



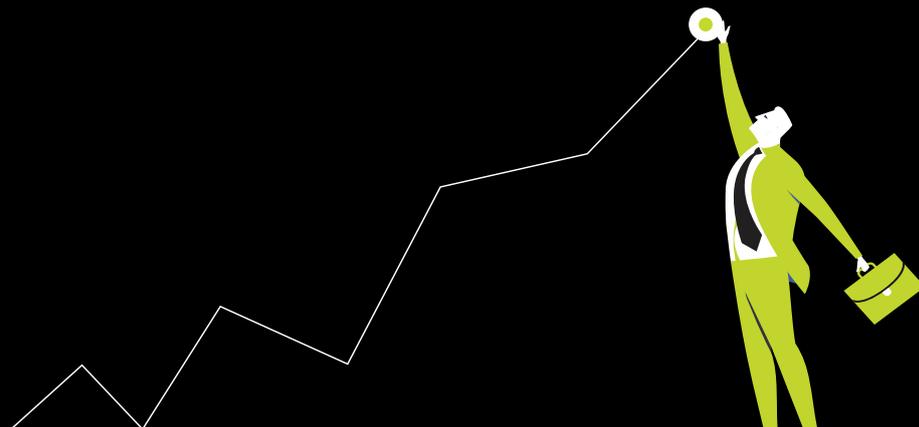
## **CFO Perspectives**

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# CFO Speaks

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## 1. Lockdown and business restrictions during COVID-19 have significantly disrupted the economy and business.

### i. What are some of the key challenges you faced during the crisis, especially with regard to the finance function and talent? How did you and your finance team overcome these challenges?

As the pandemic started to emerge in India, our biggest dilemma was whether we should continue to remain open or close the store in Hyderabad, whether we should wait for the government to come up with an action plan or should we take our own decision based on our own risk assessment. Our primary concern has been the safety and security of our customers and coworkers. We required time to ensure all possible routines and processes were in place to operate in the new environment and everything was so unclear at that time. We decided to close at that stage, work proactively with the government in Telangana, and kept them informed of our decisions.

As a CFO, we had multifold challenges. Risk management is a priority, and looking at trends across the globe, we had set up a crisis management routine for COVID-19 (since February in India). This ensured that we had a governance process set up for decision making to handle the COVID-19 crisis.

The focus area was to minimise the lockdown's impact financially. We constantly revisited our strategies to:

- Manage liquidity
- Review all discretionary spends
- Review all projects to see what to stop, what is an urgent change needed to operate in the new normal, and how do we accelerate change
- Partner with the procurement teams to renegotiate contracts
- Review expenditure lines to reduce dependency on fixed costs and move to variable cost principles
- Keep operations running

### ii. As the lockdown measures are now being gradually relaxed and businesses aspire to return to normal, what are your views on the Indian economy revival in next 6-12 months, and what are your key priorities?

It is important to understand that the Indian businesses are opening up when COVID-19 is still showing an increasing trend in India. The Indian economy was facing challenges even pre-COVID and we expected a gradual revival in the economy with reduced spends on discretionary vs essential expenditure. More focus will be on smaller ticket size items, which can help customers in the near to mid-term and any big ticket spends will be kept on hold unless extremely important. Cash conservation will

be key, not just for corporates but for individuals as well. Affordability will matter to the consumer even more than ever.

As we open up, our key focus will be the safety and security of our employees and customers visiting our stores; and the customers' needs at this stage in their lives. Our stores are large so the number of customers at any point of time is significant and it is of utmost importance to have our security measures in place. We will have to make sure our customers feel comfortable in visiting our stores.

During this phase, we started with 'click and collect', a contact-less delivery system for the customers. They can place their orders online and book appointment to collect their items from the store. As a result, we can maintain social distance and are able to deliver to our customers' requirements in a timely, effective way, and at their convenience.

**2. In the current COVID-19 scenario, what are your plans for expansion? How has the current environment affected your expansion plans for other cities such as Mumbai, Bengaluru, and Gurugram?**

Our plans for expansion in India are firm. However, the lockdown and the COVID-19 situation have affected the time line of the Navi Mumbai store, which is next in line. The construction of Bengaluru store and our plans for other units also continue. India is an important market for IKEA and we are here for the long term. We have a multi-channel strategy globally as well as for India. Mumbai, Bengaluru, and Gurugram are three cities amongst the top 30 cities across the world that have been shortlisted for city penetration plans, which will be through a combination of different store formats and online sales. We are available online in Hyderabad, Mumbai, and Pune even today. Bengaluru and Gurugram will follow.

**3. With the lockdown restrictions, most physical stores are closed. How has this affected your online sales? Do you see a positive change in consumer behaviour and how do you plan to expand your presence through these online channels?**

Definitely, there has been a channel shift and hence, online sales and 'click and collect' have seen an acceleration. We will continue to cater to the customers' choice. Our store has also opened with social distancing and other safety protocols. We offer a safe shopping experience and the customer's choose the channel they want to buy from. For certain products the customers may prefer to come to the store for purchases and they

have the choice to do that along with the online and 'click and collect' option.

For our online platform, based on the growing requirements, we have revamped our website to cater to the ease of shopping experience for our customers. Our website also highlights a plethora of ideas and solutions for people to make the best use of space at home, which is especially valid at this time when people are spending more time at home.

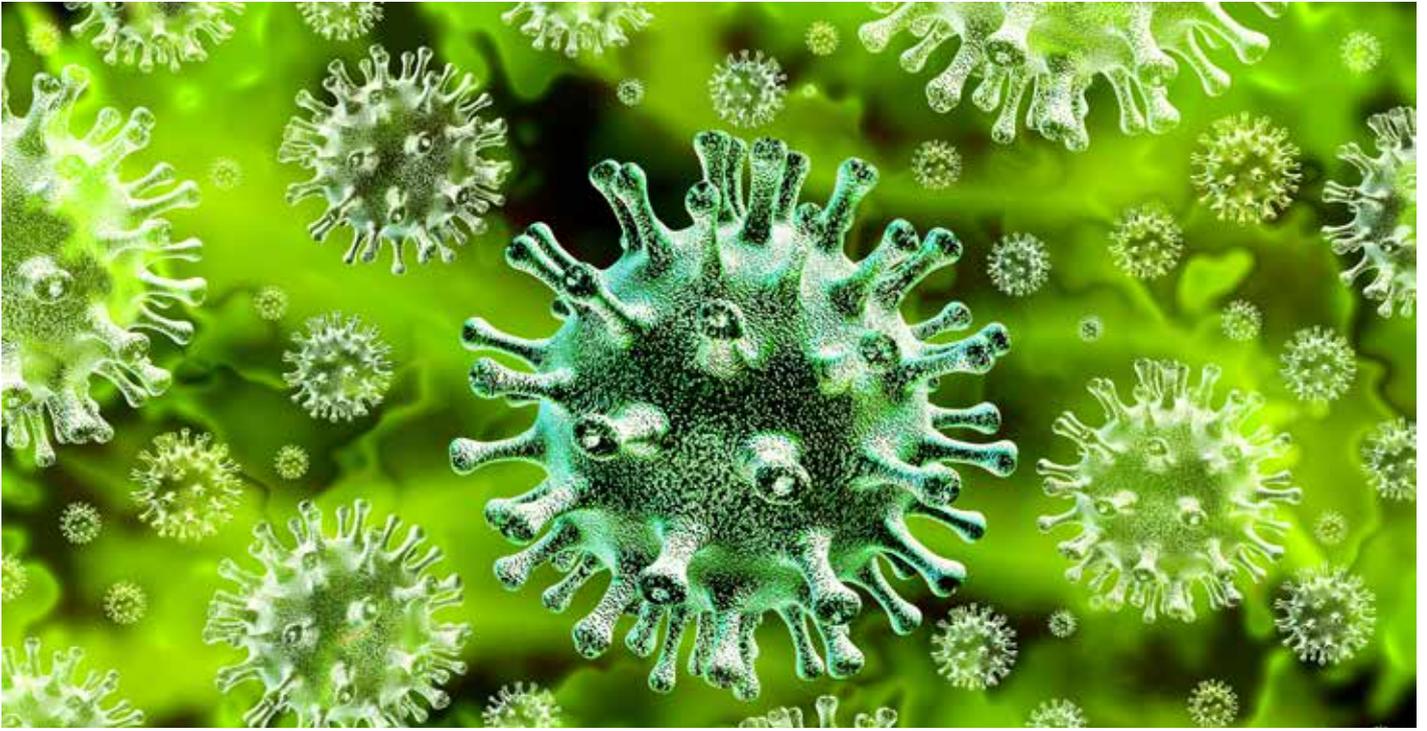
Our workspace category that caters to office solutions or solutions to enable people to work from home has really grown. Through our marketing campaign, we are also encouraging and supporting people to think of 'the home full of possibilities'. Our home today is an office, a classroom, a studio, a theatre - when people can't go out you have to bring those experiences home, and we offer creative solutions to enable that. Our home furnishing and interior design teams have created many solutions and ideas that we offer on our website and on our social media feeds.

**4. Per our global consumer survey recently, there is a slow recovery in discretionary spend across the world. We understand that the real estate market will be depressed in the short term, how do you think it would impact the fortunes of IKEA in India?**

Undoubtedly, it will take time for customers to do discretionary spending. With the current economic slowdown and due to lockdown restrictions, the sales of big-ticket items have taken a hit and this would be revived in medium term, as the economy starts getting better and lockdown restrictions are eased. However, it is also important to note that the definition of essentials will expand. In a longer COVID-19 scenario, where our home takes the centre space there will be many customer needs that the home will need to fulfil.

We are seeing higher sales for home furnishing solutions, office furniture for home, children's furniture range, and cooking and eating solutions that offer convenience. India is also moving more towards a DIY (do it yourself) culture at home and our range offers many solutions for that. Our business customers are also critical to us at this time as they are looking for solutions to support their coworkers in working from home.

In terms of growth of the real estate sectors and new homes, there will be a short- to medium-term challenge in India. However, the need for housing does not go away. People will continue to furnish their existing homes and will buy furniture and furnishings as the economy starts reviving. Repurposing homes to operate



in the new normal is the trend we see. Affordability is part of our business idea and this will become even more critical for our customers. As I mentioned earlier the consumers will want more worth for the money they spend and our value proposition is the combination of quality standards, sustainability, and design at an affordable price.

In addition, we will also work with the government to be part of their affordable housing programmes and provide basic furniture and home furnishing wherever possible. We believe in making our products and services accessible to the society thus, collaborating with the government initiatives will help us in making that positive impact in the society.

**5. As a CFO, what have been your challenges in working from home during the pandemic? What key skills successfully navigate your organisation through these uncertain times?**

In terms of our financial annual closing, we did not face much of a challenge as most of our documentation was digitised. Our bankers also cooperated with us in minimising physical paperwork and providing digital solutions where they did not exist earlier. From the audit perspective, our physical verification of stocks was delayed, but it did not affect us much as we are not listed and our closing of accounts could be slightly delayed. Our group reporting year-end is also different. We did the stock verification later after obtaining the required government permissions and by opening stores only for audit personnel and our staff, with no customers.

We had a taskforce in place to minimise the financial impact of lockdown and business restrictions. We tried moving from fixed to variable cost structure; being an

international organisation, we learnt from our global counterparts about how they managed during this pandemic. In addition, we saw a lot of collaboration amongst the businesses in last few months, because this crisis has hit across all countries and everyone was facing similar challenges. I hope that more such collaboration will continue in the future. It has helped in reducing bureaucracy and making faster decisions, which wouldn't have been the case otherwise.

To keep our employees engaged and motivated, our people and culture team contributed in a fantastic way, including online onboarding for new joiners, conducting internal surveys to understand employee challenges and resolve them efficiently. We leveraged technology (already in place for us) and emphasised on online trainings, constant team meetings, and engagement. Our global teams rolled out various online training courses by tying up with third-party trainers and institutions. A lot of focus was given to leadership training, which has been beneficial for a lot of us.

Cost consciousness and financial independence has been part of IKEA's financial strategy, due to which we have been able to support communities during this crisis. Globally the Group set aside 26 MEUR (Million Euros) for emergency community support that was extended in all countries. In India as well we have supported communities in our markets with food, furniture, furnishings, and Personal Protective Equipment (PPE). So one of the key take ways during this phase is to continue to build financial resilience, remain cost conscious, continue to look for growth opportunities, de-risk revenue models, collaborate with other businesses, look after people, customers, coworkers, and communities. This is a global crisis and we have to ride this together.

# Expert views

## Crisis a boon for future-ready CFOs to build 'tip of the spear' finance function

COVID-19 has put immense pressure on every organisation to re-assess their financial health. On one hand, the CFO's role has been expanded as a 'steward' to protect the critical assets of the organisation, employee well-being, and company finances. On the other hand, the CFOs' are expected to be trusted advisers to business in providing critical data, analyses, and insights for decision-making. CFOs seem to have no option but to make their organisations resilient and assist in bringing in significant changes to the organisation's current operating model, cost structures, assets, and supply chains to thrive in a business of tomorrow. According to Deloitte's COVID-19 CFO Survey in June 2020\*, 47 percent of the CFOs are already working on adapting fast to the current situation to maximise performance, while 34 percent are focusing on evolving business models for the post-crisis future.

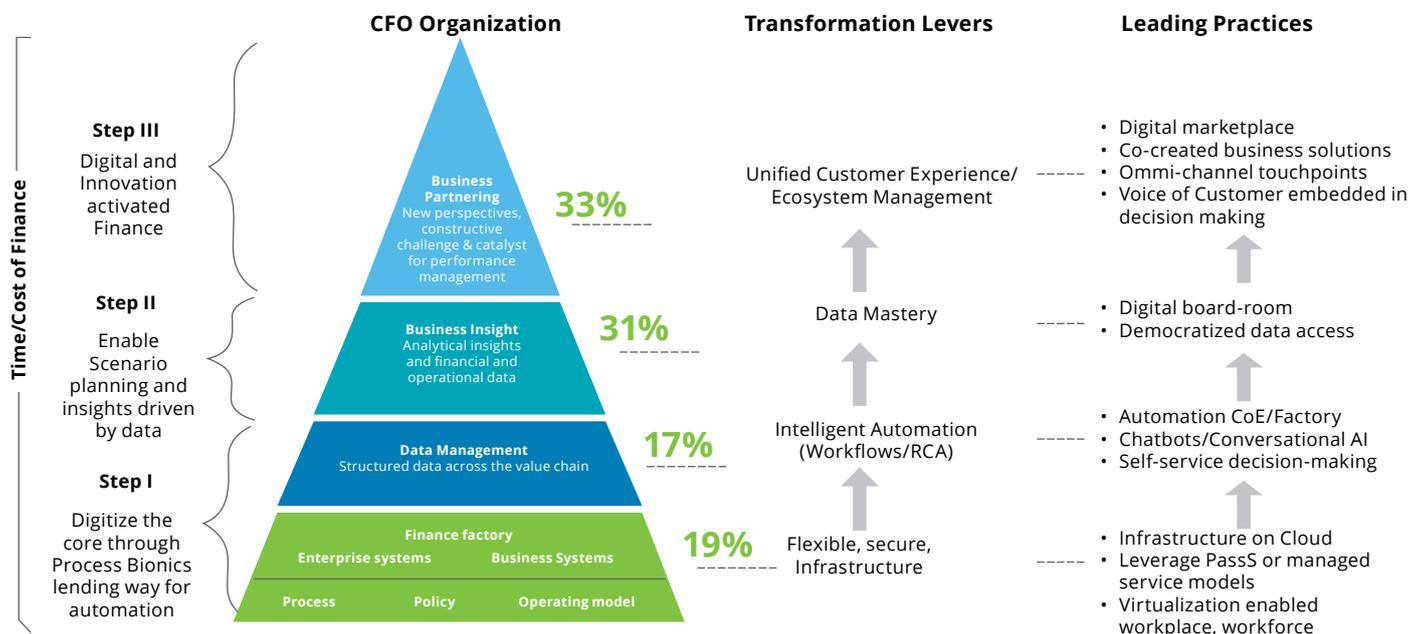
The biggest competitive edge for any organisation is expected to be its ability to unite humans and technology to build an engaged workforce. The manner in which companies will enable connectivity, adapt to remote working, and bring in predictability to the future are likely to help them emerge stronger. As CFOs look ahead, for those who do not renovate or remodel are likely to become even more vulnerable to external environment and competition.

There is no single right route to create a high performance finance function. Organisations can choose different routes on the basis of their culture and requirements but every path should sufficiently address the the following to succeed:

- A holistic , systematic approach that provides clarity on the path to the envisaged CFO organisation
- Solutions that simplify, optimize, and integrate enterprise data, systems and processes, thereby creating a foundation for consistent and accurate financial analytics and insight generation
- Appetite for innovation and re-imagination of business processes through rapid digital prototyping to solve complex financial challenges faster and better

For the CFOs to show success, time horizon is an important axis. It is important to gain digital maturity at a fast pace considering its direct bearing on improved financial performance such as improvements in efficiency, revenue growth, quality of service, customer satisfaction, and employee engagement. Per Deloitte's COVID-19 CFO Survey in June 2020\*, 70 percent of the CFOs look to a post-crisis future with substantially higher levels of automation in core processes and more than 75 percent expect more remote work within their finance teams.

## Journey to build a finance function of tomorrow



The journey of accelerated value generation starts with a strong foundation of intelligent finance operating model that brings together functional technologies, enterprise data, and new-age Artificial Intelligence (AI) solutions supported by a digitally active workforce.

### Digitise the core

Successful digital transformations are generally seen to pivot on the foundation of process excellence. Process models are mirrors of operational practice. A high performing, simplified, and standardised process enables rapid scale up and quick value realisation from digitisation.

Process bionics is one such technique that defines maps and analyses an organisation's existing business processes to not only capture the current state but to also provide insights on high impact improvement areas. Based on the business needs and maturity of the company, it can provide the following:

- Insights into all process deviations and exceptions
- Identify areas of friction and inefficiency
- In-depth root-cause analysis of process bottlenecks
- Identify automation opportunities through a scientific approach rather than assumption-led, such that they can move swiftly into implementation

One of the world's largest manufacturer of Spirits with presence across 180 countries embarked on a journey of global transformation over a bedrock of process excellence. Radical process simplification ensured maximum value realisation from intelligent automation leading to significant productivity improvement and business benefits. In the current context, transactional process automation has become synonymous to business continuity and 'process bionics' is a great enabler in charting the most optimal course for technology interventions. Digital adoption is not about bringing in automation everywhere but to areas where it matters and can be achieved through a staged evaluation.

1. Firstly, assessing existing technology capability that is currently not in use
2. Secondly, enhancing the existing technology/tools that can solve the purpose
3. Subsequently, selecting a solution that meets the business requirements

CFOs who are able to gather knowledge of what works and what does not in their daily operations are typically better able to chart successful transformation journeys. They are able to attack the highest business impact areas first.

### Business resilience through automated insights and scenario planning

In these current times of increased volatility, CFOs today require digital boardroom capability that enables them to shift from traditional planning to modeling multiple business scenarios, create dynamic driver-based plans, and enable decision making through data-driven insights.

Scenario planning can no longer be done on excels. It is a great opportunity for CFOs to take an integrated scenario forecasting and planning approach that enables them to develop more connected and intelligent capabilities. They need to keep leadership constant on the business objectives and a dynamic model that can readily capture changing market realities to enable them to thrive beyond the current situation.

Today, some of the key challenges that the CFOs are trying to solve include the following:

1. Fast response to the frequent demands of multiple stakeholders for cash forecasting and multiple scenario analysis
2. Availability of consistent and correct market and enterprise data to enable accuracy of the outcomes
3. Agile planning and forecasting solutions with right statistical models that enable generation of a range of scenarios from worst case to best case while taking into consideration market drivers, operations, suppliers, customers, and other key stakeholders

Backed by a strong foundation of accurate and consistent data layer, organisations are turning to cloud-based forecasting and planning solutions while enhancing it with advanced statistical analysis and machine learning algorithms.

- The journey starts with developing driver-based cash flow models aligned to business objectives in near-term as well as medium term,
- Integrated dashboards with self-serve capabilities leveraged for building forecast assumptions that capture business as well as external market conditions, and
- In addition, AI-enabled predictive analytics to assist businesses in identifying and managing red flags more rapidly, to iterate scenarios faster, and in understanding likely impacts more quickly.

A global product manufacturer, having developed the capability to simulate complex scenarios, could respond better and faster to the current crisis. The organisation set itself on a path of agile scenario planning when they realized that they were frequently outperforming their guidance to market analysts but were finding it hard to justify this unanticipated growth. A top-down predictive

model that incorporated the company's internal historical actuals, external drivers for each global market, and a second-source forecast based on external macro drivers enabled far more accurate projections of their financials. Finance also gained the ability to create growth, recession, and other scenarios using desktop visualisation software that has helped today making their business agile and responsive to external and internal changes.

As organisations look towards a path to recovery, it is expected to be a different world post the crisis. CFOs will be required to proactively provide insights on the impact of the changing economic environment and steer through amidst new emerging trends.

### Digitally-activated finance focused on innovation and business growth

In the face of digital transformation, the finance function of tomorrow is likely to become more nimble, diverse, and small. It is expected to become a combination of resources having niche finance skills and a gig workforce working alongside robots and algorithms. As finance moves from being a process-centric function to an insight-focused one, it will need to collaborate actively with multiple players within and outside the organisation to ideate, develop customer-centric solutions, and improve innovation capabilities. Controls and compliance will no more be an ask but will be given.. CFOs would need to be the catalysts of this transformation and will require a digitally active finance function that is well equipped with concepts, capabilities, and mindset necessary to collaborate with business. This new-age finance will be expected to:

- **Change the game:** understand the new world of digital,
- **Lead the change:** activate collective leadership to build value propositions and undertake rapid prototyping to solve complex business problems, and
- **Build confidence:** practice the digital mindset and partner with business in exploring new ways to grow and thrive in the marketplace.

One of the leading global consumers company was quick to realise that finance was changing rapidly and technology is making way to most of the transactional processes. CFO, in close collaboration with the CHRO, embarked on a journey of creating a finance organisation that focused on judgement, emotional intelligence competencies, and had the ability to interplay digital within their ways of working. This resulted in a task force of digitally fluent finance function that not only had the ability to experiment and innovate on new technology solutions but also became champions to drive digital adoption. It has elevated finance

to become an intelligent business partner that proactively contributes to organisation's objectives.

### The biggest conundrum: 'Go' or 'No go'

CFOs are juggling to find the right balance that can enable organisations to survive the downturn but at the same time prepare them to thrive through recovery. Short-term cash conservation cannot put the long-term plans at risk. Cash preservation should be a strategic opportunity for re-allocation of funds to high impact initiatives driving operational efficiencies that are transformative enough to build a strong business structure when the markets rebound. For finance to serve the demanding needs of tomorrow, it is important to re-jig the current operating model, implement an optimal set of digital offerings, re-skill the workforce, and build an appropriate plan to manage risks. To achieve this, CFOs may consider categorising and prioritising their spends in the order of:

1. Regulatory and compliance requirements
2. Accelerated value realisation through improved efficiencies
3. Ability to generate insights that have a direct bearing to enhancing margins and revenue growth

The propensity to spend may vary according to the scale, focus, and level of preparedness of the organisation. The aim should be continued focus on capabilities and competencies that build resilient businesses and enables competitive edge. Adversity breeds innovation and potential of emerging technologies, cloud-based solutions, and SaaS models can convert capital investment into operating expenses. Change in operating models like outsourcing, centralization, and bringing in a mix of gig workforce can lead to additional efficiencies and provide better sight to the transformation agenda. Managing costs while fueling growth is a difficult path to tread, but CFOs who are able to strike the balance will help prepare their organisations for being well-rewarded with a change in tide.

The current crisis has raised the importance of finance to be protectors of cash and true partners to business. Digital is expected to be at the centre of any future change and the current situation has accelerated the need for it multi-fold. It is an unprecedented opportunity for the CFOs to experiment, re-think, and re-imagine the finance function of tomorrow that is superior at acting on data, works closely with businesses, mitigates risk and future proofs the organisation against another pandemic.

For the CFO, a lot is on the table to shape the finance function and to create a business that is far more resilient and strong.

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manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

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