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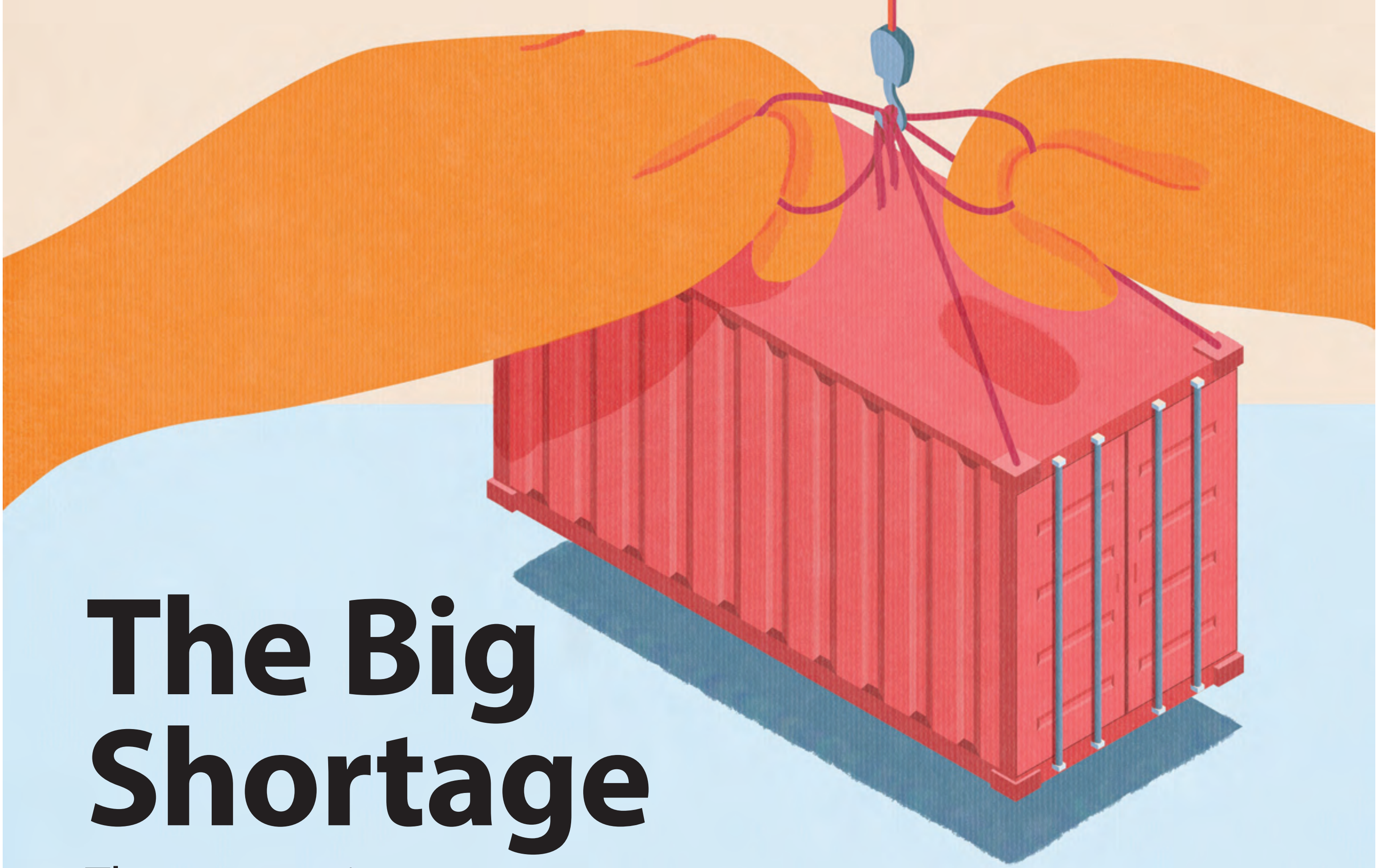
FASB CHAIR Q&A



The Big Shortage

The economic recovery exposes the weaknesses in supply chains

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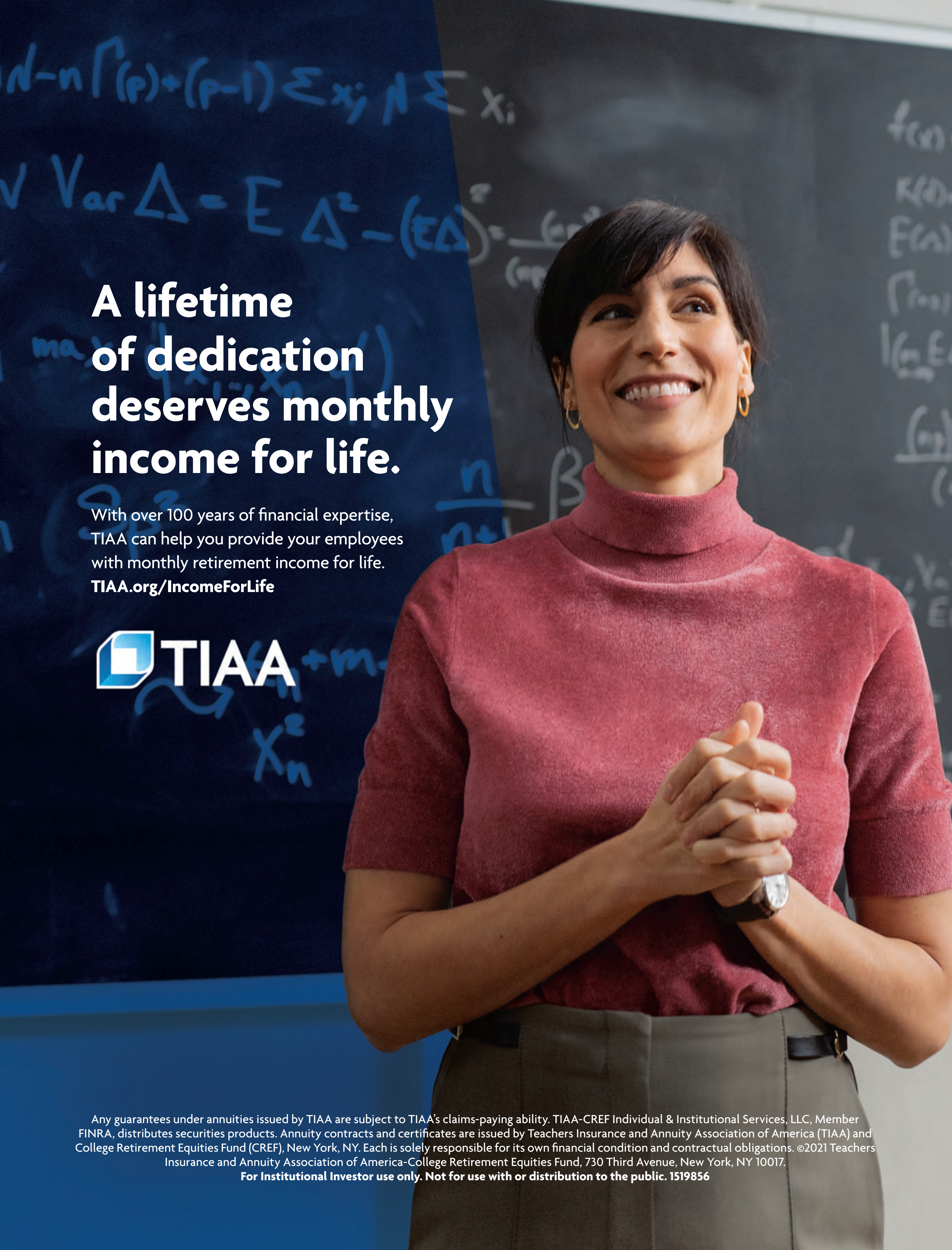
By the Numbers

Getty Images (4)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FROM THE EDITOR

Is Bitcoin a Buy?

Having covered cash management and treasury in-depth at *CFO* for years, I've been astounded by the statements of companies investing slices of their cash reserves in Bitcoin. Some business media outlets, too, suggest it makes perfect sense for a VP of treasury to take short-term cash residing in money market funds or time-bearing deposits and buy units of the cryptocurrency.

In "Holding Bitcoin Still Risky," on page 12, we note why, unless a company expects cash inflows and outflows in Bitcoin, it would be a highly speculative, unsafe investment. As Marwan Forzley, CEO of Veem, told our reporter, "While Bitcoin's price has gone up substantially, we have also seen significant drops that can produce quite a bit of losses."

Stop right there. Principal preservation is the *sine qua non* of short-term cash management. Lose more than a few million dollars of the cash that is to be spent on capital projects or sit on the balance sheet as a safety net, and you'll be shown the door.

We are more than a decade past the financial crisis, but I guess the freezing of the auction-rate securities (ARS) market in 2008 has been forgotten. Holding those debt instruments—which had a long-term nominal maturity but had an interest rate that regularly reset through a dutch auction—ultimately caused millions of dollars of corporate cash write-downs. Banks lost, too—corporate clients sued them for marketing ARSs as safe, highly liquid, and cash-equivalent securities.

Bitcoin may be liquid, but it is far from safe, and the accounting is muddled. Despite being traded in an active market, Bitcoin is still considered an intangible asset. What's more, the Financial Accounting Standards Board is in no hurry to set any new standards for it, says new FASB Chair Richard Jones (page 18).

I fear the Bitcoin tribe will pressure treasurers and finance chiefs to allot some portion of their short-term cash to Bitcoin. But finance executives shouldn't be swayed by faulty arguments such as that Bitcoin is an effective hedge against inflation. Based on no intrinsic value, Bitcoin's price does not correlate with any asset prices or movements in inflation rates, so how can an investor structure a hedge with it?

The arguments for holding Bitcoin ignore market realities and financial management principles. Only if a finance executive is OK with that should they consider adding cryptocurrency to a portfolio.

Vincent Ryan
Editor-in-Chief

CFO, Vol. 37, No. 2 (ISSN 8756-7113) is published six times a year and distributed to qualified chief financial officers by CFO Publishing, an Industry Dive company, 1255 23rd Street NW, Suite 550, Washington, DC 20037 **(editorial office)**. Send direct requests for reprints and permissions to advertising@industrydive.com. Periodicals postage paid at Washington, DC and additional mailing offices. **POSTMASTER:** Send address changes to **Industry Dive**, 1255 23rd Street NW, Suite 550, Washington, DC 20037. **CFO** is a registered trademark of Industry Dive. **SUBSCRIBER SERVICES:** To update your address or cancel a subscription, please email subscription@cfo.com.

EDITOR'S PICKS

INNOVATION
The desire to apply the same metrics to fledgling products and cash cows is a mistake. In "**Don't Let Financial Metrics Prematurely Stifle Innovation**," consultant Scott Kirsner writes that to "build a durable engine of innovation," management needs to switch up the metrics as a project matures. While early project metrics typically measure progress, later metrics should track the impact and value created. Read more on the Harvard Business Review website.

HUMAN CAPITAL
In "**Are You Ready for the Hybrid Workplace?**" Wharton professor Martine Haas says physical access to the workplace will give in-office workers a power differential. "Not being present for informal interactions leaves remote workers feeling out of the loop and last to know. Being remote may also lead employees to feel more isolated and lacking the relationships and connections that provide social support." Listen to the podcast episode on the Knowledge@Wharton website.

FINANCE
What are the consequences of setting a hurdle rate that is too high or too low? In "**The Hurdle Rate Question!**" Aswath Damodaran explores why finance chiefs have to get used to working with lower discount rates. "A company that uses a 15% cost of capital, because that is what it has always used, will have a hard time finding any investments that make the cut," he writes. Read more on the Musings on Markets blog.

Mark Bennington


NON-CREDITWORTHY CUSTOMERS DO THEIR BEST TO BLEND IN
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EULER HERMES

In response to the online version of our Feb./March cover story, **"10 Vital Roles for CFOs"** (Feb. 24), one LinkedIn reader commented: "Gone are the days of the finance department hidden away and just crunching numbers. **Finance teams today deliver value in so many areas of a business** and this article could easily be used for all members of a finance team, since we interact and affect every department. And how the team uses that interaction determines success and progress for the team and the company."

"**Finance departments have the opportunity to bring significant value**, especially with the amount of data they process," another reader added. "From streamlining business to making strategic recommendations."

An executive recruiter also commented on the article, "When we conduct CFO searches we are addressing a need; however, **there is significant opportunity to advance the finance function**, and thus the business, and net the CEO a strategic business partner in the process."

"CFOs Can Shape the Post-Pandemic Workplace" (CFO.com, March 8) discussed how finance chiefs must determine what it will take to make the workspace safe for employees as a return to the office becomes imminent.

"I believe there is more to the CFO or finance leader's role here than just minding the cost of investment, especially with COVID-19 and how to adapt the company to it. **Collaborating between finance leaders and human resources should not be considered unconventional**," offered one LinkedIn reader. "It is the role of finance leaders to be forward-looking and to put the company in the best possible position to succeed. **One of those key drivers to success is the people**. A forward-looking, disruptive, collaborative, and technologically driven finance team should not be thought of as unconventional; it is value driven."

"CFOs Want FP&A to Marshal Value Creation" (CFO.com, Feb. 18) explained how FP&A teams should spend less time explaining the numbers and more time working with the business to manage them.

"I totally agree with this," said one reader. "It's a bit different in the SME sector where FP&A is not a separate function but part of my role as CFO. However, **all the occasions on which I have really added value in my career have been where I worked with the business**, using analysis and insights to influence behavior and focus. That's only been possible because I stepped outside of finance and spent time understanding the actual business and drivers."

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is owned by Industry Dive, 1255 23rd Street, NW, Suite 550, Washington, DC 20037
industrydive.com

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STATS OF THE MONTH

INFLATION?

1.7%
12-month rise in consumer price index*

6.4%
Monthly increase in gasoline prices*

19.3 points
Increase in consumer confidence index**

11.1%
12-month rise in home prices

71.8
ISM index of prices paid by services industries

*As of February 2021.

**As of March 2021.

Sources: Conference Board, S&P CoreLogic Case-Shiller, Institute for Supply Management, Department of Labor

TOPLINE

THE ECONOMY

Federal Watchdog Warns of Fiscal Health Crisis

As the federal government passes more coronavirus relief, the GAO and others call for a sustainable fiscal path. By Jim Tyson, CFO Dive

In late March, the Government Accountability Office (GAO) called for efforts to achieve fiscal sustainability, noting that spending on pandemic aid pushed federal debt to about 100% of gross domestic product in fiscal year 2020 from 79% the prior year.

U.S. debt will likely hit a record in 2028 and grow faster than GDP thereafter, increasing the odds of a fiscal crisis that could trigger a large fall in the U.S. dollar or prompt reluctance among policymakers to support the economy during a downturn, according to the congressional watchdog.

"The government must turn its attention to developing a strategy to deal with our debt and put the government on a long-term sustainable fiscal path," Gene Dodaro, U.S. Comptroller General and head of the GAO, said, adding "our rate of debt growth cannot be maintained indefinitely."

The GAO report came just days before the Biden administration released its $2 trillion infrastructure plan, which would be partly paid for by an increase in some corporate taxes. Thus far, pandemic-related relief from the federal government, not including the potential infrastructure bill, totals $6 trillion.

Rising U.S. spending poses a scenario in which "investors lose confidence in the government's ability to service its debt and therefore demand significantly higher interest rates to compensate for the risk," according to the Congressional Research Service (CRS).

Concerns on Wall Street about federal spending could complicate efforts to manage the debt, Moody's Investors Service said in a March report. Large U.S. deficits and debt have "raised market concerns about the potential for higher inflation and interest rates, which could weigh on the U.S.'s debt affordability," according to Moody's.

Partisan tensions in Congress reduce the odds of an improvement in the fiscal outlook anytime soon, Moody's said. "The current political climate will likely make bipartisan consensus on fiscal policymaking a challenge."

As a result, "the U.S.'s credit profile will not remain immune to rating pressure in the absence of shifts in fiscal policy in the coming years to reduce the government's fiscal deficit and stabilize its debt burden."

Still, the U.S. has a "significantly higher capacity to carry a larger debt burden than other sovereigns globally due to the very large size and proven resilience of the U.S. economy and the global dominance of the U.S. dollar as the world's preeminent reserve currency," Moody's said.

Official White House photo by Adam Schultz

Congress should create a long-term plan for fiscal sustainability, including rules such as a debt-to-GDP target, the GAO said. "Lawmakers will also need to consider the entire range of federal activities," including both revenue and spending, the GAO said, noting that "rising federal debt increases the likelihood of a fiscal crisis."

According to the GAO, the government could improve the fiscal outlook by closing the annual $381 billion gap between taxes owed and those paid and reducing disbursements that should not be made or made for an incorrect amount. Such errors during fiscal year 2020 totaled $206 billion.

"The point at which the level of U.S. might become unsustainable is unclear," the CRS said, adding "the size of the debt may become a more urgent concern in the future" depending on the strength of the recovery and changes in interest rates and inflation.

Research by some economists suggests U.S. debt is already unsustainable, the CRS said, noting that "countries with debt-to-GDP ratios above 80% and persistent trade deficits are vulnerable to rapid fiscal deterioration."

A late-March survey by the National Association for Business Economics (NABE) found that 41% of economists thought current U.S. fiscal policy was "about right," up from 37% who held this view last August. But 34% thought the policy was too stimulative, up from the 17% recorded in the same August survey. Only 25% thought U.S. fiscal policy was currently too restrictive.

At the NABE's March conference, economists stressed that the quality of the federal government's spending was a key factor.

"We don't have an infinite amount of fiscal room," said Jason Furman, a professor at Harvard University's John F. Kennedy School of Government, during a conference session. "There are still trade-offs in the real economy, and there is still debt sustainability to worry about. Thinking intelligently about that can let us understand the room we do have and make sure we're using that room wisely." CFO

RISK MANAGEMENT

Limiting Political Activity Backlashes

Reputational risk used to mean a tainted product, child labor abuses, or hazardous employee work environments. Today, it can be a lot more subtle, as simple as an ill-timed tweet or insensitive video ad.

But in this era of intense political polarization in the United States and demand from investors for actions on social issues, fewer and fewer companies are willing to stay out of the political arena.

"Companies are being asked to engage on more issues, through more mechanisms, and at more levels of government than ever before," said Paul Washington, executive director of The Conference Board ESG Center and author of a new report on best practices in corporate political activity.

As a result, says Washington, it may be time for executive management to take a close look at their company's approach to "streamline political activity as much as possible, focusing on what truly matters and reducing the company's risk profile."

The following suggestions on how businesses can do that come from a roundtable discussion The Conference Board held in the wake of the 2020 U.S. election and a survey of 84 large public and private companies.

The recommendations are from the executive summary section of the report, "Under a Microscope: A New Era of Scrutiny for Corporate Political Activity."

• **Prepare for backlash.** Have a clear set of standards and guidelines for making and defending any positions the company takes.

• **Keep it simple.** Consider, for example, giving to candidates only through political action committees and not via direct corporate contributions, and limiting contributions to third-party organizations.

• **Vet.** Thoroughly vet third-party organizations to which the company donates money, including the governance processes to control their activities.

• **Adopt a policy.** Set or update a policy for political contributions that incorporates the company's and its employees' values as part of the framework for managing political spending.

• **Involve employees.** Employees often expect companies to take stands on issues. It's vitally important to educate employees—and, indeed, the general public—about the company's activity.

• **Augment board oversight.** While boards have traditionally focused more on contributions than lobbying activities, companies should consider what kind of role boards should play with respect to lobbying (and other forms of political activity).

• **Expand disclosure to investors.** Investors increasingly care about political activity, particularly as a source of risk. In response to investor interest, companies have been ramping up their disclosures: three-fifths of S&P 500 companies now have some level of political disclosure. | VINCENT RYAN

Getty Images (1)

TECHNOLOGY

A New Platform for Strategic CFOs

"Iron Man suit" for the modern CFO. A "strategic finance" platform. A rebuild of the CFO software stack. Mosaic, a new software platform from the company of the same name, has earned some impressive labels.

Mosaic's solution comes just as ERP systems, in the eyes of some, are "unbundling." The rise of cloud-based tools like Salesforce, HubSpot, and Rippling has made life easier for sales and marketing, human resources, even legal departments and "made them more powerful at their job," says Bijan Moallemi, the CEO of Mosaic.

Those products have usurped the ERP from its position at the "center of the constellation for folks in the finance organization." Now, at many organizations, the ERP is just another tool in the tech stack.

It also might be getting outdated. In Moallemi's view, ERP systems are too siloed to allow finance to connect with other parts of the organization and CFOs to fulfill their strategic remit.

To be a strategic CFO, "it's not good enough to just have kind of domain expertise over the data coming into your ERP system," Moallemi says. "You need to have mastery over all the different business systems that the organization is using."

The Mosaic platform aims to provide finance with a "connective, collaborative" environment. It is designed to grab data automatically from all sorts of systems in the enterprise—ERPs, HRISs, CRMs, billing and payments systems, and others.

Pushing real-time data back out to business leaders is performed within the same tool. Mosaic presents information in a way that is digestible to nonfinance people. Instead of a statement of cash flows or a balance sheet, they get easy-to-use dashboards, data visualizations, and automated insights. The platform also incorporates artificial intelligence and machine learning to assist in forecasting versions of the future. | V.R.

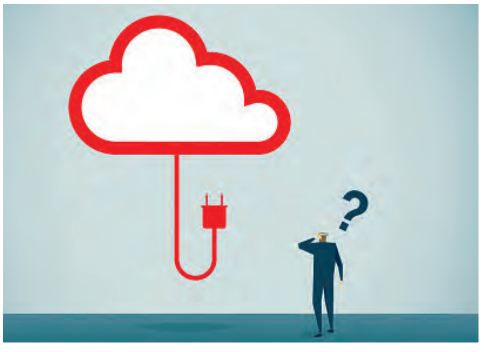
PAYMENTS

Rare Outage Takes Down Fed System

The Federal Reserve suffered a rare outage in February that shut down key payment services used by banks, businesses, and government agencies for several hours.

According to The Wall Street Journal, Fed officials "couldn't immediately recall a similar episode affecting its systems, which had been seen as extremely reliable."

Among the systems that went down during the outage were the Fedwire settlement service and FedACH, the pivotal automated clearing house system that connects depository and related institutions sending electronic credit and debt transfers.



"A Federal Reserve operational error resulted in disruption of service in several business lines," the Fed said. "We are restoring services and are communicating with all Federal Reserve financial services customers about the status of operations."

Fedwire and the ACH system appeared to be coming back online about three hours after the Fed said it had become aware of the problem.

As CNN reported, "Banks, businesses, and government agencies rely on Fedwire to transfer vast sums of money around the U.S. banking system. More than $3 trillion was transferred daily using Fedwire during the fourth quarter."

The ACH system handles direct deposits of payroll, Social Security, and income tax refunds as well as auto payments for mortgages and utility bills.

Aaron Klein, a senior fellow at the Brookings Institution, said the outage underscored broader problems with the Fed's payments systems, in which checks can take two business days to clear. Central banks in other countries—including England, Brazil, and Mexico—implemented instant payment systems more than a decade ago.

A Fed spokesman said the central bank extended its hours of operations to clear the backlog of transactions. | MATTHEW HELLER

TOPLINE

CASH MANAGEMENT

Holding Bitcoin Still Risky

At least a couple of technology companies have invested in Bitcoin to widespread wonder. Last year, MicroStrategy adopted Bitcoin as its primary treasury reserve, buying 38,250 in Bitcoin for $425 million between August and September. Digital payments company Square, which supports Bitcoin buying and selling via its Cash App, purchased $50 million worth of Bitcoin in October 2020.

Despite these outliers, though, companies in the main are shying away from cryptocurrency investments—for now.

There are circumstances in which corporations will hold Bitcoin in the ordinary course of business, says Steve Patrick, managing director of consultancy Endurance Advisory Partners. Examples include Paypal and Square that provide nonbank financial services like payment processing, including payments denominated in Bitcoin.

"Those businesses expect ongoing cash inflows and outflows in Bitcoin, so it makes sense for them to hold a little excess Bitcoin to smooth the payment process. For them, holding Bitcoin is like a jeweler holding gold," Patrick points out.

In specific industries, like financial services, corporate treasurers are responsible for managing a non-cash investment portfolio. Bitcoin and other digital investments are likely to be included in more of those portfolios, often as a hedge, Patrick says, because Bitcoin's value is not correlated to price changes of other assets like stocks and bonds.

One roadblock to the broader adoption of cryptocurrencies is the lack of widely accepted accounting principles.

"Every firm that holds Bitcoin or any other digital asset on its balance sheet has to record its value at cost," explains Nauman Anees, CEO of ThinkMarkets, an online brokerage firm. "If the value of the asset declines, the company has to restate it by the corresponding amount. It can't, however, adjust the value of the asset upward unless it sells it."

Ownership of cryptocurrencies, therefore, "may be considered by shareholders, investors, and creditors as an additional risk that could affect a company's valuation or access to credit," says Anees.

Companies (particularly in those highly regulated industries) must also consider Bitcoin's general lack of price stability. "While its price has gone up substantially, we have also seen significant drops that can produce quite a bit of losses," says Marwan Forzley, CEO of digital payments vendor Veem. "When weighing investing in Bitcoin, it is important to research and analyze the various legal, regulatory, tax, accounting, and risk management aspects." | KAREN EPPER HOFFMAN

ENFORCEMENT

AT&T Charged With Improper Calls to Analysts

Three AT&T investor relations executives have been charged with sharing nonpublic information with analysts to get them to lower their revenue forecasts so the company could avoid a third straight quarterly earnings miss.

The U.S. Securities and Exchange Commission said AT&T violated Regulation FD, which prohibits selective disclosure of market-moving information, and IR executives Christopher Womack, Michael Black, and Kent Evans aided and abetted the company.

The violations occurred before AT&T released results for the first quarter of 2016, and were intended to induce each of about 20 analyst firms to "lower its revenue estimate sufficiently to bring the resulting consensus estimate down to the level that AT&T expected to report."

After the average estimate fell $323 million in three weeks, AT&T reported $40.54 billion in revenue, beating the lowered target by $76 million and averting a third consecutive miss.

According to the commission, Womack, Black, and Evans learned in early March 2016 that AT&T's smartphone sales for the first quarter would decline more than expected, reflecting a record low "equipment upgrade rate." As a result, gross revenue was expected to fall more than $1 billion below the consensus estimate.

The investor relations department developed a plan to contact individual analyst firms whose estimates were higher than AT&T's projections.

At one point, CFO John Stephens allegedly stopped by the office of the investor relations director to "make sure that his team was 'working the analysts that still have equipment revenue too high.'" | M.H.

REGULATION

SEC Pushes on Climate Risk

To step up enforcement of disclosure of climate risks, the U.S. Securities and Exchange Commission unveiled a new Climate and ESG Task Force.

The task force will "develop initiatives to proactively identify ESG-related misconduct" and coordinate the effective use of division resources, including through the use of sophisticated data analysis to mine and assess information across registrants, to identify potential violations," the SEC said.

The commission, which has been under pressure from Democratic lawmakers, environmentalists, and advocates for tougher financial rules to boost scrutiny of climate disclosure compliance, announced a week before that it was reviewing climate-related disclosures as part of an effort to update guidelines that are more than a decade old.

According to the SEC, the task force's "initial focus will be to identify any material gaps or misstatements in issuers' disclosure of climate risks under existing rules."

In response to the task force announcement, the U.S. Chamber of Commerce urged the SEC to proceed cautiously on climate risk disclosure, saying enforcement efforts should not take precedence over rulemaking.

In a letter to Acting SEC Chair Allison Herren Lee, the chamber suggested the commission had acted prematurely in announcing that it had formed a task force.

"The chamber urges caution regarding the SEC's recently-announced ESG enforcement initiative," Executive Vice President Tom Quaadman wrote, noting that it "appears to take an enforcement-first approach to ESG and climate change even though the commission has not yet completed its review and updates to the 2010 guidance regarding climate change disclosures."

"We are deeply concerned that using the SEC's enforcement apparatus in place of notice-and-comment rulemaking will discourage companies from going public just as the economy turns its sights onto recovery from the pandemic through capital formation and job creation," he said. | M.H.

CREDIT

Activist Investors Lower Credit Ratings

Here's another reason for finance chiefs to be wary of shareholder activist campaigns: increasingly, they lead to downgrades or other negative credit rating actions, especially for companies with already weak ratings.

To be clear, most activist campaigns do not lead to changes in credit ratings, credit outlooks, or the placing of a company on "credit watch." But according to a report released by S&P Global Ratings, when campaigns do lead to ratings actions, the majority of the time those actions are negative. Twenty-one of the 26 rating actions triggered by investor campaigns in 2020 were negative, up from only 7 five years ago.

Activists targeted mostly investment-grade companies in 2020. But companies in the "BBB" rating categories, the tiers just above "junk," saw the greatest number of rating actions and downgrades.

Shareholder activist M&A or break-up campaigns continued to be the largest contributor to rating changes among nonfinancial and financial issuers, the agency stated, followed by campaigns focusing on capital structures.

"The most typical path to a [rating downgrade related to M&A] was overleveraging during a merger or a break-up that adversely affected the company's financial risk profile," S&P said.

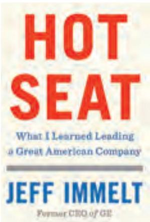
For example, S&P lowered Tech Data into junk territory last June after Apollo Management's takeover offer proposed issuing an additional $5.5 billion in debt. That "pushed the company's pro forma adjusted leverage below the previous downside trigger," S&P said. "Additionally, we expected the company's financial policies to become more aggressive under the new ownership."

Shareholder activism in Europe led to as many downgrades as it did in the U.S. in 2020. The rise in campaigns "was largely driven by the still growing belief by large U.S. activist investors that European corporates are ripe for M&A-driven value creation," S&P said. | V.R.

Getty Images(4)

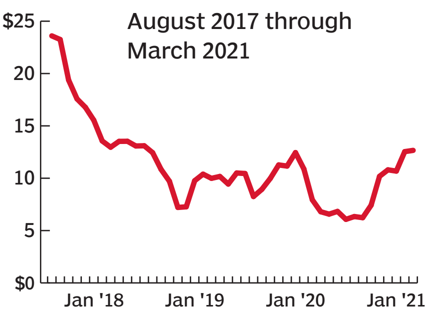
GE's Long Turnaround Attempt

Four rough years in the corporate icon's history.



Former GE CEO Jeff Immelt's book, "Hot Seat," recounts the many missteps that occurred during his time as head of the conglomerate. But even after Immelt retired, the company struggled as new management failed to act quickly to chart a new course. Here's how a famous American company known as a proving ground for corporate finance executives became the poster company for declining industrial giants.

GE's stock price



Source: Yahoo Finance

Aug 1, 2017 | $24.45*
CEO **Jeff Immelt** retires, **John Flannery**, head of GE Healthcare, becomes chief executive.

Oct 9, 2017 | $23.43
CFO **Jeff Bornstein** announces he will leave the conglomerate in December after 28 years. His replacement is **Jamie Miller**, CEO of GE Transportation.

Oct 20, 2017 | $23.83
GE records its largest earnings miss in 17 years and lowers cash-flow projections by $5 billion; Flannery calls the results **"unacceptable."**

Oct 23, 2017 | $22.32
Following a 90-day review of the company's financial situation, **Flannery** says he will "run the company for **cash generation**."

Nov 13, 2017 | $19.02
GE cuts its **quarterly dividend** in half due to weaker-than-expected cash flows in power; pension costs; and hefty insurance claims from financial operations.

Dec 2017 | $17.71
The company cuts **12,000 jobs** at **GE Power** as part of $1 billion in structural cost reductions.

Jan 16, 2018 | $18.21
CEO Flannery says management may consider **breaking up** the company. GE also takes a **$6.2 billion** charge stemming from prior-year losses in its life & health reinsurance portfolio.

Jan 24, 2018 | $16.44
GE loses $10 billion in the fourth quarter and discloses that the SEC is investigating the company's fourth-quarter charge.

May 7, 2018 | $14.07
GE warns **subprime unit** WMC Mortgage could go bankrupt over litigation costs.

Jun 26, 2018 | $13.74
The **Distributed power** business is sold to private equity firm Advent International for $3.25 billion, part of a plan to divest $20 billion in assets.

Oct 1, 2018 | $12.09
The **GE board** ousts Flannery after 14 months on the job; appoints board member and former Danaher CEO **Larry Culp** chief executive.

Oct 30, 2018 | $9.79
GE takes a **$22 billion goodwill impairment** charge related to the Alstom acquisition. The SEC later widens its investigation of the company's accounting practices.

Feb 25, 2019 | $10.40
The **biopharma** business is sold to Danaher for **$21 billion**, after GE rejected an approach a year earlier.

Apr 24, 2019 | $9.32
WMC Mortgage seeks **bankruptcy protection**, after GE paid $1.5 billion to settle Department of Justice charges for misrepresentations of **subprime loans**.

Jul 31, 2019 | $10.45
CFO **Jamie Miller** departs; GE raises **guidance** for a key cash-flow metric.

Nov 25, 2019 | $11.58
Carolina Dybeck Happe, CFO of Danish shipping giant **A.P. Moller-Maersk,** is hired as CFO.

May 27, 2020 | $7.29
GE sells its iconic **lightbulb** business to home automation company **Savant Systems**.

Dec 10, 2020 | $11.32
GE pays **$200 million** to settle an **SEC probe** that alleged it misled investors about the power business's profits and rising insurance claim costs.

Mar 11, 2021 | $12.27
GE agrees to combine its **aircraft-leasing** unit with Ireland's **AerCap** in a $30 billion deal and proposes an unusual 1-for-8 **reverse stock split**.

*Closing stock price

Creating the Self-Driving Finance Team

Ask any CFO where their priorities lie in 2021 and you will get a range of responses, but almost all involve some form of digital transformation and finance AI. Finance departments recognize the value of technology, but many have a misguided belief that the use of artificial intelligence within the finance team is as simple as adding additional features to existing automation investments. That could not be further from the truth.

The technology in play in most finance departments today is automation, or the use of technology to perform simple processes. While this enhances some capabilities, it certainly doesn't deliver the true digital transformation many are looking for. To increase business agility, we must reimagine this process to a point where technology and humans can work together to truly enhance and transform the finance function.

Automation or Autonomy: What's Right for Your Team?

Automation and autonomy may sound similar but are very different. Automation follows straightforward processes and can therefore be performed without human assistance as long as human-defined rules are set in place. Simple examples of automation include overdue payment alerts, routing of expenses to managers for approval, and data extraction from invoices in an AP process. Each of these helps speed up the process. However, automation struggles when faced with the unexpected—missing data, a new invoice format, a U.K. date when it is expecting a U.S. one, and so on.

The predefined rules for automation tools allow little room for error and typically result in humans being pulled into the process to resolve the exception. This facet limits the range of areas applicable for automation to simple, well-defined processes needing repeated, quick, and cost-effective execution.

On the other hand, autonomous processes do not aim to follow defined steps but to deliver human-like capabilities. Autonomous solutions are flexible and able to react to changing data and circumstances, and as a result, can actively make predictions and decisions. To achieve this sophistication level, they require technologies such as machine learning, computer vision, and natural language processing—collectively known as AI.

Example uses of autonomy include data extraction from invoices without users needing to define recognition templates, the ability to determine the correct values for missing information and appropriate general ledger codes, and the identification of risk and fraud. Each of these solutions operates on learned experience and not just predefined rules.

Introducing the Autonomous Index

To understand best-fit scenarios for automation and autonomy, we refer to the Autonomous Index, which defines the six levels of autonomy. The index acts as a benchmarking tool for organizations to establish their autonomy maturity level and understand the roadmap for future investment and improvements within their

Autonomous Index

AUTONOMOUS	LEVEL 5	**Up to 100% Autonomous** In the future, all manual finance operations are autonomous.
	LEVEL 4	**Up to 80% Autonomous** Most process decisions can be handled by finance software under certain circumstances.
AUTOMATED	LEVEL 3	**Up to 60% Processes Automated** Finance teams must be able to intervene when necessary and perform tasks manually.
	LEVEL 2	**Up to 40% Processes Automated** Some data ingestion automation is available, but finance teams monitor transactions at all times.
MANUAL	LEVEL 1	**Up to 20% Processes Automated** The financial software delivers some assist features and is managed by the finance team.
	LEVEL 0	**0% Processes Automated** Operators of the financial software manage all tasks.

To increase business agility, we must reimagine this process to a point where technology and humans can work together to truly enhance and transform the finance function.

department. For those CFOs looking to drive their finance departments into the future through integrated, intelligent technology, the Autonomous Index provides a clear roadmap to success.

The Future of AP is Autonomous

Technology is disrupting every part of the business, but technology-enabled change has been slower to arrive within finance departments. Far from technology enhancing the function, in many cases, it has added work to the finance team—forcing humans to check every action performed by automated systems due to poor setup, missing capabilities, and a complete lack of confidence in the systems' accuracy.

Current invoice processing software falls woefully short of its goal of automating the action of paying incoming invoices. Looking for better ways to do something that already exists and ultimately optimizing a flawed process does not help. We need assistance that understands processes, that can read any invoice from any supplier and figure out who spent, what was spent, the correct accounting treatment, and the right GL code. We need this done independently, without interruption, without needing to ask for confirmation at every step. We need to be able to trust the system to get it right, every time.

This capability has never existed—until now. Autonomous accounts payable combines financial expertise with advanced AI technologies to deliver this disruption and change how finance departments process invoices forever.

The Benefits of Autonomous AP

AP is the perfect place to accelerate your finance transformation. With an autonomous AP process, it's possible to dramatically impact the amount of manual effort involved throughout the process.

The existing AP systems infrastructure is outdated. Research shows that most companies suffer from 35%-60% of invoices that are manual or not backed by purchase orders. AI can easily automate invoice approval and accounting in real-time, alerting AP staff to only view exceptions and risks.

Autonomous AP delivers significant benefits in areas that finance automation technologies have failed to automate. The figure below illustrates the areas in which Autonomous AP can propel your team to new levels:

Autonomous Invoicing Accelerates Journey to World Class AP

	Typical	Best in Class
High processing cost per invoice	$12.60-$21.19 / invoice	~$2.18 / invoice
Long invoice cycle times	10.8-25 days	~2.9 days
% of invoices processed "straight through"	19.2%	65.3% - 90%
Invoice exception rate	22.6%	~10.1%

All of this adds up to big savings potential: for a typical $5B revenue enterprise, autonomous invoice processing can deliver $8 million in annual savings, starting in three to six months, with little change management.

Key Takeaways for CFOs

1. **Understand the difference between automation and autonomy** and specifically the limitations of the former
2. **Learn to trust AI** to power a modern, self-driving AP function
3. **Find the right fit** by identifying where automation and autonomy tools can integrate with existing business systems and can apply to other processes
4. **Establish a culture for transformation** through experimentation and the early adoption of advanced technologies
5. **Future-proof** with technology that can learn and scale with your team

To obtain additional information, please visit www.appzen.com.

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FASB Chair Jones Looks Ahead

Seven months in, Richard R. Jones gives his perspective on cryptocurrencies, climate risk disclosures, and possible goodwill accounting changes. By Vincent Ryan

With all the major accounting standards issued by the Financial Accounting Standards Board the last few years, it's tempting to believe that finance departments are due a few years of relative quiet. However, there are plenty of issues lurking just outside the strict confines of accounting rules.

Among them are whether standard setters need to formulate new accounting standards for cryptocurrencies and how involved FASB should be in creating rules around climate-risk disclosures. Inside those confines are controversies like an impending change to accounting for goodwill.

Enter Richard R. Jones, Ernst & Young's chief accountant appointed to be FASB chair in December 2019. Jones assumed the FASB post on July 1, 2020, in the throes of the pandemic. So far, he has laid out a relatively conservative approach to standard setting but one consistent with an organization that understands the huge responsibility it carries as the guardian of financial statements.

In a Zoom call in March with *CFO*, we asked Jones about the issues above, his personal goals for his seven-year tenure, and the plan for an agenda consultation project.

What have you focused on in the first seven or so months of your term?

I was getting to know our stakeholders and conducting a lot of outreach with our different stakeholders. The pros and cons of Zoom and similar media are that you can meet with many people. In some ways, that turned out to be a positive. Even though there's rarely a day that goes by where I'm not doing some form of outreach with our stakeholders, there is something to seeing people face to face. It makes for a different kind of interaction, and I certainly missed that. The other thing I focused on was getting to know the [FASB] staff. My predecessor left me a high-quality, very qualified staff. So, that means hitting the ground running.

How do you view the accounting standards environment right now? Do you think there'll be a lot of change during your tenure?

We have agenda items today to gauge areas that we should be working on and how investors will use that information for better decision-making. Twenty or thirty or forty years ago, we had half the volume or a third of the volume of accounting standards that we have today. We also have a much more developed set of standards. That doesn't mean that there aren't emerging issues or different ways of doing things that might provide better information or reduce unnecessary cost and complexity. Businesses are evolving, and as a result, so does accounting.

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The last few years have seen many updates to accounting standards. In a December speech, you talked about an agenda consultation project. Why do you think that's necessary?

I didn't initiate it when I first got here. But I did recognize we had just gone through a significant period of accounting change—the three big projects [leases, revenue recognition, current expected credit losses] that have either been adopted or are in the process of being adopted by preparers and the new information being processed by users. I instituted an agenda outreach project in December [2020] that will be carried out throughout 2021. We will have an active dialogue with stakeholders on what we should be working on and what projects we should be adding to our agenda. There will also be a published document, which we're targeting for release this summer, to collect further comments and input. ... The last agenda consultation project was in 2016. I think it's important to do it periodically, and I think that doing it at the beginning of my term makes sense.

The IASB's Hans Hoogervost, in his farewell speech in March, said the explosion of debt and "free money driving asset prices through the roof" has distorted the global economy. When the bubble pops, he said, "do not be surprised if accounting [comes] under pressure again as it did in 2008." Is there any way for FASB to prepare for such a crisis?

If you knew exactly what was going to happen, you would certainly prepare for it. One of the things that I tried to get an understanding of when I first got here was how quickly we could take action when there were emerging issues. We had an example of that in the fourth quarter when an issue

: Richard R. Jones

related to reference rate reform came up. We were able to add an item to our agenda and issue a standard very quickly that addressed [reference rate reform] before it became a financial reporting issue—or we would have had some accounting that didn't follow the economics. ... I would also note that we have over the years built financial accounting standards to address things that maybe we didn't think of before.

What do you see as FASB's possible role in developing standards for climate risk disclosure?

A couple of things. First off, the charge we [have] from the SEC is financial accounting and reporting standards. That's our goal. When people talk about ESG [environmental, social, and corporate governance], some of those areas intersect with financial reporting. The environment is usually the easiest one to talk about. There are changes in customer preferences, cost structures, environmental regulations, and our existing standards are designed to address those—evaluating lives of assets, recoverability of assets, impairments. ...

We have standards, for example, that require entities to make assumptions about future cash flows. Sometimes they are entity-specific assumptions and sometimes they're market-participant assumptions. What we don't do is say those assumptions have to do X or have to do Y. They are supposed to be objective assumptions, and they're supposed to be unbiased.

The broader issue of climate measurements beyond financial accounting and reporting is not our domain. That being said, we have a group of trustees that oversees us, and climate disclosure is one of the items that they're discussing as part of their strategic plan.

As Bitcoin's price continues to rise and more institutions invest in it, there are more calls for clearer standards on accounting for cryptocurrencies. Will FASB be exploring new standards on crypto?

We have gotten some agenda requests to add a project on accounting for digital currencies. A few months ago, in October 2020, the board decided not to add it to the agenda. When we look at a project, we look at its pervasiveness: how many companies is it really material to? ... The board decided that it hadn't risen to the level of pervasiveness [where] it should be one of the priorities on our agenda. That doesn't mean that couldn't change. I do think it is important to consider whether any potential standard-setting should be more comprehensive and deal with other nonfinancial assets that are typically carried at historical cost even though they are traded in active markets, such as precious metals and commodities such as oil. In other words, should we be standard setting on all of them versus one subset?

You have said that FASB is leaning toward a change in goodwill accounting to an amortization with impairment

Courtesy of FASB

[test] model. Why?

On in-process projects, I can only speak for myself. People's views on goodwill tend to be shaped based on what they think goodwill is and what they think happens to the value of acquired goodwill over time. For example, if you believe that acquired goodwill as an asset declines in value over time, you probably lean toward an amortization model. However, when we have amortization models we also have impairment [testing]. ... On the other hand, if you believe you really can't predict goodwill going down in value, you would [support] testing it for impairments. Based on the direction so far, a majority of our board has been interested in pursuing an amortization with impairments model. ... The impairment model could be the exact same as the current impairment model, or it could be tweaked. At a future board meeting, members will discuss whether there should or shouldn't be a change in the impairment model and, if there should be a change, what it should be.

Often, public companies are subject to new accounting guidance a year or more before private companies, making it hard for analysts to make apple-to-apple comparisons. Do staggered effective dates still make sense?

Not every standard has phased effective dates or different effective dates for public and private. With some of our major standards, we purposely select different implementation dates for public companies versus private. There are a few reasons for that.

One is so that private companies and their service providers learn from the public company adoptions. The second reason would be so that they are not competing for the same resources. If you think about a major accounting change, going out and hiring people to help you with that change and making systems changes associated with that change is part of it. [Staggered effective dates] is a way to make sure private companies won't be necessarily competing for the same resources, which would undoubtedly affect the cost of implementation. The third reason is that very often, after issuing a major standard, there are some things that you'd like to change or improve afterward. [The phased-in model] increases the likelihood that we can identify those items, so we can make those changes and improvements before the private companies adopt.

As far as the analysts, most cover private or public companies, but we certainly recognize some cover both. And there is no doubt that if the companies have two different models that's something analysts would have to factor in. But if you think about an analyst and a [financial statement] user, probably the most costly thing for them would be a poor adoption of the standard. By phasing in these effective dates, we think it improves the quality of adoption.

"One of the things that I tried to get an understanding of when I first got here was how quickly we could take action when there were emerging issues."

—**Richard R. Jones,** FASB chair

Finally, what do you hope to achieve during your tenure as chair of FASB?

I come with a lengthy background in public accounting, so I certainly have some views of what works well and where things could be improved. I am focused on making sure that I have the connections with our stakeholders to understand their perspectives, so we are working on things that are of most value to them. I also view myself as a caretaker. Part of my job is to shepherd FASB through my term while improving the information that's provided under GAAP. But another part is to leave [the board] in good shape for my successor and all the successors that follow. CFO

Editor's Choice

U.K. PROPOSES REFORMS TO UPGRADE AUDIT SECTOR

The British government unveiled proposals to modernize the country's audit sector after a series of high-profile audit failures. The proposed reforms would, among other things, dilute the dominance of auditing by the Big Four accounting firms, possibly cap their share of FTSE 350 audits, and allow a new regulator, the Audit, Reporting and Governance Authority (ARGA), to require firms to separate their audit and consulting businesses.

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A Data Scientist Becomes a CFO

LivePerson's finance chief John Collins works to create "data advantages" at the brand-to-consumer messaging company. By Vincent Ryan

John Collins likes data. As a special investigator with the New York Stock Exchange, he built an automated surveillance system to detect suspicious trading activity. He pioneered approaches for transforming third-party "data exhaust" into investment signals as co-founder and chief product officer of Thasos. He also served as a portfolio manager for a hedge fund's systematic trading strategy.

So, when trying to land Collins as LivePerson's senior vice president of quantitative strategy, the software company sent Collins a sample of the data that is generated by its artificial intelligence-enabled conversation platform. He was intrigued. After a few months as an SVP, in February 2020, Collins was named CFO.

What can a person with Collins' kind of experience do when sitting at the intersection of all the data flowing into an operating company? In an interview, Collins discussed the initial steps he's taken to transform LivePerson's vast sea of data into useful information

What were your initial steps to modernize LivePerson's internal operations?

The company was running a very fragmented network of siloed spreadsheets and enterprise software. Humans performed essentially the equivalent of ETL [extract, transform, load] jobs—manually extracting data from one system, transforming it in a spreadsheet, and then loading it into another system. The result, of course, from this kind of workflow is a severely constrained flow of reliable data for deploying the simplest of automation.

The focus was to solve those data constraints, those connectivity constraints, by connecting some systems, writing some simple routines—primarily for reconciliation purposes—and simultaneously building a new modern data-lake architecture. The data lake will serve as a single source of truth for all data and the back office and a foundation for rapidly automating manual workflows.

One impactful area was [analyzing] the sales pipeline. Traditional pipeline analytics for an enterprise sales business consists of taking late-stage pipeline and assuming some fraction will close. We built what I consider to be some fairly standard classic machine learning algorithms that would understand all the [contributors] to an increase or decrease in the probability of closing a big enterprise deal. If the customer spoke with a vice president. If the customer

LivePerson

got its solutions team involved. How many meetings or calls [the salespeson] had with the customer. ... We were then able to deploy [the algorithms] in a way that gave us in sight into the bookings for an entire quarter on the first day of the quarter. ... If you know what your quarterly bookings will be the first week of the quarter, and if there's a problem, management has plenty of time to course-correct before the quarter ends. Whereas in a typical enterprise sales situation, the reps may hold onto those deals they know aren't going to close. They hold onto those late-stage deals to the very end of the quarter, the last couple of weeks, and then all of those deals push into the next quarter.

"Unfortunately, there's a misconception that you can hire a team of data scientists and they'll start delivering insights at scale systematically. In reality, what happens is that data science becomes a small group that works on ad-hoc projects." —**John Collins**, CFO, LivePerson

LivePerson's technology, which right now is mainly aimed at customer messaging by your clients, may also have a role in finance departments. In what way?

LivePerson delivers conversational AI. The central idea is that with very short text messages coming into the system from a consumer, the machine can recognize what that consumer is interested in, what their desire or "intent" is, so that the company can either solve their problem immediately through automation or route the issue to an appropriate [customer service] agent. That understanding of the intent of the consumer is, I think, at the cutting edge of what's possible through deep learning.

The idea is to apply the same kind of conversational AI layer across our systems layer and over the top of our data-lake architecture.

You wouldn't need to be a data scientist, you wouldn't need to be an engineer to simply ask about some [financial or other] information. It could be populated dynamically in a [user interface] that would allow the person to explore the data or the insights or find the report, for example, that covers their domain of interest. And they would do it by simply messaging with or speaking to the system.

The goal is to create what I like to think of as an AI operating model. ... People can finally stop chasing data; they can eliminate the spreadsheet, the maintenance, all the errors, and focus instead on the creative and the strategic work that makes [their] job interesting.

How far down that road has the company traveled?

We ripped out Hyperion and we built a financial planning and analysis system from scratch. It automates most of the dependencies on the expense side and the revenue side, a lot of where most of the dependencies are for financial planning. You don't speak to it with your voice yet, but you start to type something and it recognizes and predicts how you'll complete that search [query] or idea. And then it autopopulates the individual line items that you might be interested in, given what you've typed into the system. ... So the system eliminates all of the filtering and drag-and-drop [the user] had to do, the endless menus that are typical of most enterprise systems.

Can a CFO who is more classically trained and doesn't have a background in data science do the kinds of things you're doing?

Unfortunately, there's a misconception that you can hire a team of data scientists and they'll start delivering insights at scale systematically. In reality, what happens is the team produces interesting insights but in an unscalable way, and it can't be applied on a regular basis, embedded in any kind of real decision-making process. It becomes window-dressing if you don't have the right skill set or experience to manage data science at scale and ensure that you have the proper processing [capabilities].

You need the proper engineering, specifically data engineering, to ensure that data pipelines are built, the data is clean and scalable. You also need an efficient architecture from which the data can be queried by the scientists so projects can be run rapidly, so the scientists can test and fail and learn rapidly. That's an important part of the overall workflow.

And then, of course, you need backend and front-end engineers to deploy the insights that are gleaned from these projects, to ensure that those can be production-level quality, and can be of recurring value to the processes that drive decision making, not just on a one-off basis.

So that whole chain is not something that most people, especially at the highest level, the CFO level, have had an opportunity to see, let alone manage. And if you just hire someone to run it without [them] having had any first-hand experience, I think you run the risk of just kind of throwing stuff in a black box and hoping for the best.

Without that grounding in data science, without that experience, you're missing something pretty essential for crafting the vision, for steering the team, for setting the roadmap, and ultimately, even for executing. CFO

Courtesy of LivePerson

CYBERSECURITY

Enemies of the State

State-sponsored hackers count on going overlooked or undetected when they infiltrate organizations' systems. By Bob Violino

Reports of attacks against U.S. government networks and thousands of private companies, allegedly by hackers working for China and Russia, have raised the profile of state-sponsored cyberattacks. ¶ The Center for Strategic & International Studies keeps a running list of such attacks, and they numbered more than 20 this year as of mid-March. That includes the Chinese government attack on Microsoft Exchange Server users and the Russian attack via the SolarWinds platform. The latter allowed hackers to monitor operations of U.S. government agencies and exfiltrate data.

Precisely to what extent state-sponsored attacks, also called advanced persistent threats, are increasing is hard to measure, says Brian Kime, an analyst at research firm Forrester. "Since state-sponsored groups generally have better operational security and place a premium on acting clandestinely and covertly to achieve their desired effects, we likely lack a significant amount of visibility into the true scope of state-sponsored threat activity."

Rather than just keeping up with news about these incidents, IT and cybersecurity executives—working with the support of CFOs—need to take action to protect their networks and data. Understanding the "why's" and "how's" of state agents' attacks is a good starting point.

The Long Game

"State-sponsored threat actors are not some mystical unicorn," says David Monahan, business information security officer at Bank of America Merrill Lynch. "They don't even have smarter people than organized cybercriminals."

The big differentiator of state-sponsored breaches are not the attackers' personnel or methods but their motivations. While organized cybercrime attackers typically go after targets they think will generate income, Monahan says, "state-sponsored threat actors are geared toward actions that benefit the 'state.'" To further the state's agenda, they seek control over infrastructure and other vital systems and information used by another country's military organizations, energy providers, or government agencies.

During the pandemic, infectious disease researchers and government vaccine operations have been frequent targets.

These kinds of cybercriminals "are in it for the long haul, for strategic advantage," Monahan explains. Their incursions often begin at the tiniest holes in an organization's defenses. They can also take months to attain their ultimate goal, so they rely on going unnoticed.

Neil Edwards, CFO at Vesselon, a medical technologies and drug provider, is concerned about the potential for state-sponsored cyberattacks.

"We have secret manufacturing processes and scientific research data used in the development of our breakthrough cancer drugs," Edwards says. "Any country with a track record of harvesting intellectual property would love to get their hands on this kind of information."

Vesselon, to date, has not detected any state-sponsored attacks levied against its environment. The company is "vigilant and follows good practices," says Edwards, like those from the National Institute of Standards and Technology.

The company has upped its spending on cloud security a modest amount. Some of it, though, is to ensure compliance with data privacy regulations.

"I think all costs around securing data will continually increase in the years ahead," Edwards says. "Securing data due to cybersecurity or data privacy laws brings a level of overhead and liability to any company. Cyber insurance is not exactly cheap to buy."

Old Entry Points

As state-sponsored attacks proliferate, some companies call for governments to implement effective policy solutions at the national and international levels. They may have to wait, at least in the United States. As of late March,

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"Any country with a track record of harvesting intellectual property would love to get their hands on this kind of information." —**Neil Edwards**, CFO, Vesselon

President Joe Biden had yet to appoint a national cyber director.

As a result, patrolling companies' ever-widening perimeters will, as it has been, their responsibility.

With state-sponsored threats, awareness of attack vectors is essential. One particularly effective technique state-sponsored agents use is to remain concealed inside company systems leveraging native administration tools in the Windows and Linux operating systems. Those platforms are still widely used within corporations.

"It's challenging for defenders to distinguish illegitimate from legitimate usage of those tools," Kime says. "Additionally, all threats must communicate [via botnets and other means]. They may not all need malware, but they will all have to communicate at some point."

For example, in the SolarWinds attack, the company's compromised Orion IT performance monitoring platform began communicating with the threat's command and control servers via the domain name system (DNS), Kime says. "Network management software or infrastructure automation platforms should have a consistent pattern of network traffic, and thus a new connection could reveal a compromise," he says.

Building Defenses

The concrete practices to adopt include being constantly aware of your company's critical systems and applications and their vulnerability to attacks.

"We are still awful at the basics—hardware and software inventory, vulnerability risk management, and controlled use of administrative privileges," Forrester's Kime says. He again cites the SolarWinds attack as an example.

"Many victims were unaware of where SolarWinds' Orion was installed in their environments," Kime points out. "This lack of asset inventory severely impeded the incident response process. Without comprehensive hardware and software inventories, it is nearly impossible for any security team to reduce cyber risk to their company's operations and those of their customers."

Organizations should continuously conduct hardware and software inventory and include in that accounting on-premises assets, mobile devices, cloud services, containers, and application programming interfaces (APIs).

Organizations must also weigh supply chain risks, Kime says, not just from third-party partners but also from their partners' partners.

Endpoint security is also vital. "Windows and Linux host logs are huge to detect criminal and state-sponsored threats," Kime says. "Turn on logging and script blocking. Cloud-based endpoint detection and response tools are very valuable for detecting threats and lateral movement."

Another effective tool is network telemetry. "Since all threats must communicate over the network at some point, it's imperative to monitor and audit network logs," Kime says.

The Human Element

Beyond technology, organizations need to hire the necessary talent to defend against state-sponsored attacks. Having professionals on the security team who are experts in various attack methods can be immensely helpful. However, it might be a challenge to find them given the current skills gap. Demand for cybersecurity talent is at least twice as great as supply, according to Emsi, a national labor analytics firm.

In Edwards' previous position as vice president of corporate development at Verisign, a network infrastructure provider, he received what he calls the best education of his career on cybersecurity.

"We had attacks 24/7 from nefarious characters around the world," Edwards says. The main takeaway for Edwards was the importance of having an expert on the team full-time or on contract.

Another critical lesson Edwards learned is to investigate what the major cloud providers are doing to protect against attacks and, if possible, imitate them. "Go with the configurations the big companies use," CFO Edwards says. "You can't go wrong following what the herd uses. You are not going to invent a better security stack than Amazon Web Services or Microsoft or Google." CFO

Bob Violino is a freelance writer based in Massapequa, N.Y.

Rising Crime

Despite the pandemic, cybercriminals—state-sponsored or otherwise—were very active in 2020.

791,790*
Criminal complaints

69%
Complaint increase over 2019

$4.2 billion
Total losses

241,342
Incidents of phishing/vishing

76,7421
Incidents of extortion

$13.3 billion
Total cybercrime losses, 2016-2020

* Numbers are for 2020 unless otherwise indicated.

Source: FBI's Internet Crime Complaint Center

Courtesy of Neil Edwards

Can Excel Survive?

Excel has been the go-to program for finance executives for 36 years. Will it last another 36? By Karen Epper Hoffman

In 1985, Ronald Reagan was a second-term U.S. president; Mikhail Gorbachev assumed the role of general secretary of the Soviet Union's communist party, still tucked behind the Iron Curtain; the median price for an existing American home was about $75,000; and a basketball phenom named Michael Jordan was named the NBA's rookie of the year.

And, Microsoft Excel (for the Mac) made its debut. (Excel for Windows would come two years later.)

The spreadsheet application, which first wowed business users with its solid graphics, fast processing, and versatility, has held its position as the indispensable software for finance executives for 36 years.

This workhorse of finance has lasted so long and become so ingrained in everyday work that many question—despite at least three or four revolutions in IT infrastructure since its birth—whether Excel could ever be replaced.

"Everyone in finance uses Excel from their first day of work to wherever their career takes them. It's familiar, and it's intuitive; it's also scalable," says Tim Beauchamp, director of finance at communications agency Cognito.

"Excel offers all you need for most analyses and also offers something to the novice," Beauchamp adds. At Cognito, which boasts more than half a dozen offices globally, Excel is critical for budgeting and forecasting, analysis of the company's accounts, and evaluating and reporting underlying performance.

"It's also nimble enough to be able to respond to the less routine occasions when insights need to be presented numerically or graphically" to people outside finance, says Beauchamp.

Unlike software that has become stale or outdated with the ubiquity of internet access and the increased role of analytics, Excel has evolved with the times.

"Microsoft has continued to listen to customers and support their program," says Michael Poveda, a partner at accounting firm UHY LLP. "A lot of applications are left by the wayside and stop getting supported by their parent companies in favor of newer intellectual properties."

Microsoft also continues to update and improve Excel, adding valuable features like 2020's XLOOKUP function, which allows users to run searches within a table of data more efficiently.

For those demanding users who want a function not yet available, there is also the option to "customize" Excel, says Samantha Louise, CFO and co-founder of digital marketing firm Versus. "You're not restricted by

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a software package's programmed limitations," she says.

Manual and Siloed

But old dogs can't always learn new tricks. While Excel has shown remarkable staying power, some experts believe it may now be challenged beyond its reach. Companies big and small increasingly need to automatically pull their financial data from multiple cloud-based systems and utilize more advanced data analytics. Excel may be a roadblock to that.

"The raison d'être of the [financial reporting] system is enterprise-wide integrated data and process [creating] one centralized database and source of truth," says Phillip Klein, CEO and co-founder of FinLync, a treasury app company.

"However, in reality, through M&A deals and the purchase of point solutions, data becomes fragmented and decentralized across systems. Users require data from different databases, and the IT effort and costs to consolidate those databases are prohibitive," says Klein. The result is far-flung, diverse financial data that "becomes exponentially less valuable when components of data required reside in other systems."

While Excel is often used as a collection point for data from other systems, it is still a "manual and largely siloed vehicle," says Omar Choucair, CFO of software company Trintech. Excel's limited ability to handle massive data sets "can lead to long processing times and more steps than other database tools," says UHY's Poveda.

Add to that the errors that manual entry and cut-and-paste can introduce in an Excel spreadsheet as well as Excel's limited collaboration features, and it's clear that the killer app of business accounting is showing its age.

That's especially true as "the global pandemic has highlighted and accelerated the increased demand for speed and transparency inside finance organizations," Choucair says.

"Any applications that offer database capabilities along with visualization tools can make Excel look like an inferior option." —**Michael Poveda**, partner, UHY LLP

Indeed, Excel may be a big reason why in the eyes of some finance lags in the information technology advancements evident in other industries, says serial entrepreneur Lil Roberts, founder and of accounting services startup Xendoo. "Accounting is still very analog. ... Despite "minor tweaks and adjustments," Excel and business finance on the whole "have not changed for the most part."

A Replacement?

Given Excel's pervasive position within businesses (and as a forever favorite of finance executives), what software could supplant it?

Experts point out that finance analytics platforms from companies like Tableau Software (acquired in 2019 by Salesforce) or Google's Sheets spreadsheet application show great promise in allowing executives to collect large, diverse data sets better and analyze them quickly.

"Advanced business intelligence tools that focus on data mining, predictive analytics, and visualizations are becoming the norm," Poveda says. "Any applications that offer database capabilities along with visualization tools can make Excel look like an inferior option."

Case in point: schools and businesses have been training students and employees on these newer applications, Poveda says.

Like many older applications, Excel stems from its developer roots of using arcane text strings to run functions or manipulate data, says Micheal Strambi, CFO at compliance software firm MetricStream. "That creates a culture of having to learn unconventional commands to make Excel shine."

However, Excel's basic functions are still pretty easy for a novice to pick up, and it has extensive practical applications and advanced features that businesses find essential. What's more, points out Louise, compared with the contenders to the spreadsheet throne, Excel is still "inexpensive, affordable, and accessible."

"What makes the program such a fantastic tool is that [Microsoft] has thought through all of the critical things important to finance executives," says Pramod Iyengar, CFO at payments company Veem. That, more than anything, may be why Excel has lasted.

But a new generation of CFOs and other finance executives may be tempted by flashier, more powerful, and better-integrated tools.

"Twenty years from now, we'll still have Excel... but it will be a much smaller user base," predicts Louise. To thrive (rather than just survive), she says Excel needs a "dramatic makeover" to appeal to a broader swath of novice and intermediate users.

But don't expect veteran finance executives to give up their devotion to the treasured spreadsheet program. As most would probably say, "Excel is not perfect, but it's ours." CFO

Karen Epper Hoffman is a freelance business writer.

Courtesy of the author

CFO Job-Hopping: How Much Is Too Much?

Job-hopping brings risks, among them 'job trajectory impairment' and a negative perception of the person's professional judgment. By Sandra Beckwith

While executive recruiter David Arnold and the CEO of a high-profile Silicon Valley company were discussing the company's CFO search, the CEO told Arnold, "If you send me someone who has had a lot of short stops, I'll be skeptical." That was a red flag and her "number one pet peeve," says Arnold, president of Arnold Partners, LLC.

Too short a tenure at too many organizations—job-hopping—brings career risks like the concern cited by Arnold's client. But how do you define how much is too much movement? And are the downsides significant?

The answer on how much is too much is subjective and can vary from industry to industry. Organizational consulting firm Korn Ferry reports the average CFO tenure is 4.7 years, while the most recent Crist|Kolder Associates Volatility Report sets it slightly higher, at 4.86 years. According to the Korn Ferry analysis, the information technology industry has the shortest CFO tenure at 4.1 years, while the industrial segment has the longest, at five.

So is any tenure shorter than that job-hopping? Drew Keith, executive vice president and CFO of Dallas-based Texas Security Bank, sees three years as the minimum to stay in a job if the CFO is in the middle of their career. For someone having just moved up to a CFO role, the minimum might be longer, four to five years.

Still, consulting firm Korn Ferry's Jeff Constable, senior client partner and co-lead of the global financial officers' practice, cautions against preconceived notions about too much or too little job movement.

"I try hard to dispel the notion that there's some kind of perfect number of moves," he says.

Compared with length of time, having been in a key position long enough to experience an entire business cycle might be more critical, says CFO Keith. "I look at a particular industry, its key capital components, and its cycle. Have you been through the full capital cycle for the business relative to that industry?" he asks. That can give a hiring CEO and board of directors confidence.

Not all business cycles are of the same length, of course. The business cycles in technology are usually faster than in other industries. "It's the pace of change and the [merger and acquisition] activity," says Constable. "Plus, private companies are going public through [special purpose acquisition companies] or IPOs or being sold." All of those circumstances lead to more company movement among CFOs and prompt organizations to switch CFOs.

Constable says that ownership change from that kind of activity is one of the two biggest factors driving CFO departures in any industry or product category. A new CEO is the other. And, if there's going to be a CFO change when a new CEO takes over, it happens most often in the first six to eight months.

Ownership change played a role in Katherine Edenbach's experience earlier in her career. After working in a range of finance environments at a large semiconductor company for more than a decade, she accepted a CFO position at a different company that was acquired soon after. She spent only two-and-a-half years in that role before leaving, but it was for good reasons.

"I took them through an acquisition and achieved what I wanted to. It was time to move on and start over with another company," says Edenbach, who is now CFO of fintech Emburse.

These situations explain why

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“Maybe someone felt blocked from moving and left because of a bias in the culture. We’re all going to have to get sharper at really understanding career stories.” —**Jeff Constable**, Korn Ferry

Constable and others say it’s essential to look for the story behind any red flags or questions around the length of stay. Perhaps the executive made a geographic move for personal reasons, or there wasn’t room for growth. The latter is one that Constable expects to see more of as companies work to recruit historically underrepresented talent into the C-suite.

“Maybe someone felt blocked from moving and left because of a bias in the culture. We’re all going to have to continue to get sharper at really understanding career stories,” he says.

The Risks

Yet, even when CFOs and recruiters are reluctant to define what’s considered job-hopping, they agree that too much movement between companies comes with tangible and intangible risks.

Two of the biggest, according to employment practices and litigation attorney Lauren Paxton, are “job trajectory impairment” and long-term compensation loss. Paxton, a partner at New York-based Calcagni & Kanfesky LLP, says CFOs often have post-employment restrictive covenants such as non-competition clauses.

“A CFO who hops from one job to another may find their trajectory impaired by periods out of the industry,” she says.

In addition, most CFO compensation packages include short-term and long-term compensation. That longer-term pay, usually restricted stock units and incentive stock options, might take three to five years or longer to vest.

“CFOs will generally forfeit the unvested and restricted portions of their long-term compensation when they resign. As a result, the loss of considerable incentive compensation should be weighed against the increased short-term compensation a new job may offer,” Paxton says.

Other risks are less tangible. Critical among them are the concerns raised about a CFO candidate’s judgment. People understand when a finance chief leaves a leadership role quickly once—or even twice—because the company wasn’t a good fit. But when it goes beyond that threshold and can’t be explained by mitigating factors that include being promoted, following a mentor, or moving to another geographic region for personal reasons, it’s “a fatal flaw,” says recruiter Arnold.

“What kind of judgment is this person exercising? Are they making good decisions? This is important because the CFO is a key adviser to the CEO and board of directors,” he says.

Because CEOs and boards also want CFOs with the formative experience of having been part of a key project or initiative from beginning to end, job-hoppers who can’t demonstrate that have limited opportunities for career growth, Arnold adds. “Even if they weren’t the CFO, we look for candidates who had a prominent role helping a company go from X to Y.”

Not Enough Time

There’s also the downside that job-hopping doesn’t allow a finance leader to stay with a company long enough to become immersed in ways that help develop strategic thinking skills.

“It’s hard to become strategic if you keep moving from one company to another. You don’t get to learn what drives the company or become a partner to the operations side of the business,” says Emburse’s Edenbach.

One CFO cautions against viewing recent too-brief tenures too harshly, though. Citing the February/March 2021 *CFO* article “10 Vital Roles for CFOs” and the business pressures associated with the COVID-19 pandemic, David Neaves, CFO of Lendmark Financial Services, says some of his peers are experiencing burnout. The CFO role requires more skills than it did a decade ago, he notes, and while exciting, it can also be exhausting.

“Business has become more heavily reliant on technology, and it is changing more quickly. I don’t have to be an expert in all aspects of a company’s technology, but I do have to understand the core technology,” Neaves says, adding, “That learning is one more part of your day for which you have to find the time.” Throw in the crisis management linked to the global pandemic, and it’s not unusual to see peers leaving their C-suite positions to recharge, explore, and re-focus, he says.

“It’s hard to become strategic if you keep moving from one company to another.”
—**Katherine Edenbach**, CFO, Emburse

Just don’t do too much of that, cautions Korn Ferry’s Constable.

“There are people in decision-making capacities—board members and CEOs—who can have a bit of an allergic reaction to too much movement,” he says. “No matter how well explained the transitions are, they may not want to hear about it.” CFO

Sandra Beckwith is a freelance business writer.

Courtesy of Jeff Constable & Katherine Edenbach

Supply Pain

The onset of the pandemic reduced the global flow of goods. But when demand suddenly snapped back, supply chains proved less resilient.

By Russ Banham

Typically, the container ports of Los Angeles and Long Beach are the busiest in the Western Hemisphere, a hive of 24/7 activity as cargo moves from ships to trucks or trains. But on one recent afternoon, a flotilla of more than two dozen ships, carrying anywhere from 6,000 to 11,000 20-foot-long containers, sat idly in the coastal waters of San Pedro Bay. They had been stranded for weeks, waiting for the green light to berth and unload their cargo.

The inactivity at the ports is a symptom of a peculiar side-effect of the COVID-19 pandemic, a mismatch of supply to demand that has left U.S. manufacturers having to wait months for raw materials and components to make or assemble products.

Consumer demand has roared back to life with the lifting of COVID lockdowns and government relief spending. However, supply chains are out of sync, with production lines creaking back to total operational capacity after being shut down or curtailed. And shipments are being delayed at ports by shortages of dock workers and truck drivers.

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"After a period of low demand forcing manufacturers and suppliers to curtail production, a spike in demand produces an upsurge in orders that suppliers aren't prepared to meet in normal delivery timeframes," says Mike Varney, supply chain consulting partner at global public consulting, technology, and accounting firm Crowe LLP.

Polaris, a publicly-traded manufacturer of motorcycles, snowmobiles, boats, and ATVs, knows this phenomenon all too well. A year ago, it temporarily closed its 20 U.S. and international factories, focusing on cost-cutting to survive the economic meltdown. "We needed to preserve cash, so we stopped the end flow of components from China," recalls CFO Mike Speetzen.

The plants are now operating again amid a boom in orders that began in December. But while customers are ready to buy again, Polaris "can't get product in fast enough," according to Speetzen. "Our global supply chain," he says, "is struggling to get production back up to speed." Polaris's head of operations told Speetzen that its on-time delivery rate had dropped to 13% from 80% due to the lack of dock workers.

There's no vaccine for the supply-chain side effect. At La-Z-Boy, a manufacturer of recliner chairs, sleeper sofas, and tables, sales have also boomed, jumping 18% in February. A year ago, it had shuttered its six North American manufacturing plants and another one in Mexico and furloughed most workers. But CFO Melinda Whittington laments: "Due to port blockages and trucker shortages, we can't get supplies in fast enough to assemble our custom orders. Whereas it took us four to six weeks previously to deliver, it's taking us five to nine months now."

Too Little, Too Late

President Joe Biden acknowledged the problem in February when he ordered a 100-day government review of U.S. manufacturing vulnerabilities. Three days later, eight states' governors suggested he do more to increase semiconductor chips' availability. "In light of the growing list of automakers, suppliers, and dealers negatively affected by the shortage, we ask you to redouble those efforts," they wrote to the president.

In the automotive industry, the diminished supply of plastic components, petrochemicals, and semiconductor chips used to control power windows, airbags, and dashboards has caused most manufacturers to reduce production capacity. "We can't get parts in quick enough from our global supply chain to make trucks, at a time when the demand for them is higher than any of us ever anticipated," says a senior finance executive at a large manufacturer of commercial trucks who requested anonymity.

The chip shortage has also resulted in stoppages of production of computers, smartphones, medical equipment, vacuum cleaners, refrigerators, and smart devices plugged into the internet of things. "Like every industry baffled by the demand implications of COVID-19, we didn't build as many semiconductors because the orders from our traditional buyers fell off a cliff," says a senior finance executive at a major chip manufacturer.

The executive, who requested anonymity, adds, "We can only build what we can sell, which is dependent on our buyers' ability to forecast demand signals. When they told us demand looked dead, we curtailed our production. They suddenly hit us with these huge orders that take us 26 weeks to build, on average. There's only so much we can do."

"As much as 40% of single-family homes recently sold have yet to break ground. The reason is they use a ton of wood, and lumber demand is higher than supply."

—John Tunison, CFO, Trussway

Meanwhile, in the residential building products industry, there is plenty of demand from homeowners for new decks and additions. But John Tunison, CFO at Trussway, a maker of wood trusses for multifamily housing, says that "As much as 40% of single-family homes recently sold have yet to break ground. The reason is they use a ton of wood, and lumber demand is higher than supply."

Like a spigot, consumer demand suddenly turned off as the pandemic erupted and then just as suddenly turned back on as the economy stirred back to life and federal largesse put extra cash in Americans' pockets. Personal incomes shot up 10% in January, fueling a 5.3% increase in retail sales the same month.

But as Gary Lynch, CEO of supply chain risk consulting firm The Risk Project, says, "When demand fell precipitously in the early months of the pandemic, the supply chain slowed to a trickle. When demand roared back, it took much longer for suppliers to catch up, causing months and months of delay. Now supplies are being shipped, but there are only so many containers to ship them in and so many ports to accept all these ships."

Once a container ship offloads its cargo at crowded U.S. ports, the goods are transported by rail and heavy-duty semis to factory loading docks, distribution centers, and retail outlets. But like other businesses, trucking companies

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found it difficult to forecast demand and pulled back sharply on hiring.

According to The Journal of Commerce, the number of for-hire truck employees fell by 65,700 in October 2020 from the same period a year earlier. “The demand for truckers is surging, but many truckers let go in the first few months of the pandemic have since found alternative employment,” says Josh Nelson, a principal in the strategy and transformation practice at business advisory firm The Hackett Group. “While there are a lot of people, particularly immigrants, looking to become truckers, the closure of DMV offices across the country made it difficult to get a commercial driver’s license.”

Maintaining Supply

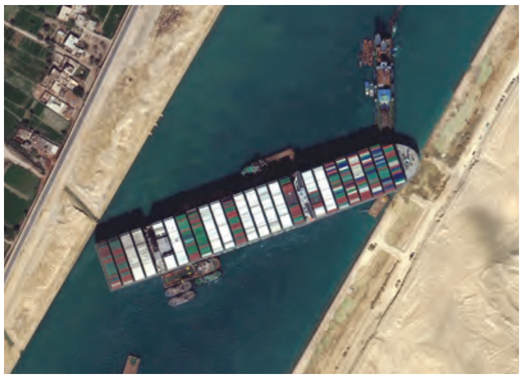
At Costco, CFO Richard Galanti reports that about 70% of containers carrying imported products for sale at the retail giant’s 560 retail warehouse stores in the U.S. are three weeks late, on average. Things could have been worse, though. While Costco relies on third-party trucks and rail to ship from ports to its cross-docks, it uses its own trucks for the next step to retail warehouses. “Logistically, this helps reduce the time it takes to receive products. It’s helped take some of the sting out of this,” Galanti says.

Other companies have softened the sting through vertical integration, shorter supply chains, and added safety stock. Marvin Doors and Windows, a privately held manufacturer of windows, doors, and skylights, has vertically integrated much of its manufacturing, ensuring a steady supply of lumber and fiberglass. It purchases other products such as window hardware from long-term suppliers. “We worked hard over the years to cultivate trust with our suppliers,” CFO Jim Macaulay says. “When a supplier says it can only get us a partial shipment today and promises the rest by Friday, we know they’ll come through.”

Sideways: The Suez Incident

A blockage in the Suez Canal exacerbates delays in global supply chains.

By Matt Leonard, Supply Chain Dive



“Once this logjam clears out, we're going to have a huge backlog in some of the major European ports, so Rotterdam and Antwerp.”

—Josh Brazil, Ocean Insights COO

A global maritime ecosystem already affected by port congestion and low levels of schedule reliability stemming from high demand to move goods made worldwide news in late March.

The Ever Given, a container ship operated by a Taiwanese company, wedged itself in a single-lane section of the Suez Canal. The owners said high winds in a sandstorm pushed the ship into that position.

The ship was refloated after 6 days, but by then the damage had already been done: more than 300 ships waiting to pass through the canal.

"Once this logjam clears out, we're going to have a huge backlog in some of the major European ports, so Rotterdam and Antwerp," Ocean Insights COO Josh Brazil told Supply Chain Dive on March 31. Port delays were already expected to continue well into summer without the introduction of the Suez logjam.

Europe was expected to experience the largest impact from the days-long blockage, with the United Kingdom, Germany, Belgium, France, Netherlands, Italy, Switzerland, Spain, Turkey, and Austria expected to take on the most repercussions, according to Dun & Bradstreet analysts.

The industries in Europe expected to see the largest impacts included eating and drinking establishments, construction, wholesale trade, chemicals and related products, health services, food retailers, industrial and commercial machinery, metal production, and automotive repair.

Retailers in the United States likely to be the most exposed included PVH, H&M, and Walmart, according to an analysis by S&P Global.

The shipping artery, which connects the Mediterranean and Red Seas, plays a vital role in linking Asia to Europe and the Eastern U.S. About 18,800 vessels crossed through the Suez Canal, for an average of just under 52 ships per day, according to figures from the Suez Canal Authority. Container ships accounted for 5,321 of those voyages in 2019, the latest full year available from the Authority.

There is an alternative route: sailing around the southern tip of South Africa and the Cape of Good Hope. But this can take 19 additional days, depending on the size of the ship, experts said.

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La-Z-Boy has benefited from similar relationships. "While lumber availability was a problem for us and other manufacturers, we're a big purchaser of plywood, and that enabled more favorable treatment from our long-term suppliers," says Whittington. La-Z-Boy and Polaris have also maintained supply by having a safety inventory of parts and completed items. "If you needed to have a mass-produced sofa, we could find you one," according to Whittington. "That helped offset the delay in our custom-made furniture."

Says Polaris' Speetzen: "I started paying close attention to COVID-19 infection rates in China, where we source several components, as early as January 2020. That gave me a heads up that we needed to ensure enough safety stock in case of a slowdown. That inventory is long gone now."

A Revised Playbook

The pandemic has inspired some CFOs to tweak the playbook on supply chain management. Tunison, for instance, has responded to the surge in lumber prices with a hedging strategy he introduced in 2018. "At a time of rising demand and higher costs, we're now executing the forward contracts at specified prices fixed for nine months," he explains. "It's helped us maximize profits at a time when demand is upwards."

Speetzen provided financial support to some suppliers, and to improve the chances of receiving priority treatment at the ports of Los Angeles and Long Beach, he dispatched additional operations personnel to work with the company's freight forwarders. When port delays risk alienating customers, Polaris has opted for expedited air shipments. "Although the cost was higher than ocean shipments, and that was tough on the P&L, we couldn't let our customers down," Speetzen says.

According to Varney of Crowe LLP, the biggest lesson for companies to learn from the supply chain crisis is the need to improve sales forecasting.

"The idea that you can make a forecast based on historical trajectories is of little value when a Black Swan event occurs," he notes. Varney advises CFOs to evaluate real-time demand data and work closely with procurement and sales. "Daily sales data on revenue opportunities need to be compared to procurement data," he says. "Finance then can decide where capital must be allocated to maintain supply chain resiliency."

In the future, CFOs may be able to use blockchain technology to assess, on a real-time basis, whether suppliers and shippers can keep up with demand. "Within the blockchain, participants would record transactions, pricing, dates, location, quality, certifications, and other data needed to manage the supply chain," says Joseph Fitzgerald, partner and leader in Deloitte Consulting's high tech and semiconductor practice. His current clients include a company that prints sophisticated circuit boards and needs to ensure its products make it to the end of the chain. "A blockchain platform that included the companies buying the circuit boards would provide this visibility," he says.

Blockchain could also be used to create what Fitzgerald calls a "zero latency" supply chain. "Instead of legions of suppliers that are untethered or loosely coordinated, they could now be digitally interconnected in a centralized supply network," he says. Companies may be reluctant to join such a network because of concerns over data control, security, and privacy, but Fitzgerald suggests users can manage access to information through data encryption.

"A few years ago, there was plenty of interest in a blockchain solution, but then it fell off the radar," he says. "People are picking it up again due to the current chaos."

"I started paying close attention to COVID-19 infection rates in China, where we source several components, as early as January 2020." —**Mike Speetzen,** CFO, Polaris

Nelson of The Hackett Group says several large corporate clients are interested in piloting a blockchain solution and his firm's industry surveys "suggest significant interest in supply tracking and traceability, particularly the logistics elements. The reason is fast-rising demand and the concern over the competitive repercussions of late deliveries."

Other possible supply-chain solutions include more sophisticated mapping and CreditRisk Monitor, a tool that scores trade receivables and payables to alert the user to potential supplier solvency issues. "We can then laser in on companies that might be in some sort of financial distress to help them," says the truck maker's senior finance executive.

Of course—rather like those ships becalmed in San Pedro Bay—some CFOs may choose to stay put amid the supply chain disruptions. For them, at least, a La-Z-Boy recliner may arrive just in time to cool their heels. CFO

Russ Banham is a Pulitzer-nominated financial journalist and best-selling author.

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STRATEGY
STEP1
STEP4
STEP5

Metric Matters

Which performance indicators are companies keying on this year? Five finance chiefs reveal the metrics encapsulating their strategic goals.

Which metric does your business's success hinge on in any given year? It changes depending on a company's lifecycle, financial state, customer base, market trends, business model shifts, and a slew of other factors.

Maybe a CFO is trying to tilt the revenue mix in a specific direction, stop high customer churn, or underscore an income line item that will lead to a higher valuation.

Or perhaps investor relations needs to give industry analysts data that tells a richer story or that provides a toehold for modeling a new revenue stream.

Whatever the goals, tracking the right metrics or key performance indicators (KPIs) is critical for creating long-term value and allowing stakeholders to understand the rationale behind management's business decisions.

Since CFOs have more data than ever at their fingertips, we wondered which metrics they planned to watch closely in 2021. We found five finance chiefs focusing on different perspectives of their company's performance and leveraging specific metrics to influence decisions and behavior far beyond the finance department.

BY VINCENT RYAN

CUSTOMER ATTRITION CYCLE

JOHN COLLINS,
LivePerson

LivePerson CFO John Collins is big on creating "data advantages" at the brand-to-consumer messaging company he became finance chief of mid-2020. He is transforming all of the company's data flows into useful information for strategic decision-making and is building a data-lake architecture as the foundation. Since LivePerson's products help brands measure and respond to customer signals in real-time, it's no surprise that the company aims for that level of responsiveness and reaction time within its own operations.

LivePerson uses information gleaned from the sales cycle to forecast contract closes and determine when a course-correction is needed in a given quarter. But what about the other side of the coin—gauging when a customer might be thinking of ditching the platform?

One of the key performance indicators Collins has been rethinking is customer attrition. "In the context of large enterprise sales, the risk-reward profile of attrition is asymmetrical: big revenue can vanish with less than a year of notice, but expanding a newly won customer to that same level often requires multiple years," Collins says.

Ironically, at least in software-as-a-service (SaaS) products for large enterprises, the probability of attrition arguably increases with a customer's tenure and economic commitment. Why? "Because people relationships are a driving force for adoption and expansion within the enterprise," Collins says. When a key stakeholder like a chief marketing officer or a chief technology officer exits a customer's organization, "which invariably happens over a long-enough time horizon, that single event puts years of revenue expansion at risk."

How does a company track attrition signals? Given the timing differences between when attrition becomes known and when it becomes effective (i.e.,

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METRIC MATTERS

reduces revenue), simply tracking actuals is likely to understate the genuine risk, Collins says. To get ahead of potential attrition events, an "attrition cycle" must be established with the same level of rigor as the traditional sales cycle.

An attrition cycle with objectively defined stages of progression, like the product champion left the company or the platform is being underused, "is the minimum viable framework to systematically reduce the risk of big revenue attrition," Collins says.

> **"Big revenue can vanish with less than a year of notice, but expanding a newly won customer to that same level often requires multiple years."**
>
> **—John Collins,** LivePerson

Collins wants to transform attrition and the signs of attrition into a source of growth. So, he is going a step further by rethinking incentive systems for the field, for one. For example, the company is paying higher commission rates for successful renewals that have indicators of risk and enter the attrition cycle.

LivePerson is also feeding automatically captured data from conversations with customers into machine learning models. "Just as we leverage many data features to predict bookings accurately, we're training models on historical indicators of risk to better assess the corresponding probability of lost business," Collins says.

That might give LivePerson more time to act to offer the customer some solutions proactively. Says Collins: "We see an opportunity for the models to learn successful mitigation strategies and prescribe concrete actions to the reps."

CAPS AND ARR

KIERAN MCGRATH, Avaya

Taking over corporate finance for a veteran technology company thought of as a hardware company but now transitioning to cloud solutions would be a test for any finance chief. Add on top of that the headaches of the company being newly public again, and you understand what Avaya CFO Kieran McGrath has been up against since joining Avaya in February 2019.

"We've been focused on changing who we are as a company and also changing the image of who we are as a company," says McGrath. For him, image-building means building credibility with the public markets.

That might sound strange for a company with hundreds of thousands of customers that sells in 190 countries. But Avaya is a turnaround story, having declared bankruptcy in 2017. Now, the company is in complete transformation to a cloud-subscription revenue base.

Avaya has created two new metrics to help change perceptions. One is called CAPS—Cloud, Alliance, Partner, Subscription. The metric provides transparency into the composition of Avaya's new cloud-facing revenue in any given quarter, McGrath says. In fiscal 2020 (ended September 30), Avaya generated 26% of its revenue from CAPS; it hopes to hit 40% of revenue in fiscal 2021. "We move this metric by continuing to rapidly transition our existing customer base to a subscription model and by rapidly growing our public and private CCaaS (contact-center-as-a-service) offerings through existing and new customers," says McGrath.

Avaya's next "turn of the crank" was to introduce an annual recurring revenue (ARR) metric so that investors and analysts could see recurring cloud revenue not just in the current period but also in the future. ARR represents an estimate of the annualized revenue run-rate of specific components from active OneCloud contracts at the end of the reporting period. (OneCloud is Avaya's full suite of public, private, and hybrid cloud products and subscription offerings.)

> **"At the top, you see only a business that's growing modestly, but the new metrics show the dramatic change taking place within the business."**
>
> **—Kieran McGrath,** Avaya

Avaya closed out fiscal 2020 with quarterly ARR of $191 million and increased its financial guidance for 2021. The topline is growing slower—it rose 4% in 2021's first quarter.

"At the top, you see only a business that's growing modestly, but the new metrics show the dramatic change taking place within the business," says McGrath. "We've given [analysts and investors] the metrics that they can use to compare us to other companies that use these recurring revenue metrics. They can understand the traction that we're getting, and it's been well-received."

Internally, this year, the CAPS and OneCloud ARR metrics are being tied to compensation. Regional sales leaders have the metric goals as a critical component of their fiscal 2021 financial objectives, McGrath says, and product leaders are also measured on them.

"We're methodically giving investors increased visibility, increased commitment in terms of metrics, and increased comparability," says McGrath.

ADHERENCE AND UTILIZATION

JOHN MCLEAN, Current Health

"One of the biggest focus areas for an early-stage company is customers," says John McLean, named finance chief of Current Health, a provider of remote patient management technology, in June 2020. "Nothing kills a company faster than selling to a customer and then moving on to a new one, leaving the first customer floundering and not having a great experience."

McLean has brought that focus on existing customers to Current Health, a company founded in Scotland in 2015. On a mission to deliver patient care "outside the four walls of the hospital," the Current Health solution combines a wearable vital signs sensor that connects to the health care provider and a patient's tablet device; a symptoms chatbot; and video doctor visits. Health care providers get real-time information on a remote patient who's recuperating or dealing with a chronic condition.

Focusing on customer satisfaction for Current Health means two key metrics: utilization and adherence. Utilization is, "if we sent a health system 100 devices, how many do they have out on patients?" says McLean. On the other hand, adherence is patient-based: If 90 of the 100 devices are being worn by patients, how many of them are wearing it more than 20 hours per day?

"If we're 100% focused on sales and growth, we need to be 150% focused on our customer satisfaction."

—John McLean, Current Health

Utilization is vital because McLean believes a "land and expand" strategy will be the path to future bookings. It can help spot upselling opportunities: If a company uses the system on 100 oncology patients, does it make sense for it to try it on another 100? Perhaps the oncology department can help introduce the Current Health device to doctors in its system treating chronic obstructive pulmonary disease (COPD), congestive heart failure (CHF), or other established use cases.

With adherence—essentially, patient adherence to the regimen—"the best success happens when the physician explains to the patient the need for the device and what it's doing," says McLean.

To boost adherence, Current Health has spent a lot of time focusing on patient ease of use. First, it has shrunk the sensor from iPhone-size to Oreo cookie size. Second, the company has made setup a breeze—the user gets a tablet that can be up and running and transmitting back to the doctor in five minutes, McLean says, no Bluetooth pairing or Wi-Fi passwords required.

While devices like Current Health's often see adherence rates in the 20% range, Current Health's system hit adherence rates in the 90% range ("way outside of any norm in the space") when it was used in parts of Britain's National Health System.

As the device's use expands, Current Health may find it's just scratching the surface on the metrics. For example, is adherence sometimes condition-specific—do CHF patients tend to wear the device more than oncology patients? McLean looks forward to spotting trends in that kind of data.

"If we're 100% focused on sales and growth, we need to be 150% focused on customer satisfaction," he says.

COMBINED RATIO

KEVIN INGRAM, FM Global

The market for commercial property insurance can turn on an insurer quickly. Natural disasters and other events— like the winter storm in Texas—can cause claims to soar.

That's why Kevin Ingram, CFO of commercial property insurance carrier FM Global, keeps a very close eye on whether the company's underlying insurance book of business is generating a profit.

Profit is significant to a mutual insurance company like FM Global. "Our only ability to grow our capital is through our underwriting results and investment income, and our capital is what allows us to provide the large, stable underwriting capacity that our policyholders have come to expect," explains Ingram.

The metric that captures profit and its components tidily is the "combined ratio"—a measure that shows overall profitability by taking insured loss costs plus expenses as a ratio to the company's earned premium. Earned premium is the premium collected by an insurance company for the portion of a policy that has expired.

Many insurance companies like the combined ratio because it leaves out investment income and focuses only on profit earned through efficient management and underwriting discipline.

The underlying profitability of FM Global's business was a key focus in light of the pandemic and the remote work environment over the past year, Ingram says. When the pandemic hit and commercial buildings shut down, FM Global quickly reminded policyholders of the dangers of

Image courtesy of Current Health

neglecting closed offices, manufacturing plants, and warehouse buildings, primarily from fires, vandalism, and theft. That helped keep down claims.

Just as important as the combined ratio's result is the period in which it is framed. While Ingram checks the metric every month, "we look at our combined ratio over a three to five-year timeline because of the inherent volatility of our business," says Ingram.

Currently, FM Global's combined ratio tells management that the company is in a "good place" from a profitability perspective, says Ingram. That's "driven largely by the rising rates in insurance as a result of a hardening insurance marketplace coupled with the risk improvements policyholders made."

If that weren't the case, of course, FM Global would have different ways to move the needle: (1) driving down policyholders' insured loss cost by helping clients become more resilient from a risk loss perspective; (2) reducing the company's cost structure or (3) increasing premiums, which would boost the revenue component.

Because there's so much that FM Global can do to improve the combined ratio, every employee is compensated in some fashion based on the result, according to Ingram. "Everyone pays close attention to it because the result impacts individual compensation as well as our business as a whole."

EXIT ARR

SAMUEL MONTI, Epicor Software

For finance to be a true strategic partner and influencer, it has to provide clear data, communicated effectively, that is timely and easily accessible, explains Samuel Monti, CFO of private-equity owned ERP software company Epicor. But there's also the issue of selecting the correct data; otherwise, misalignment can occur quickly.

Monti just joined Epicor in January, but he is already focusing his efforts on a crucial metric of both growth and Epicor's transition from the old licensed software model.

For Monti and Epicor, the right KPI is exit ARR (annual recurring revenue), a metric sometimes used by other SaaS companies. Exit ARR is the total value of annual recurring revenue for all current, committed contracts. It's a 12-month, forward-looking measure that considers bookings that haven't started yet or been recognized plus the revenue the company is recognizing, says Monti. Said another way, it's the total book of business at a point in time.

"This metric best represents forward revenue and cash," Monti says. "If the company is always growing that number, it's on track. Exit ARR is a great way to measure progress and track revenue."

A SaaS-based metric is vital to Epicor because while it still has clients with on-premises software licenses, the SaaS business is "growing at a very fast clip," both in customers switching to its SaaS environment and in new customers signing on.

As to exit ARR, many factors move the number—price increases, customer retention, upsells, customer cancellations, and others. For this fiscal year, Epicor's exit ARR is trending about 5% above the planned target, says Monti. "When SaaS companies use metrics like exit ARR, determining patterns and the materiality of the upcoming renewal base becomes more clear."

Exit ARR is also a metric that helps value a SaaS-based company. Epicor is the first technology investment of veteran PE firm Clayton Dubilier & Rice, and it has a lot of capital to deploy on potential acquisitions. After buying Epicor last year, CD&R will inevitably be screening acquisition candidates and comparing them with Epicor's SaaS business trajectory. Exit ARR will come in handy.

"They are big about growing this right away and taking advantage of the moment," says Monti about CD&R. "The most important thing within software value is the recurring revenue, the repeatability and predictability of a revenue stream." CFO

Keeping It Fresh

Don't let your key metrics stagnate.

For metrics to stay meaningful to an organization, they have to be revisited regularly. Some other tips for proper care:

- Backtesting helps sort through the myriad available qualitative and quantitative metrics to determine which KPIs drive value based on the company's strategic goals.
- Executives should look for past correlations with the company's results and use those to inform decisions.
- Companies should regularly evaluate KPIs. As the pandemic showed, the future is uncertain, and the business environment can change without warning. Make sure KPIs keep pace.
- Adopt qualitative metrics, like safety and regulatory requirements met, Net Promoter Scores, and carbon reduction measures, that give a more rounded portrait of the business.
- Regularly refresh KPIs to ensure they still align with the long-term strategy.

Sources: EY, Harvard Business Review

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Getting Back to Growth

Global expansion, a post-pandemic priority for CFOs, is also a means of tapping a cost-effective talent pool. By Keith Button

A new global survey reveals that 9 out of 10 CFOs are optimistic about how their companies will perform in 2021, while 8 out of 10 CFOs see global expansion as the path to long-term growth.

The February 2021 survey of chief executive officers, chief financial officers, and other senior finance executives also uncovered changing perceptions about hiring and remote work and how those changes could be helping their global expansion plans.

The survey, conducted by CFO Research, a business unit of Industry Dive, and Globalization Partners, polled 215 senior executives at companies in North America, Asia-Pacific, and Europe/Middle-East/Africa, including the United Kingdom. Most of the companies represented had annual revenues of $1 billion or more.

The survey uncovered three key themes.

1. CFOs expect success in 2021, and that success is tied to global expansion.

The executives' answers showed optimism despite lingering effects businesses face from the pandemic downturn. Asked about their expectations for 2021, 26% of the surveyed executives said their businesses were still stabilizing or in recovery, yet 93% predicted that their companies would still meet or exceed their adjusted 2021 goals. Only 7% expected to perform below goals and expectations.

Returning to Normal

How would you best describe the current state of your business?

Accelerated growth	40%
Still stabilizing—in recovery	26%
Focused on business continuity	26%
Building business resiliency	6%
Declining	1%

Over the long term, one of the driving forces behind the optimistic outlook appeared to be international expansion plans. The survey showed a direct link between optimism and new-country expansions: of the executives who projected their businesses would exceed expectations in 2021, 91% were launching operations into new countries. And 81% of the survey respondents said their long-term growth strategies included expansion into new countries.

Implementing a strategy for global expansion and presence was the second-most-chosen priority for executives in the next 12 to 18 months, eclipsed only by optimizing margins and costs of goods. Introducing new or additional products or services was third, followed by maintaining working capital.

Across the spectrum of rising and declining businesses, the survey respondents' companies skewed toward growth. Only 1% of the survey respondents said their companies were currently in decline, compared with 40% who said they were in a state of accelerated growth.

2. CFOs are taking a global view with their business strategies and hiring approaches.

The global outlook of the surveyed executives also extended to their workforce hiring and recruiting plans. Asked to describe their hiring strategies over the next 12 to 18 months, 42% of the executives said they wanted to attract new talent that was unbounded by the geographic restrictions of their company's operating model.

Taking a broader geographic view in the search for talent reflected a high degree of interest by CFOs in tapping into a more cost-effective, global talent pool (a concept favored by 85%) and capturing market share through global expansion (selected by 81%).

Finally, about 83% of executives agreed that a high-caliber, diverse workforce was important to their organizations and its key stakeholders.

3. CFOs are embracing remote-work models.

For most companies, remote work models will remain in place for at least the next year, according to the survey. Three-quarters of the respondents anticipated operating remote or hybrid workforce models in the next 12 to 18 months, while about one-quarter said they would be operating an on-site workforce.

The executives admitted that remote-work situations forced on them by COVID-19 opened their eyes to some human capital issues. Three-quarters of the executives said the coronavirus pandemic fundamentally altered how they think about hiring and workforce management, and 81% said it fundamentally altered the way they view remote employees or the work-from-anywhere model.

42%

Companies that want to attract new talent unbounded by the geographic restrictions of their company's operating model

Regional Variations

The survey also revealed some interesting differences regionally. Executives from the Asia-Pacific region lead the way in the positive attitudes about their companies' current states and short-term outlooks and in the aggressiveness of their plans for international expansion.

Optimism was most pronounced for the 58 executives surveyed from North America, with 97% predicting their companies meeting or exceeding goals and expectations in 2021. The 54 executives surveyed from companies in Asia-Pacific (APAC) countries were close behind, at 96%. For the 102 executives from the Europe, Middle East, and Africa region (EMEA), including a large contingent from the United Kingdom, 90% predicted they would meet or exceed their 2021 targets.

The present state of APAC businesses were especially rosy in the eyes of their executives. A little less than half (46%) described their businesses as in a period of accelerated growth, compared with 45% of the EMEA executives and 26% of North Americans. A majority of the North American executives—70%—reported that their companies were either still stabilizing or focused on business continuity. Half of APAC executives reported being in a similar state and 44% of EMEA executives assessed that their businesses were also still recovering from the pandemic.

On the topic of global expansion, APAC executives were considerably more assertive than their peers in other regions, with 94% planning expansions into new countries as part of their long-term growth strategies. That compared with the 79% of EMEA executives and the 70% of North American executives who indicated global expansion was integral to long-term growth plans.

Strategizing for global expansion was among the top priorities for executives in all three regions. "Implementing a strategy for global expansion and presence" was deemed a top priority in the next 12 to 18 months for 53% of the APAC executives, 39% of the EMEA executives, and 36% of the North American executives.

The number one priority listed by the APAC and North American executives was "optimizing margins and costs of goods or updating the supply chain." For the EMEA executives, the number one priority was maintaining working capital.

APAC executives indicated a high degree of interest in tapping into a more cost-effective, global talent pool (89%) and capturing market share through global expansion (94%). That compared with 84% and 78%, respectively, of EMEA executives and 81% and 74%, respectively, of executives in North America.

The highest percentage of companies that predicted they would operate with remote or hybrid workforce models in the next 12 to 18 months were those in EMEA: 79%. Nearly three-quarters (74%) of APAC executives and 69% of North American executives predicted remote or hybrid models for their companies over the same period. CFO

Working Models

In response to the COVID-19 global pandemic, which of the following models does your company anticipate operating under for the next 12 to 18 months?

On-site workforce	24%
Remote workforce	37%
Hybrid workforce	37%
Don't know/Not sure	2%

Getty Images

Remotely Successful?

Not too many months after the COVID-19 pandemic's onset, executives called the shift to working from home a boost to productivity. Whether or not it is advantageous to workers in the long term is an unsettled question. While remote working allows employees to do more "deep work," it can also lead to workers feeling disconnected. Take our quiz on some of the study findings and circumstances surrounding this hotly debated issue.

1 The finance and insurance industries have the highest potential for successful remote work models, says McKinsey. Of the following sectors, which has the lowest potential for remote work?

A. Real estate
B. Wholesale trade
C. Utilities
D. Health care and social assistance

2 Few U.S. executives think corporate cultures will survive an all-remote work setup. In one survey, a plurality of executives said that to keep a strong culture, employees need to be in the office how often?

A. Two days per week
B. Three days per week
C. Four days per week
D. One to three days per month

3 In a Willis Towers Watson survey of North American employers, what percentage reported that compensation would be based on remote workers' location for all jobs?

A. 42%
B. 19%
C. 26%
D. 65%

4 Which of the following companies has stated that it will let all employees work from home permanently?

A. Dropbox
B. Salesforce
C. Microsoft
D. Facebook

5 Goldman Sachs CEO David Solomon has called remote work an "aberration." Which experience during the past year seems to have particularly irked the high-profile banking executive?

A. A two-hour-long Slack outage during which he was unable to reach the CFO
B. Running into junior bankers having a midday lunch in the Hamptons
C. Entering the company's New York headquarters and finding it empty
D. Running into a senior banker on a weekday while hiking

6 Which FAANG company recently declared that workers have to be back in offices by September 1 unless they formally apply for an exception?

A. Google
B. Apple
C. Facebook
D. Netflix

7 According to one video technology company, remote employees are working how many extra hours per month?

A. 8
B. 15
C. 26
D. 30

8 A Nielsen study found that about half of remote employees have done what while working during business hours?

A. Read the newspaper
B. Cooked a meal
C. Run on a treadmill
D. Watched television

Sources: McKinsey, PwC, Willis Towers Watson, Bloomberg

Answers: 1-D; 2-B; 3-C; 4-A; 5-B; 6-A; 7-C; 8-D

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