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How Companies are Cutting Costs During the COVID-19 Pandemic

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Over the past 12 months, CFOs have balanced an extraordinary combination of factors to survive during the COVID-19 pandemic. Companies have been burdened with unforeseen, pandemic-related expenses required for the safety of their employees while making vital investments to support operations in a virtual business environment, all while addressing changing demand patterns.

Many CFOs have used this time to take a hard look at the cost of doing business while acknowledging the nuanced operating challenge of "cutting your way to prosperity." Per a 2020 Gartner survey, 62% of CFOs surveyed were planning expense reductions to their budgets. This was expected, as in tough times, companies will look to find cost savings to temporarily adjust expense levels until customer demand and revenues return to historical levels. This near-term exercise allows for a unique opportunity to permanently alter the expense structure of a company. As the saying goes: Don't let a crisis go to waste.

As the U.S. economy continues to be affected by the pandemic, business norms and customs have been irrevocably changed. What are the lessons that can be learned from the changes made in response to COVID-19? What changed in 2020 about how we work? The most promising expense savings, in terms of their relative permanence, always start with changing how things are done. COVID-19 is mandating companies re-examine their legacy business models in real time and adjust for the seismic operational transformations spurred by the pandemic.

Potential Expense Targets

Employee Compensation

COVID-19 has put a targeted spotlight on personnel that is redundant and/or not adding value. It will be economically challenging for companies to retain employees associated with product lines made obsolete by COVID-19. With the U.S. workforce becoming more geographically dispersed and more technologically savvy with each Zoom meeting, certain human resources and administrative assistant positions may be perceived as unnecessary going forward. Companies are expected to reduce their physical footprints, which means the number of facilities and warehousing personnel likely will be reduced. Additionally, the everchanging governmental workplace safety regulations related to capacity and staffing, particularly in the service industries, may permanently eliminate positions in these sectors. As the domestic economy eventually emerges into a post-COVID-19 environment, businesses will likely engage in difficult internal analysis to identify historical positions no longer required.

Real Estate/Occupancy Expenses

One of the most surprising aspects of the overall operating environment in 2020 has been the success many industries have had operating remotely. While in no way ideal, COVID-19 mandating the universal adoption of virtual meeting software and applications has provided concrete evidence that many U.S. employees can effectively function outside of the traditional office environment. As such, entire industries where location is not paramount to an entities' success are already assessing their go forward physical footprint requirements to identify future occupancy cost savings. These anticipated savings likely will result from companies moving to smaller facilities or sub-leasing portions of their existing physical footprint.

It is important to recognize that while reducing occupancy costs by meaningful percentages on a forecasted P&L is the goal and looks great, in reality it will take companies both time and money to extract themselves from long-term mortgages and leases.

Overhead Expenses

Work-from-home orders have resulted in numerous logistical and even behavioral challenges for the U.S. worker. While the negative impacts of working remotely are significant, the current operating environment has produced multiple examples of overhead cost savings.

- Travel and Entertainment
    - The long-term impact of being unable to meet in person with your clients, customers or key constituents cannot be calculated yet. In the near-term, companies are experiencing significant year-over-year cost savings in travel-related expenses. The successes from conducting business gatherings remotely will fundamentally change the degree to which business travel is utilized. While the commencement of any business engagement/relationship/opportunity will likely still need to be accomplished via face-to-face interaction in the years to come, the days of routinely traveling professionally each week for the same engagement are assuredly relics of the past.
- Commercial Insurance
    - Consistent with our personal insurance experiences in 2020, businesses likely will be able to achieve insurance premium savings in the coming 12-18 months due to reduced employee headcount and mobility. Additionally, it is imperative that companies request policy audits for those commercial insurance policies whose premiums were based on the insured's top line or number of employees.
- Office Expenses
    - While less obvious than the aforementioned categories of potential expense savings, potential costs reductions exist within the category of general office expenses. Reduced employee traffic within the four walls of an office likely will translate to decreased spend on utilities, office supplies and traditional marketing expenses (as companies transition to more virtual marketing efforts).

The negative business impacts of COVID-19, both economically and psychologically, will unfortunately be realized for years to come. The degree to which consumer demand, particularly in industries most affected by the pandemic, will return to historical levels will not be known for years to come. This fundamental shift in human behavior (i.e. reduced travel, lingering health concerns, decreased participation in group settings) has and will continue to be the potential catalyst for the inevitable closures of certain businesses and, in some instances, entire industry verticals.

While the “new normal” operating environment has produced areas of potential cost savings, companies will assuredly face incremental costs that will potentially offset the anticipated expense savings, specifically related to IT and facility expenses. Employee training costs will be incurred as existing personnel must train for new roles and/or modify their processes for existing responsibilities. Companies will incur one-time “exit” costs in relation to achieving long-term savings from downsizing its real estate footprint.

That being said, for those enterprises able to weather through this challenging time, recent months have provided a window to traditional expenses that companies can trim from their prospective operating budgets. Capitalizing on the unique “opportunity” presented by COVID-19 in terms of permanent cost savings will be critical to an organization’s long-term prospects. While the near-term pain will be significant, CFOs with prudent long-term vision will effectively position their companies for great success going forward. The ability to memorialize these expense reductions will lead to sustainable margin growth in the years to come.