



HOW DIGITAL TRANSFORMATION CAN HELP CFOS FIGHT INFLATION?

Abstract

Businesses must mitigate the risks of inflation by investing in technology. In an uncertain economic climate, digital transformation has the potential to help organisations achieve process efficiencies and cost reductions. CFOs have a vital role to play in spearheading digital transformation efforts and building a resilient enterprise.

Global inflation has been on the rise since 2021. According to a report by the International Monetary Fund (IMF), global growth has seen a downward trend, going from 3.4 per cent in 2022 to 2.9 per cent in 2023. Prior to the pandemic, global inflation was about 3.5 per cent, however, it continues to remain high and fluctuate significantly in post-pandemic times, going from 8.8 per cent in 2022 to 4.4 per cent in 2024. Inflation presents several challenges to businesses. As the prices of raw materials, production and overhead costs increase, businesses may try to absorb some of the costs to avoid passing them to the customer, leading to lower profitability. Rising prices reduce purchasing power. This can lead to a serious economic crisis - small firms may be forced out of business, and investors may balk at putting their money on the table. Higher rates of interest may impact the global market.

In the midst of economic uncertainty, the Chief Financial Officer (CFO) assumes even greater importance. CFOs are at the fulcrum of strategic planning and financial discipline, and they must steer their company towards less choppy waters. While they do not have any control over inflation, they can take certain measures to mitigate challenges caused by inflation. While reducing costs, and delaying spending are required to combat inflation, they also need to invest wisely in digitising the business, which can lead to sustained deflation.



The role of the CFO in digital transformation

Digitisation is revolutionising every aspect of life - communities, businesses, industries and even entire economies. Strategic planning and financial discipline are the key enablers of a successful digital transformation. The CFO's office needs to be heavily invested in identifying, tracking and monitoring spend on digitisation initiatives and talent for such projects, to ensure that the costs are justified in the long-term.

Technology is permeating every aspect of life, and business is no exception. As we move towards a digitised world, CFOs need to drive digital thinking into corporate strategy. CFOs have a dynamic role to play when it comes to understanding the impact of digital transformation on business and identifying the optimal digital solutions for long-term business

strategy. CFOs have the overall view of processes and operations, and hence are in a good position to champion process improvements and digital initiatives that would be the most beneficial to the business. As part of digital transformation, companies may reinvent their core and bring in new business models. One of the main challenges of digitisation is execution and implementation of the digital strategy, which requires a good understanding of resource allocation, something that is efficiently handled by the CFO role.

The COVID-19 pandemic has accelerated the digital transformation of businesses across industries. This momentum is expected to continue in 2023 and beyond. As inflation mounts pressure on businesses, CFOs will look to digital investments to reduce process inefficiencies and reinvent

business models to identify new avenues to improve profitability. When business users get insights from real-time data, it leads to quick data-driven decisions, resulting in an agile and responsive enterprise. The increased visibility leads to better control over spending, and making data-driven decisions, such as, for example, cutting costs in certain areas over letting go of employees.

Digitisation also helps CFOs garner control over the supply chain. With complete visibility into the supplier network, CFOs can consolidate vendors and also negotiate better prices for the company. By identifying suppliers or partners who are not meeting requirements on time, CFOs can be proactive in adding new suppliers, rather than wait for disruptions and then react.



How CFOs can mitigate the risks of inflation with digitisation

By investing in the right digital initiatives, CFOs can reduce the cost of doing business significantly. In fact, a study by Gartner found that 78 per cent of CFOs will continue with or increase digital spend while implementing cost reduction in other areas despite rising inflation. Gartner also recommends digital deflation - investing in technology that results in decreasing labour costs and production costs, while increasing productivity and improved

decision making. Companies can deliver their products at lower cost to customers, while simultaneously reducing costs of general expenses and administration. This reduces the permanent cost of doing business. CFOs have a pivotal role to play in successful digital transformation.

Work towards building a unified digital enterprise: CFOs must identify the right digital initiatives, so that the business can derive maximum value from them.

Rather than siloed digital initiatives, CFOs must aim for a unified digital strategy. Taking initiatives from pilot projects to a full-fledged solution that scales across functions and the business is necessary. For instance, if a digital solution works at one warehouse, there should be a plan or strategy in place to take it across all warehouses, link the warehouses and so on.

Buckle up for rapid digital

transformation: Unlike earlier, where digitisation was limited to certain business functions, and acquiring new technology infrastructure was done phase-wise over several months or years, today's dynamic business environment requires companies to think on their feet. CFOs should enable an agile business by ensuring that digital strategy is worked into business strategy at every level. Resource allocation should be flexible and cross-functional teams should be able to share digital insights and information so that pilot projects can be taken to scale quickly.

Work out funding: CFOs need to plan the funding mechanisms for digital transformation. Allocating funds for

digital transformation across business functions, using a stage-gating funding model, planning for cost of technology infrastructure, and working out the project ROI are important aspects, especially due to the pressures of inflation.

Streamline data governance: To maximise the effectiveness of digital transformation initiatives, CFOs need to understand the impact by identifying and gathering the right metrics. CFOs should also share these metrics and financial benefits of digital transformation with investors, and explain how the right investments would work towards digital deflation.

In an uncertain economic climate, CFOs have a stellar role to play in turning the

tide for organisations. As investors focus on profitability, CFOs need to control spend, and show a reduction in costs. Planning a roadmap for digital transformation and focusing on the areas of business that would deliver the maximum return on investment would help demonstrate the value of investing in digital initiatives. Working with experienced technology partners* and speaking to peers helps achieve results efficiently. With the right technology toolkit, CFOs can shape a resilient organisation that can weather any change.

* For organizations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organizational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism, will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping organizations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, [Live Enterprise](#) is building connected organizations that are innovating collaboratively for the future.

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