

This briefing note has been created by Mazars to support IoD Ireland members to ensure they can protect their businesses against the worst effects of the COVID-19 crisis.

As Coronavirus continues to spread around the world, businesses have to respond to the disruption caused to their workforce, supply chains and projected cash flow. Some business leaders may find it particularly useful to examine their risks, interdependencies and reserve levels.

FINANCE AND CASH

Cash and headroom will quickly become critical if operations and output are impacted while staff and establishment outgoings remain fixed. Leaders should review all assumptions that feed into their cash flow projections, and run scenarios on profit and loss, and balance sheet and cash flows, with various degrees of interruption of how their business may be impacted. This may include assumptions around reduced capacity, portions of the business made inaccessible or closed completely, and assumptions that can be flexed around the length of time the disruption could last. It is important that this is kept up to date and triggers are identified to manage liquidity risk. Depending on reserve levels and how exposed a business sector may be, leaders may need to discuss expanding debt facilities with their lenders, postponing large financial outgoings, anticipating covenant problems, and discussing arrangements with suppliers and landlords to extend credit.

SUPPLY CHAIN

Businesses need to examine their ecosystems and review upstream and downstream to identify vulnerabilities. The impact on supply chains has been highlighted from the shutdown in China, and some of its impact on businesses may not yet be felt depending on lead times and component stocks. Leaders should factor in contingencies around their specific supply chain as port and container backlogs are slowly cleared, particularly on seasonal stock.

FORECASTING DEMAND

In Europe, seasonal businesses could be significantly impacted if disruption coincides with demand, and this may leave inefficiencies such as over-capacity or excess stock. Businesses should review their inputs to avoid having fixed commitments and outgoings should turnover be significantly reduced. Mitigating actions that could be pursued include taking more flexible arrangements on purchases should they need to be reduced or returned and reviewing staffing arrangements for flexibility.

Businesses must expect their customers to look for this same flexibility as they mitigate their own exposure. Those that deal in B2C markets should expect that as consumer sentiment drops, their customers may wish to postpone large financial commitments and purchases, and will be reluctant to commit to events that they are unsure will go ahead. As consumers may behave differently during a disruptive period, such as avoiding gatherings or working from home, this should be factored into projected demand.

Those serving B2B markets need to also look through their customer to the ultimate end users to really understand how their customers are exposed and may need support, and work through how this will impact a business in terms of its sales pipeline, stock and receiving payment, while maintaining existing customer relationships.

SERVICE DELIVERY MODELS

Critical activities, key customers and core people will be identified through organisational business impact assessment. Alternative service delivery options should be explored, for example home delivery or in-home services, and how this could be serviced by the redeployment of staff. Management will need to ensure that they understand the terms and conditions of employee contracts and agree how they wish to engage with their workforce should this arise. Businesses may need to contract and engage additional or alternative staff or suppliers in the event that their regular workforce is unavailable, options in these areas should be researched and evaluated.

Some sectors have already felt the impact of both the spread of the virus and the actions taken to slow its spread, such as travel and tourism, and those dependent on operations or supply chain from China and Northern Italy. It is vital that senior leaders understand the impact these business risks have on the cashflow, and scenario plan to put mitigating action plans in place to protect their businesses.



CONTACT

Emer O'Riordan

Partner, Audit & Business Advisory

eoriodan@mazars.ie

+353 (0)1 449 6473