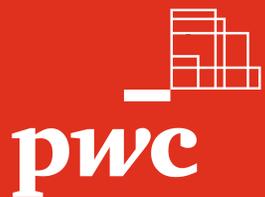
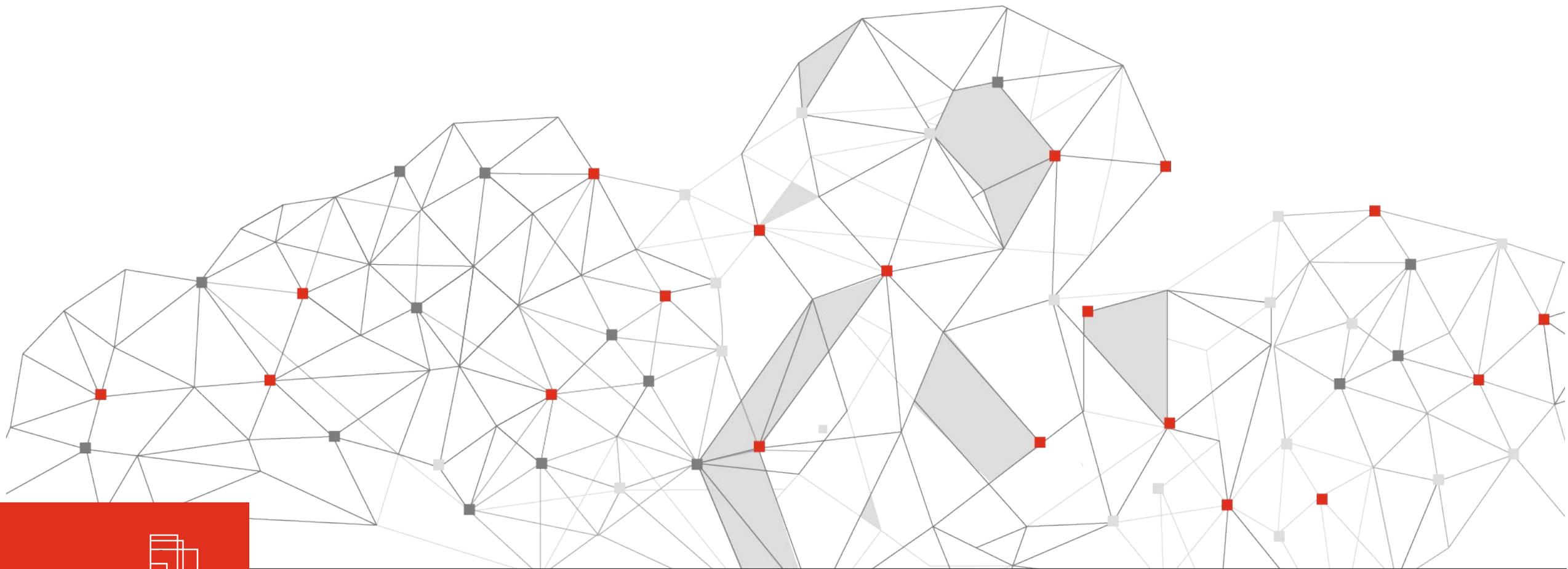


COVID-19



Getting fit for business: Forecasting and managing costs

Preparing for various scenarios and cost-cutting in unprecedented times

Similar to other territories, Malaysia has not been spared from the impact of COVID-19. The Movement Control Order (MCO) was implemented on 18 March to mitigate the spread of COVID-19.

As of the sixth week of the MCO, we saw some positive developments with a drop in number of new cases¹. However, there has been a lack of business activity prompting the need for organisations to take a number of critical actions to get ready post-MCO.

For many business leaders and decision-makers grappling with the COVID-19 outbreak, the immediate priorities are people and cash. They're ensuring employees are safe, empowered to take care of themselves and their families, and have the support and resources to work remotely for the foreseeable future. They're also focusing on business continuity and cash flow.

But what about medium-term decisions?

- PwC has been tracking CFO sentiment bi-weekly as part of the CFO Pulse² Survey to assess how companies are responding to COVID-19. As of late-March, 84% of the survey respondents identified a potential global recession as a top-three concern, indicating a need for clear-eyed planning for a company's position and investments as the world comes out of this crisis.

¹ Malaysiakini, Covid-19 in Malaysia, 2020, <https://newslab.malaysiakini.com/covid-19/en>

² PwC's COVID-19 CFO Pulse survey, 2020, <https://www.pwc.com/us/en/library/covid-19/pwc-covid-19-cfo-pulse-survey.html>

- The survey also shares that cost containment is the top financial action companies are considering now. Experience from prior black swans and market crashes shows that hardly anyone regrets acting decisively on costs. But as research also shows, across-the-board cost cutting may not be a good solution to help companies recover or emerge stronger after a crisis.

In this publication, we take a closer look at these two areas to help companies address their short to medium-term challenges. They include: **forecasting in the face of uncertainty** to better plan and adapt to the changing environment, and exploring approaches to **rethink cost management**.

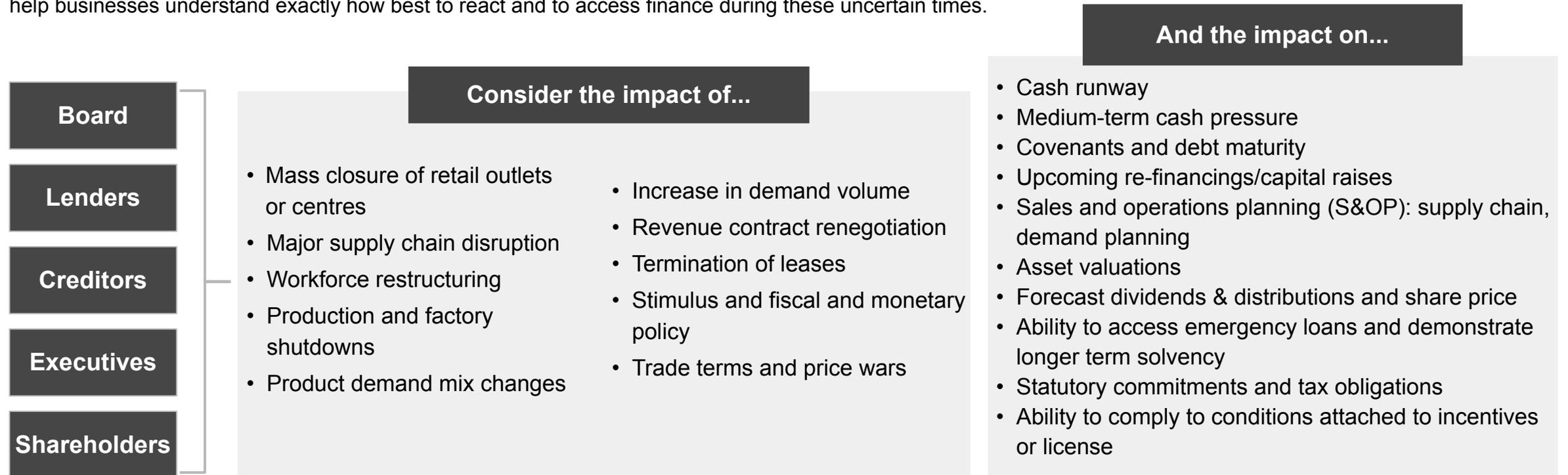
In the longer-term, while businesses must continue to manage costs, they will need to build capabilities especially in the post COVID-19 environment, where it's not going to be business as usual. Companies have to keep in mind the holistic longer term view of business in building and investing in differentiated capabilities. Look out for our [viewpoints](#) in future publications around adapting to COVID-19.

Armed with such tools, businesses will be able to plan and take necessary action post MCO to be fit for growth.

Forecasting in the face of uncertainty

Steps to support forecasting in fast-changing times

COVID-19 is having far-reaching implications for the economy. Businesses are being stretched beyond what they considered their downside business cases. Finance teams in particular need to grapple with the coordination and support the financial information needs of various stakeholders. Focused, pragmatic crisis forecasting can help businesses understand exactly how best to react and to access finance during these uncertain times.



Finance teams are facing increased pressure from internal and external stakeholders, to reforecast cash flows and perform scenario analysis

³ Source: PwC's Forecasting uncertainty, 2020, <https://www.pwc.com/ig/en/issues/covid-19/deeper-dive-on-cash-forecasting-methodologies.pdf>

A three-step approach to forecasting

The following three key steps should be considered by management teams to manage expectations through forecasting:

1 Ensure that the forecasting tool suite has the right scope and details

- Many scenarios are whole-of-business and phased over time
- Have the **flexibility** in your forecast tools to consider upside and downside scenarios, including impacts of fixed, variable and step-variable costs as well as sales and operational planning issues (e.g. supply chain)
- Apply new lenses to budgets and forecasts, such as **discretionary vs non-discretionary vs contracted** spend
- Ensure the model **tells the story at the right level**, e.g. forecasting weekly cash vs monthly; forecasting below EBITDA for true cash position
- Deliver reliable analysis under pressure and ensure that revised models are **robust** and **designed to cope with future changes**

2 Communicate, validate and test the assumptions

- Have robust, defensible and up-to-date forecast assumptions/drivers to allow you to confidently communicate the expected impact on your business, supported by a description of the base case environmental assumptions and “what you have to believe”
- Communicate base case broad assumptions to ensure all teams are forecasting from “one source of truth” and not inconsistent assumptions
- Reconcile to most recent budgets or revised forecasts
- Identify your up-to-date external data sources (e.g. World Health Organisation, Governments) and link to your business drivers
- Obtain data for the impact of **comparable incidents and shocks**
- Look at the impacts/reactions of similar businesses globally

3 Lay out the impact of decisions that are controllable

- Review product prioritisation and demand substitution
- Raise short term capital, aligning capital mix decisions to expected impact
- Ramp down/up production
- Re-rank all investment/expansion business cases vs ROC and priorities
- Postpone or rapidly eliminate non-critical spend/expansion activity
- Re-negotiate lease, supplier and capital contracts

Where to focus next

Suggested next steps: Rapid Scenario Planning and Business Intelligence

1 Conduct rapid assessment of your current state forecasting and scenario planning capabilities

- Assess if your **forecast tools** can be updated rapidly and incorporate continued compliance with financial reporting frameworks in a changing economic environment
- Test if they have the right **level of granularity** to answer questions being posed
- Evaluate if your sales and operational planning tools are **agile** enough
- Assess if changes to forecast cash flow data is an indicator for **asset impairment**

2 Develop rapid tactical models to deliver the analysis you need

- Develop **strategic business forecast models** to pull the major business levers
- Create **strategic cash flow models** based on value drivers that are under threat and assess impact on covenants, cash etc.
- Design **13-week cash flow models** that assess short term cash demand and quantify the cash run, introduce a cash culture and communicate confidence to stakeholders
- Set up data models to create a **single source of truth**
- Implement tactical targeted **business intelligence (BI) solutions** to quickly extract and publish reporting dashboards

3 Validate your assumptions

- **Leverage your existing data** to provide better business intelligence supporting your forecast assumptions (e.g. extracting data on demand and supply chain trends by stock keeping units/region)
- **Quick and timely** validation of key assumptions through data analytics
- Embed **reporting** to allow ongoing analysis and assessment as the situation evolves
- **Validate** your assumptions using external data sources, global trend data and lead indicators

Cost transformation

Learning from activist investors/hedge funds

While forecasting focuses on managing the external environment, which is not within the company's control, what is controllable is cost. Businesses can learn from activist investors in these extraordinary times. Activist investors routinely expect management teams to slash costs dramatically over a short period of time.

Their approach to cost transformation, while unconventional, can be adapted to help businesses navigate through uncertainties. Based on the agenda of activist investors, we have distilled **9 principles for cost transformation** that can help businesses adapt to the challenging times ahead.

Amidst increasing pressures to manage costs, leaders will want to keep sight of strategic priorities to help the business emerge stronger.

Finding that balance can be challenging, but crisis recovery decisions can be compatible with long term vision. It's worth asking yourself the questions and perspectives raised in the first three principles here.

⁴ Source: Strategy+Business' Be your own activist investor, 2015, <https://www.strategy-business.com/article/00372?gko=1e627>

⁵ Source: Strategy+Business' Cutting costs in the current crisis: Is it the right time and how far do we go? 2020, <https://www.strategyand.pwc.com/de/de/implications-of-covid-19/cutting-costs.html>

1. Don't default to across-the-board spending cuts

Instead, ask larger-order questions:

- What are your company's must-haves? What are the things you need to invest in to stay on a path towards growth?
- Are these priorities sustainable?
- Which customers should you serve?
- With which products and services?
- Supported by which capabilities?

If an expense is not justifiable in the answers to these questions, it would be best to stop funding it.

2. Justify what to keep, not what to eliminate

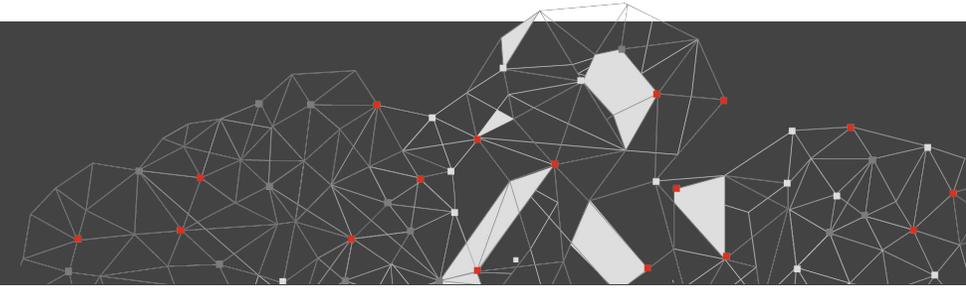
All spending is investment. Every cost is a choice. The secret to unlocking cost reduction is to make deliberate choices about where to invest. For each cost item ask:

- What kind of expense is this?
- Should we spend it?
- Does it earn its way?

Costs that lead to distinctive capabilities are often the choices that pay off.

Cost transformation

Learning from activist investors/hedge funds



3. Appeal to hope, not fear

Any major change initiative has both winners and losers. Here are some recommendations on how to address difficult decisions:

- Bring them to light in an inclusive, constructive way
- Focus on your strategic aspirations - what you hope and expect to accomplish, rather than on threats. Communicate your decisions to your people in a transparent manner.
- Grant amnesty for the past. It can be counterproductive if you focus on looking backward at “how we got here,” and scrutinising past administrations or decisions.

4. Shake up the executive ranks decisively

The source of organisation cost or other transformation problems may well be embedded in the executive team and others in the top three levels of the organisation.

Leaders need to find effective ways to shake up their senior management, giving them an appetite for change and the incentives and support they need to think in a fresh way and act with urgency.

5. Reconsider everything for evaluation without favour

Don't be afraid to put everything out into the parking lot for evaluation. This includes even supposedly untouchable CEO expenses. If the CEO's favoured project is under the same level of scrutiny as other projects in the organisation, it sends an important signal to the organisation that “we're all in this together”.

6. Set up a parallel organisation to change the business

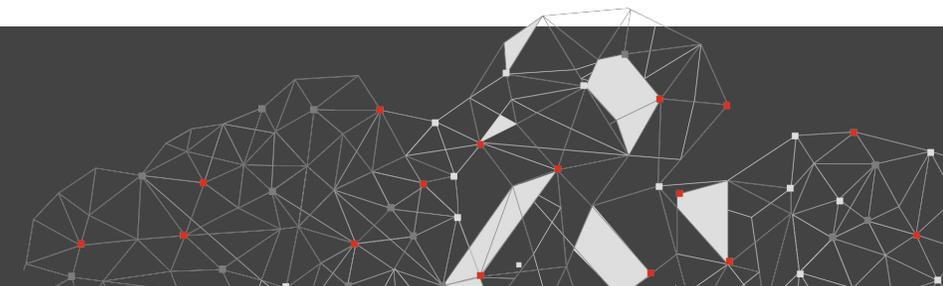
As change can be a disruptive ordeal, put in place a separate transformation management office (TMO). Led by a senior executive, this is a cross- functional team of the company's most creative and talented managers.

It is in charge of working with the P&L owners to deliver the results and its central task is to orchestrate the complex, often disruptive change process.

Senior management will in turn assess the TMO progress, make decisions, and report results regularly.

Cost transformation

Learning from activist investors/hedge funds



7. Challenge the way you do things, emphasise the urgency

Businesses must go beyond simply addressing unjustifiable costs. They also need to consider the factors underlying them. So take another look at the businesses and capabilities you have brought in from the parking lot, with an eye toward fundamental improvement.

A crisis can catalyse the changes your business needs. It may be a good time to commit to transformative initiatives. Keep them going if you already have such initiatives in progress, and double down where you can to stay competitive. Adjust if you need to, with the view that your decisions need to take into account market needs in the long term beyond COVID-19.

For example, put aside businesses and products that don't produce sufficient margins or fit with your distinctive capabilities, and relinquish the associated customers. Reorganise your operations to run more effectively at a lower cost.

8. Look horizontally, across the organisation

Refrain from imposing percentage cuts on each department or function. Instead, look for expenses hidden in the seams and buried in cross-functional processes.

When there is a process that cuts across multiple functions such as order to cash (OTC, the receipt and processing of customer sales), cost savings can be achieved through a single team, with people from each function to look at the process from end to end. The cross functional team can help simplify product bundles and pricing packages, rewrite contract terms, and specify a few areas where the sales team could tailor contracts to the clients to reduce billing and receivables workload.

9. Showcase quick wins

To accelerate momentum, identify and showcase quick wins early in the transformation process. These are cuts that generate significant savings rapidly with relatively minor transition costs.

They can be found in three principal areas:

- Discretionary spending, e.g. "not required" expenses
- External spending, e.g. from price negotiation with suppliers
- Management hierarchy, e.g. from organisational flattening processes

In summary

Evidently, it is not going to be business as usual during and post COVID-19. Organisations need to quickly adapt and change how they operate as a business, manage costs, engage customers and their people, produce and distribute goods and services, and plan for the future, all of which requires new ways of working.

What we have seen in forecasting in uncertainty and cost transformation is the need to form cross-functional teams and not to work in silos. This will encourage collaborative efforts and shared priorities that will help businesses to:

- Rapidly assess the environment and issues to make practical and holistic decisions
- Reimagine new possibilities and solutions including upskilling their people
- Effectively communicate issues and solutions to the rest of the organisation to act upon
- Build trust among their stakeholders

It will not be easy, but with the right priorities in place, businesses will be in a better position to stay resilient through various circumstances and emerge stronger after a crisis.

PwC insights on COVID-19

We're operating in uncharted waters. Critical information on the characteristics of COVID-19 and its impacts on business are difficult to assess and can change overnight. PwC provides a variety of insights on how companies can focus their efforts.

- **Cash conservation and management: COVID-19 and beyond** - how a Short Term Cash Flow Forecast can help companies manage liquidity during these uncertain times
- **PwC's COVID-19 Navigator** - an online, interactive tool to help organisations better understand where they are on their path toward COVID-19 preparedness and response
- **COVID-19 CFO Pulse survey** - a survey on how finance leaders are responding to COVID-19

Visit our **[COVID-19 viewpoints webpage](#)** for more insights.

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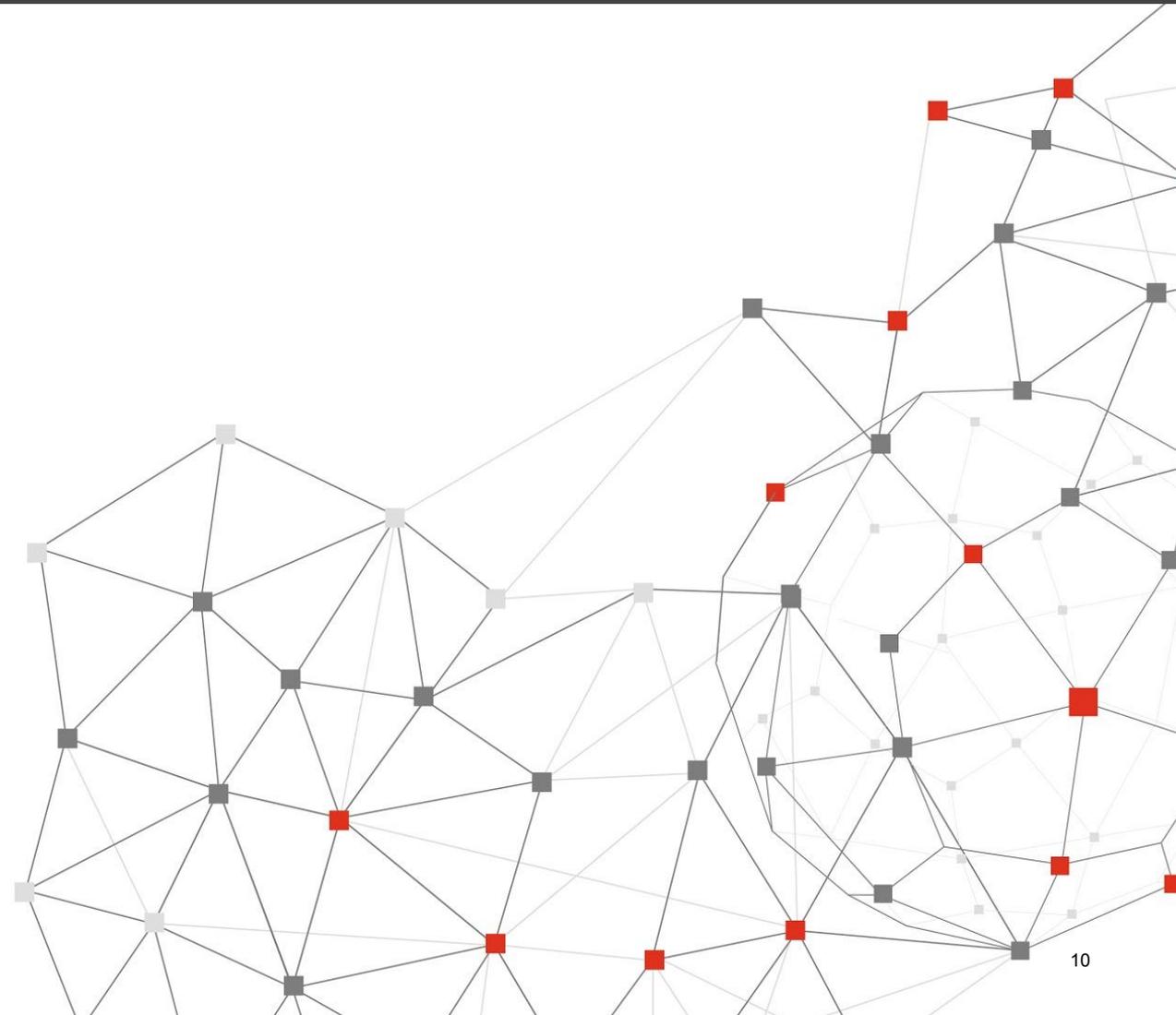
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