

NABAVNIK.SI

E.ČASOPIS ZDRUŽENJA NABAVNIKOV SLOVENIJE

IZREDNA ŠTEVILKA 1/2020

Vsebina

- **UVODNIK** — DELOITTE IN ZNS
- **DELOITTE:** CRISIS MANAGEMENT – DELOITTE RAPID RESPONSE TEAM
- **DELOITTE:** COVID-19 MANAGING CASH FLOW DURING A PERIOD OF CRISIS
- **DELOITTE:** COVID-19 PRACTICAL WORKFORCE STRATEGIES THAT PUT YOUR PEOPLE FIRST

UVODNIK

Spoštovane nabavnice, nabavniki, člani Združenja nabavnikov Slovenije,

Živimo drugi teden po razglasitvi epidemije koronavirusa v Sloveniji, ko se še včeraj nemogoče danes udejanja. Prekinjene dobavne verige, zaprtje proizvodnih podjetij, omejitve gibanja ljudi in predvsem bodoče finančne posledice daljšega trajanja takega stanja, so strašljive.

Predvidevanja izpred 14 dni, objavljena v prvi letošnji številki Nabavnik.si, da utegne korona virus pomembno vplivati na poslovanje slovenskih podjetij, se uresničujejo. Z zaprtjem nenujnih trgovskih in storitvenih dejavnosti, omejenim delovanjem gospodarstva zaradi varnostnih omejitev, pomanjkanja materiala in tudi že manjšega povpraševanja, se pozornost podjetij iz ocen neposrednega vpliva na dobavne verige, seli na oceno vpliva na celotno poslovanje.

Prioriteta v novi realnosti je prav gotovo centraliziranje sprejemanja odločitev na top management, ki mora prevzeti odgovornost. V trenutni situaciji je nujno zagotoviti hitrost odločanja in informiranja.

Sledi denarni tok in obladovanje le tega. Potrebno je zagotoviti zelo podroben pristop in dnevno kontrolo ter vsaj 13 tedensko napoved, ki se naj dnevno dopolnjuje. Dodatno je potrebno preveriti možnosti dodatnega financiranja in spodbud države, ki se dnevno spreminjajo.

Ključna je komunikacija znotraj in izven podjetij, obvladovanje sporočil in zmanjšanje možnosti napačnih interpretacij v kritičnih razmerah.

V ZNS v pomoč pri izvajanju aktivnosti znotraj podjetij nadaljujemo prakso objave prezentacij (zaradi ažurnosti v angleškem jeziku, za kar se vam opravičujemo!), ki nam jih je odstopilo podjetje Deloitte d.o.o. in lahko služi kot vodilo in pomoč pri sprejemanju vsakdanjih odločitev.

Odločitve v pogojih nenehnih, skoraj dnevnih sprememb zakonodaje in ukrepov države, niso lahke. Zato predlagamo, da preberete prispevke in jih koristno uporabite pri stabilizaciji poslovanja v teh kriznih razmerah.

OSTANITE ZDRAVI!

Srečko Bukovec

Predsednik strokovnega sveta ZNS

Lovro Verhovšek

Deloitte svetovanje d.o.o.

Crisis management – Deloitte rapid response team

Deloitte.



In the crucible of crisis, resilient leaders are defined first by who they are. We can help you to ensure all elements are covered and aligned around same direction.

Five qualities of a leader that distinguish between surviving and thriving amidst crisis

MISSION FIRST

Stabilize today, and harness both the energy and the constraints of volatile conditions to spark innovation tomorrow.

- How are you turning the COVID-19 crisis into an opportunity to emerge stronger?

SPEED OVER ELEGANCE

Decisive action – with courage – is often more essential than getting it perfect.

- How are you empowering your teams to take courageous action in a volatile environment?

DESIGN FROM THE HEART

Seek and reinforce solutions that align to your purpose, your societal obligations, and serve the heart of the organization.

- How are you demonstrating to your employees, customers, communities and ecosystem that you have their best interests at heart?

OWN YOUR NARRATIVE

Paint a picture of a compelling future and path forward that your stakeholders can support and rally around

- How are you proactively filling the information vacuum to combat the spread of misinformation and rumor?

EMBRACE THE LONG VIEW

Stay focused on what's on the horizon to instill confidence and steadiness across your ecosystem

- How are you anticipating and responding to the new business models likely to emerge post COVID-19?

Global economy is facing unprecedented challenges
COVID-19 has resulted in unexpected and disruptive changes in global economy with all industries and sectors affected, Deloitte has the right people and tools to help you.

Industries impact overview as today

Short term: Impact in Q1 2020

Recovery Scenario: Impact predominantly in H1 2020, recovery through H2 2020 (assuming normalisation in rest of world)

Priority Impact Sectors	Scenarios		Influencing Factors				
	Short term	Recovery scenario	Reduced/Restricted Travel	Production Suspended	Supply Chain Interruption	Reduced Consumption	Working Capital Pressure
Automotive	H	M	X	X	X	X	X
Consumer Goods (Clothing & Essentials)	M	M		X	X	X	
Consumer Goods (Luxury Goods)	H	M	X			X	X
Transportation and Hospitality	H	M	X	X	X	X	X
Technology (Hardware)	H	M	X	X	X	X	X
Real Estate	H	N	X	X		X	X
Oil & Gas	H	M	X	X	X	X	
Life Sciences	H	O	X	X	X	X	X

H

M

N

O

High Impact

Significant disruption/financial impact

Neutral or Low impact

High demand/opportunity



Why Deloitte?

- **Quick response** to the current situation is imperative for all companies facing crisis.
- Deloitte experts have experience in implementing **quality crisis management measures** in companies that can at the same time present opportunities for the company in a crisis environment.
- The **Deloitte Crisis Management best-practice and methodology** has three distinct phases: Preparedness, Crisis Response and Recovery.
- Since the exponential spread of the virus infection has started in the Republic of Slovenia **your company is currently in the phase of "Crisis Response", i.e. the necessary response to the current alarm situation.**
- At this point, **measures need to be taken to enable your company to sustainably operate in a crisis and start planning for recovery.**

Crisis management – Deloitte rapid response team








Deloitte has developed robust and adaptive approach of 7 steps to take in order to maintain company operations and minimize impact of the crisis.



Crisis management – Deloitte rapid response team

1. Centralize decision making – It is of critical importance to establish command center with full responsibilities and accountability for the whole firm.

Establish command center

-  Institute crisis and resilience planning
-  Nominate task force leadership team (and back-up)
-  Activate and empower COVID-19 Command Centre
-  Itemize organizational vulnerabilities by impact and value
-  Develop and launch Communications Plan and Strategy
-  Activate and communicate Pandemic Preparedness strategy
-  Scenario plan to determine decisions to make today or defer



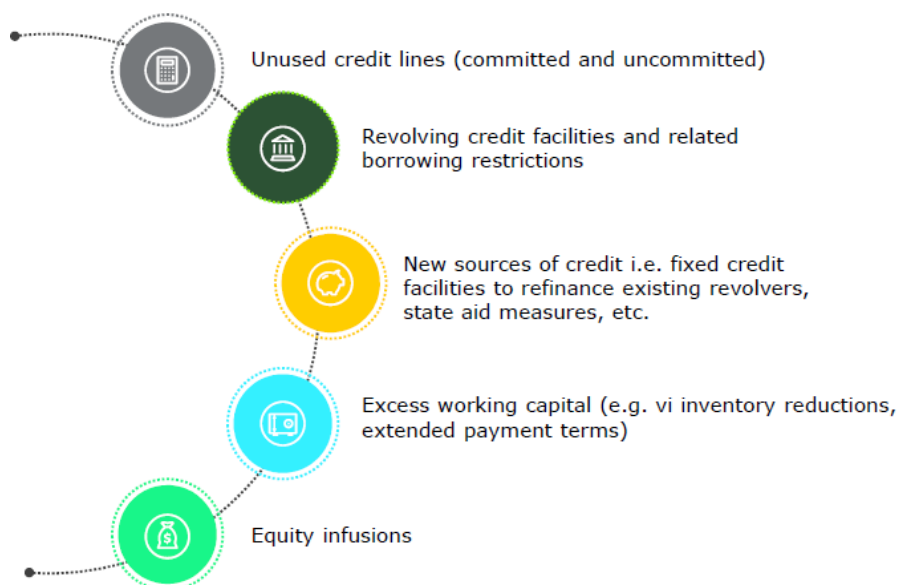
Most organizations in the affected regions have launched some form of **crisis response unit**, either as a result of a pre-established crisis response plan or on an ad hoc basis, in order to gain an enterprise wide understanding of the impact and coordinate their efforts across functions.

Sub teams have been created to **manage specific work streams** such as communications, legal, finance, and operations. They are operating with a clear mandate provided by executive management and have been empowered to make swift decisions in the areas that follow.

Such a command center doesn't have to be entirely on the defensive: It can also help to break traditional orthodoxies. Airlines that are canceling flights, for example, are making the downtime more productive by prioritizing scheduled maintenance for grounded aircraft—and reallocating larger planes to space-constrained routes—enabling them to make more efficient use of resources.

Crisis management – Deloitte rapid response team

2. Catalogue the sources of available cash – Cash-flow will be affected in first 1-2 months of crisis, without control and measures liquidity issues will come sooner.



Crisis management – Deloitte rapid response team

3. Articulate economic scenarios – With better view on the horizon of 3-6 months, clear actions are prepared, allowing you to focus on milestone and difficult measures.

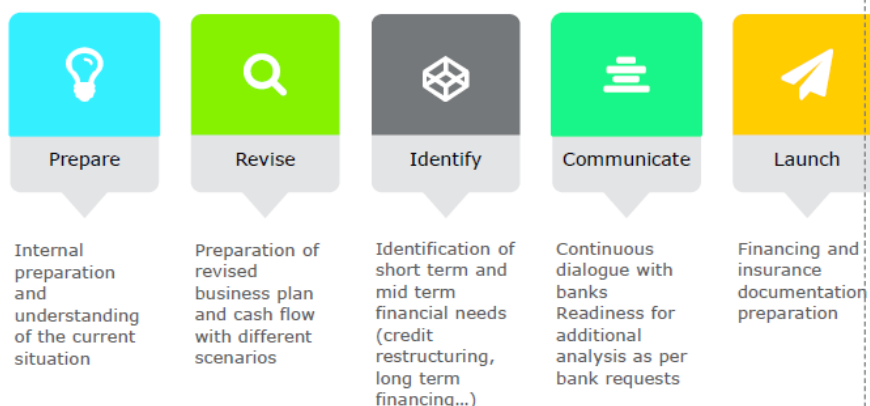
Bora	Storm	Tornado
Best case scenario	Mid-worse case scenario	Worst case scenario
<ul style="list-style-type: none"> Weather will stop virus spreading in Europe This still means the economic and business impact runs through until at least autumn ~ 20% revenue decrease for some sectors 	<ul style="list-style-type: none"> Virus remains chronic and only dissipates in autumn Economic recovery starts beginning of 2021 +50% revenue decrease for many sectors Hotels stay closed for 2020 	<ul style="list-style-type: none"> 70% infection rate in Europe, no vaccine for 18 months with return of the virus in October +70% revenue decrease for almost all sectors

Selection of measures is based on level of Crisis

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> Missing scale effects in purchasing Blocked supply chain or DCs Need to reduce temp. labor costs Need to cut down flexible costs Need for salary reductions | <ul style="list-style-type: none"> Need to stop important R&D projects Blocked regions, borders, absenteeism and sick leaves crisis Need for production stops Need for staff lay-offs | <ul style="list-style-type: none"> Fix costs can not be covered Strongly negative cash flow Need for sell-out of assets and financial restructuring |
|---|---|--|

Crisis management – Deloitte rapid response team

4. Model the projected financial impact – Thinking is one thing, have clear fact based plans and identified possible impact scale is a key for smart decisions.

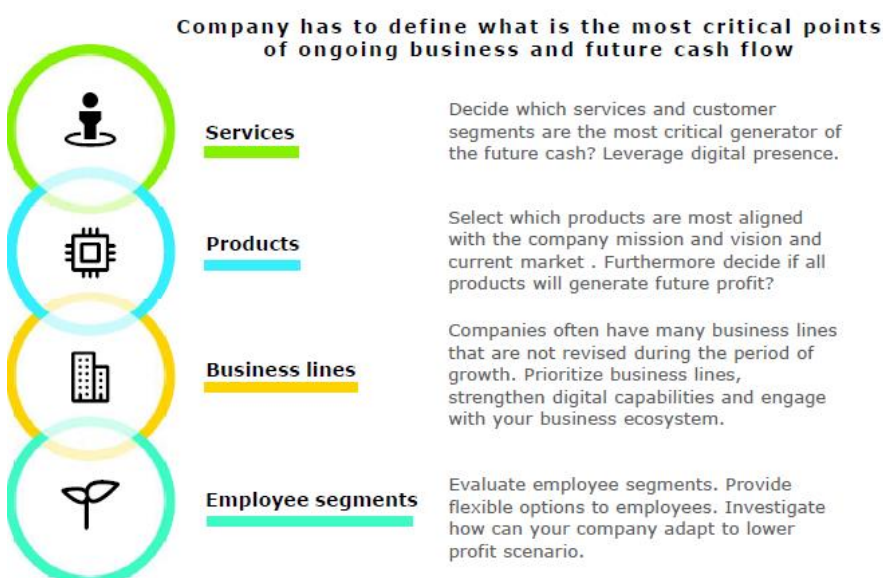


In almost every financial crisis, preservation of cash and liquidity is a top priority. When challenges impact all industries simultaneously, even the most financially stable can struggle.

- **Internal preparation:** (i) in-depth understanding and management in new situation; (ii) optimization of „opex & capex“ investments and working capital; (iii) review of financial agreements (key elements including EoD, force majeure clause, review of collaterals and other insurance instruments, financial covenants)
- Preparing the **revised business plan and cash flow** with different crisis scenarios
- **Identification** of short term (breach of financial covenants, need for RCF) vs. mid term financial needs (loan restructuring, new long term financing/mezzanine?)
- **Timely communication** with banks with clear demands and readiness to cooperate (when asking for waiver, refinancing and/or potential new loans, RCF)
- Being informed and ready to negotiate about **possible bank demands:** projections of cash flow on monthly basis, additional collaterals and insurance instruments, new financial covenants
- If plans do not have clear arguments or high risks of business disruption are recognized, financial institutions could ask for third party **independent business review**
- Preparation of new documentation on financing and insurance instruments with additional monitoring related to fulfillment of revised business plan and cash flow which are part of new agreements.

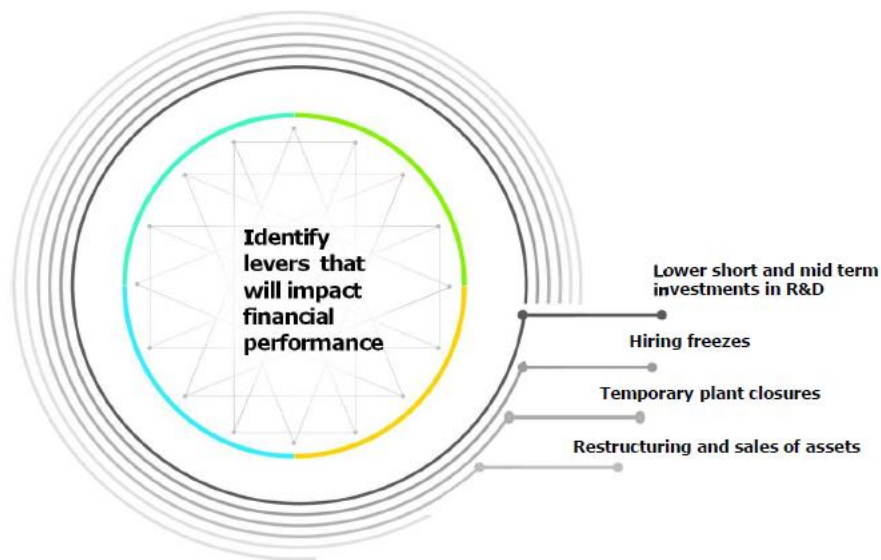
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5. Define the non-negotiables – Quick critical actions are important, but with clear vision and rationale behind it.



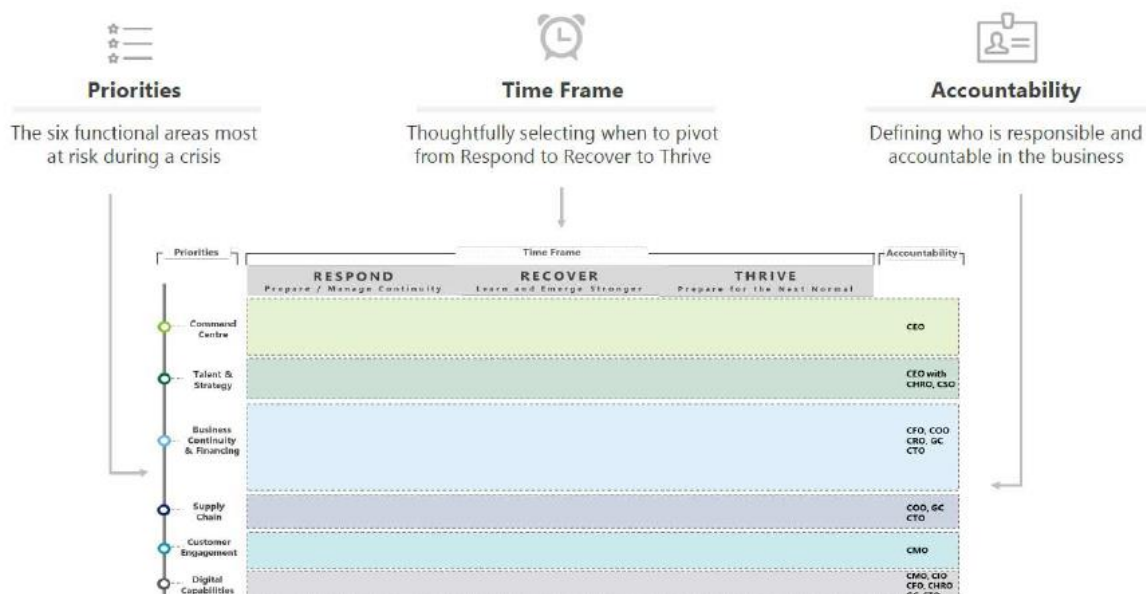
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6. Identify the available levers – We support companies to define their levers in 3 main areas: response, recover and thrive to remain focus towards the future.



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6. Identify the available levers – Resilient leaders are defined by what they do along three dimensions.



Crisis management – Deloitte rapid response team

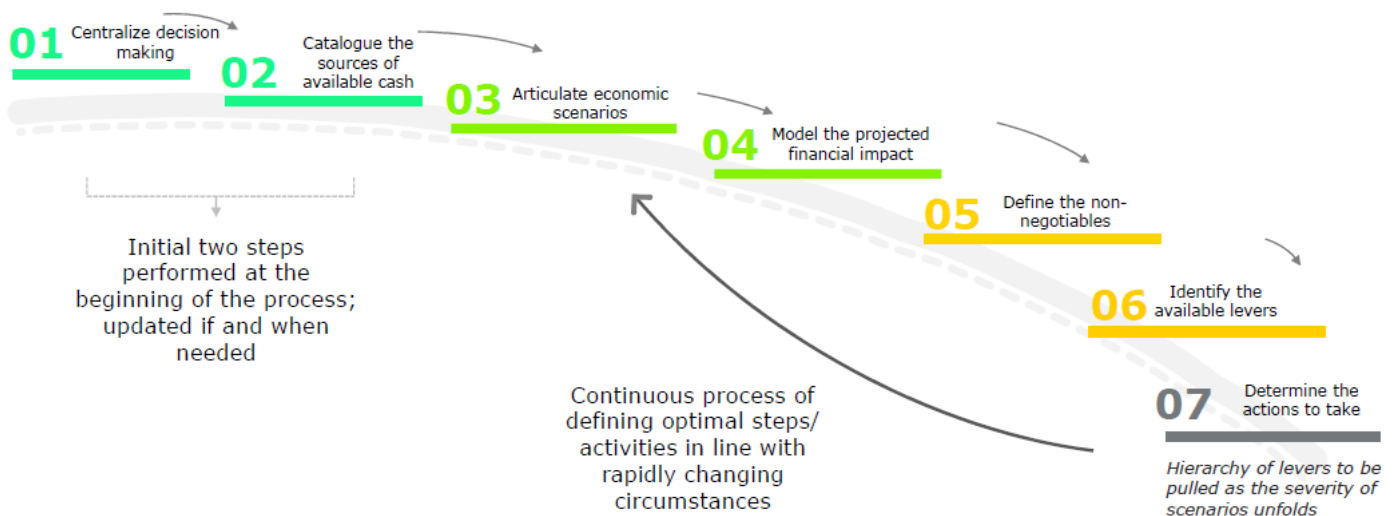
6. Identify the available levers – Resilient leaders in a crisis take specific actions across these three dimensions like this example from our Crisis mgmt. project.

Priorities	Time Frame			Accountability
	RESPOND Prepare / Manage Continuity	RECOVER Learn and Emerge Stronger	THRIVE Prepare for the Next Normal	Example
Command Centre	<ul style="list-style-type: none"> Institute crisis and resilience planning Nominate task force leadership team (and back-up) Activate and empower COVID-19 Command Centre Itemize organizational vulnerabilities by impact and value Develop and launch Communications Plan and Strategy Activate and communicate Pandemic Preparedness strategy Scenario plan to determine decisions to make today or defer 	<ul style="list-style-type: none"> Activate recovery contingency plan if required Reflect on lessons learned and rebuild with resilience Formalize and update crisis and resilience playbook Embed relevant Command Centre protocols into BAU 	<ul style="list-style-type: none"> Institute crisis and resilience planning as Business As Usual Update crisis playbook to reflect COVID-19 lessons learned Organizational design for resilience and flexibility Regularly refresh vulnerabilities assessment 	CEO
Talent & Strategy	<ul style="list-style-type: none"> Optimize corporate HR policy – leave, travel, global mobility Review employment contracts for potential issues Implement and monitor safe / flexible working arrangements Prioritize strategic choices and investments 	<ul style="list-style-type: none"> Reimagine talent strategy and operating model Adopt 'above-the-bar' regulatory / governance protocols Manage rapid employee return and ramp-up (future state) Execute on strategic growth, partner and M&A ambitions 	<ul style="list-style-type: none"> Rework employment arrangements to reflect next normal Employee education and training in crisis and resilience Consider shape of business models and ecosystems of the future Build scenario thinking / zoning into strategic decision-making 	CEO with CHRO, CSO
Business Continuity & Financing	<ul style="list-style-type: none"> Ensure actions uphold Responsible Business principles Implement cash conservation and recovery actions Evaluate working capital and liquidity requirements Rapid working capital optimization and credit solutions Control discretionary operating costs and capex Negotiate more flexible financing terms with lenders Communicate with other key financial stakeholders Understand impacts on contractual obligations (e.g. loss quantification, force majeure) Gather documentation for contract negotiations and claims Implement cash tax strategies / leverage government incentives 	<ul style="list-style-type: none"> Initiate claims and contract dispute resolution Ramp-up to normalized financial reporting Ensure internal audit resources reallocated based on risk Right size and operating model of support function (e.g. fixed vs variable resources; manpower vs technology) Implement equity raising and low-cost debt refinancing Exit of non-core and under-performing assets 	<ul style="list-style-type: none"> Maintain robust financial forecasts and scenario planning Stress test corporate model and capital structure Build resilience into operations and financing 	CFO, COO, CRO, GC, CTO
Supply Chain	<ul style="list-style-type: none"> Identify supply chain risks and potential disruptions Develop contingency plans for operational disruption Understand demand and supply side shocks and develop inventory strategies to buffer volatility and risk 	<ul style="list-style-type: none"> Establish multi-tier supplier network visibility to risks Collaborate with customers and suppliers to synchronize operations to priorities within constraints Manage inventory and cash flow through agile execution 	<ul style="list-style-type: none"> Establish control towers to predict, sense and prescribe risk responses Restructure supply chain to improve resilience Implement Industry 4.0 and Digital Supply Network (DSN) solutions to improve end-to-end visibility, synchronization, optimization, and agility 	COO, GC, CTO
Customer Engagement	<ul style="list-style-type: none"> Engage with key customers to support business continuity Reinforce loyalty by protecting and rewarding customers Secure commercial and financial support from customers Develop communication strategy with front line employees 	<ul style="list-style-type: none"> Review orders vs commitments and inventory Use advanced technology in customer communications Reset receivables cycle and collections process and KPIs 	<ul style="list-style-type: none"> Establish open communication channels with customers Evaluate capacity / incentives to provide financial support Develop contingency plans for financial disruption Reimagine the operational model to strengthen customer engagement 	CMO
Digital Capabilities	<ul style="list-style-type: none"> Assess and address systems and cyber vulnerabilities Enable data-driven insights and situational awareness Develop real-time sensing / red flag reporting dashboard 	<ul style="list-style-type: none"> Update digital properties to synch with availability Design digitally-enabled flexible work arrangement Optimize e-commerce and customer / channel strategy 	<ul style="list-style-type: none"> Implement digitally-enabled future of work including for business processes and back-office functions Reflect on lesson learned and share best practices 	CMO, CIO, CFO, CHRO, GC, CTO

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7. Determine the actions – Translating all leavers into clear actions plan with clear responsibilities and interconnections will be key success factor for your crisis team.





Overview of the key benefits in Crisis mgmt.

Deloitte's support is focused on **Crisis team support**, use of **best-practices** from our Global knowledge pool, detect **rational cost optimizations**, support **strong mid-term decision making**, and **boost your team capacity** in selected areas.

1.



Cash-flow management, reduction of costs, preparation of negotiations with financial partners

2.



Buying additional time = preventing the worst-case scenario

3.

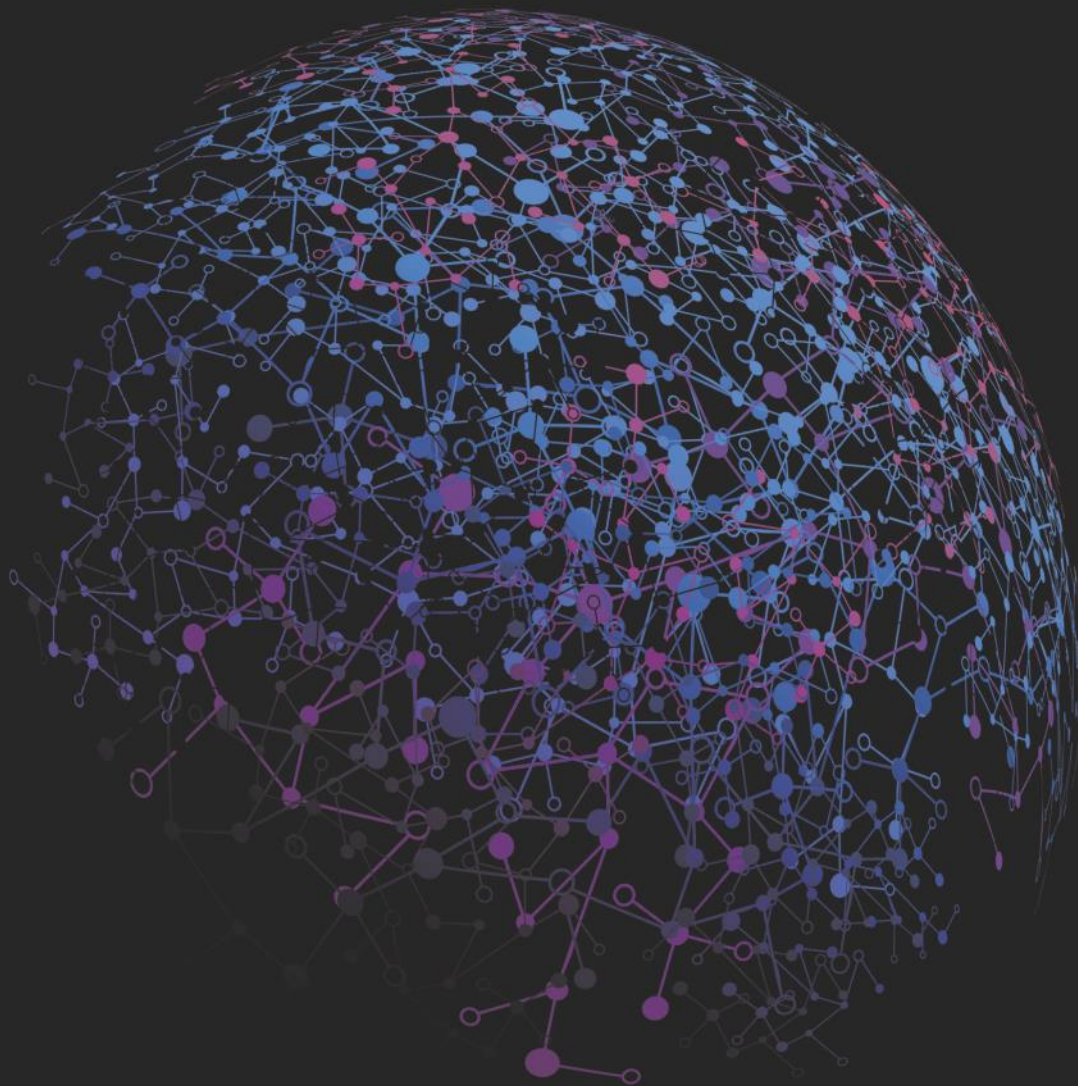


Capacity booster and human capital retention for the recovery phase

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COVID-19


Managing cash flow during a period of crisis

As a typical “black swan” event, COVID-19 took the world by complete surprise. This newly identified coronavirus was first seen in Wuhan, the capital of Hubei province in central China, on December 31, 2019. As we enter March 2020, the virus has infected over 90,000 people, and led to more than 3,000 deaths. More importantly, more than 75 countries are now reporting positive cases of COVID-19 as the virus spreads globally, impacting communities, ecosystems, and supply chains far beyond China.

The focus of most businesses is now on protecting employees, understanding the risks to their business, and managing the supply chain disruptions caused by the efforts to contain the spread of COVID-19. The full impact of this epidemic on businesses and supply chains is still unknown, with the most optimistic forecasts predicting that normalcy in China may return by April,¹ with a full global recovery lagging depending on how other geographies are ultimately affected by the virus. However, one thing is certain: this event will have global economic and financial ramifications that will be felt throughout global supply chains, from raw materials to finished products.

Our recent report, *COVID-19: Managing supply chain risk and disruption*, provided 25 recommendations for companies that have business relationships and supply chain flows to and/or from China and other impacted geographies. One of these recommendations was to focus on cash flow. Supply chain disruptions have cash flow implications across the extended supply chain that can’t be underestimated. This paper will suggest ways organizations can mitigate damages to their business during this volatile event.

¹<https://www.reuters.com/article/us-china-health-doctor-exclusive/exclusive-coronavirus-outbreak-may-be-over-in-china-by-april-says-expert-idUSKBN2050VF>



Companies that will be hit the hardest

A survey jointly conducted by Tsinghua University and Peking University estimates that 85 percent of small and medium sized enterprises (SMEs) in China will run out of cash within three months, and two thirds will run out of money in two months, if the crisis does not abate.² The People's Bank of China has announced it will provide 300 billion yuan (US\$42 billion) in low-cost loans for banks to lend to businesses affected by the virus. Several municipal and provincial governments have also announced measures to help SMEs, with total support estimated in the US\$70 billion range. However, the impact on businesses will extend far beyond China, and will only get worse if the virus continues to spread.

Businesses that are currently struggling for profitability—those with low cash reserves or unstable cash flows—are particularly vulnerable. However, even businesses that appear to be in good financial shape may not be immune, depending on how the situation progresses, and how long it takes for demand and supply chains to return to normal.

Businesses in sectors such as tourism, hospitality, entertainment and air transportation have been particularly hard-hit in the short term. Businesses in consumer goods and retail may also be at higher-than-normal financial risk, especially those with a high exposure to China, and those in seasonal businesses where demand may be lost (as opposed to shifted), such as such perishable consumer goods and seasonal apparel. Even commodity-oriented industries, such as metals and mining or oil and gas, are exposed as global demand shifts and pricing fluctuates.

Responding to the immediate challenge

Given the importance of cash flow in times like this, companies should immediately develop a treasury plan for cash management as part of their overall business risk and continuity plans. In doing so, it is essential to take a full ecosystem and end-to-end supply chain perspective, as the approaches you take to manage cash will have implications for not only your business but also for your customers.

Borrowing from the lessons learned from the SARS outbreak in 2003, the 2008 recession and credit crunch, and the last black swan event to significantly impact global supply chains—the Japanese earthquake of 2011—we offer the following practices and strategies for consideration:

1. Ensure you have a robust framework for managing supply chain risk.

Supply chain management is a complex challenge, and finance-related problems only add to the risk. Do you know if any of your customers are in trouble and might be unable to pay for the goods and services you deliver? If you manufacture a product and want to sell it to someone outside your borders, you typically require a letter of credit from a prime bank that proves the buyer can pay. This letter of credit not only provides a source of ultimate payment, it can also be used to secure inventory financing while the goods are in transit—so it's important to make sure these letters of credit are still reliable. Ensuring you understand the financial risks of your key trading partners, customers, and suppliers is a critical consideration in times like these.

2. Ensure your own financing remains viable.

In these circumstances, don't assume the financing options you previously had available to you will continue to be available. Undertake scenario planning to better understand how much cash you'll need and for how long. Use this opportunity to actively engage with your financing partners to ensure your available lines of credit remain available, and to explore new or additional options should you require them.

3. Focus on the cash-to-cash conversion cycle.

Under normal business conditions, companies primarily focus on the profit and losses—growing the top line while managing the bottom line. Routine back-office

activities such as paying bills and turning receivables into cash are often taken for granted. In the current abnormal business conditions, smart companies are shifting their focus from the income statement to the balance sheet. Of the three elements of supply chain working capital—payables, receivables, and inventory—, supply chain executives have a tendency to focus on inventory. But, in order to minimize working capital requirements during challenging times, it's important to apply a coordinated approach that addresses all three areas.

4. Think like a CFO, across the organization.

As supply chain managers step up to the challenges of disruption and inventory shortages, they generally spend their days thinking about operations and don't pay much attention to finance and treasury issues. More often than not, inventory levels and other critical business parameters are driven by customer service requirements and operational capabilities, not financial constraints. But what if the situation was reversed? What if working capital was the company's primary constraint on inventory, and supply chain managers were given the challenge of making it work? How would that affect your supply chain and inventory practices?

5. Revisit your variable costs.

Reducing your variable costs is often a quicker way to immediately reduce your cash outflows than focusing on your fixed costs. Of course, there are the typical variable cost-reduction levers, such as imposing travel bans and non-essential meeting restrictions (which might already be in place as a way to manage employee safety), imposing hiring freezes, and placing restrictions on discretionary spend like entertainment and training. When labour is a significant cost line in your business, consider avenues that might help reduce spend to avoid getting to a situation where layoffs are required. For example, look for opportunities to reduce contract labour and re-distribute work to your permanent workforce. Encourage employees to take available leave balances to reduce liabilities on the balance sheet. And, if necessary, consider offering voluntary, or even involuntary, leave without pay to preserve cash.

6. Revisit capital investment plans.

With cash flow forecasts in mind, consider what's really necessary for the near term. What capital investments can be postponed until the situation improves? What capital investments should be reconsidered? What capital investments are required to position for the rebound and for creating competitive advantage?

7. Focus on inventory management.

Companies are at risk of experiencing supply chain disruptions due to shortages in raw material and component parts. Inventory safety stock parameters will most likely need to be updated to reflect the increased demand and supply-side volatility, which will have the effect of increasing overall inventory levels, assuming that's possible. At the same time, businesses will be thinking about securing additional inventory, or strategic stock, as a further buffer against the potential impact of a prolonged or much broader supply chain disruption. Also at the same time, from a cash flow perspective, companies may be considering actions to reduce finished goods inventories, especially in perishable products, where waste is an important consideration and markets remain difficult to access.

Balancing the demands for more buffer inventory and managing cash flow may not be as easy as it sounds. Companies that still use simplistic approaches to inventory management might be able to do a quick assessment and find some immediate opportunities to drive down inventory. However, many companies are likely to find that significant inventory cuts have an adverse effect on customer service and production. Sustainable savings will most likely require fundamental improvements in end-to-end supply chain inventory visibility, demand planning, inventory and safety stock policies, production planning and scheduling, lead-time compression, network-wide available-to-promise, and SKU (stock keeping unit) rationalization.

8. Extend payables, intelligently.

One way to preserve working capital is to take longer to pay your suppliers. Some companies may unilaterally decide to delay their payments and force the extension on their suppliers, especially when stuck with inventory they can't deliver into impacted margins. Of course, such an approach is likely to damage your supply relationships. Even worse, it might deprive supply chain partners of the cash they need to maintain their operations, which could

lead to late deliveries and quality problems, never mind the added strain to supply relationships. We recommend working with suppliers to establish an agreement that both of you can live with. There might even be situations where you need to accelerate payables for a critical supplier that is on the brink of failure in order to preserve the integrity of your supply chain and prevent a critical disruption.

9. Manage and expedite receivables.

Companies tend to get lax about receivables when the economy is booming, interest rates are relatively low, and cash flow is not a concern. But, as supply chains are affected and managing cash flow becomes more important, it's worth taking a hard look at how your receivables are being managed. In the point above, we mention the strategy of delaying payments to your suppliers; don't be surprised if your customers are thinking about doing the same thing to you. That's why it's important to improve the rigour of your collection processes. Focus on customer-specific payment performance and identify companies that may be changing their payment practices. Also, get the basics right, such as timely and accurate invoicing. Any errors in your billing process can lead to costly delays in receiving payment.

10. Consider alternate supply chain financing options.

Depending on what your cash flow scenario planning reveals, you may also need to consider tactics to generate faster cash flow from your receivables. Aggressive techniques such as factoring your receivables, although relatively expensive, may be your best option to improve cash flow quickly. You may also consider working with your customers to offer dynamic discounting solutions for those that are able to pay more quickly (e.g., discount terms can be defined in advance, and the customer calculates the appropriate discount based on a defined payment schedule). With this technique, you are essentially paying customers to provide you with short-term financing. But the cost may be substantial: a conventional "2% net 10" early payment discount translates into a 36% APR. However, if government loans or bank credits are not available, this might be one of your only options. There are also a number of other supply chain financing possibilities that can be implemented in the short to medium term, such as collaborating with your key trading partners to optimize cash flow across the extended supply chain.

11. Audit payables and receivables transactions.

Make sure you're paying the right amount for the goods and services you procure and collecting the right amount for goods and services you sell. On the payables side, double-check that you're not overpaying duties and taxes on purchases, especially as alternate international supply locations are used to keep supply chains running. Also, if you have the cash flow to support it, make sure you're taking full advantage of all available discounts. On the receivables side, look for situations where unearned discounts were applied and then aggressively pursue the proper payment. Once the audits have been completed, look for longer-term policy and process improvements that can prevent new problems from cropping up. Consider using robotic process automation for your audits, which will reduce the burden on headcount.

12. Understand your business interruption insurance.

Companies should understand existing business insurance policies and the coverage they have in the event of a significant business disruption. Such insurance generally covers losses arising from disruptions to a business's customers or suppliers. However, the breadth of coverage can vary significantly by insurer policy, industry sector, and geography. In addition, due to the insurance losses from the SARS epidemic, some insurers have included specific exclusions for losses arising from epidemics and pandemics, which you'll need to understand if this is the case in your policy.

13. Consider alternate or non-traditional revenue streams.

If your scenario planning is showing pressure on your continued revenue streams, consider ways you could temporarily or maybe even permanently replace that revenue. For example, if your primary markets are international, how might you pivot to domestic markets (especially if your inventory is perishable)? If you have assets you use to generate revenue, how could you think differently about how those assets are used to generate alternate revenue sources? Not only could this reduce some of your top line pressures, it could also mean not having to reduce your cost lines as significantly (not to mention a potentially more diversified revenue mix in the longer term).

14. Convert fixed to variable costs, where possible.

In times of uncertainty, it's generally a good idea to swap fixed costs for variable costs wherever you can—preserving your core business while increasing your flexibility on the fringes. Selling assets and then leasing them back is one way to raise emergency cash. You might also want to

consider expanding your use of practices such as contract manufacturing, transportation fleet leasing, and third-party warehousing. This is not likely a quick-hit measure for most companies, but may be important to longer-term cash flow management, depending on how long demand and supply chains are disrupted by COVID-19.

15. Think beyond your four walls.

To maximize working capital, you can't only focus on your own operations and inventory levels: you need to think about your entire ecosystem and supply chain. Squeezing inventory out of your operation may not do much good—and could in fact introduce significant risk—if it just shifts the burden to a supplier or customer. The same is true for payables and receivables. It's important to carefully consider the upstream and downstream impact of your actions. High-level financial risk assessments should be conducted on any critical, sole-source suppliers to identify issues before they become problems. In extreme cases, if a critical supplier is at risk, you might even need to buy a stake in the company or acquire the business outright to protect your supply chain and keep your goods and services flowing.

What's next: Recovering and returning to normal business operations

Cash flow management needs to be an integral element of a company's overall COVID-19 risk assessment and action planning in the near term. Even for companies that have not yet been adversely affected, we recommend management teams with concerns about COVID-19 actively evaluate their cash flow requirements, develop appropriate actions under various scenarios, and assess potential risks in and to their customer base and supplier network.

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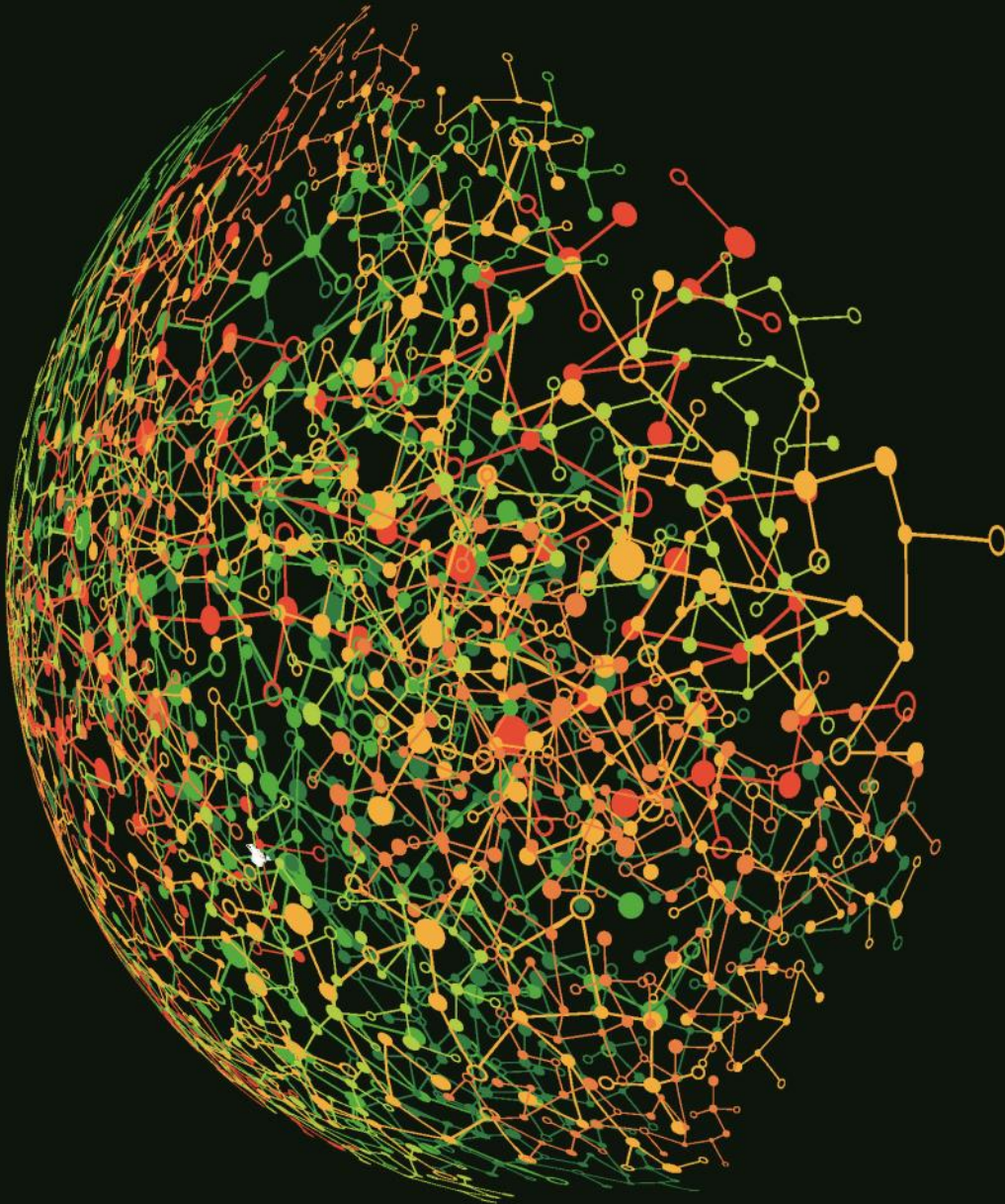
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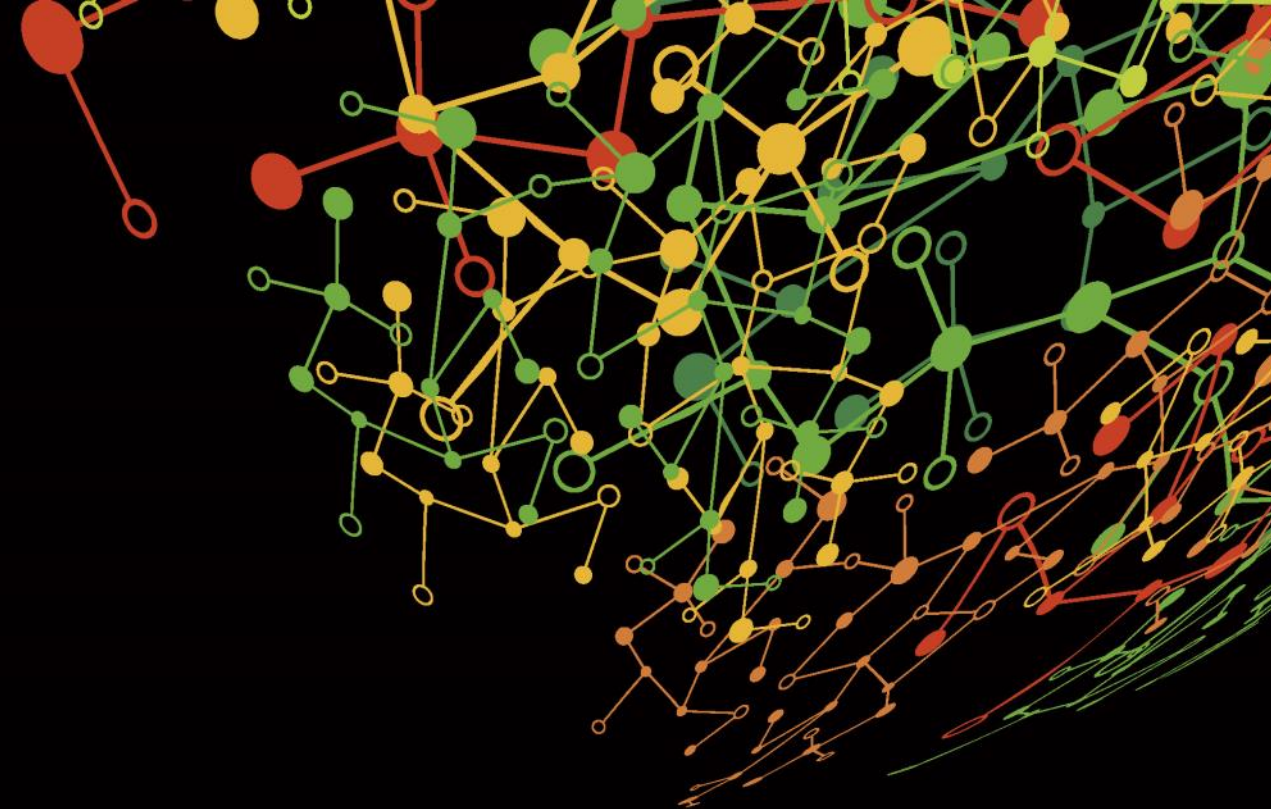
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COVID-19

Practical workforce strategies
that put your people first



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In moments of uncertainty and concern, it's not only about *what* leaders of organizations do but equally *how* they do it that matters.

COVID-19 is taking the world by surprise, causing a great deal of uncertainty and raising issues that require thoughtful, people-first responses. This newly identified coronavirus was first seen in Wuhan in central China in late December 2019. As we enter March 2020, the virus now has a global reach on all continents except Antarctica. As the virus spreads, communities, ecosystems, and supply chains are being impacted far beyond China.

In January 2020, ahead of the Lunar New Year and as health concerns were still growing, Deloitte conducted a survey in China of human capital policies and practices. The survey drew over 1,000 responses from enterprises operating in China, including a cross-section of private, foreign, and state-owned enterprises as well as not-for-profit organizations.¹

¹<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/gx-hr-policies-research-report-under-the-new-coronavirus-outbreak-in-china-en-200129.pdf>

The survey shows that from the beginning of the COVID-19 outbreak, the immediate focus of employers has been on ensuring the health and safety of their employees:

- Ninety percent of the employers believe it is an urgent requirement to provide their employees with remote and flexible work option.
- Energy, resources, and industrial companies encounter the biggest constraints in offering flexible working and remote solutions, and have focused on providing epidemic protection—they have been ensuring sanitation, personal protective equipment, and safety of the workplace environment.
- More than half of government and public service entities are focusing on addressing employees' psychological stress.

Authorities internationally are taking decisive action to respond to this emerging public health threat, which has caused the business community to consider the adequacy of its own preparedness measures.

It's important to remember we have faced crises like this in the past and will face them again in the future. We need to be prepared, rational, and even altruistic in response. If there is disruption, there will also be recovery, so how we act in a time of crisis can also inform our long-term impact.



Responding to the immediate challenge: a framework to view the impact on your people

Given the importance of people to every organization, companies need to plan to respond to employee needs during the unfolding challenge. It's helpful to think about this as three deeply connected dimensions of an organization: *work* (the what), *workforce* (the who), and *workplace* (the where).

Drawing on lessons learned in prior crises, such as SARS, we offer the following practices and strategies for consideration. These are the moments that matter, and how you rally your team will be key.

The work



1. **Establish a business response and continuity office.** Immediately establish a cross-functional team to develop a coordinated response effort. Many organizations prepared pandemic plans for the outbreak of H1N1 in 2009. The current outbreak is a prompt to ensure that plans are up to date and fit for purpose. If not already included in your pandemic plans, determine meaningful organizational activation and deactivation triggers, and review continuity procedures to better understand your critical staff, functions, and operational hubs. Daily stand-ups of this cross-functional team can help guide your executives on where to focus their efforts, and be the integrated pulse for your employees, customers, vendors, and partners. This crisis will pass, but you will need the continuity team to re-activate in the future for similar situations.
2. **Confirm critical roles and backup plans.** Prepare temporary succession plans for key executive positions and critical roles in your business. As COVID-19 has spread globally, there is an increased risk that key people will be temporarily unavailable due to quarantine or illness. In the event of illness, your board and management team need to have clear leadership alternatives. There should be short-term and long-term plans for operating the company—this includes scenario planning, both for revised decision rights and accountabilities, and your escalation paths for urgent decisions.
3. **Evaluate the actual work of your company and how it might be changed.** Identify what work requires on-site attendance. Many companies are shifting face-to-face meetings to teleconferences to reduce the risk of virus transmission. A combination of technologies (e.g., remote access, cyber), practices and policies, safeguards, and training all need to be in place to support a wide remote-work deployment. For work that cannot be made remote, evaluate what safeguards can be put in place, such as revised cleaning protocols or personal protective equipment.
4. **Understand what work is mission-critical and what can be deferred or deprioritized.** Help your teams understand where their focus needs to be. Allow them to focus on the most important tasks and empower teams to be creative in how they deliver non-essential work in ways that minimize unnecessary risk or exposure. Demonstrate a willingness to listen to ensure your teams feel safe speaking up against conducting work that puts their health, or the health of others, at risk.

The workforce



5. **Show up for your people—set the tone at the top.** How leaders behave during critical moments leaves a lasting mark on corporate culture. While panic and overreaction is not helpful, neither is complacency nor giving the impression that leaders are downplaying the situation. Proactivity, consistency in message, and modelling behaviours as the situation evolves is paramount. In a period of unknowns and a vague timeline, your people are looking to you for direction and confidence. Remember to think of the future as well. If there is disruption, there will also be recovery.
6. **Develop a plan for your whole workforce.** Don't forget that your workforce is not just your employees. It is not uncommon for employers to overlook their contract and vendor workforce or ineffectively engage other partners, such as unions. Identify all critical contributors to your business and ensure they're included in your plans to keep your entire workforce safe. Unionized employers should collaborate with their union leadership to address concerns. As applicable, occupational health and safety partners should be engaged.
7. **Define your communication strategy and make it visible.** Your team expects accurate, authoritative information. They also need transparency—trying to conceal risk can potentially create more. The most important players in your communications plan are your front-line managers, so outline communication plans with your leaders so they know what to expect, and what their role is.
8. **Educate employees about COVID-19 symptoms and prevention.** In our opinion, caring for your people is the first priority. Your company should strengthen safety education, establish self-protection guidelines, and increase awareness of risk prevention. Consult with occupational health partners about evidence-based supports for prevention of infection in the workplace. Human Resources (HR) can identify your most at-risk employees and prepare them for alternative work arrangements.
9. **Establish employee support procedures.** Consider a dedicated hotline for inquiries from employees. It's important for employees to have a voice, and for you to have a channel to truly understand what is happening with your employees. Consider bringing in medical experts to facilitate question and answer sessions with your teams to understand the facts of how to stay aware and safe during this time. Lean on information from credible sources such as the World Health Organization and Health Canada to inform procedures.
10. **Develop workforce/labour plans, and conduct scenario analysis.** Think ahead to how this situation could play out, including the recovery period. Leaders should consider in advance how to restart disrupted business operations amid ongoing epidemic prevention and control measures. Keep in mind that quarantines and travel restrictions could mean the time to ramp back up to full capacity may be longer—and more complicated—than after a planned shutdown. For example, restarting operations requires an additional level of labour planning to consider staffing levels, sanitation regimens, visitor and contractor policies, and personal protective equipment needs. For operations restarting with lower staffing levels, a supplemental focus on product quality may be required.

- 11. Create strategies for a temporary labour reduction. Be ready for a slowdown.** The need for your current workforce may temporarily be disrupted, and you'll need to decide how to handle this. In the past, we have seen employers manage labour excesses through the use of leave balances or offering (or forcing) additional unpaid leave in times of cash flow crisis. If staffing reductions or lay-offs are necessary, be aware that employers can run the risk of receiving claims of constructive dismissal, and applicable government employment standards dictate when temporary layoffs become permanent and employees are eligible for severance pay. In addition, employers also need to be mindful of the possibility of triggering mass termination provisions in their employment standards. And, remember: at this point, we don't know how long this disruption will last. Reducing staff prematurely may have long-term negative implications.
- 12. Prepare plans for site disruption and re-activation.** In the event an entity has to close its doors for non-critical workers for a period, determine a communications plan about how you'll communicate with all workers, including contractors and vendor partners. Have a clear playbook for how to initiate a closure and how to reroute operations and employees to other locations within your network. Moreover, finalize a checklist to determine when employees can return to work once the all clear is given.
- 13. Develop clear protocols and obligations for employees who are at risk.** All employers need to have clear protocols to ensure their people know they must self-report in the cases of high-risk travel or close contact with high-risk individuals. Economically vulnerable employees may be reluctant to self-report due to potential income loss. While we would all rather provide incentives for reporting, there may be a need to be clear about consequences for employees who are at risk and not reporting. If possible, employers should look for ways to bridge income loss. In addition, it's worth establishing guidelines for when employees are clear to return to work.
- 14. Review leave policies.** Review sick leave policies and procedures, including paid sick-leave programs, statutory leave, and eligibility criteria for medical leaves of absence, such as doctors' notes. Consider whether eligibility criteria should be temporarily changed in this period; aim to strike the right balance between protecting sick leave from abuse and protecting the general workforce from potential infection.
- 15. Prepare for increased absenteeism and work refusal.** Absenteeism will increase as health-screening protocols are enforced and employees who may be showing symptoms remain at home. School closures, travel restrictions, and personal concerns will all contribute. You also need to be ready for an increased number of work refusals, and how best to manage these situations.
- 16. Review anti-discrimination policy and practices.** Discrimination based on a person's ethnicity has no place in an outbreak plan. While recent travel to high-risk jurisdictions or close contact with recent travellers is appropriate criteria to distinguish between workers, ethnicity is not. Make sure your employees know the difference. When employees are re-integrating into the workplace post-quarantine, take steps to ensure they do not suffer discrimination.

The workplace



- 17. Prepare your worksite for containment and contamination.** Companies should ensure the safety of working environments by thoroughly cleaning and disinfecting workplaces. In the event that an employee is suspected of being infected with COVID-19, a clear process must be in place for removing that employee from the facility, and for proper treatment of the facility. The Occupational Safety and Health Organization (OSHA) in the United States has stated that COVID-19 is a recordable illness and therefore requires that the appropriate paperwork be filed, whether the employee was infected during travel for business or at a company site.
- 18. Update travel and meeting protocols.** For organizations with high travel needs, especially to international destinations, assessing the impact of the epidemic on travel is necessary as travel has been linked to the transmission of COVID-19. Organizations should actively monitor the latest travel guidance from Health Canada, review their travel policies, and be prepared to track and communicate with travellers. Another consideration is the possibility of your people being stranded away from their home locations as travel restrictions are considered or enacted, and the degree to which you discourage personal international travel.
- 19. Review your social media policy and guidelines.** Make sure your social media policy is properly defined for this crisis. It should provide clear guidelines with regard to how employees can talk about your business and the impacts of COVID-19 on operations and employee health and safety. Provide employees with an internal channel to report what they are seeing and feeling within the organization to ensure direct communication as much as possible as an alternative to social media. At the same time, a good social-media monitoring and sensing program may help you identify emerging issues that are affecting your customers, markets, and production regions.
- 20. Consider the sources of 'news' and information in the workplace.** Misinformation in the media has created particular challenges for organizations responding to this outbreak. Employers must take it upon themselves to be the source of accurate, timely, and appropriate information for their workforce. Consider creating your own news channel in the workplace, appropriately filtered and based on credible sources.

A photograph of two men in a textile factory. They are working on a large loom with many colorful threads. The man in the foreground is wearing a light blue shirt and a yellow earplug. The man in the background is wearing a blue shirt. The threads are in various colors like red, yellow, green, and blue. The loom is made of dark wood and metal.

Moments that matter: how you lead will leave a legacy over the longer term

Put your people first in a time of crisis. A clear strategy and plan focused on your people is essential to effectively lead your workforce in uncertain times. Even for companies that have not yet been adversely affected, we recommend management teams actively evaluate their strategies for addressing workforce impacts and risks, and develop appropriate actions under various scenarios.

COVID-19 may fundamentally challenge your culture, how you distribute work and deploy your workforce, and how you engage your people. In the longer term, this situation may present an opportunity to think about how you elevate communications, create a more resilient workforce, and build more focus on health and well-being.

At the end of the day, we're all human, and every one of us may be directly impacted by COVID-19. Now is the time for leaders to lead for the safety and welfare of their people.

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