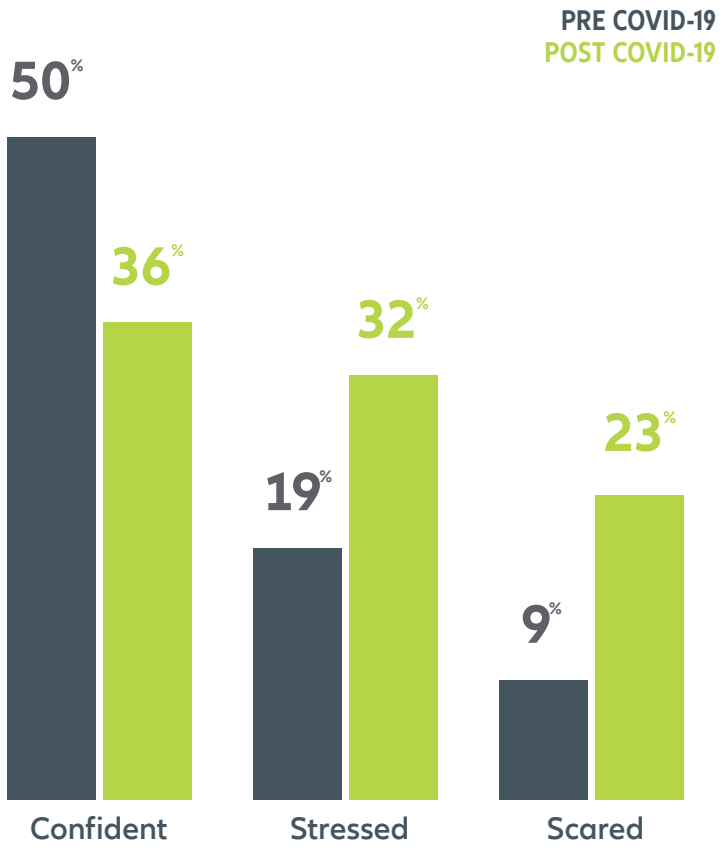


Fig. 2. Finance leaders came into 2020 feeling confident about the year ahead

THE IMPACTS OF BREXIT ON BUSINESS CONFIDENCE LEVELS

Prior to the Covid-19 outbreak, 15% of UK respondents spontaneously cited Brexit as a reason for pessimism in 2020 – more than double the next factor mentioned. The potential rising costs of doing business has made UK finance leaders less optimistic about profitability compared to the other markets we surveyed. Smaller businesses in particular were more concerned, with only 51% predicting an improvement in profitability (compared to an average of 67%).

David Franklin, CFO at Astrea Bioseparations suggested that some businesses may have been negatively impacted by the uncertainty: "It's really the uncertainty [of Brexit]. It's been dragging on for so long with a complete lack of certainty about what was going to happen. It made it very difficult to plan for."

UK businesses must adapt and shield their business from this uncertainty. Alberto Bottero, CIO/CTO of Affidea Group, UK, commented: "We are now increasing our presence in EU countries while not increasing our Operations in the UK because we don't know what lies ahead [with Brexit]."

Conversely, business financial leaders outside of the UK generally feel more comfortable about managing the economic impacts of Brexit, particularly following the conclusion of the withdrawal agreement.

> **"Europe had this long discussion with regards to Brexit. But the longer it took, the less of a shock it was compared to at the original time of the vote. How long did it take in the end? About five years? I think by this point people have prepared well enough for it not to cause a crisis."**
> (Eva Kienle, CFO at SDAX listed business, Germany)

HOW NEW TECHNOLOGIES ARE IMPACTING THE FINANCE FUNCTION

TECHNOLOGY REMAINS KEY, BUT IS NOW CONDITIONAL ON MITIGATING BUSINESS RISK

One of the key factors driving confidence among finance leaders prior to the outbreak affecting Europe was new technologies.

When asked about the impact of various trends on their businesses - including access to finance, economic growth and global trade - new technologies were considered to have been the most positively impactful trend on businesses over the previous 12 months.

More than three quarters of finance leaders (78%) stated that new technologies had positively impacted their businesses in the past year, with 73% agreeing that they felt enthusiastic about the potential impact of new technologies.

Even after the Covid-19 outbreak, this sentiment remained, with 75% saying they felt enthusiastic about technological potential when asked after the virus had hit Europe.

Despite this, investment in new technologies may be temporarily delayed as other priorities take precedence in the short term. Prior to the outbreak, when asked what they would invest in if their business was to take on more debt or leverage, digital technology was considered the highest priority (see fig.4 on the following page for more details).

One in five (22%) of those surveyed said investing in new technologies would be their top area for investment, making it the #1 priority across businesses. This rose further in Germany, where 27% of respondents said investing in digital technologies was their top priority. Interestingly, working capital was the top investment priority for UK respondents, rising to 23%.

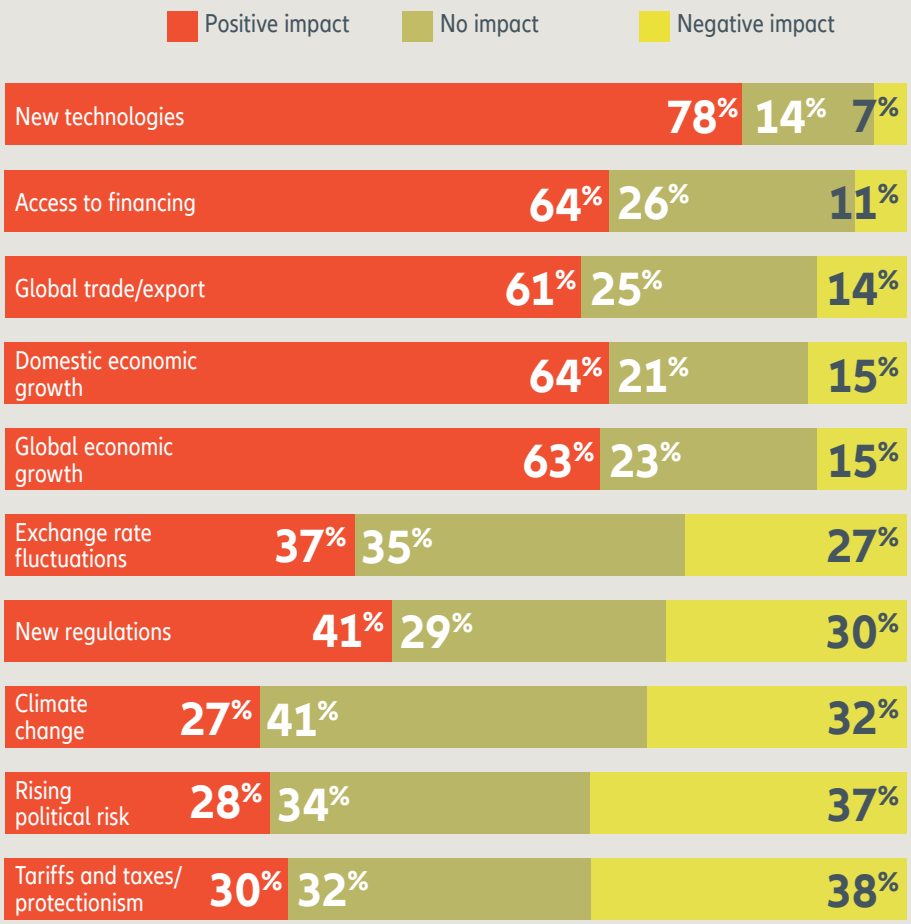


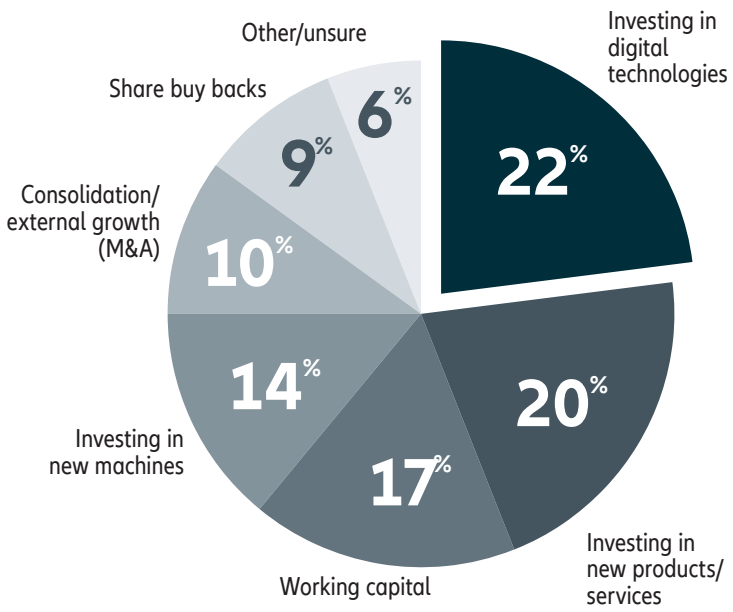
Fig. 3. New technologies have had the greatest positive impact on European businesses over the last year

Since the outbreak, we still saw around one in five saying investing in digital technology would be a #1 priority – but this had become overshadowed by working capital, which 30% said would be their top priority for investment over the coming year.

As mentioned earlier, it is likely that technological progress - a key cause of optimism before the crisis - will return to being businesses' top priority for investment in the mid/long term. For now though, more businesses claimed to be dedicating the next year to ensuring they would have the working capital in place to survive the current climate.

TOP INVESTMENT PRIORITIES IF A BUSINESS WAS TO TAKE ON MORE DEBT OR LEVERAGE OVER THE NEXT 12 MONTHS

PRE COVID-19



POST COVID-19

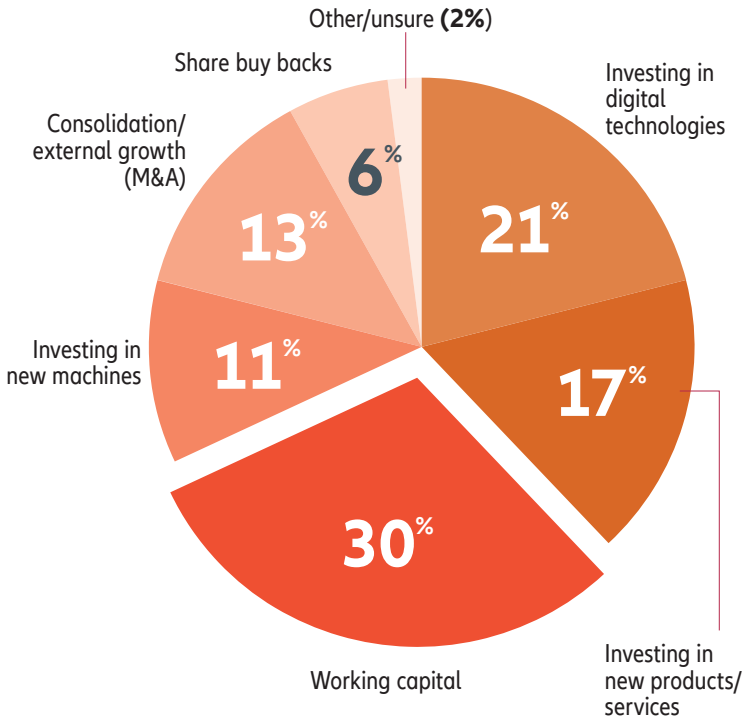


Fig. 4. Working capital has become the top priority for investment since the Covid-19 outbreak

Finance leaders at small businesses are less knowledgeable than their larger business counterparts when it comes to technology: only 16% strongly agree that they fully understand new technologies relevant to their businesses, compared with 36% at large businesses.

THE REAL VALUE OF TECHNOLOGY: USING IT TO GET VALUE FROM DATA

While we've seen an explosion in the prevalence and importance of digital remote working solutions in the past few months, what are the technologies that are set to transform the business landscape in the longer run?

Financial leaders mentioned a range of desired investments, from 5G, to Artificial Intelligence, to Internet of Things (IoT) solutions; technologies that they see as ultimately enabling their businesses to reduce costs, grow revenue and/or provide better solutions for customers.

When speaking in-depth to CFOs, there was particular interest in analytics, business intelligence (BI) and modelling. CFOs want to use both internal and external data to analyse performance and predict future opportunities and threats.

Alberto Bottero CIO/CTO of Affidea Group, UK commented: "[I want to invest in] Analytics. Any technology able to get data from multiple sources, combine this data, and provide real-time reporting to the business development or finance teams."

> **On the really simple side, really good management information and planning systems are extremely valuable in terms of modelling your business and strategy. On the other hand, what is very valued, and I think this is a real big area a CFO should also look into, is trend and consumer modelling"**
> (Markus Schneider, CFO of Kerberos Management, Germany)

For many, Artificial Intelligence (AI) will be key to unlocking the potential of analytics and predictive modelling.

For example, Fabrice Lévy, CFO at Uberall stated: "AI and BI can be buzzwords when the terms are used wrongly (e.g. referring to simple dash boarding and doing automated reports). In businesses, where data is available and considered key, then what you do with it you can call it AI. This is the ability to let the data talk, predicting patterns of customers. This could be to retain a customer because you predict a pattern of usage or potential non usage. Or on the expansion side, where you create models of patterns that you see in the customer data, identifying opportunities to up-sell or cross-sell. Leveraging technology in this way could create an automatic ROI that would be an easy win for the organisation."

The most exciting facet of future technology for CFOs is using it to unlock the value of business data, to turn this into a revenue driver.

TECHNOLOGICAL SAVVINESS FOR CFOs

As businesses become more technologically advanced, the modern finance leader recognises that it is important for them to personally adapt.

Of those surveyed prior to the Covid-19 outbreak in Europe, 'understanding new technologies' was considered an area that should be a top technical skill of a CFO by 42%. While traditional CFO skills of 'financial planning' and 'strategic decision-making' remain higher priorities, this places understanding new technologies broadly on a par with other traditional CFO skillsets such as 'business plan development' (45%) and 'compliance and risk management' (40%).

After the outbreak, we still saw a similar prioritisation of skills, although 'financial planning' had become even more vital, with 67% saying it was a top technical skill.

Finance leaders clearly recognise the need to focus on their core responsibilities in a time of serious economic uncertainty, but it's worth noting that this has not come at the expense of technological understanding – with 49% still saying this was a top technical skill. It's clear that CFOs take technological understanding seriously. However, while many claimed to have good knowledge already, around a third (31%) admitted to lacking confidence in their understanding of new technologies.

Whilst there is no suggestion that the CFO should become the next Chief Information Officer, considering the rate of change that technology brings, technological skills must remain a key area of learning even for those who see themselves as already knowledgeable. If not, the skills of finance leaders will very quickly become outdated within their own organisations.

TECHNOLOGY CONCERNS

When asked about how their role had changed over the last three years, nearly three-quarters (72%) of finance leaders agreed that it had become more dependent on technology.

While, overall, technology is viewed in an overwhelmingly positive light, some concerns still exist. These concerns included the risk of becoming overly reliant on technology (35% are concerned) and the possibility of technology replacing people or roles in their team (44% are concerned).

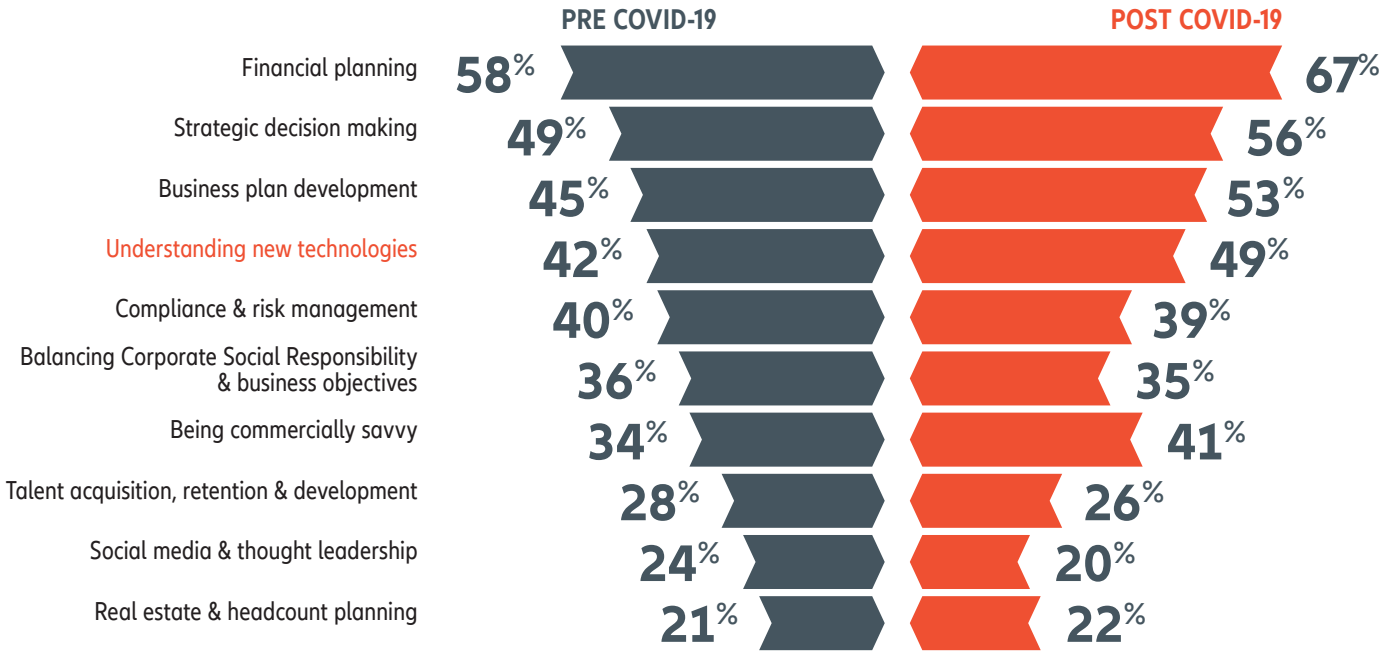
Finance leaders also recognised that this growing reliance on technology brings additional risks, such as increased cyber security threats.

> **"With everything being online, in the cloud, etc., cyber security is a big, big issue. We invest a lot in cyber security, to make sure we keep the risk at bay."**
>
> (A Corporate VP at a Multinational Technology Consultancy based in France)

While many CFOs claim to have a good knowledge of new technologies already, around a third (31%) admit to lacking confidence in their understanding.

Fig. 5. Understanding new technologies is a top technical skill for today's finance leaders

THE TOP TECHNICAL SKILLS FOR CFOs TODAY



SUPPORTING SMALLER BUSINESSES IN THEIR DIGITAL TRANSFORMATION

For technologies to be adopted and drive the positive impact desired by finance leaders, there needs to be a culture of fostering technological growth within a business. Encouragingly, most finance leaders (77%) say they feel supported by their business to embrace new technologies.

However, there is a disparity between business sizes. 84% of finance leaders at large companies said they feel well supported, compared with just 70% at smaller organisations.

This appears to influence the level of positive impact that technologies bring. 84% of finance leaders at large businesses say technology had a 'positive impact' on their businesses over the past year, compared to 73% at small organisations. Similarly, 26% of finance professionals at large businesses selected investing in digital technologies as their top area for investment, compared with only 19% at small businesses.

While the small business numbers are by no means low figures, the disparity versus their large business counterparts demonstrates that a significant proportion of finance leaders at smaller businesses are missing out on vital support and technology-driven benefits.

Perhaps there is a need for external providers to support CFOs at smaller organisations in their adoption of new technologies and garnering internal support.

HOW NEW TECHNOLOGIES HAVE IMPACTED SMALL AND LARGE EUROPEAN BUSINESSES OVER THE PAST YEAR

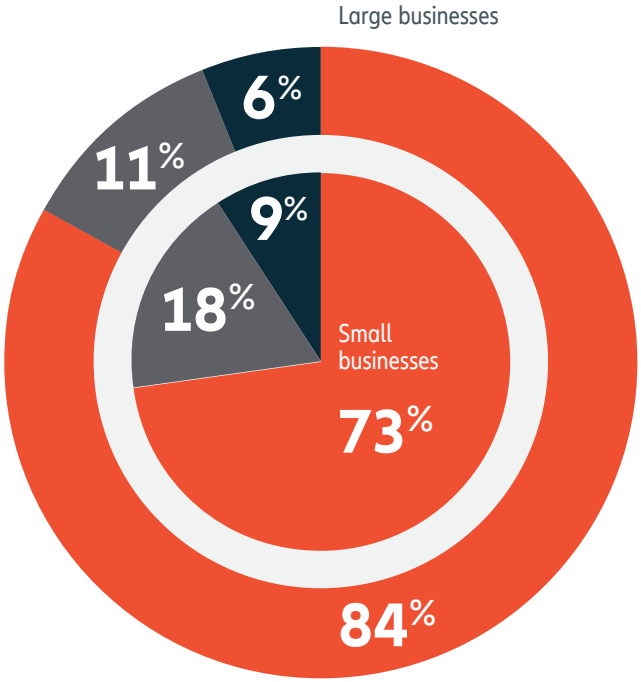


Fig. 6. New technologies have positively impacted businesses over the last 12 months, particularly large businesses

Positive impact
Negative impact
No impact

TECHNOLOGY IN LIGHT OF THE COVID-19 OUTBREAK

In February, before Europe had become the epicentre of the Covid-19 pandemic, embracing technologies was considered a means for businesses to increase efficiencies or gain a competitive advantage.

However, the Covid-19 outbreak has accelerated the need for many organisations to be tech-savvy simply to maintain any degree of 'business as usual'. For some businesses, these systems and processes were already in place pre-Covid-19.

> **"We were already set up as remote for all of our teams, globally. We have a very strong IT team, so we were already well organised."**
>
> (A Corporate VP working at a French based multinational technology consultancy)

However, for business that went into the Covid-19 outbreak without suitable remote working technologies in place, adapting to the changed landscape has been much more painful.

How are businesses which weren't tech-enabled coping? Some are playing catch-up and trying to set up new technologies amid the pandemic. For example, Microsoft Teams added 12 million daily active users in a single week in March (Source: Business Insider, March 2020).

But it's a tough time for businesses to set up new technologies while cash flow is limited and employees are working remotely. This is especially challenging for smaller businesses with more constrained cash reserves.

The unprecedented pandemic harshly emphasises the urgency for businesses to invest in technology. One in three medium and large businesses in the UK (32%) are planning more investment in cloud solutions and remote working technologies (Source: Savanta Covid-19 B2B tracker, 5th June 2020).

Whilst remote working has been the main area of digitisation that has been thrown into the limelight by the current crisis, the consensus amongst CFOs is that events such as these serve to demonstrate the value that wider digital transformation, both within the finance department and for the wider business

> **"I would say that digital transformation as a whole is definitely going to accelerate when we get out of this situation."**
>
> (Fabrice Lévy, CFO at Uberall)

77% of finance leaders say they feel supported by their business to embrace new technologies.

GETTING SUPPORT

When it came to receiving support from external organisations in areas other than technology, finance leaders' interests were spread across a wide range of topics – with 50% mentioning 'financial planning', 47% mentioning 'economic information' and '46% mentioning 'concrete tips and advice'.

When we dug into exactly what that advice might look like however, we return to the topic of payments and insolvencies. While larger businesses were equally interested in all types of advice, for finance leaders in smaller businesses, the top three areas that would be most useful to be able to access are 'debt collection tips', 'cash flow management tips' and 'payment behaviour trends'.

After the Covid-19 outbreak, finance leaders were generally positive, but far from glowing, in their endorsement of their trade finance partners. While 77% said they felt at least 'fairly satisfied' with the support they had received, less than one in five (17%) said they had been 'very satisfied' and there was still nearly a quarter (23%) who did not feel satisfied.

While many trade finance partners will have been hit as hard by the outbreak as the companies they serve, the current situation must be seen as an opportunity to prove their value and build long-term relationships by ensuring they are a pillar of support to their clients in this challenging time.

HAVING ACCESS TO THE FOLLOWING TYPES OF STRATEGIC INFORMATION WOULD HELP FINANCE LEADERS BETTER MANAGE THEIR WORK

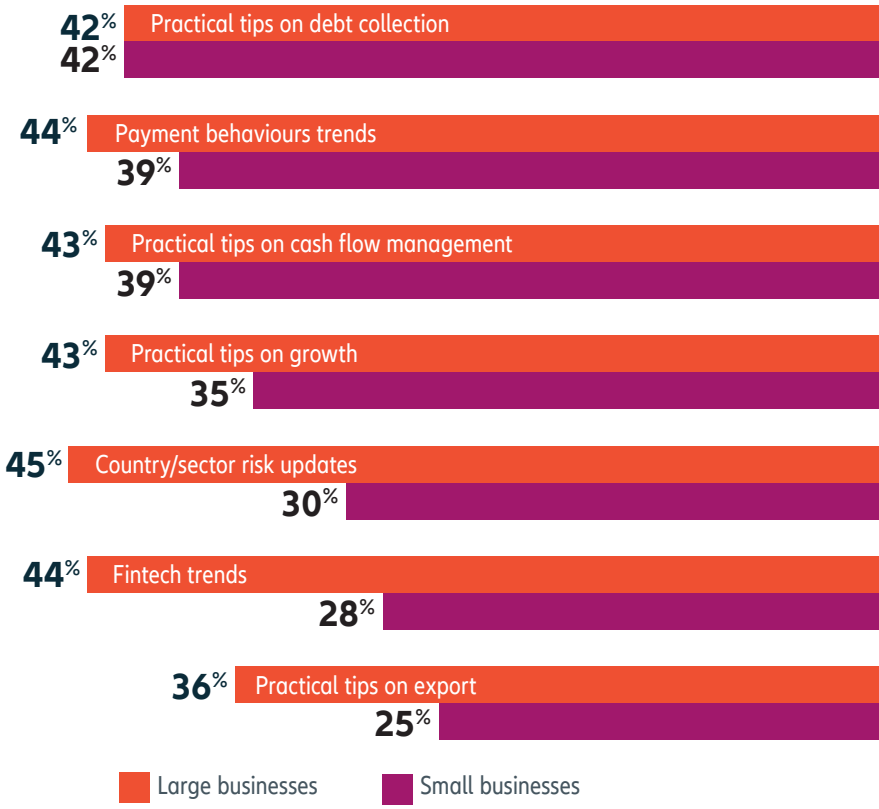
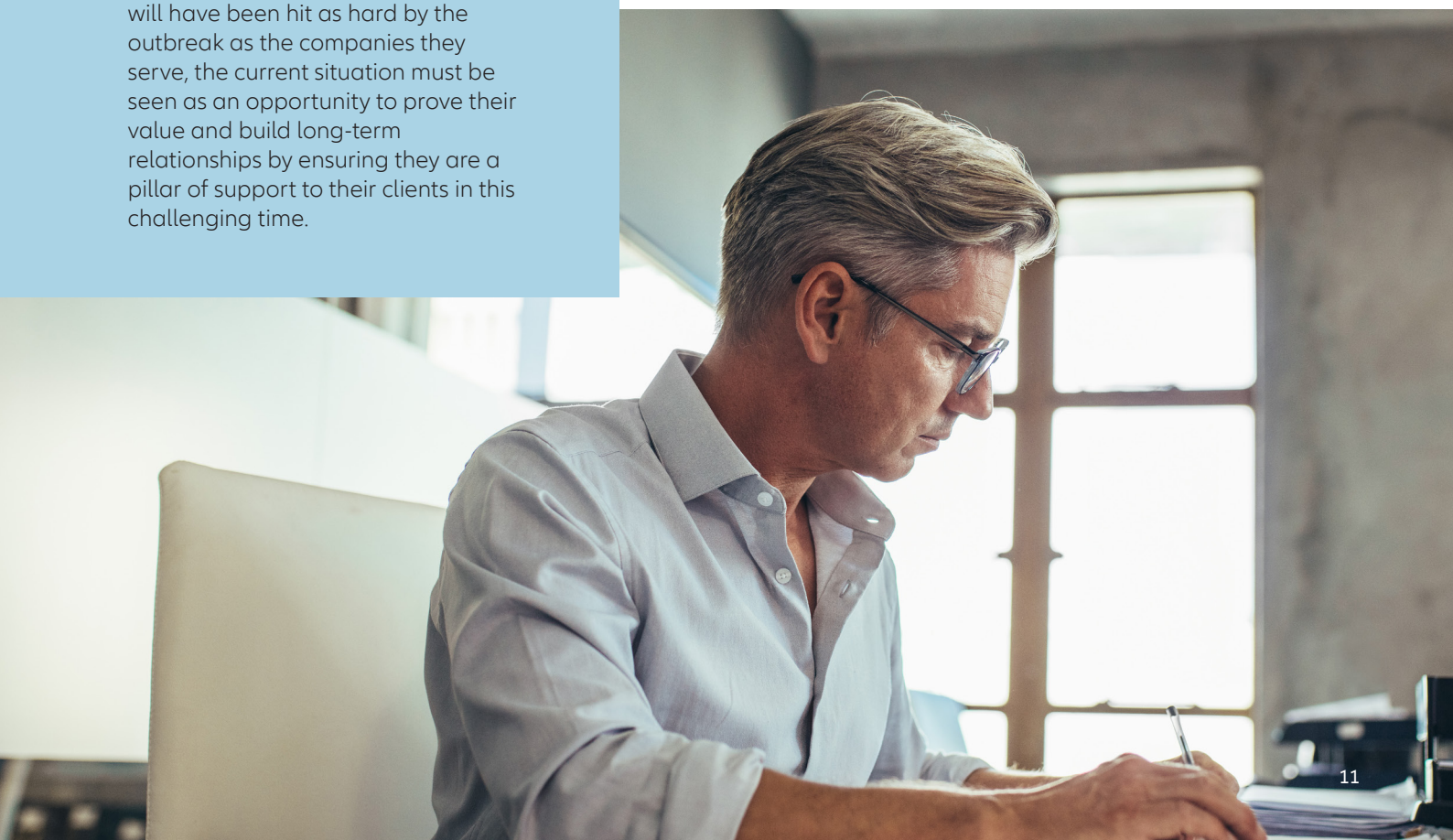


Fig. 7. Finance leaders at small businesses are most interested in advice on payments and insolvencies



NON-PAYMENT

THE PRIMARY CONCERN OF THE CHIEF FINANCIAL OFFICER (CFO)

According to separate Euler Hermes research, Days Sales Outstanding (DSOs) vary substantially by country, with a global average of 65 days. Of the four countries we surveyed in this study, this was lowest in the UK (52 days), followed by Germany (54 days), France (73 days) and Italy (86 days).

PAYMENT DELAYS ARE FINANCE LEADERS MOST PRESSING CONCERN

The pre-Covid-19 world of finance leaders was broadly positive. However, this optimism by no means suggests that there were no risks or concerns.

We looked into what the most prominent risks were on the minds of finance leaders. Potential risks, ranging from fraud to cyber security, drops in sales to supply chain issues, were all considered. The risk that had most impacted businesses over the last year though was something different. A 'basic mainstay' of the finance world: payment delays.

Payment delays have accelerated to become an even more significant issue in the current climate. **When asking finance leaders in May which risks had impacted them over the past two months, 65% mentioned payment delays**. While risks around sales volumes had seen the biggest increase since from the pre-Covid-19 results (61% said this had impacted in the past two months, compared to 25% in the year prior to that), payment delays remained the most common area of risk.

Looking at the other risks in Fig. 8., cyber security is an area of widespread discussion in the finance world and was the area that finance leaders originally said they were most 'fearful' of in our research (although this had been replaced by 'decreases in sales volumes' in the more recent research). However, when it comes to what is having a tangible impact on businesses, being paid by customers on time – or even at all – remains top of the list.

Speaking in depth with CFOs, we noted the potential severity of 'snowball effects' across the business landscape when it comes to payment issues. This is something that is particularly relevant in the fall-out of the Covid-19 crisis, where many businesses have found or will find themselves in financial hardship.

> **"If one company starts failing or collapsing, it often takes others along with it. If you have a hotel and people are not coming to the hotel, then the hotel cannot pay their suppliers (cleaners, food and beverage suppliers, laundry services, etc.) and cannot pay their rent. It will affect multiple businesses, right the way to the bank. If the bank is too small and suffers similar problems with other customers, then the bank may even fail. Just because people don't use one hotel, it doesn't just impact the hotel – it impacts the whole supply chain."**
>
> (Eva Kienle, CFO at SDAX listed business, Germany)

While CFOs can have a wide-ranging agenda, it's vital to ensure that there remains a clear focus on the basics: being paid on-time and protecting cash flow. As the saying goes: cash is king.

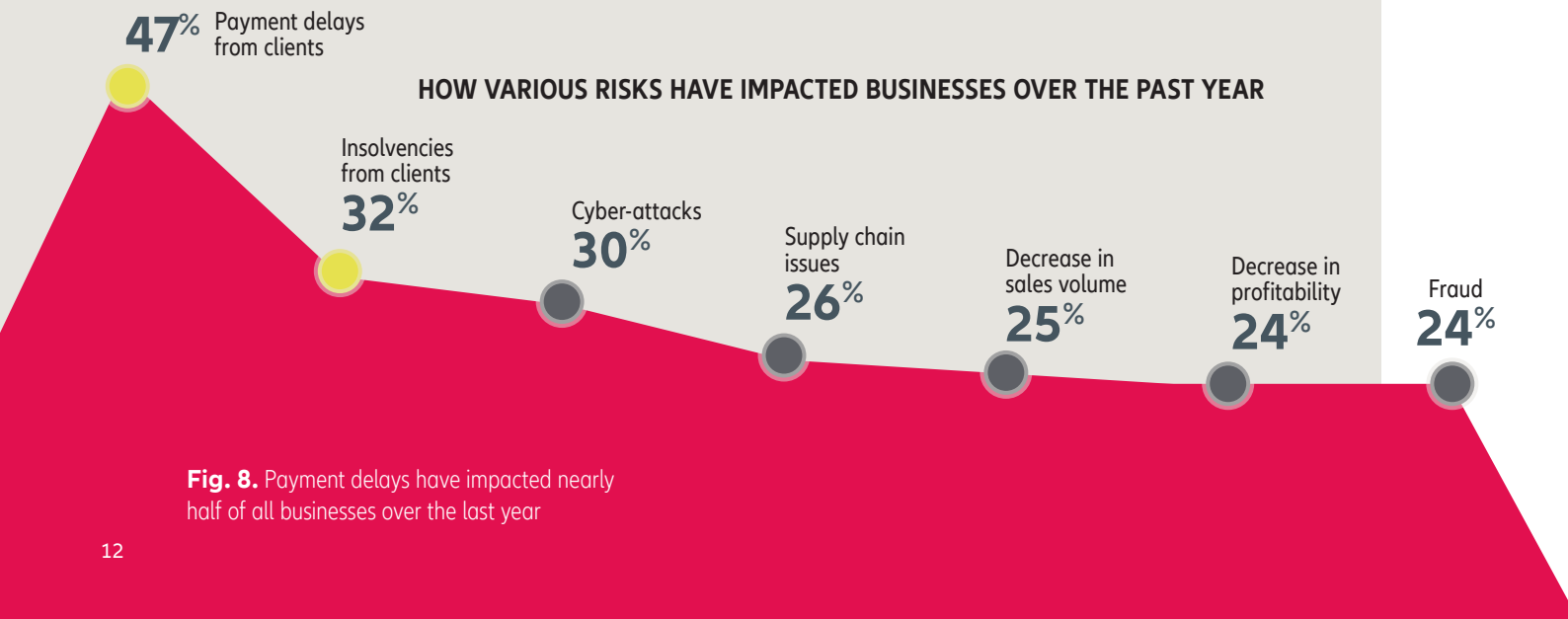


Fig. 8. Payment delays have impacted nearly half of all businesses over the last year

PAYMENT DELAYS: NOT AN ISOLATED ISSUE

The issues we've discussed aren't just 'one-off' occurrences, where businesses have perhaps had one or two clients who are poor at paying on time. Prior to the crisis, **44% of businesses said that payment incidents were a common occurrence**, and on top of this, 39% said that the frequency of payment incidents had got worse over the past three years, as opposed to just 28% saying that they had seen an improvement.

After the crisis began, this was exacerbated even further, with one in ten having experienced multiple incidents a day in the two months prior to May and 65% having done so at least weekly.

It also might be tempting to think this is an issue that only impacts the smaller end of the market, but this is not the case. While smaller businesses were more widely impacted by payment delays (51% vs 43% for larger companies in pre Covid-19 data), this was still the #1 area of risk for larger businesses. It is also not confined to a single market – it was the #1 area across all countries that we surveyed.

> **"This is not a question of big or small. If you're big you have some benefits of scale but you can still suffer. You see that in the airline industry, or automotive - these large corporations negotiating last-minute $5-10 billion of new lines of credit because they are anticipating tension on their operating cash flow. Sometimes smaller companies can even have an advantage. They may not be leveraged so highly. You can be very small but with a solid balance sheet and stable investors, and you actually can react in a different way, and maybe in an opportunistic way."**
>
> (Fabrice Lévy, CFO at Uberall, France)

One area where we did see differences though was when looking at industry. Specifically, those in financial services are significantly less impacted by payment issues (39% vs... 47% average), with other risks such as fraud (36%) and cyber-attacks (39%) being equally prevalent. This is likely due to the nature of the industry. Many financial services companies provide their wares to other large financial institutions or banks, who are less likely to be late with payments or to go insolvent. CFOs in the finance space specifically mentioned how this gives them extra reassurances that other organisations may not have.

> **"We are experiencing some payment delays even if it is not our primary issue for us. Our major customers are large financial institutions, so I'd say that overall the vast majority of our clients are fully reliable."**
>
> (Andrea Traverso, CFO at Objectway, Italy)

The profile of your customer base is more of a driving factor than your internal business profile when it comes to the impact of payment issues.

HOW RISKS HAVE IMPACTED BUSINESSES OVER THE PAST YEAR: BY VERTICAL

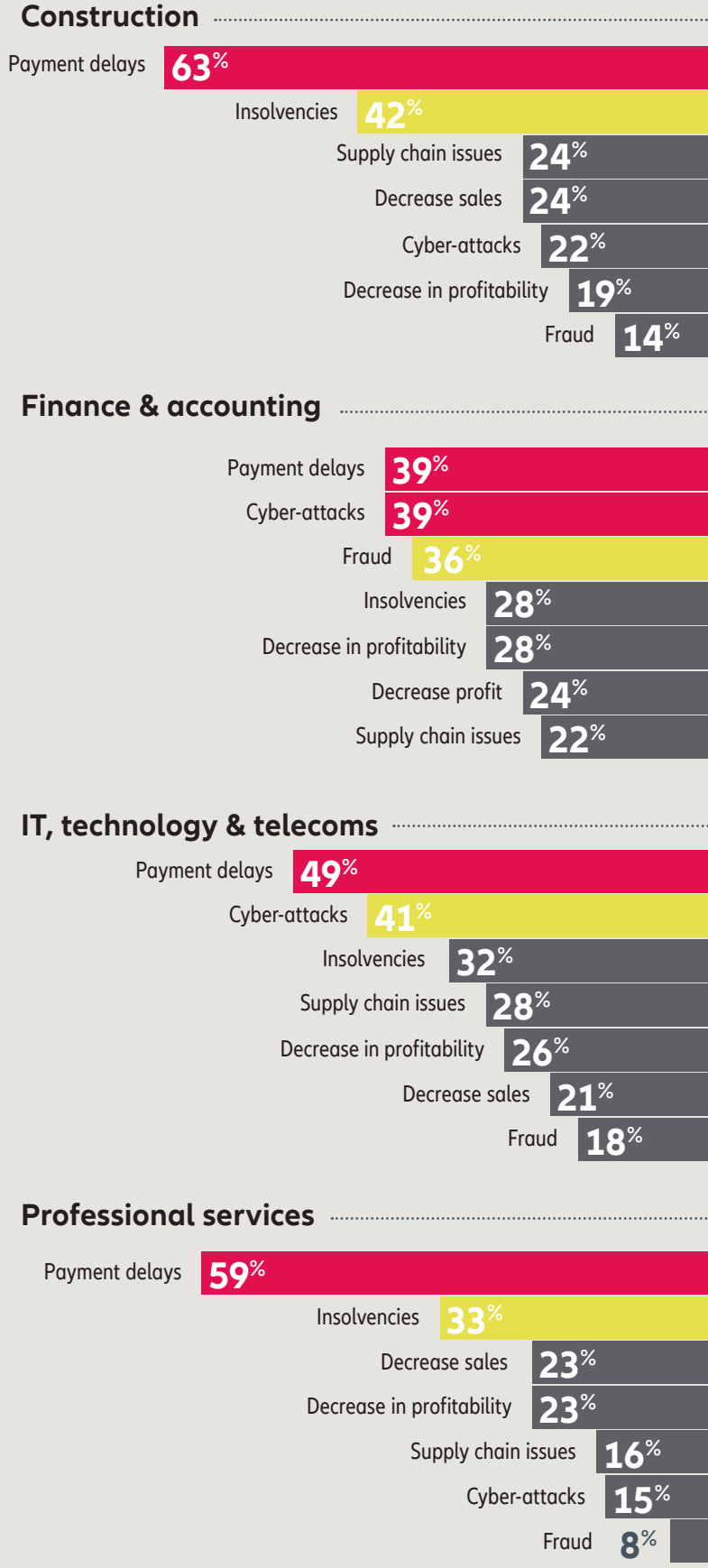


Fig. 9. Payment delays have impacted nearly half of all businesses over the last year

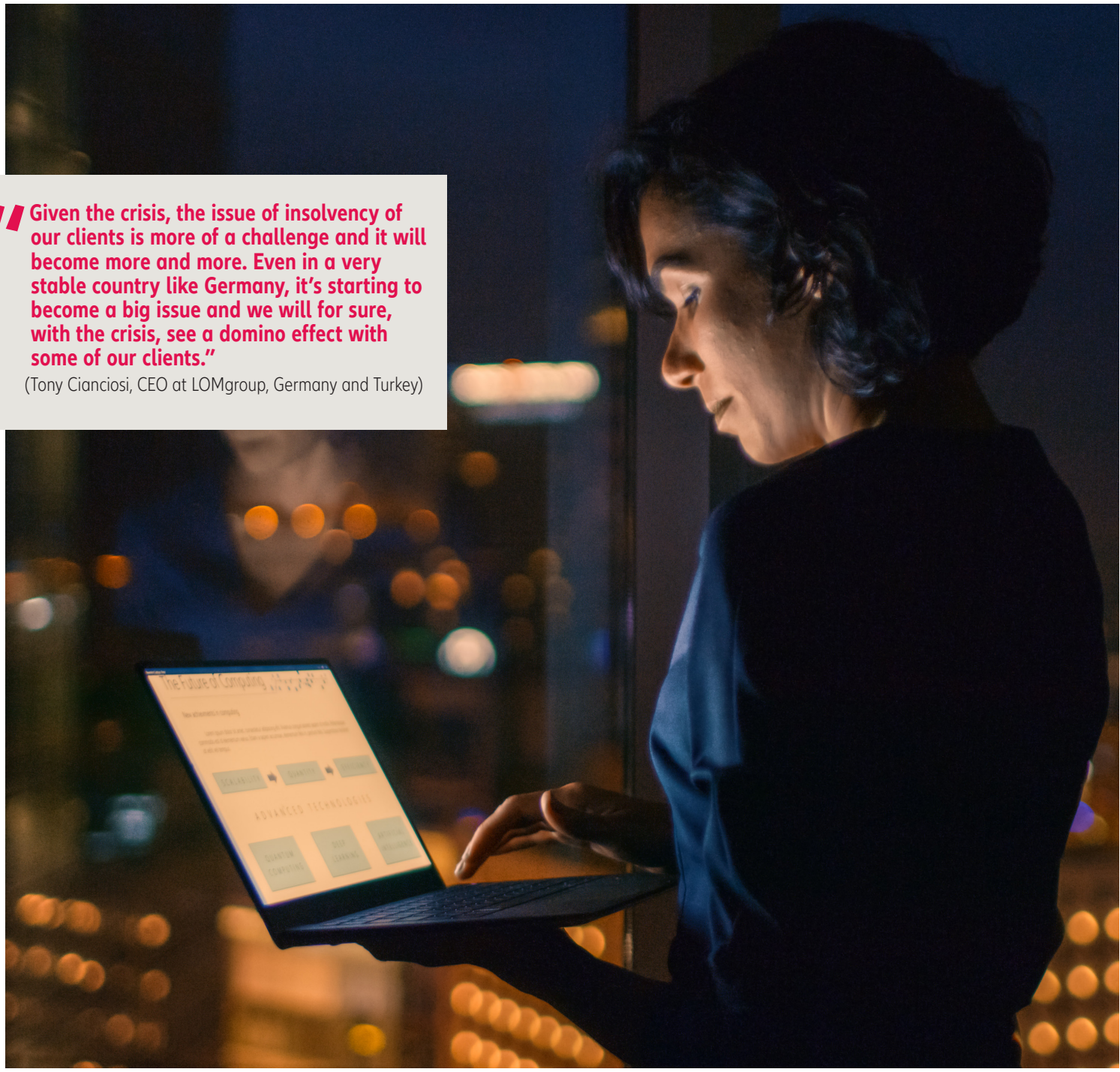
PAYMENT RISK IN A COVID-19 WORLD

Even prior to the Covid-19 outbreak, **only 44% of businesses said they felt 'fully prepared' to deal with payment incidents** and only 40% said the same for 'client insolvencies'. Since the outbreak, these figures dropped to 31% and 35% respectively.

This lack of preparedness could be particularly exposed in the current circumstances. For example, in the UK, less than a quarter (23%) feel 'very confident' that they will survive the pandemic (Source: Savanta Covid-19 B2B tracker, 5th June 2020).

Speaking to CFOs, even those working in stable and financially sound businesses shared this view that payment risks are likely to become more of a challenge. There is particular worry for those who work with smaller businesses.

A Corporate VP of a Multinational Technology Consultancy in France also commented: "We have teams that focus on cash collection, that systematically follow up with clients, and ensure that cash collection is being done at the right time. We take that very, very seriously. Even so, with the outbreak, I think that payments will be a big, big issue in the next six months. It will be a big issue for us, but for people who work with small businesses, I think that will be life and death of the business."



"Given the crisis, the issue of insolvency of our clients is more of a challenge and it will become more and more. Even in a very stable country like Germany, it's starting to become a big issue and we will for sure, with the crisis, see a domino effect with some of our clients."

(Tony Cianciosi, CEO at LOMgroup, Germany and Turkey)

MITIGATING PAYMENT RISKS

So, what can be done to plan and mitigate against these risks? When asking CFOs about how they had responded – or how they believed businesses should respond - three areas of focus arose:

1. Planning
2. Diversification
3. Insurance

1. Planning

Ensuring work is done in advance to mitigate risk. This involves planning for specific scenarios and proactive cash management, but also re-enforcing measures that help reduce risk at the customer on-boarding stage.

Andrea Traverso, CFO at Objectway, Italy, advised: "Insolvency scouting and screening activities before you start dealing with any customer are key. Screening activities as a way of analysing, understanding insolvency, and the power of each single entity's business activity is the right way to approach and address the problem. At the same time, insurance can help a lot. In the past, I used to run some other businesses in the finance department, where we used to cover our risk with insurances which is a different angle from which to look at the same problem. Both activities, I think, could be run in parallel."

2. Diversification

Companies that have a wide range of product types, or who sit across multiple industries will be best placed to deal with major risks in the future. Even those with a smaller product range should be focussed on diversification in customer numbers, as much from a risk-mitigation point of view as a revenue one.

David Franklin, CFO at Astrea Bioseparations, UK said: "We're diversifying into as many different areas and as many different customers as we can. Traditionally, we relied upon quite a small number of major customers. We recognised that as a risk and we are working hard to get into different product areas and build our revenues with different customers, to really spread the risk."

Similarly, Markus Schneider, CFO of Kerberos Management, Germany stated: "For us, risk-reducing usually means having good planning on the single product side and having a mix. So, in video games, Electronic Arts currently have 120 games in development. They're going to have one, or two, or three hits out of that. So, for me, this is risk controlling, looking at product mix from a financial point-of-view. It's comparable with a fund, where you have a selection of stocks and you try to cover different risk areas. Risks like Covid-19 are on the planning and controlling side to have a good mix of products."

3. Insurance

CFOs believe that insurance will – and should – become more important. Working closely with trusted insurance providers to best protect your business is crucial. This is already something that CFOs are acting on based on the Covid-19 situation and an area where many more are likely to follow suit in the near future.

> **"I'm totally convinced that credit insurance will be more important in a post-coronavirus world."**
> (Tony Cianciosi, CEO at LOMgroup, Germany and Turkey)

Reinforcing this, Markus Schneider, CFO of Kerberos Management, Germany urged: "You should work together with the credit insurance company. We were sitting with them many times discussing how we were setting up workflows and processes. If you involve them, then it's better for everyone, you get better terms, they have better insight, you can have better risk protection. This is super important and for any company I walk into, this is probably something on my first week's agenda."

Payment issues and client insolvencies sit at the forefront of the mind of CFOs and are likely to garner even more attention in the current climate. However, the astute finance leader will be taking a proactive approach – looking to plan ahead and put insurance in place – to better protect their businesses from similar challenges in the future.

If you'd like to learn more about credit insurance and how it could help your business mitigate against risks, click here

THE HUMAN SIDE OF THE FINANCE LEADER

THE PERSONA OF A FINANCE LEADER

So far, we've looked at length about the views of finance leaders, the key trends in their industries, and risks threatening their businesses. We will now end this report by examining the human side of the CFO themselves.

We start with some fundamental questions: Is there a typical 'persona' of a finance leader? What skills are key to being successful? What level of stress are they under?

In order to understand the role of the finance leader, we asked them to place themselves into one of four 'personas', each a specific combination of responsibilities, skillset and attitude.

Within these four categories, the plurality - almost half - placed themselves into the 'strategist' bucket. While we might consider the 'technician' to represent the 'traditional' CFO role – focussed on detail and monitoring financial indicators - the modern finance leader sees themselves as having more of a strategic role; a long-term thinker who takes responsibility for driving overall business growth.

The technician

Expert of your job, you focus on and monitor financial indicators closely and very regularly. You like to go into details, and you have a very good knowledge of internal finance tools/systems.

The strategist

Long-term thinker, you always try to get an overview beyond your function (by crossing your view/indicators with other business ones). Your objective is to take a significant part to strategic decisions in order to drive overall business growth of your company.

The innovator

Curious and agile, you often search for new ideas and technologies to challenge your internal processes/ tools/ways of working in order to improve your team/company efficiency. You think that technology will radically change your job in the future.

The facilitator

Supportive and willing to help, you focus your efforts on giving a clear picture of your company financial situation in order to ease decisions. You also try to develop collaboration and discussions inside your organisation.

WHICH OF THE FOLLOWING PERSONA BEST DESCRIBES YOU?

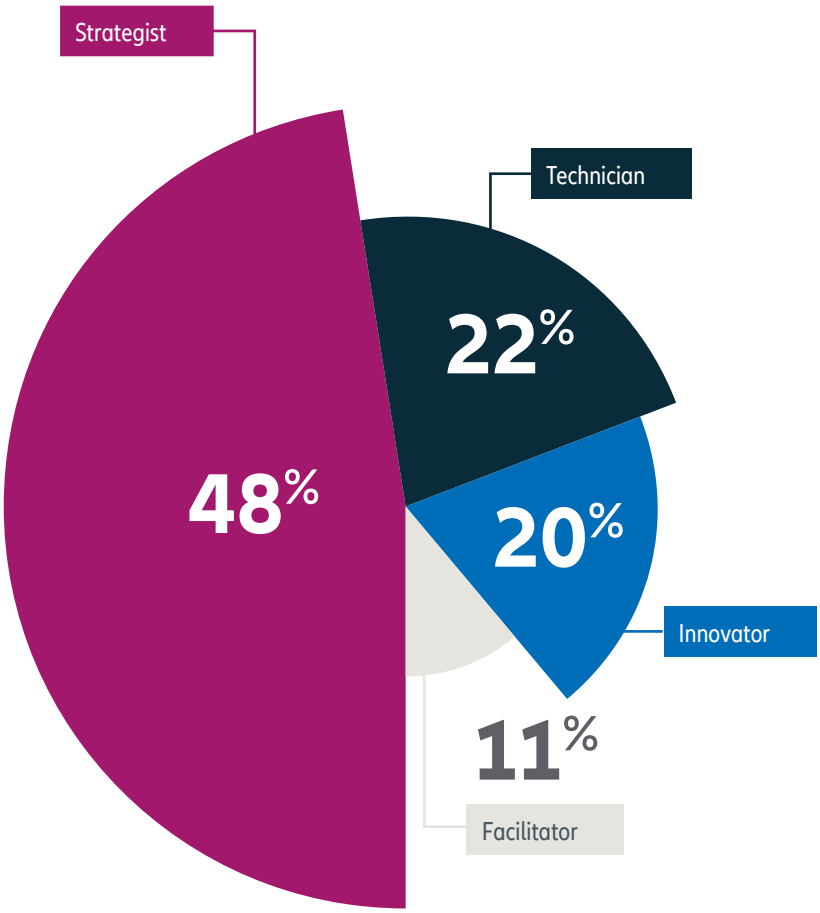


Fig. 10. Nearly half of respondents viewed themselves as strategists

A common view that demonstrates this is that the CFO should be thinking in the same way as a CEO – and should be able to fill that role if required.

> **"There should never be a problem when the CEO says 'I'm off for four weeks,' or, 'I'm locked in,' or, 'I'm in quarantine,'. The CFO should be ready to take the role."**
> (Markus Schneider, CFO of Kerberos Management, Germany)

Personas do of course constantly change and evolve. In our conversations with CFOs, some spoke of a desire to be considered as 'innovators' or 'facilitators'. Tellingly, none spoke of a desire to be seen as more of a 'technician'. This may be because the skills associated here are taken for granted as a finance leader, but as CFOs strive to become better strategists, better innovators and better facilitators, it is essential that the core skill of digging into the details of the business' financial performance does not become diminished.

This is particularly important in challenging environments such as the current one, where an eye for detail and technical knowledge is essential. In fact, in our May research, **18% of those who defined themselves as 'technicians' said they were finding the crisis 'very easy' to deal with as opposed to only 3% who said this from across the other categories**.

It is clear that, particularly in times of hardship, the balance needs to be struck between the science and the art – the technical and the strategy.

> **"It's a bit like figure skating. You have the round where you do the technical stuff, but you've also got to do the artistic part. My role is a bit like figure skating."**
> (Markus Schneider, CFO of Kerberos Management, Germany)

THE EVOLVING SKILLSET OF A FINANCE LEADER

As we have seen, the traditional role of the finance leader being ring-fenced within financial planning and responsibility for managing budgets is eroding, and there is a widening of responsibilities to include strategic decision-making and understanding new technologies.

As explained by David Franklin, CFO of Astra Bioseparations, the modern finance professional's role involves pulling the different strands of the business together:

> **"I think it's vital that you can get out of the detail, making sure that you can see the bigger picture and how all the different departments of a business fit together, and how they work together."**

While we looked earlier at the technical skills required by finance leaders, these responsibilities also come with a requirement for the right 'softer' skills. When we asked finance leaders prior to the outbreak about the most important soft skills required in their profession today, being flexible and adaptable ranked highly – ahead of more traditional areas such as 'detail-oriented' and 'academic'.

These desired personality traits have only become more vital as finance leaders seek to guide their business through the current uncertainty, with flexibility and adaptability growing in importance by more than any other traits when compared to pre-Covid-19.

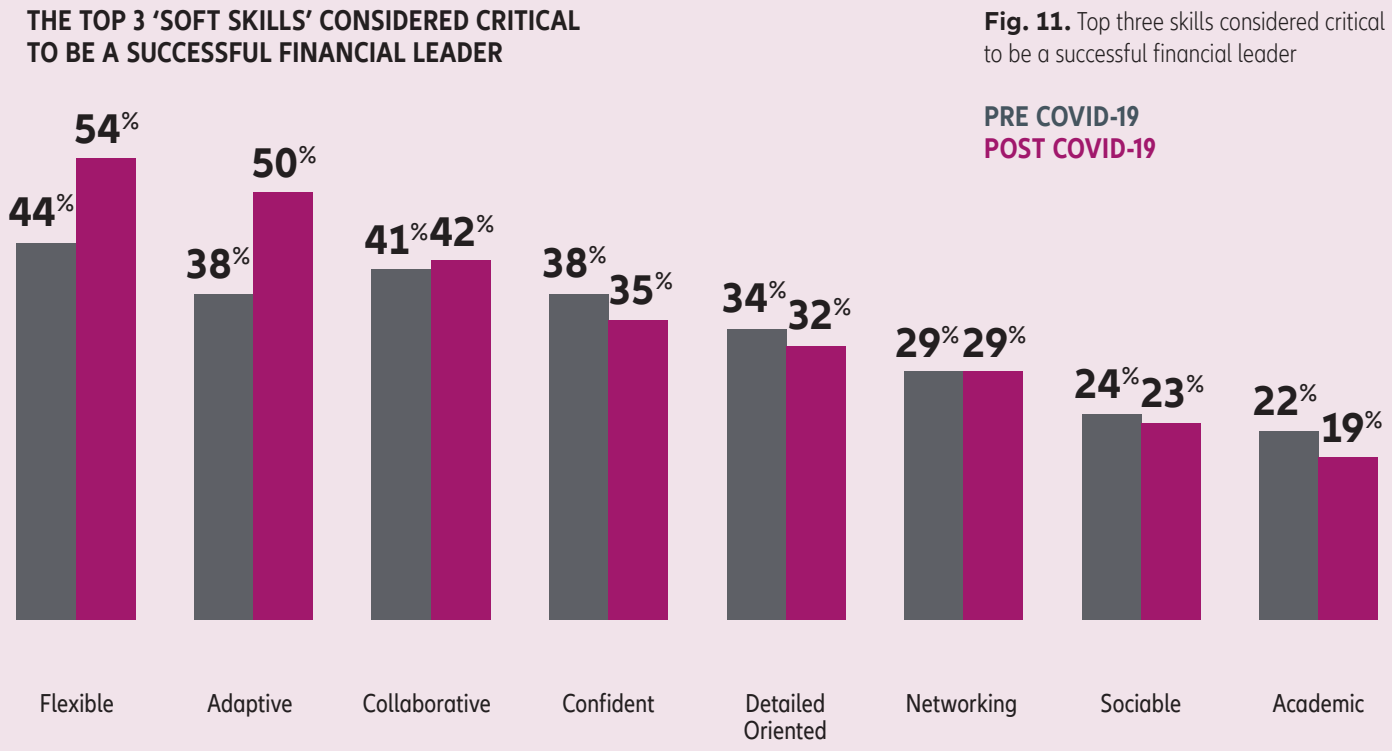


Fig. 11. Top three skills considered critical to be a successful financial leader

STAYING CALM IN THE WORLD OF COVID-19

There is no doubt that having overall responsibility for a business' finances comes with a degree of pressure. Yet when we asked finance leaders back in February 2020 how they felt about the coming year, only one in five (19%) said they felt stressed. Instead, as we discussed earlier, feelings of confidence and a relatively high degree of optimism were prominent.

However, this calm and optimistic approach to business has been somewhat disrupted amidst the Covid-19 outbreak. The number of finance leaders saying they felt stressed about the coming year rose to 32% in May, with 23% even going as far as to say they felt scared – something which only 9% said before the outbreak.

It has also impacted their view of how the coming year will compare to the previous one. Before the crisis, only 35% felt that 2020 would be more stressful than 2019, but with the global pandemic bringing unprecedented financial challenges and finance leaders being faced with difficult decisions around investment, costs and staff in the fight to survive – this number since doubled to 71%.

Despite this being the case, CFOs see it as vital that they still exercise their 'soft skills', particularly when it comes to demonstrating calm governance and leading employees during this time of uncertainty.

> **"I'm trying to communicate the positives and keep people optimistic. Payroll will be paid. We are financially solid. I'm making sure these messages are communicated and our people don't panic."**
> (Gabriele Fraschini, CFO at FederlegnoArredo, Italy)

> **"It's important to remain positive, regardless of changing circumstances - everything is an opportunity to learn. It can be difficult to do this when faced with adversity, but you've got to keep moving. It's important to keep making progress."**
> (Zainul Ahmad, SVP, Investment Bank, UK)

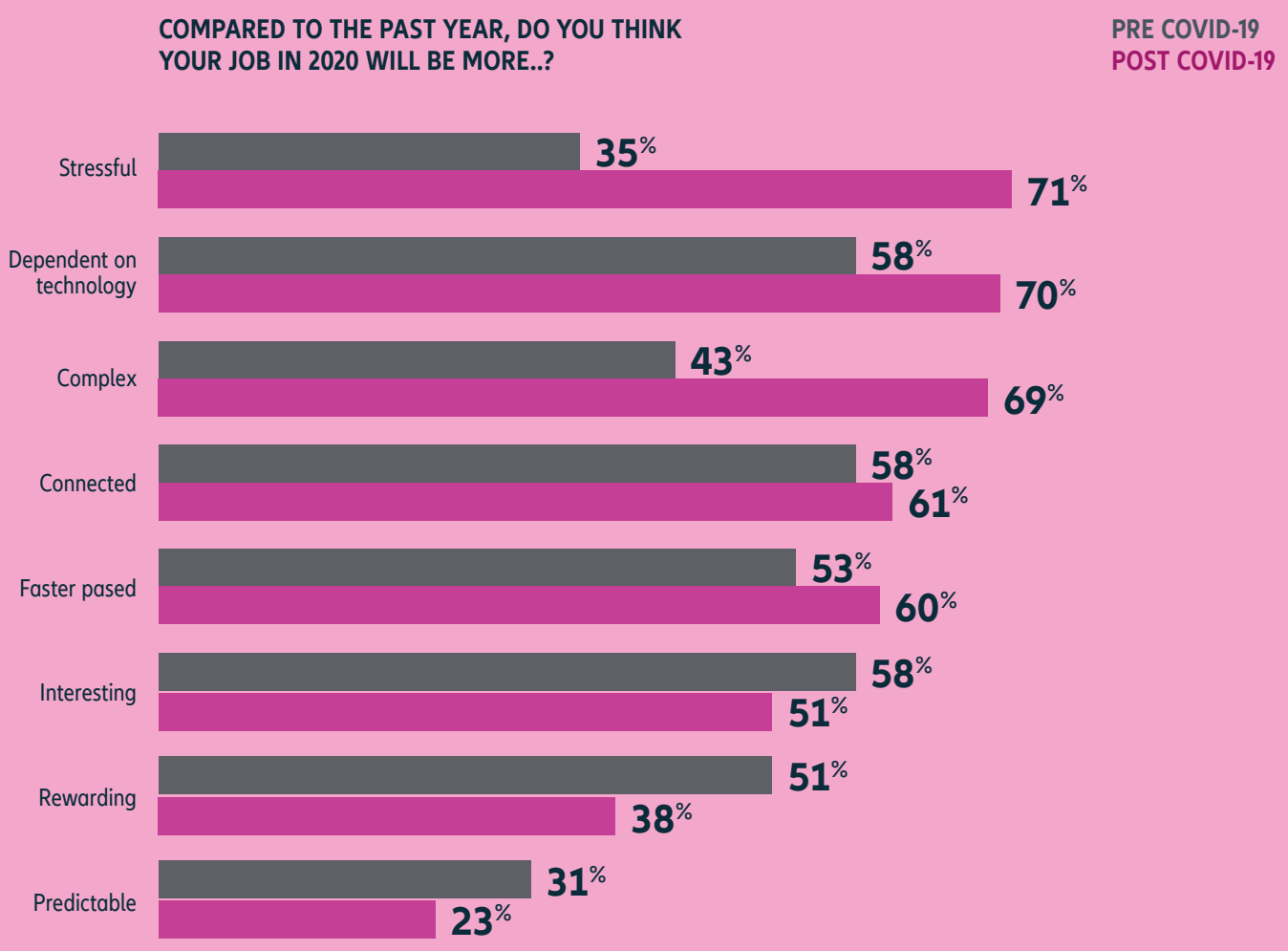


Fig. 12. Since Covid-19, finance leaders are much more likely to see their upcoming year as being more stressful and complex than the last

CONCLUDING: WHAT DOES THE FUTURE HOLD?

We've seen that finance leaders coming into 2020 were relatively optimistic and confident about the year ahead. They were particularly excited about new technologies and the positive impacts they could bring to their businesses.

Fast-forward to March and the entirely unprecedented Covid-19 virus descended on Europe. Virtually overnight, many businesses were forced to temporarily close or switch operations to an entirely remote workforce.

Moving to May – in the midst of the initial peak in cases in Europe – amongst finance leaders we saw a drop in optimism, a drop in confidence, an increase in stress, and existing worries around late payments being exacerbated while new concerns around sales and profitability also appeared.

Businesses across the Continent have been accelerated forward to a time when being digital-first and having a technologically literate workforce are key indicators of business performance, and indeed likelihood to survive.

We've seen that smaller businesses are generally hardest hit. Smaller businesses generally invest less in insurance and digital solutions and have shallower cash reserves.

In what state will businesses and the wider economy emerge from this crisis in the longer term? Currently there are simply too many unknowns to make any meaningful predictions, with the most significant unknown being how long the crisis will last – something that CFOs are all too aware of, as Andrea Traverso, CFO at Objectway, Italy said: "We don't know how long it takes to get through the situation, how long it takes to recover from the situation, we don't know. We simply don't know."

> **"We are well-positioned to withstand the shock, but it depends on the extent of the shock. How long it will last, and how quickly the economy will restart?"**
> (Corporate VP, Multinational Technology Consultancy, France)

Faced with such uncertainty, what should you do? The CFOs we spoke with shared their expert advice and the measures their businesses are putting into place during this economic slowdown:

1. Invest in technologies

CFOs are looking to invest in digital technologies to bring efficiencies to their business model and drive more accurate analytics, monitoring and modelling. A business that is better able to see risks coming and open up new revenue opportunities through business intelligence will be well placed to survive and thrive in this and any future crises.

2. Protect your business from payment risks

Now is the time to review your business' strategy for managing payment risks. From proactive planning, to diversification of offer and customer base, to the purchase of risk-mitigation products such as insurance – CFOs realise they need to act in order to reduce negative impacts now and also prepare themselves for future issues.

3. Utilise your network

CFOs see their business network as being there for support, but it requires nurturing. Making time to network and keep in regular contact with professionals at clients, competitors and suppliers is important. A diverse network brings fresh ideas to a business as well as advice on best practices on how to deal with the difficult circumstances.

Ultimately, CFOs predict the current crisis may cause a polarisation of the business landscape. Businesses that are tech-savvy, who can adapt the quickest and who have robust risk-mitigation strategies in place, will survive - and may even thrive. Conversely, organisations that have not prioritised investment in areas such as digitisation and insurance may struggle and fall-behind or even fail.

When considering the long-term impact of the current crisis, our Economic Research Department expects negative impacts related to a loss of capacity in production, jobs and trade, alongside rising political risk. However, despite these challenging times, new sources of growth could arise in areas such as new infrastructure, health, digitalization and energy. Fundamentally, the current crisis may play the role of catalyst in reallocation away from uncompetitive sectors towards more promising ones in the future.

As finance leaders across Europe prepare for a challenging period ahead, now is the time to reflect on strategy and ensure measures are in place to drive future businesses growth and enable future crises to be managed effectively.

While potentially still a long way off, optimism should eventually return to the market.

> **"I'm still optimistic. In not too long this whole thing will be over and we'll go back to work and again. I'm optimistic."**
> (Gabriele Fraschini, CFO at FederlegnoArredo, Italy)

> **"I'm quite positive about the future. As soon as we come out of the virus, one way or the other, we will find a way to thrive and to grow."**
> (Andrea Traverso, CFO at Objectway, Italy)

METHODOLOGY

This report is based on three phases of research:

1. **An online survey, conducted in February 2020**
2. **A series of tele-depth interviews, conducted in March/April 2020**
3. **Re-fielding in May 2020 of the online survey**

Phase one

Phase one comprised a quantitative survey of 847 financial decision-makers, sourced via an online panel. Respondents were based across four markets: the UK (207), France (215), Germany (216) and Italy (209). The survey was translated into local languages.

Both small (422) and large (425) businesses were represented evenly, with 100 employees as the dividing point. Respondents represented a range of industries, all working at organisations where business-to-business sales comprised at least 20% of turnover.

Respondents worked in both finance and strategy/leadership roles. They were screened to ensure involvement in purchasing decisions of financial protection products. The respondents split out as 503 males and 342 females, with a mean age of 39 years. The survey was open between 5 February and 2 March 2020.

Phase two

The second phase of research was a series of telephone interviews (lasting between 45 minutes and 1hr 15 minutes) with senior financial decision-makers across the same four markets. Respondents were recruited via a senior networking firm and represented small and large businesses across a range of industries.

All interviews loosely followed a discussion guide, written following the analysis of the phase one survey results. Respondents were encouraged to isolate the Covid-19 crisis from issues or positive trends which existed prior to the outbreak, as well as looking to the future.

All interviews were conducted in English and took place between 26 March and 9 April 2020.

Phase three

Phase three involved re-fielding the phase one quantitative survey to measure in what ways and to what extent the opinions of financial decision-makers had been impacted by Covid-19.

A total of 222 respondents were surveyed, divided across the same markets: the UK (55), France (54), Germany (54) and Italy (59). For comparability, the split of profiles recruited at phase three largely mirrored those of phase one. We evenly surveyed respondents working at small (105) and large (117) businesses. The mean age of respondents was 37 years, split as 131 males and 91 females.

The screening criteria and questionnaire used in phase three was almost identical to that of phase one. Small changes included the removal of any questions focused on the long-term past, and adding a question concerning the immediate impact of Covid-19 on the respondents' role.

The survey was live between 21 and 29 May 2020.

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