



# Succeeding in Uncertainty: Responding to COVID-19

## While the economic impact is unknown scenario planning is key

The impact and effects of COVID-19 are being felt by businesses globally, and particularly in China where necessary radical measures to contain the outbreak are impacting day to day life.

- Accurately predicting the eventual impact of the outbreak is challenging at this stage – the China economy has become much more integrated with the global economy since the 2002-2003 SARS crisis and grown 7 times in size
- The outbreak presents specific potential business challenges around people, commercial operations, disruption to supply and government directives
- On an operational level, restrictions on employee movement create immediate logistical challenges, but the impact on morale created by uncertainty magnifies the impact
- A robust response plan with timely and effective communication – with both internal and external stakeholders – is absolutely crucial

So what should business leaders be considering in light of COVID-19? History shows that those who plan and act decisively at speed during such crises emerge as winners in their industry.

## Four key principles to consider in managing the impact of COVID-19 on your business

### 1. Have a clear vision of direction and be prepared to flex your muscles to make it happen

Now is the right moment, in light of the developing situation, to **review your long-term strategy**, consider how your competitors might react and what the longer term market conditions may look like. Redefine your business's desired end-state once the crisis has passed and determine where to invest to facilitate accelerated growth.

Create your response strategy based on **your principles and values**; it is a great opportunity to clarify, promote and live your values.

**Focus on reliable data.** PwC's 2019 Global Crisis Survey found that three-quarters of those in a better place post-crisis had a strong recognition of the importance of establishing facts accurately during the crisis. Strong data also reinforces a central element of crisis planning – exploring **different scenarios** and how they could affect the business in the short, medium and long term.

Consider the following steps to develop an action plan to mitigate potential effects of the crisis on your business.



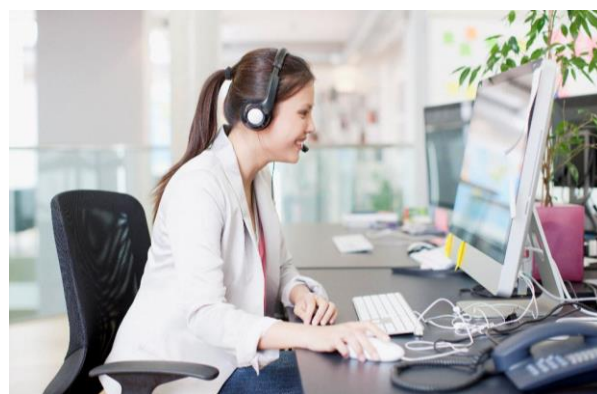
**Adjust your financial plan.** Reconsider on-going projects, cut marketing spend and other SG&A costs in light of your restated revenue forecasts for 2020. Focus on cash and manage cash flows tightly, forecasting on a rolling basis. Realign your product offerings, your commercial organisation, and channel partners to respond to the changing market conditions, both now and after the epidemic ends. Urgent and clear engagement and communication with your investors and lenders is crucial – they will be facing increased scrutiny and heightened reporting requirements necessitating a clear understanding of the impact of your revised plans on the (future) financial position of the business. Our experience with such stakeholders is that information should be real-time, transparent, realistic and accurate – surprises and variances erode trust.

**Never waste the opportunities presented by the adversity of a crisis.** Proactively manage your M&A strategy to consider potential acquisitions, divestitures, partnerships and bold moves. Create capacity to act or react swiftly and perform due diligence with a distressed M&A mindset, i.e. focus on the cash and business interruptions.

## 2. Gather the right team with representation across business areas to drive a holistic approach

To support your action plan, create a strong, cross-function crisis team. A crisis like COVID-19 can have an impact on every part of the business. The response will demand high-level sponsorship and cross-functional working. We recommend a core team overseen by the CEO drawn from HR, Legal and Operations to provide a framework and strategic guidance, supported by an extended cross-functional team to address the specific actions needed to get through the crisis. Especially in the first weeks a 24 hour round the clock Response Team builds trust in the organisation and towards your stakeholders. Determine your external communication strategy and approach. Don't forget to communicate internally as well – your employees are your strongest asset.

## 3. Keep your people and working environment safe. Protect your Talent








Your employees will be looking for clear guidance and regular communications. A well-managed response will build trust and enable your organisation to emerge quicker and stronger from the crisis. Make the safety and well-being of employees your priority and invest as needed to ensure a safe and healthy working environment for your employees and visitors (e.g. basic things such as “do we have enough masks for everyone?”).

During a crisis, a lot of data is needed for informed decision making...and fast. Do you know the detailed movements of your employees over the last 14 days? Were they exposed? What are the risks if they return to the office or production sites? Can your employees work remotely? In our experience, the response window for a crisis is typically measured in days and weeks, while recovery is measured in months and years.

## 4. Cash is King: Your Supply Chain and economic counter-measures determine your financial position

COVID-19 is already impacting on the supply chain of businesses as the outbreak continues to spread. Factories and businesses have extended shutdowns, employees are not able to return to work and airlines are suspending services or cancelling routes. Production disruptions in one company create adverse effects in others, and companies will struggle to find alternatives. Your supply chain strategy needs to factor in the likelihood and impact of suspensions and shutdowns. Alternatively your clients might want to renegotiate prices because of the impact on their own business. Ultimately you need to consider all available steps to manage your own financial position.

## Checklist: Key considerations to manage risk emerging from the COVID-19 outbreak

<p>1. Strategic</p> 	<ul style="list-style-type: none"> <li><input type="checkbox"/> Set clear strategic priorities based on your business values and revisit existing strategy, considering legal and reputational risks</li> <li><input type="checkbox"/> Review ongoing projects impacted and prepare for new market opportunities (M&amp;A opportunities, online market expansion, etc.)</li> <li><input type="checkbox"/> Challenge the existing Business Continuity Plan and establish an appropriate Crisis Management Team</li> <li><input type="checkbox"/> Identify and quantify cost reduction measures as a result of economic slowdown</li> <li><input type="checkbox"/> Develop clear, consistent and effective communications with internal and external stakeholders</li> </ul>
<p>2. Operational / supply chain / contractual</p> 	<ul style="list-style-type: none"> <li><input type="checkbox"/> Identify and mitigate supply chain disruption/cancellations caused by delays and transport suspensions from suppliers within China</li> <li><input type="checkbox"/> Revisit supply chain model and consider short term changes e.g. alternative suppliers, production planning to reflect factory closures/delays to workforce returning</li> <li><input type="checkbox"/> Establish alternative communication protocols with buyers and suppliers whilst there are restrictions on travel and physical meetings</li> <li><input type="checkbox"/> Review contractual agreements to identify and mitigate potential disputes in production and delivery (inbound and outbound) arising from delay or failure to fulfil orders</li> <li><input type="checkbox"/> Communicate with customers to assess ability to pay on time</li> <li><input type="checkbox"/> Review government directives to ensure compliance</li> <li><input type="checkbox"/> Consider opportunities for immediate relief on commercial leases</li> </ul>
<p>3. HR / Workforce / Health &amp; Safety</p> 	<ul style="list-style-type: none"> <li><input type="checkbox"/> Prioritise health, safety and wellbeing of employees</li> <li><input type="checkbox"/> Establish clear and timely communications with staff and stakeholders</li> <li><input type="checkbox"/> Leverage technology and flexible working arrangements</li> <li><input type="checkbox"/> Regularly collect data of your staff to support fluidity of decision making (e.g. their location, travel, date of return)</li> <li><input type="checkbox"/> Quantify impact of lost production, overtime payments and compensation leave for flexible working days</li> <li><input type="checkbox"/> Manage the implication of labour costs in mid-long term</li> <li><input type="checkbox"/> Adjust any necessary employee insurance policies to reflect the situation</li> <li><input type="checkbox"/> Provision of well-being and mental health support to employees in times of anxiety</li> </ul>
<p>4. Technology / Data / Telecoms</p> 	<ul style="list-style-type: none"> <li><input type="checkbox"/> Ensure the IT Lead is an integral part of the Crisis Management Team</li> <li><input type="checkbox"/> Prioritise stable IT infrastructure that can support secure remote working and potential demands (e.g. spike in mass conference calls/video conferences)</li> <li><input type="checkbox"/> Establish, plan and cost protocols to support hardware and software off-site</li> <li><input type="checkbox"/> Provide visibility of business issues and performance metrics to satisfy requirements of stakeholders (e.g. government reporting requirements)</li> <li><input type="checkbox"/> Consider alternative technology-enabled solutions to support business continuity with the restrictions experienced, particularly for offline business in sectors such as retail and consumer</li> </ul>
<p>5. Financing / Cash / Insurance</p> 	<ul style="list-style-type: none"> <li><input type="checkbox"/> Revisit your business plan and update KPI's to provide a realistic basis to critically assess the necessary actions</li> <li><input type="checkbox"/> Review the actual cash flow position and accurately forecast cash on a regular (daily) basis to mitigate likely shortages from falling sales and restriction in movements of people and goods</li> <li><input type="checkbox"/> Consider the impact on working capital of changes in the supply chain</li> <li><input type="checkbox"/> Critically review debt service obligations to identify potential events of default (e.g. missed interest payments) and assess likely consequences</li> <li><input type="checkbox"/> Proactively engage with lenders and other stakeholders, preventing surprises and enabling potential rescheduling of debt or alternative financing sources</li> <li><input type="checkbox"/> Prioritise reviewing insurance policies to assess potential recoveries for business interruption and clarify coverage as the situation develops</li> <li><input type="checkbox"/> Consider if the business qualifies for financial relief initiatives recently implemented by the Government</li> <li><input type="checkbox"/> Assess the implication for the potential delay of business expansion or consolidation and the next round financing</li> </ul>



## How can PwC help?

PwC teams across our global network are experienced in working with companies, governments, regulators and international organisations in and across borders, helping them to prepare for, respond to, and emerge stronger from some of the most high profile crises.

Key areas where we can provide support include:

- Developing and assessing the crisis and response plans
- Designing and implementing timely and targeted communications
- Developing and challenging your new strategy

Get in touch if you would like a further discussion

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