

CFOs, what's the impact of COVID-19 on the cost of the products and services you offer?



Over the past few months, our lives and our businesses have been disrupted by the COVID-19 pandemic. We recently published articles on exit strategies and the role enterprise performance management (EPM) could play in navigating the uncertainty. In this article, we stress the importance of reviewing your product costs.

The message from global CFOs is clear: most companies have moved beyond short-term crisis management, with the impact of the new normal becoming increasingly clear. These newly adjusted financial plans tend to take into account drastic changes in costs and/or revenues.

What's your strategy?

Today, CFOs still need to review the impact of all changes on the costs of their companies' products. Major shifts in costs and revenues may have lowered the margin on certain products, or even made them unprofitable. Not only does this need to be reviewed now, but also at regular intervals in the future to gain as much benefit as possible during the restart of the economy. Companies that are agile in adapting to crises could build a market advantage that lasts for several years.

Assessing the impact of change

The focus remains on strategies to cope with the persisting uncertainty. Recent innovations in cloud technology enable the different planning exercises to come together in ways that weren't previously possible. Optimising the planning cycle across the business will enable your company to rapidly review and reset product pricing based on the new cost price. This will help protect your existing client portfolio and potentially gain valuable market share.



Changes that impact product costing

- Shifts in demand
- Changes in the structure of direct costs
- unexpected savings on indirect costs



Review product portfolio

- Review the demand for the product portfolio
- Analyse the impact of changes on the allocation of costs and the gross margin
- Focus on client retention and increasing market share

90%

of CFOs believe the crisis will have an impact on their revenues and/or costs.

70%*

of companies are changing their financial plans and/or forecasts they share with investors.

*PwC's COVID-19 CFO Pulse Survey

Product Costing



Connect through the cloud

The pandemic has **highlighted the need for connected planning** within organisations. Cloud vendors are proving to be a key accelerator in dramatically speeding up the flow of information between departments and allowing CFOs to make quick decisions based on changing information. CFOs across the globe continue to move forward with their **digital transformation** investments, while 70%* are **making changes to their financial plans**. Best-in-class executives will use digitisation to connect the planning exercise to the application of scenario analysis on product costing and the resulting book prices.



Sensitivity analysis and frequent updates

Focus on **operational efficiency** in the planning process to enable rapid updates, alignment of internal resources and skills to provide an in-house centre of excellence to support decisions and provide insights into the bigger picture.

- **Sensitivity analysis** on the costs and gross margins of products to help understand impact of changes on demand and enable better forecasting
- Analyse the **impact of cost allocations** on the final cost of your products

- **Capitalise on changes in demand** during the crisis by identifying which products are under- or overperforming
- **Prioritise connected planning** by focusing on **using the changed planning exercises to drive business decisions**, such as systematically reviewing the pricing of the product portfolio and its effect on profit and loss.

Focus on driving **short-term improvements** within the process itself.

- Ensure decisions are made based on the **latest available information and plans**
- Review the **cost allocation** rules to ensure efficient driver-based allocations

* PwC's COVID-19 CFO Pulse Survey

Information is changing rapidly, and this has a significant impact on both revenues and costs. Focus on **re-forecasting regularly** and analyse **multiple likely scenarios** and their impact on the costs of your products and services.

- **Review all plans and their financial impact** based on the new information available
- **Analyse the changes in demand** to meet customer orders
- **Recalculate the performance of the product portfolio** based on the newly budgeted margins and allocated (overhead) costs
- **Reset product pricing** to optimise contributions to the bottom line and gain market share

The significant impact and uncertainty of COVID-19 means that businesses need to be prepared for a change in equilibrium. CFOs are moving beyond immediate crisis management towards impact analysis. Once this analysis is done, the changes to accommodate the new normal will need to begin.

What'll keep companies ahead of the curve in these uncertain times?

A coherent exit strategy. One that uses core organisational capabilities that quickly respond to new information to update financial plans and drive key decisions.

PwC can help optimise your product costing process

At PwC, we work closely with you to help you respond to COVID-19 and prepare for the new normal. Our Management Consulting Finance specialists have extensive experience in helping a diverse range of clients across different industries with complex challenges in Finance and beyond.

Starting from your vision and the impact that COVID-19 has on your business, we can help you review your product costing process and set you on the right track to emerge from the crisis as a leader in your sector. Join us in our PwC Experience Centre, where we can showcase real-life examples, walk you through our automated solutions and work with you to create your tomorrow.

Contact

Want to know more about improving your product costing process? Don't hesitate to get in touch.

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