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CFO EXCHANGE

Executive Summary – September 30, 2020

Chief financial officers (CFOs) of high-growth software companies meet virtually in a small-group setting using Chatham house rules to exchange learnings and discuss business challenges and industry trends. Participants of this exclusive CFO peer group create the agenda through a series of pre-interviews. Protiviti is proud to support and host members of this community.

The agenda topics for the September 30, 2020 meeting included 2021 resource planning, compensation considerations and plans for returning to the office.

Key Takeaways

2021 RESOURCE PLANNING	
01	COVID-19 pandemic-driven economic conditions have demanded budget cuts at many organizations this year. But several CFOs reported that investments in tools that improve the customer experience have remained a business priority. For example, some software firms are investing more in research and development (R&D) and partnering with leading cloud services providers like Amazon Web Services (AWS) to enhance their software-as-a-service (SaaS) offerings.
02	Stay-at-home orders and the ongoing need for social distancing due to COVID-19 has many people stuck at home — and in need of entertainment. This has been a boon for some companies in the game design industry, whose CFOs said they're seeing strong revenue. Some executives noted that their firms are now looking at how to expedite the greenlighting process for game development, which traditionally takes between three to five years. The accounts payable (A/P) department is also a target for efficiency improvements, with software firms aiming to digitize processes. CFOs said one hurdle to making this transition is that some executives at their firms are resistant to automation and see solutions like PaperSave and BlackLine as document storage vs. efficiency tools.
03	The concept of a "K-shaped" recovery, where some industries bounce back quickly but others do not, has recently entered planning conversations. CFOs said their firms are looking at many scenarios, from a flat recovery to the pre-pandemic economy, and many have withdrawn guidance entirely. There is a focus on fiscal-year guidance, such as using more iterations on planning than in the past. Due to the uncertainty going into 2021, finding consensus within the organization for 2021 budgeting is a challenge.

04	Some organizations that have business lines with controllable margins expect they will not be able to have COVID-19-related savings count toward their actual margin targets (e.g., it's not considered savings because travel spend went down). However, the 2021 budget will account for the decreased spend in travel. CFOs reported these adjustments are necessary to have targets that make sense.
05	Out of necessity, creating the 2021 budget will be an iterative process for CFOs. Many said they are approaching the year ahead by planning to rerun quarterly targets and navigate the best they can. The budget will change over the course of the year, and it's up to leaders to recognize that things can't be set in stone. Given the high level of uncertainty right now, contingency planning must also be part of the budget process.
06	While COVID-19 has created disruption and uncertainty, it has also created opportunities for teams to break free of how they thought about the business in the past. Some CFOs said they have asked business-line leaders to plan for three different scenarios: optimistic, conservative and pessimistic. This strategy has helped to remove emotion from the planning process and, in some cases, has led to a revenue plan.

COMPENSATION CONSIDERATIONS	
01	Most CFOs agreed that compensation is a real challenge given the difficulty of predicting revenue and budget. As each business gets to the end of Q1 and delivers their numbers, they are being asked to show their pipeline and backlog to demonstrate the investment for the following quarter. In the past, some software firms had awarded bonuses based on the attainment of a budget. But this year, they can't commit to bonuses that could remove the cushion they've built into their budget to absorb unplanned costs. Some CFOs said their companies are also looking to dislocate 2020 annual incentives away from financial metrics and move them to actions taken. Actions can be things that impact the financials or impact operational costs.
02	In some software firms, the CFO is working with the board of directors to determine whether bonus payouts will be 0%, 50% or 100%. Delay bonuses too much, and revenue growth will have to match it at a later date. Holding back bonuses, and thereby pushing forward extra growth to be found next year, is something boards need to be aware of.
03	Some CFOs described moving their business line leaders away from strict pay for performance to "carve-outs" or "carve-backs" to recognize differentiated performance. This change can be a challenge, however, depending on the culture of the company.
04	A positive development on the compensation front: While some software companies temporarily pulled back on employee benefits like 401(k) matching in the early months of the pandemic as a way to preserve cash, they are quickly reinstating these programs as growth picks up from an EBITDA standpoint.

PLANS FOR RETURNING TO THE OFFICE	
01	The surprising success of remote work and ongoing restrictions on office capacity mean many offices remain closed. Plans to return to work vary widely among organizations and industries. Some have no set timeline for a return, even though they recognize that their employees collaborating in person, especially for R&D, is beneficial. Other firms are already in the pilot phase of a return but allowing employees to come back on a voluntary basis so that they feel safe. And some companies foresee their workforce returning to the office about nine months from now, possibly in the summer of 2021.
02	A hybrid model between work-from-home and the office looks like the future for many firms, with at least 40% of their workforce staying remote. A return to the office will be on a case-by-case, region-by-region and country-by-country basis. For example, offices where most employees depend on public transit may need to delay their return to work.

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