



COVID-19

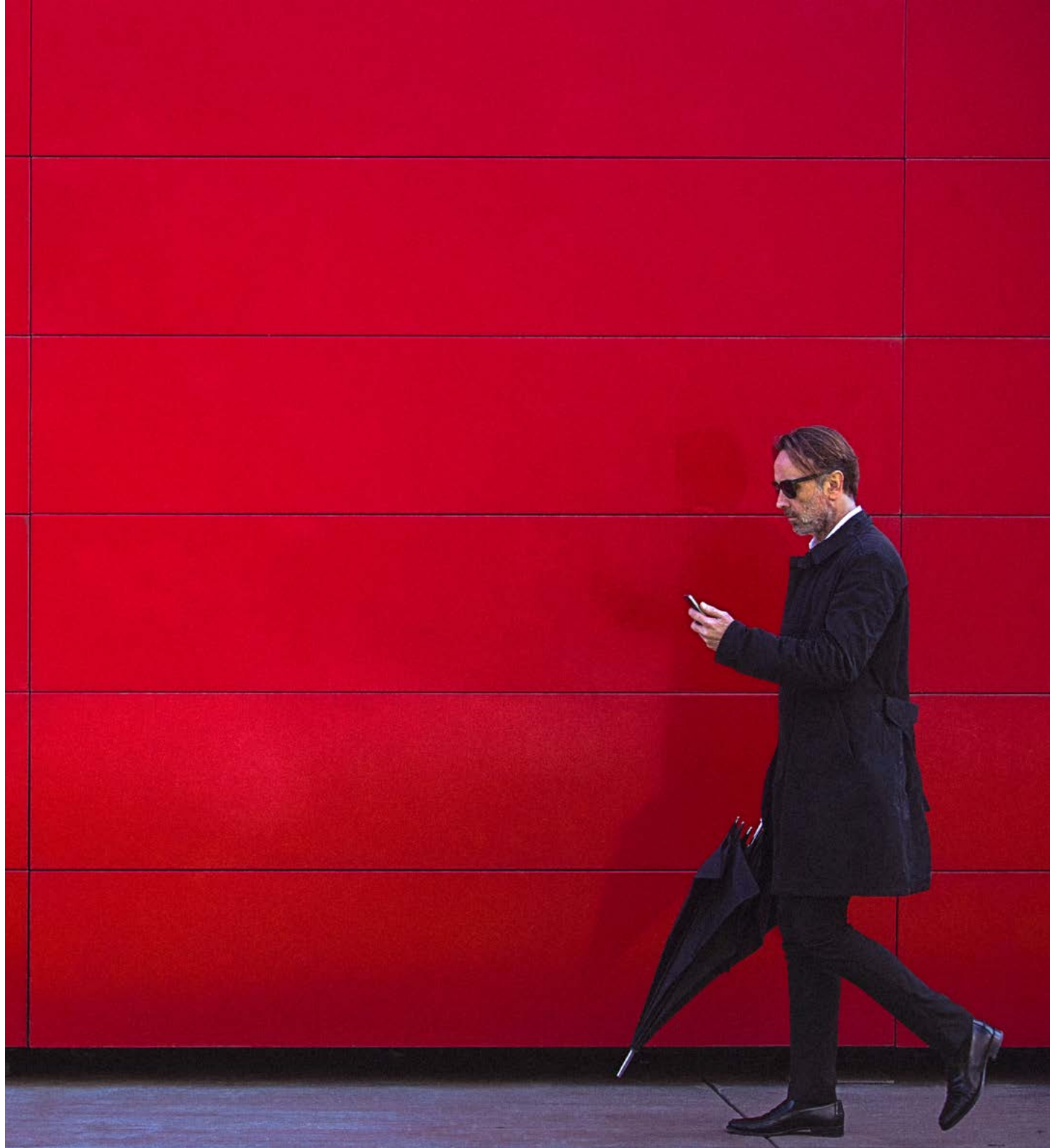
# WHAT'S NEXT? BOOSTING YOUR BUSINESS RESILIENCE

MAY 2020

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## OUR APPROACH

When it comes to keeping your business up and running, knowing the right questions to ask and where to find the information you need can make all the difference. The strict conditions in place to reduce the spread of COVID-19 are making it hard to keep businesses going while supporting employees, partners and suppliers.

The impact of COVID-19 on the resilience of Australian businesses and their balance sheets is unprecedented. Although the level and type of threats vary greatly across businesses, executives and boards need to rapidly assess their exposure and prepare response plans to ensure they can generate sufficient cash to survive.

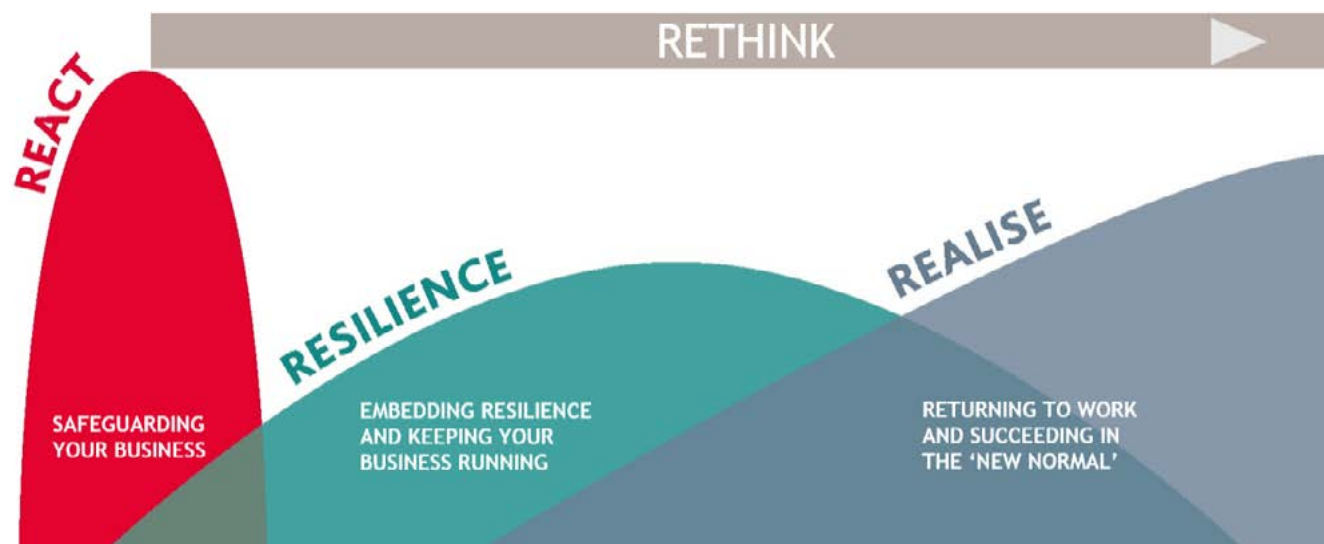
Businesses will need to traverse three phases in dealing with the COVID-19 fallout:

- ▶ React
- ▶ Resilience
- ▶ Realise.

This guide is focussed on [building resilience and how to recover from a crisis](#), offering general guidance for companies on where to focus as we begin to look beyond the initial impact of coronavirus.

We recognise that all companies and their situations are different and recommend you contact your trusted business advisers for specific advice.

You can find useful information for businesses and individuals as well as a wide range of practical advice on our [COVID-19 Website](#).



The way in which businesses respond to the initial impact of the COVID-19 crisis, minimising the catastrophic effects on its business operations, employee safety, supply chain and ongoing financial viability.

Maintaining business operations during disruption using techniques that allow people, processes and information systems to adapt to changing patterns. The ability to alter operations in the face of changing business conditions preserving the continuity of the provision of 'critical functions' to a firm's customers.

Applying the learnings from key resilience activities and continuing to adapt. Successfully adapting to new business models and ways of working are needed to address essential and obligatory political, economic, socio-cultural, and technological changes.

# INTRODUCTION

The impact of the coronavirus pandemic on the Australian and global economies has been severe and has led to significant changes in demand across a number of sectors.

The impact on non-food retail; hospitality and leisure; travel; and services has been especially profound. The majority of companies operating in these markets have either been mothballed or have significantly reduced operations.

Whilst many manufacturers have ceased production, food manufacturing and food retail have seen a remarkable increase in activity.

With such upheaval, it is difficult to horizon scan and events are moving quickly. The following data will be particularly informative for leaders' decision making processes:

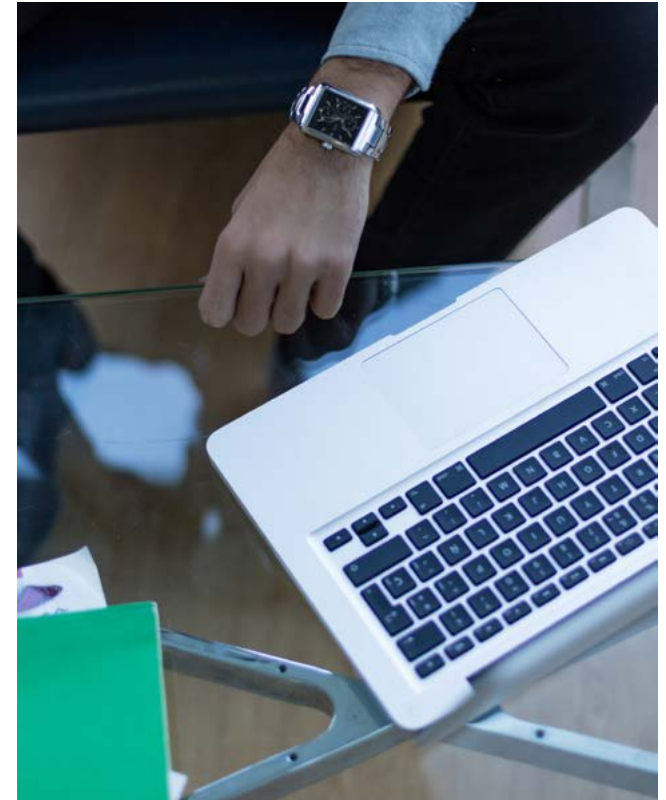
- ▶ The severity of the crisis
- ▶ The length of the likely disruption to their sector
- ▶ The type of recovery in the economy, and
- ▶ The potential timing of a return to work.

The following data will be informative:

- ▶ Changes in measures of consumer spending
- ▶ Stock market sentiment and exchange rates
- ▶ Unemployment statistics
- ▶ Purchasing managers index, and
- ▶ Economic indicators from other countries at different stages in the pandemic.

It is likely that all businesses will be impacted in some way and studies from the last recession suggest that companies that are proactive can gain a lasting competitive advantage.

BDO has considered a number of areas to consider in anticipation of the crisis abating, boosting resilience and recovery.

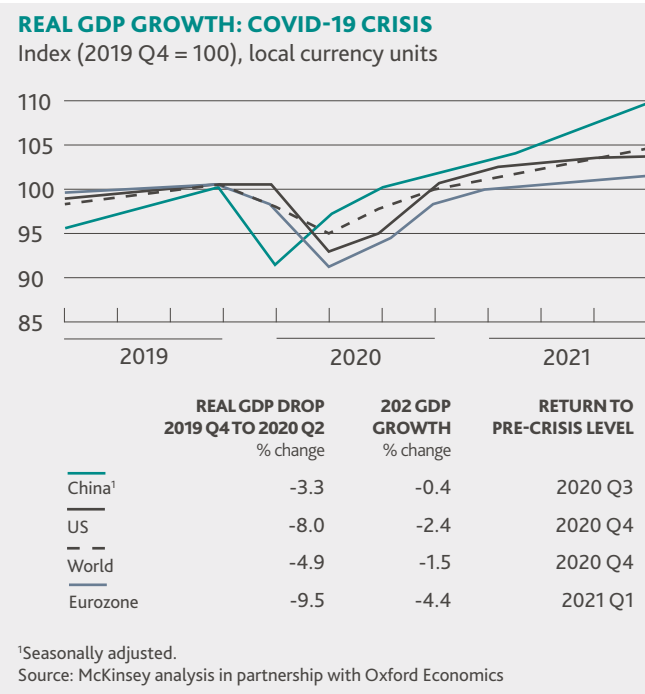




# ECONOMIC RECOVERY SCENARIOS

The speed and strength of global economic recovery will depend in large part on the success of public health measures and economic policies.

A briefing note COVID-19 issued on 25 March 2020 by McKinsey & Company modelled 9 different scenarios based on the success of three different health interventions and three different governmental economic interventions. We have portrayed two of these Economic Recovery Scenarios as examples of potential economic conditions for leaders to consider and as context for making operational, financial and strategic decisions.



## VIRUS CONTAINED

In this scenario all countries would experience sharp GDP declines in Q2. However, effective health and economic interventions mean that by Q1 2021 the Eurozone returns to pre-crisis levels.

In this scenario, the virus in Europe and the United States would be controlled effectively with between two to three months of economic shutdown.

Monetary and fiscal policy would mitigate some of the economic damage with some delays in transmission, so that a strong rebound could begin after the virus was contained at the end of Q2 2020.

Consumer spending in most advanced economies accounts for roughly two-thirds of the economy, and about half of that is consumer discretionary spending. During the downturn, spending on durable goods including automobiles could fall as much as 50 to 70 percent; spending on airline flights and transportation could fall by about 70 percent; and spending on services such as restaurants could decline by 50 to 90 percent. Overall consumer discretionary spending could abruptly fall by as much as 50 percent in areas subject to shutdowns.

# ECONOMIC RECOVERY SCENARIOS



## MUTED RECOVERY

Of course, it is entirely possible that countries are less effective in controlling the virus, or in mitigating the economic damage that results from efforts to control the virus spread. In this case, economic outcomes in 2020 and beyond would be more severe.

In this more pessimistic scenario, China would recover more slowly and would perhaps need to clamp down on regional recurrences of the virus. It would also be hurt by falling exports to the rest of the world. Its economy could face a potentially unparalleled contraction.

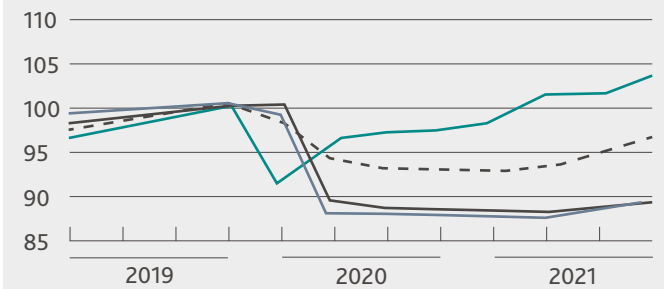
The United States and Europe could also face more dire outcomes in this scenario. They could fail to contain the virus within one quarter and be forced to implement some form of physical distancing and quarantines throughout the summer.

This could end up producing a decline in GDP at an annualised pace of 35 to 40 percent in Q2, with major economies in Europe registering similar performance.

Economic policy would fail to prevent a huge spike in unemployment and business closures, creating a far slower recovery even after the virus is contained. In this darker scenario, it could take more than two years before GDP recovers to its pre-virus level.

## REAL GDP GROWTH: COVID-19 CRISIS

Index (2019 Q4 = 100), local currency units



	REAL GDP DROP 2019 Q4 TO 2020 Q2 % change	202 GDP GROWTH % change	RETURN TO PRE-CRISIS LEVEL
China <sup>1</sup>	-3.9	-2.7	2021 Q2
US	-10.6	-8.4	2023 Q1
World	-6.2	-4.7	2022 Q3
Eurozone	-12.2	-9.7	2023 Q3

<sup>1</sup>Seasonally adjusted.

Source: McKinsey analysis in partnership with Oxford Economics

# KEY AREAS FOR CONSIDERATION

COVID-19 presents a significant business challenge – not least ensuring your people's safety and managing changed commercial priorities. The rapid outbreak of the virus is likely to have impacted almost every area of business activity. We have summarised key areas every organisation should consider in anticipation of the crisis abating and identifying how to boost resilience and recovery. More detailed consideration for each area is on the following pages.



## PREMISES

Restaurants, bars, cinemas and gyms have all been forced to shutdown following Government advice, and many offices and factories have also been closed.



## FINANCIAL

The financial impact from coronavirus will be significant for many companies. It will be vital to have a clear plan for a number of potential scenarios to assist in decision making and ensure sufficient cash headroom.



## EMPLOYEES

Many business will have taken the difficult decision to furlough or make redundant a number of employees.



## LEGAL AND COMPLIANCE

The Government has already announced a number of legal and regulatory interventions with further changes likely to protect businesses, employees, and Australian interests.



## CUSTOMERS

Whilst, communication with customers is always key, we anticipate the need for communication will be even stronger as we emerge from the crisis. Developing a suitable communication strategy to inform customers of your return to work is imperative; specifically addressing concerns regarding safety and actions taken will be an important component of all communications, both internal and external.



## SUPPLIERS

The restrictions placed on businesses all over the world means that supply chains will inevitably be disrupted and affect the supply of raw materials and components.



## MANAGEMENT AND LEADERSHIP

Demonstrating effective leadership and reinforcing culture are essential in these unprecedented circumstances.

## PREMISES

Many businesses have contracts in place for maintenance of key buildings and facilities management (FM) professionals have been out in force supporting their clients' operations and helping them to stay compliant during the pandemic. However, a significant proportion of commercial buildings (e.g. factories, offices and restaurants) have been shutdown or have reduced their maintenance regime during the pandemic.

Companies that have continued to have staff on site during the virus phase have sought to find ways to reassure their people with deep cleans, continuous cleans, shift separations, additional facilities for cleaning, and changing operations to increase 'social distancing'.

When previously closed buildings begin to reopen, there will be a heightened awareness around the need for effective maintenance strategies and a prime focus on the health and safety of employees to reduce the future risk of COVID-19 transmission.

Ongoing maintenance of public sector buildings during the pandemic may have been largely unaffected, but for many businesses, what will be required is a comprehensive appraisal to identify safety-critical processes and people.

A full closure and shutdown is a long-term action that would make it difficult to get the building up and running again quickly when the crisis recedes. As part of the resumption of activity and return to work timetable, companies need to carefully consider the impact of business closure across different streams.

Operational capacity is another key area: how do you get your business functioning at an appropriate level for the surge in anticipated demand?

- ▶ **Regular cleaning specifications** must be revisited as enhanced sanitary procedures are likely to be in place for some time. Reviewing existing contractual provisions, capabilities from FM staff and regular access to ongoing cleaning materials having regard for what routine work has continued during shutdown in this area are vital.
- ▶ **Bio-hazard deep cleaning activities** may be necessary to reassure customers and staff. Additional expert advice or assistance may be required in order to carry this out effectively.
- ▶ **A return to work information pack** should be prepared for employees containing information on social distancing at work and the areas that are subject to cleaning throughout the day.







## PREMISES

- ▶ **Licences and certification** are essential to meet statutory compliance and best practice health & safety guidelines. It is vital to check that no permissions have lapsed or whether special measures have been introduced by regulatory bodies to allow trading to continue in these exceptional circumstances.
  - ▶ **Review and prioritise implementation** of delayed infrastructure projects, capital expenditure plans and reactive work assignments.
  - ▶ **Review insurance policies** to ensure no policy breaches have occurred during the lockdown and consult with your broker and/or underwriters to ensure policies remain relevant to future needs.
  - ▶ **Consider additional signage** throughout the facilities to educate employees regarding best practices for hygiene in the workplace.
  - ▶ **Timing** is crucial. During this sensitive period, your premises need to be compliant with applicable laws and regulations. For some key systems it may be necessary to liaise with outsourced FM providers to understand applicable law and regulations to apply throughout.
  - ▶ **Business owners** may need to consider whether additional 'safety measures' will be required, above the legal obligations, to reassure staff on their return.
- ▶ **Critical building systems** need to be assessed to ensure they remain safe and fit for purpose. You will need to consider the correct/safe functioning of the following:
    - Access / security
    - Plumbing
    - Data systems
    - Fabric maintenance such as signage, guttering and roof lining
    - Fire suppression systems – ensure that the Fire Risk Assessment is updated and consider a fire drill to test systems and staff responses
    - Electrical testing and certification
    - Plant maintenance and parts
    - HVAC
    - Server rooms
    - On site tools and equipment should be cleaned and disinfected
    - Water – test stranded water for Legionella bacteria, for example, which occurs in water pipes with little or no flow
    - Waste, and
    - Pest control.
  - ▶ **Working practices** are likely to be affected and you may wish to evaluate the configuration of your open-floor offices and factories to ensure that employees can maintain appropriate distances between each other over any transition period.
- ▶ **Engagement** with other functions is essential. It would be a waste of resources to recommission three production units if the sales and marketing function are forecasting demand that could be met from the output of just two units.
  - ▶ **Landlords** may be willing to consider rent deferrals or freezes to help tenants through difficult trading conditions.
  - ▶ **IT Operations** should be reassessed to confirm that:
    - The governance of IT is strategically aligned to the most critical business operations, any remote working and facilitate information-based decision-making by Leaders.
    - IT projects are effectively managed and any proposed changes meet developing business requirements and do not negatively impact on service delivery.
    - Information systems operations, maintenance and support processes provided by the IT department remain fit for purpose, efficient and provide ongoing confidentiality and integrity of data.
    - Information assets are suitably protected to provide continued optimal use and availability of IT assets.
  - ▶ **IT Security** is of paramount importance as new ways of working are devised and implemented. Any new services or protocols need to be reviewed to ensure compliance with existing security measures.
- To help organisations navigate and plan their way through the complex issues that working from home presents as well as mitigate potential cyber security risks, we've developed a cyber security [WFH checklist](#).



# FINANCIAL

## GENERAL CONSIDERATIONS

Cash and finance lie at the heart of building Resilience. Taking steps to maximise cash flow and financial headroom is essential as companies review their activities and plan for a range of scenarios.

The dynamics of each sector and company will be different but many will have a heightened focus on cash generation, cost control and managing working capital efficiently.

Any opportunities/issues identified below can then be adopted in the financial model which we examine in detail on the following page.

- ▶ **Understanding** underpins key decision making. Make sure you are fully aware of how your market, operating model, and aims have changed and may evolve in both the short and medium term.
- ▶ **'What if'** scenarios should be rehearsed so that the responses to changing circumstances can be quickly implemented. Consider whether you have access to the key data that allows you to make timely, insight-backed decisions.
- ▶ **Introduce measures** to identify, control and review spending, particularly on non-critical functions or cost centres. Consider new controls or revised authorisation limits.
- ▶ **Stock control** parameters should be reviewed. Re-order levels and quantities may need adjusting in line with expected demand and delivery lead times may well have changed as suppliers implement new working practices.
- ▶ **Talk to suppliers** and see if you can negotiate longer payment terms or, conversely, discounts for early settlement, both of which could be beneficial. Consider alternative funding options such as trade finance.
- ▶ **Analytical tools** can be employed to help you better understand the composition of stock, sales, and trade debtors. This will help prioritise your actions, for example, to focus on selling higher margin products to fast paying customers.
- ▶ **Recheck your eligibility** for financial assistance from Australian Government and how these may improve cash flow. Help may be available in the form of PAYG withholding 'Cash Boost' package; the JobKeeper Program; early release of superannuation and income tax, GST and R&D lodgement deferral schemes. It is worth revisiting this from time to time as the schemes evolve and new measures are announced. A round up of government support is available on our [COVID-19 Website](#).
- ▶ **Working capital** requires funding and consideration should be given to whether additional facilities are required to allow the company to gear up as activity increases following a period of reduced demand.
- ▶ **Approach your lenders** to talk through relaxing of existing covenants, to discuss debt repayment options, such as holidays or interest roll-up, and to better understand possible access to further lending if required
- ▶ **Check with your insurers** to see if you are covered by business interruption insurance and carefully review any mention of pandemic in the fine print.





# FINANCIAL

## MODELLING

As we face challenging times ahead, the ability for financial models to be able to project various scenarios becomes increasingly important.

In the midst of uncertainty, different scenarios will need modelling so that businesses can identify and anticipate the risks and opportunities ahead and plan and contingency plan accordingly.

Modelling can help identify the impact of scenarios on cash flows and consequently on supplier payments and any debt servicing, to stress test viability and cash flows. In particular, in the current environment, common themes will include macro growth scenarios, revenue profile and customer and supplier cash behaviour.

A [robust and flexible model](#) is key to being able to run sensitivities on current business operations and for assessing short term cash requirements, but also for use in the medium to long term as the business adapts to the changing environment, and plans for recovery and growth scenarios, as well as for appraising new strategies and new opportunities.

A dynamic model incorporating the key operational drivers of the business can help quantify projected cash surplus/shortfalls and the timings of the peaks and troughs. This can help inform shortfall funding decisions, whether it be working capital management or consideration of Federal and State Government schemes, banking facilities, equity raising or alternative funding.

In this environment, creating a '[realistic](#)' forecast is inherently difficult. Scenario planning for Management and Leaders is addressed on page 16. Once scenarios have been chosen, the financial model itself will need to be carefully prepared:

- ▶ **Preparation** is vital. Our experience has shown that investing time in the scope and planning stage can avoid time-consuming amendments further down the line. Careful consideration is required upfront to be clear on the model purpose and ensuring it meets the key requirements.
- ▶ **Integration** is necessary to a useful financial model which should incorporate a profit and loss account; cash flow statement; and balance sheet. Profit and loss assumptions and those on the timing of receipts and payments are the key areas to focus on.
- ▶ **Flexibility** should be built into any model. Consider incorporating a key assumptions sheet for variables such as growth, payment terms, cost inflation, interest / tax rates etc. Taking this step will allow easier scenario modelling and allow model flexing to test headroom.
- ▶ **Key drivers** of the business should be reflected in a financial model. The commercial reality of lead times, stock re-order quantities, progress payments, rebates, royalties and other parameters particular to your business should be taken into account.

- ▶ **Outputs** from the model should be both monthly and annual and perhaps even daily or weekly in the very short term.
- ▶ **Variance** analysis against actual and historic results will help you measure the how business is performing. You will need to consider the sources of actual/historic data and how this can be captured by the model or reporting pack.
- ▶ **Best Practice methodology** should be followed to ensure consistency, clarity and accuracy in the model. Adopting good spreadsheet practice as well as integrity checks and testing can minimise the risk of errors.
- ▶ **Presentation** of outputs is worth giving some attention to. Various internal and external stakeholders will seek to rely on the data and it is worthwhile formulating dashboards and formats that allow management, funders and investors to quickly access key information.
- ▶ **Remember** that all short-term payment deferrals will ultimately unwind. Rent holidays; loan repayment deferrals; Federal and State Governments tax payment deferrals and time to pay arrangements will all reverse at some point in the future.



## EMPLOYEES

Most companies will have had an extended period where many employees have been working from home.

Getting people back to work takes careful planning to ensure the business is not overwhelmed and to guarantee the safety of employees. Communication is key.

- ▶ **Transmission** of coronavirus is still likely to be occurring as businesses start returning to work albeit in lower numbers. It will be important that employees will continue observing Government advice, including contact tracing for any new cases.
- ▶ **Guidelines** may need to be issued to employees in relation to:
  - Self isolating if virus symptoms emerge
  - How start / leave place of work
  - Use of rest rooms and welfare facilities (access / numbers allowed to use)
  - Isolating whilst at work with physical separation of employees – can employees stay 1.5m apart? If not can screens be installed? Can shift systems be used?
  - Continued remote working for part of the workforce
  - Also consider whether repeated deep cleaning and / or continuous cleaning is adopted? Will protective clothing be required?
  - How any changes to working practices will be enforced.

- ▶ **Timing** of people returning is worth considering. There may need to be an advanced guard of FM, Health & Safety and IT staff to ready the premises for others.
- ▶ **Resource constraints** could mean that not all staff can return at once. It is worth reviewing which employees contribute most directly to critical functions and revenue growth and bring these back before other back office and support functions. Advice from HR legal advisers may be needed.
- ▶ **Skill sets** are important to assess in order to target human resources at emerging market opportunities. For example there may be more focus in the short term on rebuilding contact with customers, tele-sales or online so it is important to establish who has transferable skills that could be refocussed.
- ▶ **Proactively** engage with your workforce on any changes required to working practices or policies. Consider what forms of communication are appropriate and necessary.
- ▶ **Identify** any training requirements in order to upskill your workforce to deliver any newly identified opportunities or changes in working practice.
- ▶ **Review** your HR policies to ensure they are fit for purpose in these changed circumstances which may impact working from home; travel; expenses and working at customer premises or residences. For more information on managing COVID-19 in your workplace, please see [SafeWork Australia](#).

- ▶ **IT systems** are likely to have been tested to extremes during the crisis. It is worth reviewing what worked well and allowed workforce collaboration, and if any practices can be permanently adopted or enhanced.
- ▶ **Defined benefit superannuation** schemes are likely to suffer valuation deficits as stock markets and bond yields fall. Do you need to discuss these issues with trustees and regulators?
- ▶ **Flexible working arrangements** may have proved popular and increased efficiencies. You should consider making policy changes to permanently embed these new ways of working.
- ▶ **Incentive plans** and bonus schemes for key employees may need reviewing in the light of the changed economic environment. It may be advisable to revise targets to achieve different strategic or financial goals.



## LEGAL AND COMPLIANCE

The Australian Government's response to the crisis has proliferated a raft of legislation and regulation changes designed to help keep businesses trading.

There are many legal and compliance impacts including contracts for goods and services, regulatory relief for a range of suppliers and statutory requirements, director obligations, employee arrangements and financiers.

- ▶ **Contract reviews** - businesses may have been impacted at every level of operation and may find themselves unable to fulfil contractual obligations due to factors such as a reduced workforce, or issues flowing through the supply chain. You need to be aware of how the virus impact affects your contractual position and who bears the risk of its negative effects.
- ▶ **Contract renegotiation** may be required to address issues such as cancellation, delays, missed deadlines, rebates and whether 'force majeure' clauses are triggered.
- ▶ **New Contracts and Terms of Business** might need to be considered in the light of prevailing conditions.
- ▶ **Job losses** may be an inevitable consequence of the crisis and any subsequent streamlining of activities. There remain process and protocols designed to ensure a fair process and that staff are consulted properly. Determining how to prioritise employees who return to work those who are made redundant, will need careful consideration.
- ▶ **Business Interruption insurance** may not be claimable but discussions with your insurance broker regarding potential claims and future insurance cover may be beneficial. In addition, insurers are extending a range of relief and support measures and packages to assist businesses experiencing financial hardship.
- ▶ **Landlords** have temporarily been stopped from enforcing evictions on tenants that are unable to pay their rent. Consider whether discussions with landlords are required in relation to areas of responsibility and compliance, or commercial terms.
- ▶ **Audit filing deadlines** have been extended for unlisted entities to lodge financial reports by one month for balance dates from 31 December 2019 to 7 July 2020. Listed entities will also be able to take one additional month to report for full year and half-year financial reports for 21 February 2020 to 7 July 2020 balance dates.
- ▶ **Insolvency laws have been revised** to give companies breathing space and the opportunity to trade out of a difficult situation by providing a temporary increase to the threshold at which creditors can issue a statutory demand and temporary relief for directors from any personal liability for trading while insolvent. There is also a temporary increase in the time period for debtors to respond to a bankruptcy notice and flexibility with provisions of the Corporations Act 2001 to deal with unforeseen events that arise as a result of the coronavirus health crisis.
- ▶ **The ATO** will tailor solutions for owners or directors of businesses that are currently struggling due to the coronavirus, including temporary reduction of payments or deferrals, or withholding enforcement actions including director Penalty Notices and wind-ups.
- ▶ **The Federal and State Governments** have provided a raft of stimulus packages designed to keep businesses afloat and help employers maintain their workforce until the crisis has eased, see more details on our [COVID-19 Website](#).





# CUSTOMERS

Demand has been dramatically affected in all sectors of the economy and communication with customers and potential customers is vitally important.

Face to face engagement may take some time to re-ignite but there are other ways to keep in front of customers, some more traditional such as picking up the telephone but also a myriad of online and digital options.

- ▶ **Engage** with your major customers and wider customer base. Talk to key accounts, tell them what steps you have taken to ensure the viability of your business; the safety of staff and customers; and the continued quality of goods and services supplied.
- ▶ **Establish demand** and feed information into business and financial plans. Review resources and capacity and decide which customers to support first should there be constraints. Keep customers updated on availability and delivery.
- ▶ **Focus** on most important business streams, which may be high-margin; quick to turn to cash, high profile etc.
- ▶ **Credit terms** could be reviewed or re-communicated to customers and strictly enforced as it is vital for cash and working capital management.
- ▶ **Contracts** for supplies of goods and services should be reviewed and consider inclusion of provisions for items beyond your control connected with coronavirus such as raw material and staff availability; re-emergence of the virus; changes in Government policy; cost of air freight etc.
- ▶ **Review** your market. You may find that your competitive position has changed if others have not fared so well or if you are in possession of key raw materials and components. You may need to consider pricing changes to stimulate demand or to reflect changed cost inputs or a change in market position.
- ▶ **Promotions**, special offers and discounts might be considered as ways of stimulating demand and trading older stock to refresh working capital. These need to be effectively communicated to customers.
- ▶ **New opportunities** and threats such as On-shoring and Online offerings are likely to become increasingly important. If you have not yet assessed these as possible sales channels or alternative ways of reaching customers, they are worthy of consideration.
- ▶ **The scarcity of cash** could drive different buying behaviours, if customers are cash constrained, could leasing or rental arrangements be made available as an alternative?
- ▶ **Travel** is likely to be curtailed in the short term as people may be reluctant to travel and as capacity builds in the transport network. It is therefore crucial that companies deploy digital solutions to collaborate with remote clients where face to face contact is either not possible or greatly reduced.
- ▶ **Understand** your contracted customer obligations and review against:
  - Delivery schedules
  - Supplier contracts to establish any obligations that are at risk
  - Force majeure clauses. What is the likelihood and impact of claims?
  - What mechanisms are available to delay, vary or terminate and what are the associated costs?

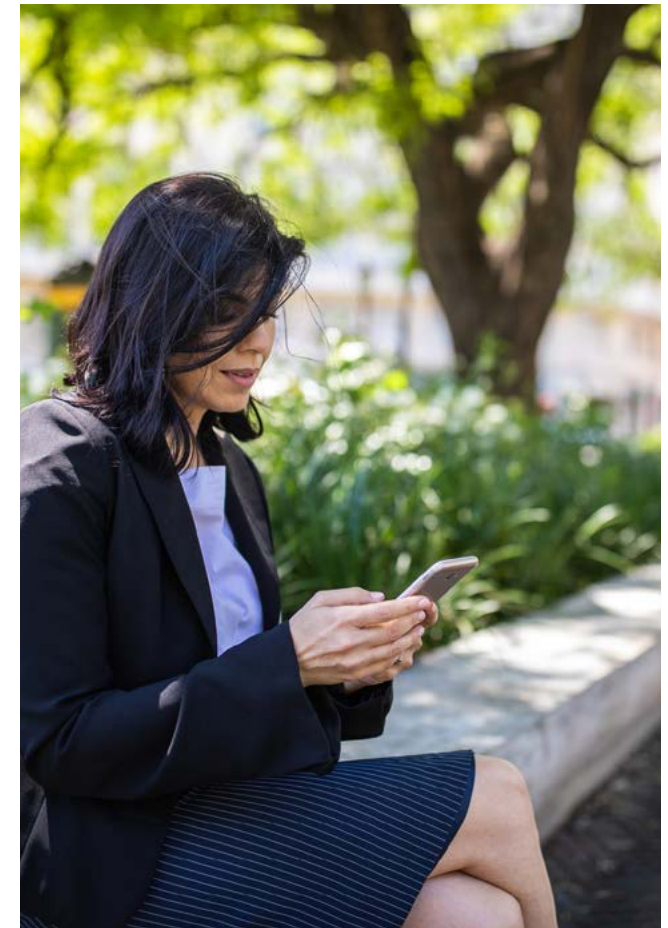
## SUPPLIERS

Your suppliers are likely to have been equally affected by coronavirus issues.

You may need to change your supply chain to enhance resilience and protect against new outbreaks of the virus.

Detailed analysis is likely to be required to understand the layers of supply chain and key inputs to your business that deliver revenue and business continuity.

- ▶ **Identify** the elements of your supply chain that are critical to the performance and success of your business. This may be a critical component from a single supplier, a single raw material used across numerous product lines; or a key service/individual.
- ▶ **Stock:** it may be some time since you have traded stock so it is [important to assess both the quantity and condition of stock lines](#) to ensure that you will be paid for all sales made; to protect your reputation and establish reorder levels. Can you claim on your insurance for any stock that has spoiled during an enforced shutdown?
- ▶ **Consider Tier 2 and Tier 3** suppliers to [assess vulnerabilities in the entire supply chain](#). Ensure you are aware of your suppliers contractual obligations to you; their delivery channels; the risk they are exposed to; the geographical restrictions and overseas lockdowns which may still be in place and consider the knock-on effect to your supply chain. What stock levels are held across your supply chain?
- ▶ **Reliance** on key suppliers is an obvious risk, especially if those suppliers are dependent on your business. Look for alternative suppliers to diversify your risk, and understand their capacity to supply you on time. Consider supply resilience and whether 'on-shoring' is needed.
- ▶ **Reassess** how you trade with overseas suppliers. Be sure you understand current lead times; incoterms; export restrictions, duty and GST regulations which may have changed.
- ▶ **Redesign** of products or focus on new markets may help you overcome shortages of raw materials or components. It has been notable how quickly certain companies switched to products in high demand during the crisis.
- ▶ **Plan** for different demand scenarios with your suppliers over the coming months. The speed and strength of economic recovery is unknown and may differ across markets and geographies. Planning for different outcomes will help your supply chain react quickly to economic factors.
- ▶ **Implement controls** over especially scarce resources. Internal competition for key supplies may be strong and companies must ensure that maximum benefit is accrued when resources in short supply are allocated.
- ▶ **Check MRO supply chain as well as direct suppliers** to ensure production capacity is not constrained by key components.
- ▶ **Pool resources** with any other sites within your organisation. It is possible that stocks of materials you require are available at other sites and it is vital that inventory is examined on a regional or even global basis.





## MANAGEMENT AND LEADERSHIP

Management and Leadership in such times is difficult. Leaders are tested by such events both in responding to the crisis and planning for the future.

There will be much advice to help leaders navigate this crisis. The introduction below considers a few themes relevant to the Resilience and Recover phases of the crisis, including how to consider future scenarios.

Decisions management take now as they adapt and re-imagine their processes and routes to market will govern how successful their business is in the future, not just now. Get it right and organisations could leverage competitive advantage for years to come.

Management need to consider the structures to ensure collaboration across all business streams as business and financial plans are developed for a phased return to work.

- ▶ **You are not alone**...a return to work team should be established and led by a senior individual from the business. All aspects of the business should be represented on the team, including both operational and support streams. Together an action plan can be developed to re-establish the business.

How can leaders and managers help their people feel safe as they return to work? Read our [National People Advisory report](#), Paradigms, perception & performance: overcoming crisis through people, for a step-by-step guide on how to lead a successful and safe return to work.

- ▶ **Scenario planning** needs to be undertaken as for many businesses their original 2020 budgets are no longer relevant. We would recommend modelling multiple scenarios (many businesses choose 4 scenarios) including at least one scenario which you think is unlikely to occur. As you consider various macro scenarios, consider:
  - Whether the crisis is a shock to demand or a fundamental change to operating models
  - Which assumptions matter most to the business
  - Stress test the risks, resilience and cash runway in each scenario
  - Key actions which could be stopped, continued or accelerated
  - 'No regret moves' which would be undertaken in every scenario
  - Key decisions that need to be taken and the timing of those decisions
  - Risk appetite – will this be a slow rebuild or a short term big strategic shift in the market?
  - Downside risk protection measures including ways to generate cash and reassessment of previously agreed initiatives, projects and capex.
- ▶ **Constant monitoring** of key health and economic data as well as Government policy to assess which of the scenarios is most likely to prove accurate and respond according to the scenario plan.
- ▶ **Communicate plans** and decisions to an implementation team. Monitor progress of key actions and an agreed dashboard of KPI's to measure performance.
- ▶ **Align your response** to the crisis with a communication plan to employees, customers, suppliers and other stakeholders explaining what the plan is and how your response is consistent with the company culture.
- ▶ **What level of cash runway?** Strategic decisions may have to be considered to provide cash runway. Review any surplus assets for sale. Consider funding options for unencumbered assets. Consider if any divisions or subsidiaries could be divested to raise capital.
- ▶ **Funding options** may need to be explored as a core requirement or as a contingency measure to protect the future of the business.



# ABOUT BDO IN AUSTRALIA

There are many sources of advice and support available to you at this time:

For a more detailed assessment and review of your current options please visit the BDO [COVID-19 Website](#) which is updated daily.



**COVID19 RESOURCES**

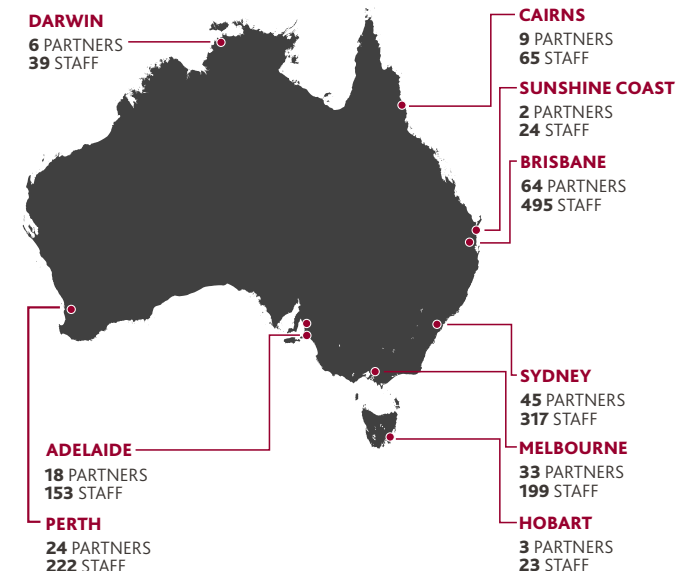
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**PEOPLE**  
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