High Prices, Valuable Opportunity: CFOs Respond to Inflation

Persistent inflation and its ripple effects pose new challenges, and new opportunities, for CFOs, according to Protiviti's latest global survey of finance leaders. The upside relates to how rising prices and their numerous knock-on effects require finance groups to deploy many of the next-generation capabilities they've developed in recent years. These faculties include advanced automation and technology tools, the data-driven forward-looking insights those powerful systems and algorithms generate, and the growing number of strategic relationships CFOs have forged with business owners throughout the enterprise. CFOs are also sharpening their strategic narratives to keep employees, customers, suppliers, investors and other stakeholders updated on the organisation's response to rising prices and interest rates along with other inflationary trends.

While inflation impacts and responses vary by industry and company, most finance groups initially respond by taking similar steps, including:

1. **Collecting more data:** Access to diverse collections of data sets from organisational partners, suppliers, customers and other third parties enables finance groups to generate real-time insights on the availability and cost of raw materials, suppliers' pricing decisions, fluctuating logistics costs, increasing labour costs, and more. More CFOs find that highly granular, data-driven insights become even more critical during inflationary periods when the costs of similar materials, products and skills fluctuate in uneven and unexpected ways.
2. **Conducting more scenario planning:** The data and business indicators finance groups obtain ultimately fuel scenario planning and stress testing (e.g., projecting those breaking points where price increases reduce demand). More CFOs are leveraging this information to identify the factors most sensitive to inflationary pressures and then running those drivers through various scenarios to assess implications to the business plan and analyse mitigation options.
3. **Increasing communication and collaboration:** More CFOs are keeping boards apprised of changing plans while managing the investment community's appetite for information. Additionally, sustaining working capital requirements amid rising interest rates and price gyrations requires ongoing communication with accounts receivable and payables teams and treasury partners. Finance leaders consult with sales and supply chain leaders to find new ways to preserve margins. CFOs also are working more closely with external technology providers and talent-sourcing partners, both of whom play increasingly important roles in addressing the organisation's inflation-related challenges.

These initial activities bolster more targeted actions designed to mitigate a wider range of inflation-driven risks and challenges, including:

- **Working capital management pressures:** High prices raise pressing questions concerning working capital related to inventory levels in the face of rising warehousing costs, interest rate exposures, and optimal cash positions needed to support operations while taking advantage of discount opportunities given the deterioration in purchasing power.
- **Trading partners' credit risks:** Customers and suppliers also wrestle with inflationary pressures and working capital management challenges, which can impede a customer's ability to pay and a supplier's ability to deliver.
- **Pricing strategy:** CFOs are pinpointing the breaking point in price increases. When prices become too high, customers curtail purchasing activity, thereby reducing profit margins. Finance leaders are helping to align sales management with pricing strategy and concessions as they address changing inflation rates.
- **Workforce risks:** Amid an inflationary environment, questions and interest may arise among finance staff and other employees regarding greater financial rewards and possibly new opportunities, including those with other organisations. Boosting compensation and bonuses to satisfy staff and stave off competitors' attempts to swipe top talent may please employees but can also slim profit margins and risk shareholder discontent. There also are limits to how far organisations can go with these steps. In light of these and other longer-term developments, CFOs are helping CHROs and executive teams recalibrate talent management strategies and structures.
- **Procurement strategy:** CFOs recognise that procurement strategies and processes require an overhaul. Different approaches may be necessary to negotiate pricing with suppliers and should vary depending on whether long-term purchasing contracts are indexed to inflation. More comprehensive assessments of total sourcing costs also must be conducted after decades of prioritising low prices above other crucial factors, including supply chain resilience and revenue assurance.

Interested in learning more? Read our research report, *Reimagine: From automation and cloud to ESG and talent management, CFOs are reimagining their long-term roles*, available at www.protiviti.com/financesurvey.