A View Like No Other

CFOs share how COVID-19 changed the job and how they lead

By Lex McGraw

"This was the most challenging experience of my career—it was like 1918, 1968 and 2008 all in one year," said the CFO of a department store chain, summing up her experience during COVID-19.

2020 was truly a year unlike any other, and for CFOs it stretched the bounds of scenario planning and required an "all-hands" mentality, with finance teams reporting daily and weekly cash flows and going out to debt or equity markets to increase liquidity. It soon became clear some companies would thrive—and even grow—during the crisis while others would struggle and experience some steep declines.

Whether your business flourished or foundered, there were new stresses for leaders to work through, and CFOs had to make bold decisions in the heat of a crisis that would have long-term implications. We spoke with retail CFOs to find out how their roles are evolving, what they learned from the pandemic, and the broader influence CFOs can have both inside and outside their organizations going forward.

Scenario Planning on Steroids

Most companies did not plan for a simultaneous global health pandemic and economic meltdown, but COVID-19 has underscored the need to prepare for scenarios we previously thought were more akin to novels and movies than real life. "We thought about scenarios earlier than most. With my CVS background, we always ran pandemic scenarios," explains Dave Denton, CFO of Lowe's Home Improvement. "We were watching what was happening in Europe and China and started quickly thinking about that and contemplating scenarios when it hit the U.S."

However, even companies that ran scenarios early were not immune to the crushing impact COVID-19 had on retail, with nonessential businesses being forced to close their doors for periods of time. "We started doing some scenario planning in February, and every week our worst case become the best case," shares the CFO of a department store chain. "We were—and are—very concerned about our customers and employees. There's no playbook on this."

One of the lasting effects of the pandemic is that there will be more conversation at the board and executive level about preparation for more extreme events. Questions about how to scenario plan when your executive team isn't available and how to build up a team to make critical decisions in the heat of the moment will need to be answered before the next crisis occurs.

Chief Finance (and Supply Chain/Merchandising/Communications/ Strategy) Officer

While finance leaders have been playing broader roles in strategy, communications, risk, supply chain, consumer experience and more, many of these responsibilities were accelerated by COVID-19. In particular, supply chain emerged during the crisis as a critical area for CFOs to have a hand in. "The finance team has become a large voice in merchandising and supply chain," says Denton.

While the crisis required day-to-day management, CFOs also were focusing on strategy as they looked for opportunities to expand their businesses and to build new skills sets and mindsets in their teams. In addition, they focused on strengthening connections across the finance function and with teams across their organizations. "I talk to my direct reports and their direct reports more now than ever," says a CFO of a fashion retailer.

Digital as a Differentiator

As e-commerce exploded for companies selling essentials (e.g., paper products and other necessities), the demand showed just how vital digital is. "Our digital business is 5 times bigger than in 2018," says Bob Eddy, current CEO and former CFO of BJ's Wholesale Club. However, the move toward e-commerce was more than the traditional order online/doorstep delivery model. There was huge demand for a hybrid model of order online/pick-up at store. "We launched curb-side pickup almost overnight," adds Eddy. "You can now order anything in the store for delivery, in-store pickup, or curb-side pickup. This all happened in the last year."

Retailers that embraced a hybrid model are poised to continue to dominate the market, as customers now expect more efficiency in their shopping experience. "We will see consolidation of trips from the consumer standpoint. The consumer's thinking, 'I'd rather go in and out of one place than go to 3-4 stores,'" notes Denton.

Businesses that were slower, or unable, to adopt an e-commerce platform struggled. "Not having an e-commerce business hurt us when we were shut down," a CFO of a fashion retailer notes. "It doesn't change our model—the math doesn't work at our price point—but it is better to have that capability in an environment where your stores are closed."

Who Triumphed and Who Had Challenges

For many retailers, business soared during COVID-19. "For three consecutive days in March, we had the highest sales in our history by a huge margin," Eddy says, adding that BJ's generated about four average years of cash in just one year in 2020. This allowed the company to expand its footprint, opening four new stores in 2020 and plans to open six in 2021 and 10 in 2022. While these stores were already planned, COVID-19 softened the real estate market and decreased BJ's debt, allowing it to be more flexible and responsive in the market.

It was also eye-opening to see how various competitors responded to the pandemic and how some were grabbing more market share than expected. "I learned that we have more competitors than I originally thought," says Denton. "Now we are getting more focused on how we win in the small categories. The pandemic opened our aperture on our competitive landscape."

Compensation in a Challenging Year

One of the most difficult tasks CFOs had during the pandemic was addressing compensation. How do you motivate employees to perform if your company took a major hit? Even for companies that profited or remained stable, there were months of uncertainty to come, and CFOs had to determine what fair compensation should be. A CFO of a major clothing retailer shares that his company modified the management incentive plan in the wake of the pandemic. "We made it focused on the qualitative things that needed to happen in response to COVID, despite the fact the comp committee had just approved the 2020 comp plan," he says.

Another CFO notes that her company did not administer bonuses in 2020, but that incentives were put into place to below the C-Suite to motivate and retain talent at the end of 2020 and in 2021.

Expanding the Definition of CFO

For many CFOs, the crisis called on them to think about their roles differently than before. They had to find the balance between *doing* (the execution of strategies and making decisions) and *being* (how you connect with and motivate others). They have leaned into being flexible and adaptable, as well as into being empathetic leaders who can show vulnerability when appropriate and be accessible to their teams in their times of need. "Empathetic leadership is a must and is needed in the organization," says the CFO of a department store chain. "Then there is the strategy component – the customer and shopping in general quickly changed, so you need to be agile and always ask questions."

The ongoing pandemic has also required a high level of resilience and the stamina to endure long-term uncertainty. "I believe COVID will reinforce the desire of CEOs and boards to find CFOs who have a broader skill set and the stamina to survive such intense experiences," says the CFO of a fashion retailer. "Pure accountants won't be sufficient due to the experience everyone just survived." CFOs have also had to find outlets for relief, ranging from exercise, to meditation, to scheduling breaks during the workday. They need to take care of themselves in order to take care of their teams and the business.

A silver lining of the crisis has been that CFOs are now seen as a resource to call upon for areas outside of pure finance, given that they have a unique view of the company and can often identify risks that may not be on anyone else's radar. It has also fostered a stronger relationship between the CFO and board in many instances. "My interaction with the board has changed. I have many more one-on-ones with board members," says the CFO of a department store chain. "I think they see me more as a value partner for topics beyond balance sheet."

Taking Advantage of the Crisis

"Don't waste a crisis," was the sentiment many leaders urged during the crisis, whether it was board members motivating the executive team or department heads inspiring themselves to find the opportunities behind the bleakness of the pandemic. CFOs were no different. They had to be courageous in making investment decisions in the heat of the crisis and understand the risks and rewards that could play out long term from those decisions.

There has also been a permanent shift toward digital coupled with different customer expectations that has fundamentally shifted the role of CFO and allows them to be even greater assets to the company by going beyond the traditional financial expectations of the job. The role will continue to evolve, and CFOs will have a bigger voice in decision making within the company. "My advice is to surround yourself with the best team you can find," Eddy says. "Coach those folks and advise the CEO and the leadership team, because no one has the view of the company like the CFO."

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