

COVID-19 Business implications

KPMG Board Leadership Center

The rapid outbreak of the coronavirus presents an alarming health crisis that the world is grappling with. Responding to the humanitarian crisis is priority #1 – whether that be helping to contain the virus, supporting victims and their families or helping developing a vaccine. There are also significant implications for businesses and the wider economy. This document looks at some of the challenges businesses face and how they might respond in what is likely to be a prolonged period of uncertainty.

Immediate actions	Medium-to-long term actions	
Businesses with extensive presence in or direct ties to affected areas must take immediate actions to assess their exposure.	Beyond immediate actions, organizations should use this as an opportunity to reflect on the ability to navigate a crisis and, going forward, consider actions to increase agility and become more resilient in the future.	
Now	0-3 months	4+ months
<ul style="list-style-type: none"> • Understand key risks across operations and supply chain • Mobilise teams to firstly navigate crisis response and secondly focus on supply chain assessment and risk management • Ensure your governance is in place to rapidly make key decisions • Conduct business and financial scenario planning for a quick recovery, a global slowdown and a global pandemic and recession 	<ul style="list-style-type: none"> • Plan mitigating actions across operations and supply chain, assessing impacts on sea, air and land transport • Ensure communications are made with principal customers and stakeholders • Review and assess what impact this will have on workforce planning and management • Review phasing impacts depending on your sector 	<ul style="list-style-type: none"> • Create an agile and visible global supply chain • Understand and deploy digital and process automation to mitigate the impact of disruption. • Develop and implement enhanced risk management practices

The COVID-19 outbreak has seen certain restrictions placed on the flow of both people and goods across international borders and even domestic regional territories. People and goods are the lifeblood of all businesses and disruption of these flows, even for a short period, can have a rapid and severe impact on the immediate condition of your business. Grasping the nettle quickly may feel, at the outset, like an overreaction, but asking the right questions sooner rather than later may be critical in weathering the storm and preserving a strong foundation for the longer term.

Business strategy

There is little doubt that COVID-19 will cause significant disruption to the local and global business environments.

Has the board:

- Ensured that the current business model been assessed in the light of the potential disruption?
- Assessed and agreed the key challenges for the business in the medium term?

- Considered the extent to which the business is dependent on the economy and society stabilising within the next 2 months?
- Considered the biggest risks (whether that be funding, people, customers, suppliers or other)?
- Taken steps to reposition the business in response to the disruption caused by COVID-19?

Finance

The uncertainty and disruption caused by COVID-19 and the likely fall in business and consumer confidence could place a strain on the cash position of any business.

For example: new orders could fall if travel restrictions prevent people from buying through traditional channels; current pricing may no longer be sustainable if input costs increase; disrupted supply chains might result in the need to hold more inventory; and future costs might increase from fluctuations in FX markets or if suppliers increase their prices. Has the board considered:

- The extent to which uncertainty has been factored into the financial planning?
- The extent to which the demand for the company's goods/ services have been stress tested in a range of scenarios and how this will impact cash flows, margins and profitability?
- The company's future funding needs and ensured appropriate discussions are being held with key finance providers and creditors?
- The company's exposure to fluctuations in the value of Sterling and other currencies?
- Whether inventory levels need to be increased and the knock-on impact on cash flows?
- The impact of suppliers increasing their prices on cash flow and profitability?
- Contractual issues such as penalties for delays in supply?

Workforce

The COVID-19 crisis will likely cause significant disruption to the workforce as illness or the need to self-isolate results in large numbers being absent from work. Also, we are seeing restrictions on the ability of people to move across national borders and an increased need to work from home as institutions close (e.g. schools).

Health concerns are understandably increasing employee anxiety (particularly among those with dependants) and this may well impact productivity.

Communicating proactively with staff to drive confidence in your plans and advice on new HR processes and policies (e.g. on statutory sick pay) will become increasingly important. Has the board considered:

- The extent to which the company's contingency plans address home working and staff absenteeism due to COVID-19?
- The impact on the business of employees being unable to travel (both to their normal office or internationally)?
- A communication strategy to inform and update colleagues around the company's COVID-19 response?
- A containment strategy including (say) revisions to the working from home policy?
- The HR policies and sickness arrangements in light of COVID-19?
- Whether the HR function is equipped to deal with employee wellbeing including issues like statutory sick pay rights and other entitlements?
- The impact on contractors and suppliers including assessing their policies and preparation in relation to their workforce?

Supply chain

As COVID-19 continues to cause large scale disruption to global supply chains, understanding the supply chain both upstream and downstream will be critical to the continued effective management of most businesses.

Closures of factories in China and beyond; increased transport costs and lead times due to reduced freight capacity; labour shortages and changing customer demand may impact inventory management and subsequently working capital. Has the board considered:

- Where suppliers are located, pinch points and the key points of failure?
- Whether the inventory cover is sufficient in different stressed scenarios?
- Whether logistics providers have been approached with a view to understanding their mitigation plans?
- Refreshing the early warning indicators to ensure potential issues with suppliers and logistics providers are identified quickly?
- How key customers will be prioritised in the event of inventory shortages?
- Any liability that might arise if contractual obligations go unfulfilled due to supply shortages?

- The impact on the workforce and potential subsequent capacity constraints?
- Setting up a dedicated team focused on identifying how the latest government mitigation plans will impact the supply chain?

Tax and legal

As businesses work to respond to the impacts and uncertainties of COVID-19, it's important to stay on top of the measures that governments are taking in regards to tax deadlines and reliefs, as well as the tax impacts of other business decisions such as employee relocation.

Similarly, COVID-19 may mean you, your supplier or your customers are not able to perform the contract you have agreed and the full extent of claims for breach are not likely to surface for sometime after the crisis has subsided. Managing expectations now is an essential part of mitigating potential legal actions as strong relationships usually mean no litigation. Has the board considered:

- Whether employees in key roles should have their movements restricted or an enforced change to their working patterns?
- Whether any 'new' working arrangements are creating a sufficient presence for corporate tax purposes?
- Whether the company can submit all the necessary tax filings (corporation tax, VAT, etc.) and customs declarations should key personnel be absent?
- An approach to identify and prioritise contracts at risk due to COVID-19?
- The process in place to identify in advance suppliers and/or customers unable to fulfil their contractual obligations and the plans to respond if that happens?

Business continuity planning

Business continuity planning is paramount. Organisations could well face a situation where, due to internal or external factors, it becomes very difficult, or near to impossible, to maintain the functioning of key business processes. In these situations, organisations should have determined what their minimal viable business is and the dependencies required – including the people, premises, technology and third party aspects.

A robust crisis management plan facilitates strategic decision making during a crisis such as COVID-19. Think about protecting people, protecting premises from contamination and protecting supply chains and other strategic factors. Has the board:

- Conducted a business impact assessment (BIA) process within the last 2 months?
- Ensured that the important business services that must be kept running have been identified along with the key dependencies - e.g. people, premises, IT, supply chain, etc.)?
- Ensured that the business continuity plan addresses the impact on systems and technology including the capacity of any remote working arrangements?
- Considered the ability of your critical suppliers' to support the company. Are there alternative arrangements in place should any critical suppliers be unable to deliver?
- Ensured the crisis management plan addresses mass sickness, caring responsibilities, bereavement, transport disruption, and other disruptions?
- Approved a communications strategy that provides the workforce with day to day hygiene advice? Has the crisis communications process been tested recently to ensure contact data is up to date and staff know how to respond?

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