

CORONAVIRUS (COVID-19) BUSINESS IMPACT AND RISK RESPONSE GUIDE

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ABOUT THIS GUIDE

This document provides general risk response guidance for companies deploying business continuity planning (BCP) measures and suggestions on how to maintain business agility to mitigate the impact of the Coronavirus COVID-19 outbreak.

We understand that a single set of procedures or responses might not fit all organisations or each company's individual situation. We recommend that you contact your business advisers for specific advice.

For more useful documents please visit www.bdo.co.uk/covid-19

INTRODUCTION

The World Health Organisation (WHO) declared the outbreak of COVID-19 on 11 March 2020 and the disease has now spread across the world.

COVID-19 is a new virus. The lack of immunity in the population and the absence of an effective vaccine mean that COVID-19 has affected huge numbers of people. In the UK, as at 8 April, nearly 55,000 people have tested positive for the virus but the whole population has also faced 'social distancing' measures.

The rapid outbreak of the virus has presented businesses with a significant challenge. Many businesses are having to test their preparedness in real time as they evaluate the impact COVID-19 is having on their operations, supply chain and employee well-being. Some businesses are finding it difficult to meet their contractual obligations despite their best intentions.

Your business may be facing similarly difficult questions in terms of how to respond to the consequences of government restrictions and guidance. This includes preparing for and managing staffing issues, complying with contracts and managing business partners who are unable to deliver.

By developing, implementing and maintaining a viable business continuity management (BCM) programme, organisations can effectively maintain or restore business critical functions and processes. More importantly, they can protect their most important assets: people, information, cash flow and reputation.

Organisations with a BCM programme should review it urgently and ensure plans are up to date and reflect the specific risks associated with a pandemic. Actions and plans will need to be continuously monitored and updated as the situation develops.

It is not clear how long the outbreak will last. We recommend that companies carry out a thorough assessment of the risks and potential impact associated with COVID-19 and implement both long and short term responses to mitigate any business disruption.



PEOPLE AND LEADERSHIP

PEOPLE

Business leaders in the UK are doing their best to support their employees while also focusing on the viability of their businesses. This crisis is putting an enormous strain on people; psychological impact of having to self-isolate, the stress of income loss, the challenge for parents managing work and home schooling, and the pressure on business owners/leaders are under to maintain their businesses and treat employees fairly.

While the situation is changing rapidly, there are a number of actions business owners can consider.

WHAT YOU SHOULD DO

- ▶ It is important for organisations to recognise the significant mental health strain a pandemic can have on their employees. Ensure that you are connecting with employees through many different channels and checking they have access to the support they need. Specific actions might include a buddy system, an Employee Assistance Program, regular contact with their team
- ▶ Consider business critical teams, such as payroll and IT, and whether working in separate locations is possible so that if one team is quarantined the other can continue to work
- ▶ Consider the options you have to manage personnel costs. These might include the use of leave, use of furlough programmes, sabbaticals and requesting employees drop to part-time. Understand the implications of each option. Take legal advice to know which are most appropriate for your business and use this knowledge in your scenario planning so you are prepared to enact them should it be required.

LEADERSHIP

In these situations visible leadership is key to ensuring the business is able to continue operating through times of ambiguity. Given leaders can no longer be visible in the ways you would normally do so, pivoting to ensure you are thinking about how to get messages out to your teams will be critical.

WHAT YOU SHOULD DO

- ▶ Think about how your response as an organisation aligns to your purpose and values. How you treat employees will have a significant impact on how genuine your organisation's values appear to your employees in the future
- ▶ Consider the people/capabilities that are critical for the long term success of your organisation. Make sure you are not making decisions that undermine your ability to retain this talent
- ▶ Ensure you are communicating to employees regularly through different mediums. This could include web meetings, emails, videos and any other dynamic communication channels suitable for your business
- ▶ Give employees opportunities to provide feedback - this could be a regular poll or survey or a specific email address they can contact
- ▶ Where possible, connect with people personally. Make time to call, or ask that your managers are doing this to check in with employees. This will give you an idea of what is happening in the organisation, ensure people feel connected and heard and help you to plan your communications effectively
- ▶ Provide regular updates to your management team so that they are equipped to answer the questions of their direct reports and feel that they can also 'step up'
- ▶ Recognise that employees will be particularly stressed about their jobs or impacts on personal risk if they are still required to work on site. Ensure you are honest and try to remove many 'unknowns' as possible in your communications
- ▶ Provide FAQ (Frequently Asked Question) documents that employees and managers can refer to as situations arise. These should be legally reviewed and cover a range of issues that will impact individuals personally. These should be updated with the questions that are being asked through your regular communications channels.



IMPACT AND RISK RESPONSE



There are a number of areas of a business that may be impacted by the COVID-19 outbreak. For each area, you will find guidance on appropriate actions to mitigate the impact and manage associated risks.



IMPACT ON VIABILITY



IMPACT ON CONTRACT COMPLIANCE



IMPACT ON SUPPLY CHAIN



IMPACT ON HEALTH AND SAFETY



IMPACT ON TECHNOLOGY



IMPACT ON FINANCE & ACCOUNTING

IMPACT ON VIABILITY

COVID-19 is already having a substantial impact on businesses. For instance, companies in the hospitality and retail industries are seeing a sharp decline in the number of customers as people minimise their movement and avoid international travel. Other organisations are being forced to temporarily cease operations or operate below capacity due to the impact on their workforce and suppliers.

Factors such as falling revenue, reduced financial liquidity and the operations of key business partners will all affect the sustainability of a business. This is a good time for businesses to review the KPIs they use for sustainability and whether these are the right ones both today and in the long term.



RISK RESPONSE

Because it is impossible to assess how long the pandemic will last, cash is king. The critical question is whether a company's liquidity position can be maintained in order to buy time for the company to recover.

We recommend that management teams establish a task force to monitor the impact on the business and report to the board on the KPIs for critical business units. Reporting should be regular and timely to enable the board to make the right strategic decisions.

Companies may also want to consider the following actions:

- ▶ Conduct a thorough risk assessment of business operations, taking a holistic approach across the globe, to assess the level of possible interruption and formulate measures to mitigate potential impacts
- ▶ Review the pace of expenditure in relation to the company's expansion plans and existing development projects (if any) and slow down the cash burn rate
- ▶ Review cash flow position including planning for any extra-ordinary cash flows (loans, repatriations) that may be required. Treasury, legal and tax input will be required
- ▶ Re-prioritise the allocation of resources to unaffected business lines
- ▶ Explore and identify business transformation opportunities and models to reduce over-reliance on existing business segments
- ▶ Identify measures for controlling budgets and making cost savings such as outsourcing certain business processes in a cost-effective way
- ▶ Explore opportunities for collaboration with new strategic business partners for new market development and to meet customers' needs
- ▶ Identify alternative solutions if forced to suspend operations at the business premises.



IMPACT AND RISK RESPONSE

IMPACT ON CONTRACT COMPLIANCE

Companies need to understand how COVID-19 will impact performance across their customer and supplier contract portfolios. The latest International Association for Contract & Commercial Management (IACCM) survey issued 19 March shows that 59% of organisations are experiencing moderate or severe disruption to their supply chain and their capacity to deliver on their customer contracts. This presents an immediate business continuity issue but also prompts careful consideration of how best to preserve third party relationships.



RISK RESPONSE

The Customer contract management function must coordinate with supply chain managers to understand the issues and vulnerabilities across the value chain. Disputes are likely to increase, so it is important to establish your contractual position. However, you should also seek to collaborate and negotiate with customers and suppliers alike. The aim must be to deliver what is possible, preserve the value chain and strengthen rather than harm key relationships.

We would advise taking the following steps as a priority:

- ▶ Know your exposure and highlight pertinent T&Cs across your portfolio
 - Identify your critical customer delivery obligations
 - Map these to your supplier contracts and highlight obligations at risk
 - Establish force majeure clauses/frustration along with the likelihood and impact of claims
 - Review mechanisms to delay, vary or terminate contracts and assess any associated costs
- ▶ Open collaborative communication lines with your third parties
 - Understand how their business is being affected and stay connected
 - Determine how your customers' need for your goods/services has and will change
 - In parallel, closely monitor what key suppliers can deliver
 - Communicate potential issues early across the value chain
 - Work to identify the 'art of the possible' rather than jump to legal dispute
- ▶ Prepare for emergency negotiations
 - Establish your negotiating strategy – who, how and on what basis? Prepare for virtual negotiations and avoid negotiation-by-email except for documenting outcomes
 - Identify likely requirements and commercial position of your third parties
 - Establish your commercial position. What can you deliver, what are the cost drivers and how would this impact financial performance overall?
 - What impact will force majeure/frustration, delay, variation or termination/exit have on your business?
 - Agree red lines internally, align customer sales and procurement
 - Prepare for adaptive contracting, temporary Emergency Performance Indicators and adopt collaborative, flexible principles of engagement
- ▶ Tailor ongoing contract management approach
 - Capture variances to contracts and establish MI/monitoring requirements
 - Ramp-up ongoing communications with third parties
 - Strengthen alignment between customer and supplier management functions
 - Enhance visibility over financial/commercial performance of contracts.

IMPACT ON SUPPLY CHAIN

Governments around the world have implemented a range of measures to combat the pandemic including closure of borders, locking down the population and encouraging the workers to work from home where possible. This is disrupting supply chains and affecting the ability to move raw materials, components and finished goods to where they need to be.

The strain placed on the communications infrastructure and the limit on the movement of people is creating challenges to effectively monitor and manage supply chain activity.

Demand for goods is increasing whilst the ability to satisfy that demand is reducing.

The current situation will not last forever. However, it is important to understand the impacts on your business in order to adapt your supply chain to increase your resilience.

It is worth noting that there is a constant tension between supply chain resilience and efficiency. Resilience has an upfront financial cost but offers longer term brand security. Efficiency reduces costs but, if it at the expense of resilience, can represent a potential risk to brand and can lead to larger follow on costs in the event of major disruptions.



RISK RESPONSE

Resolving a disruption costs time and money and a quick resolution is key so you need a clear understanding of your situation. Monitoring and early warnings are key to minimising the costs of any disruption.

We would advise taking the following steps:

- ▶ Understand in detail the outputs of the business and the key drivers for success such as revenue, brand and customer base
- ▶ Identify which elements of your business are critical to your output. This could be a critical component from a single supplier, a shared component across numerous lines or a key individual
- ▶ Have detailed knowledge of your Tier 1 suppliers; know what they are contractually obliged to provide; the delivery channels to you; the risks they are exposed to; the geographic exposure of their own supply chains
- ▶ Understand the geography of your supply chains; monitor relevant areas/countries; develop response plans and trigger points to disruption in those areas proportionate to the assessed impact to the business
- ▶ Identify your reliance on single suppliers and any suppliers that are wholly reliant on your business; develop alternative suppliers and understand how quickly they could be activated
- ▶ Assess if suppliers have documented plans for business unit continuity and information technology disaster recovery. Work with them to ensure they are effective and compatible with your own
- ▶ Assess your reliance on key staff; this may include single points of failure (staff or systems) and the absence of a large number of critical staff over an extended period
- ▶ Understand the incoterms, duty, financial and tax implications of any alternative supply chains including customs, VAT and transfer pricing
- ▶ When activating alternative suppliers in different jurisdiction understand the trading context, import/export requirements and rule of origin
- ▶ Estimate how long you could operate without key suppliers, key systems or key people.



IMPACT AND RISK RESPONSE

IMPACT ON HEALTH AND SAFETY

COVID-19 is an infectious disease. Bringing employees together in the workplace may put them at increased risk of exposure to the virus. Companies are trying to strike a balance between maintaining productivity and efficiency and providing a safe working environment for their employees.

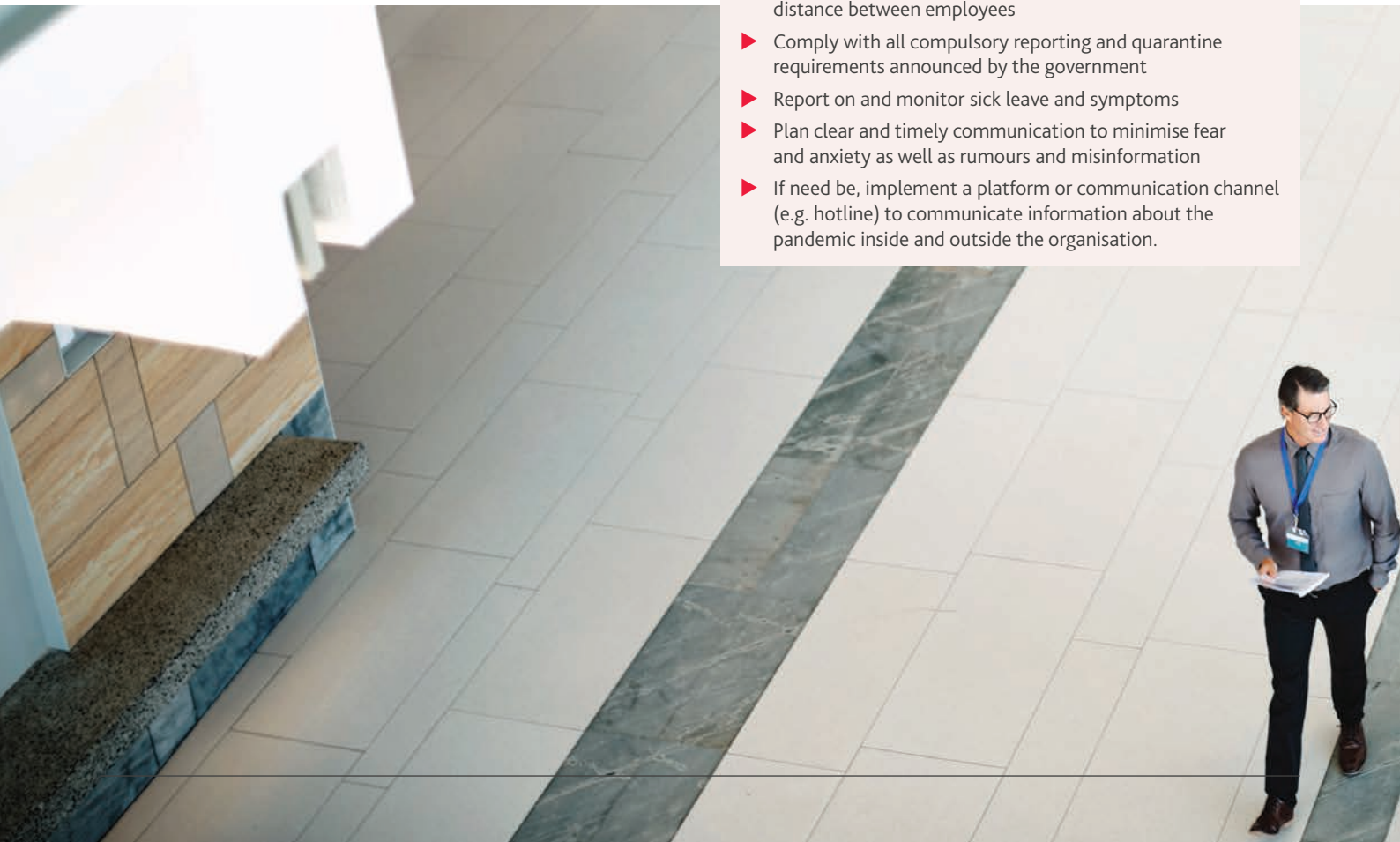
The early adoption of adequate preventative measures and maintaining an effective communicable illness policy can help ensure a safe environment for employees, customers and suppliers.



RISK RESPONSE

To protect employee and customer safety while minimising adverse impacts on the business, you may want to consider the following actions:

- ▶ Disseminate information on precautions to stop the spread of the virus
- ▶ Remind employees of the importance of following personal hygiene directives in the workplace
- ▶ Provide sufficient and accessible infection control supplies such as hand sanitiser
- ▶ Identify who will oversee a crisis management plan and local employees at operational locations, both domestic and international
- ▶ Keep up to date records of travel and potential exposure to the source of the coronavirus
- ▶ Review and update home office working policies and capabilities
- ▶ Adjust seating arrangements to maintain a safe distance between employees
- ▶ Comply with all compulsory reporting and quarantine requirements announced by the government
- ▶ Report on and monitor sick leave and symptoms
- ▶ Plan clear and timely communication to minimise fear and anxiety as well as rumours and misinformation
- ▶ If need be, implement a platform or communication channel (e.g. hotline) to communicate information about the pandemic inside and outside the organisation.



IMPACT ON TECHNOLOGY

Many companies have activated contingency and business continuity measures that encourage or force employees to work from home and connect to the company's networks remotely. At the same time, smartphones and instant messaging applications allow employees to communicate directly with colleagues, customers and vendors.



RISK RESPONSE

In general, it is important to ensure that network connections are secure and mitigate the data protection risk associated with communicating through mobile applications. Companies may consider the following responses, among others:

- ▶ Adopt multi-factor authentication for access to the company network
- ▶ Review communications and information technology infrastructures to ensure they are able to support remote working and remote customer access
- ▶ Enhance alerts and user awareness of cyber-attacks
- ▶ Monitor the use of unauthorised computers and their access to the network especially for companies with a Bring Your Own Device policy
- ▶ Review the data backup policy and the frequency and adequacy of backup practices
- ▶ Review the appropriateness of using social media and instant messaging applications for business purposes
- ▶ Minimise or prohibit the transfer of confidential and business-related files over social media applications
- ▶ Ensure at least two relevant key employees are involved in over instant messaging communications at in order to avoid loss of correspondence for future reference.



IMPACT AND RISK RESPONSE

IMPACT ON FINANCE & ACCOUNTING

If your finance function is reliant on a key individual or team to run your back office, then you should take care to scenario plan should this resource become unavailable through illness or quarantine. It is even more important than to have access to key management information in order to inform business critical decisions.

There are a range of options available to businesses to mitigate against the risk of their finance function becoming non-operational including some form of outsourcing.



RISK RESPONSE

We recommend that companies conduct a thorough analysis of systems and processes with a view to identifying pain points that might affect the performance of the finance function.

- ▶ Businesses should look to optimise the use of cloud-based technology – enabling teams to work seamlessly and if needed, remotely
- ▶ If there is a risk around key staff being unable to work due to illness or self-isolation, then the company should explore partial or full outsourcing of their back office finance and accounting actions such as management accounts, production of financial statements, bookkeeping and/or payroll.



STEP PLAN FOR BUSINESSES IMPACTED BY COVID-19

The unprecedented COVID-19 crisis means healthy businesses are experiencing significant reductions to revenue while overhead expenses have remained fixed. This is leading to a cash flow crisis and even insolvency concerns.

If your business is in this situation, an immediate and robust business rescue plan is needed. This will give you the best chance of riding out the crisis and ensuring long term viability. However, hard decisions need to be made and made quickly. Being proactive is critical.

This crisis will pass and we hope economic activity to return quickly once it does. In the meantime, businesses need to ensure they come out the other side. We recommend clients facing difficulties follow the steps outlined below to ensure best prospects for steering through this business crisis.



STEP 1 - Build your 'new world' cash flow forecast

Build a 12 month cash flow forecast - 3 months (weekly) and then 9 months (monthly) taking into account your 'new world' – build in revenue impacts but retain committed expenses as they are for now. You need to understand if you are cash flow positive. If not, establish your cash burn and your runway before existing reserves are exhausted.



STEP 2 - If you have a cash deficiency now or coming up – identify measures to reduce costs or increase revenue

Identify discretionary or non business critical expenditure to eliminate immediately. Identify overheads to defer, adjust or remove such as rent, equipment leases, employee costs. Identify capital outflows to defer or adjust such as dividends, bank loan repayments, capex.



STEP 3 - Engage with key stakeholders regarding potential standstill arrangements

It is critical to engage with key creditors such as landlords and suppliers, explain your situation and attempt to negotiate stand still arrangements where possible. An independent report from your accountant or financial advisor on your financial position will bring credibility and assist negotiations.



STEP 4 - Conduct due diligence on other capital sources

Consider collateral and equity available to support finance. Engage with your existing financiers to bring them into the "tent". Consider equity sources. For instance do existing shareholders have capacity? Are there logical buyers of your equity you can approach? Do you have assets that are non-core to realise in short time to generate cash?



STEP 5 - Consider government support available

Identify and apply for the measures in the UK government's stimulus packages and state government support programmes that are available to your business. Assess how they impact cash flow.



STEP 6 - Develop a 90 day 'business rescue' plan

Develop a 90 day action plan incorporating steps above. Including:

- ▶ Implementation of the cash flow measures identified (i.e. apply to financier for funds, negotiate with creditors for standstills.
- ▶ Engagement with key stakeholders such as employees, financiers, landlords, customers and suppliers and remaining creditors to ensure they understand your position to continue business.



STEP 7 - Update your cash flow forecast

Recast your cash flow forecast in-line with your 90 day plan. Forecast for 90 days initially on weekly basis – be sure you can remain cash flow positive. When you are confident you can manage through the next 90 days – extend your forecast for a further 9 months to determine how long your 'runway' is now. Understand the point where you exhaust cash reserves and which you cannot go past.




STEP 8 - Implement the plan and monitor regularly

Start engaging with relevant stakeholders to put your plan into action. Monitor progress regularly, at least weekly to begin with and keep updating the cash flow forecast weekly to monitor the length of your runway. Be conscious of when your cash reserves are exhausted so you do not continue to incur expenditure past that point.

SOURCES

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