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William Bontes
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In this interview, William Bontes, CFO Louwman shares his insights on economic challenges, AI utilisation, and CSRD obligations; offering a concise look into critical financial and strategic topics, for our CFO Survey Spring 2024 Report.

The CFOs seem to have a more positive view of the current state of the economy, although they continue to be wary about costs and the political climate.

As the recently published inflation figure are still higher than expected, I'm only cautiously optimistic. The automotive industry is capital-intensive and as long as interest rates remain high, it continues to be a tough environment for capital-intensive assets. Our market segment has simply become more expensive as a result.

This is compounded by the tempestuous geopolitical situation: the detour ships now have to take has added 10 days' worth of transport costs. What's more, they are packed with BYD cars and while car experts credit the brand with great potential, they also put us in the middle of a geopolitical playing field. Add to that the current caretaker government in place in the Netherlands, which has left the major dossiers on fiscal policy and the future of automotive in a limbo situation.
To put it simply, for us as a company these forces have multiplied over the past period and this has rather eroded my optimism.
Although the supply chain situation may have improved lately, it remains hugely volatile. One striking example is the COVID-19 period, when everyone was eager to buy a new bike and people struggled to get even a single one, but then the market was flooded with bicycles and we ended up with large inventories.

> *"As long as interest rates remain high, it continues to be a tough environment for capital intensive assets."*

Supply chains and their vulnerability have been a big theme, how do you deal with this?

This is a tough situation for us. Take cars. We buy them ready-made, so there's only so much we can do about any supply chain disruption occurring at one of our suppliers. It simply makes you very dependent and we were forced to keep more inventories and, consequently, this resulted in higher costs.

Has this past period also affected your investment decisions?

No, we have not deferred any investments because we didn't need to, being a family business. Our greatest issue was inventories management, which we have made much more transparent to reduce our vulnerabilities and to better manage our inventories.

In previous years this had never been a problem for us: we never actually had inventories but then suddenly we did. This forced us to quickly start financing inventories because our supplier pushed them to us. Since interest rates had not been a factor in recent years and combined with our low stock levels, we achieved a high cash position. But just like that the inventories and interest rates made the cash evaporate.

Has your role as CFO changed over this period?

This development meant we had to return to treasury and cash management basics, because we had become too easy-going. We were faced with a totally new problem and really had to revert to our basic professionalism. Our business controllers have now strongly increased their focus on managing the supply chain: an item like 'Days inventories outstanding' never existed and now this is our most important KPI.

How fast has this shifted? Andhas this changed the finance function's profile?

Things happened real fast in the business and within Finance the pace quite surprised us. The supply chain, the business and - in Finance - our cash flow planning turned out to be insufficiently connected. Consequently, we had to realign these functions and this took us time and effort: the business really had to go back and learn about cash flow plans. Our business controllers had focused mainly on managing the P&L and revenues and we had to refocus on cash.

In your opinion, what biggest risk is being overlooked right now?

Cybersecurity is a very big topic for me. The rapidly increasing automation and digitalisation makes this a top three topic on my agenda. We have hired a Chief Cyber Officer who directly reports to me. I'm a CFO, so I have trouble understanding this technical world where everything revolves around prevention and technology. Right now it's a black box in which both cybercriminals and governments operate, increasing your vulnerability while the risks are only getting bigger. As a CFO, how do you manage a world of technical measures when you're not an expert on this? As this issue grows, so does the insurance premium.

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The focus on the finance professional's skillset has changed along with the role of Finance. How important do you consider data affinity for Finance to be?

We have an inevitable appreciation of being able to work with data. At Louwman we have set up a central data club to create customer profiles and they are involved in everything related to creating dashboards and KPIs. What's more, our controllers work with and translate the data findings for the business.

We have also created an Innovation, Digital & IT department and this group focuses on working with AI, constantly producing analyses on the back of this. Again, our controllers translate the findings for the business.

While many CFOs recognise the great potential in using AI, they likewise acknowledge that their digital maturity is currently low and their investments in AI are not terribly substantial, how is this situation with your company?

The same. Our current AI efforts are in a pioneering stage and mainly supportive. We do see the huge potential and have also recruited staff to engage with AI in a broad sense and create opportunities. This progresses well, but for now the focus is really on the support aspect.
I recognise the enormous potential and at the same time, I think we are driving each other crazy a little bit about the pace at which the AI transformation will happen. I compare it to the hype around autonomous cars a few years back.
We have now moved forward a few years and as yet none of the

cars are truly autonomous. I suspect the implementation of AI will not expand much for now.

What do you consider the current game changers within Finance?

Good question! Five years ago, we made a huge bet on robotics, but not even that was a real game changer, even on the scale on which we have applied it. Although this did reduce the number of FTEs in terms of functions, it was far from a complete turnaround from the way we worked. And while the same expectations apply to AI, I doubt it can actually deliver.

Because we want to focus on business partnering, Finance efficiency is one of our big themes. Achieving this efficiency takes time and effort, partly because it is difficult to get people to stop their current manual process when the machine keeps running. Achieving efficiency gains takes longer than one would have anticipated beforehand.

How does the CSRD obligation affect you?

Although a CFO is ultimately responsible for reporting on this, we have assigned sustainability to the Legal department instead of Finance because of their natural affinity for this subject. CSRD is part of my responsibilities, though, and is very intensive and costly. Right now, we also mainly do this for compliance purposes and we should do more to speak out about the value sustainability brings us. I see the opportunity to have a broader conversation about this: we need to internalise this topic more and link it to our strategy. Improvement does not appear out of thin air and you want to identify sustainability's importance for our business model. It's tricky, because we sell cars and the consumer ultimately decides. On top of this, we sell a Chinese brand – BYD – and this makes scope 3 a very complicated issue.

CSRD will ultimately simply result in a second set of financial statements for which Finance will be responsible. Early on, this will also involve a lot of manual work and the trick will be to turn this into a routine. Our Finance people want to play a broader and more strategic role within the company and this is one area where we can take ownership.

How is recruitment working out?

The staff we need is incredibly scarce and expensive at the moment, but fortunately Louwman is attractive: our reputation as an employer is good, we are diverse, and our family values attract people. We are visible and very Dutch and this helps our recruitment, but I hear many peers who have been looking to fill certain positions for a long time now.

Which cultural elements does Louwman consider to be the most important?

As a family business, our focus is on the longer term instead of on each quarter, making it a congenial environment. One of the other areas in which I think we also stand out is our down-to-earth and modest culture. Finance especially has a warm culture: job satisfaction is hugely important to us and it's something we consciously look at in our selection process. Diversity, too, is a big topic here because it enhances team dynamics and works as a binding force.

Is this something for you to consider in your supervisory board member roles?

As a supervisory board member you're involvement is not as close: you try to inspire, but it's difficult because you also simply spend much of your time on fulfilling your obligations. The best thing about being a supervisory board member is the opportunity to help develop leadership.

My supervisory board member positions also give me the opportunity to take a look behind the scenes and this helps me in my role as CFO. You need to understand other business models, which is the only way you can draw parallels between different organisations. It also teaches you to become more effective in spending your time by learning to use time pressure to your benefit.