

Using Finance Inflationary Tactics (FIT) squads to combat high inflation

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High inflation poses significant challenges for businesses and chief financial officers (CFOs). With inflation higher than it's been in 40 years, the current generation of finance leaders is facing an unprecedented crisis. However, analytics, artificial intelligence (AI) and automation technologies can play a critical role in enabling CFOs to orchestrate and collaborate on rapid actions to overcome these challenges. Companies with an established digital dimension already have an advantage.

To address business challenges related to high inflation, CFOs should immediately develop a senior cross-functional finance inflationary tactics (FIT) squad to prioritize and take coordinated actions. The collaborative **IBM Garage™ Methodology** can help FIT squads go to market faster, improve ROI and increase innovation by blending business strategy, design and technology to rapidly turn their ideas into actions. Business leaders can adapt this methodology for vision alignment, process enhancement and design discussions — among other applications — to rapidly iterate and deploy solutions.

While CFOs assemble the FIT squad, they can begin to streamline processes and deploy analytics, AI and automation to fight inflation. Regardless of your current data landscape, you can deploy AI accelerators to understand the value gained from existing data, building and prioritizing data use cases with IBM Garage Methodology to enhance areas where data may require improvement during inflationary periods — for example, SKU level margins.

As you move forward to combat inflation's impact on your business, focus your analytics, AI and automation initiatives on 5 key areas — the 5 C's: Customer, Cash, Cost, Culture, and Carbon.

Customers: Get to know them again

Analytics solutions can help sales and marketing departments to segment customers, assess return on marketing dollars and identify the cost to serve customers by channel, geography and customer segment. The CFO and FIT squad should collaborate closely with sales and marketing on budgets, investments and price elasticity. Running scenarios using AI to model price elasticity can help you understand impacts on volume and predict competitor reaction. And deploying advanced analytics enables you to correlate inflation, customer credit and default risk, and to update collection policy and actions.

Cash: Cash is still king

Analytics capabilities allow you analyze cash flow, and AI helps you predict working capital swings, enabling the company's treasurer to adjust cash positions. Leaders can deploy AI-automated cash forecasts, allowing more frequent analysis and decreasing time to action. With advanced analytics and AI, teams can create predictive models to understand how changes in gross margin can affect cash flow across segments, geographies, channels, businesses and product families to identify opportunities to normalize and optimize low margins.

Reevaluating contract terms and conditions can decrease the time to collect cash — days sales outstanding — and increase the time to pay bills — days payable outstanding. Using process mining in accounts payable and accounts receivable helps organizations rapidly expose exceptions and vulnerabilities that negatively impact cash and fix them.

The FIT squad should also collaborate closely with the procurement and supply chain departments to manage late payers, consolidate the supply base and revisit master supplier agreements to help orchestrate win-win outcomes. Support procurement and supply chain in reassessing strategic, priority and tactical supplier categories considering the current inflationary environment.

Cost: Optimize, don't just cut

Across-the-board budget cuts may eliminate needed investments tied to profitable strategies. Zero-based budgeting (ZBB) forces an organization to prioritize needs by using a bottom-up approach and justifying all costs. Deploy ZBB as a pilot for sales, general and administrative (SG&A) expenses and target 10% to 20% savings. If successful, collaborate with other departments like supply chain and operations in identifying immediate cost takeout opportunities and eliminating inefficiency.

Teams can also increase productivity using Process Mining software to identify process exceptions and waste by eliminating non-essential activities. This software can also check cost efficiency. For example, a client used process mining to identify over \$1 million in premium freight charges tied to shipments that did not arrive on time.

Deploying automation and AI for finance transactional processes can decrease labor costs. You should also automate reconciliations and journal entries, and use AI to identify potential risky journal entries before posting transactions to the enterprise resource planning (ERP) software, avoiding rework. The cost of automation is more stable than labor, and it executes work around the clock.

Culture: Re-recruit your team and drive inclusion

CFOs should collaborate with the chief human resources officer (CHRO) to view actions with a focus on combating inflation. Supporting the recruitment and retention (re-recruitment) of people with critical skills lowers the risk of attrition.

Leaders in the FIT squad should work with the CHRO to provide pay transparency and position culture as a benefit to help offset the tight labor market. AI can help you analyze labor markets, skills, experience and location. Prescriptive AI capabilities allow you to recommend pay adjustments and share the analysis with workers.

Non-traditional, worker-centric cultures help companies attract and retain workers. You can measure employee happiness to support business goals like productivity, quality and sales. Integrate diversity into your company culture to reinforce an inclusive, safe atmosphere.

Additionally, organizations can broaden the pool of potential candidates by not requiring a 4-year college degree for certain positions. For example, in IBM's "New Collar" program, candidates with associates degrees can be hired for specific roles that traditionally were reserved for candidates with 4-year degrees.

Carbon-free: Lean in on sustainability

Sustainability is a business imperative that drives value and is a significant advantage in attracting and retaining workers in an inflationary and tight labor market. Even in the current inflationary environment, [49% of consumers](#) say they've paid a premium for products branded as sustainable or socially responsible in the last 12 months.

Sustainability is a talent advantage. Organizations known for environmental sustainability and social responsibility are today's talent magnets. [1 in 3 employees](#) who changed jobs last year accepted an average pay cut of 28% to work for sustainable or socially responsible organizations.

CFOs and FIT squads can collaborate with supply chain departments to identify cost reduction opportunities for inefficiency, promoting emissions reduction. Specifically, shine a light on carbon emissions and drive departments to optimize on both emissions and cost. Automation and AI enable you to collect data, identify risk, validate documentation and provide audit trails. You should communicate the longer-term value that current environmental, social and governance (ESG) efforts can deliver, even in high inflationary periods.

Immediate next steps for CFOs:

The 5 C's of customer, cash, cost, culture and carbon demonstrates areas where you can take advantage of technology to help your organization address the challenges that come with inflation. Here are the recommended next steps for CFOs to take to help their organizations stay competitive while inflation rises:

1. Establish a cross-functional FIT squad to develop an anti-inflation agenda. Top of the agenda items should include working capital management, pricing adjustments and cost reduction.
2. Use IBM Garage methodology to turn ideas into actions, focusing on the 5 C's.
3. Orchestrate and collaborate efforts with key functional leaders and executives, and charge the FIT squad to track actions and document realized benefits.

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