

Combating coronavirus

Six recommendations on how to
turn crisis into opportunity





During the Lunar New Year in 2020, the outbreak of the novel coronavirus spread from Wuhan to the other regions of the country. Concerns about the outbreak not only affected sentiments, but also dampened the economy during the holiday and afterward. Faced with the challenge of the outbreak, the whole country has been working in concerted effort to contain it, we should also recognize that it not only affects people's daily lives, but also causes companies significant hardship.

As mainland China has imposed stringent practices to contain the outbreak, people mobility across the cities is greatly restricted. Consumer demand has dropped, while corporate procurement, production, sales and investment have been largely affected. This undoubtedly poses a major challenge for the country and many industries. Some businesses and industries have had operations stalled or halted, cash flow is running low during the outbreak with substantial business upkeep to maintain - employee salaries, rents and loan interest. As the challenge has taken shape, how can companies mitigate the risk created by the coronavirus situation in their operations? How can they best address the operation and management crisis brought about by the outbreak? In particular, how to quickly resume production and operations as the effects of the outbreak are managed will be a major challenge for all the companies.

Drawing from international standards on business continuity and disaster recovery, as well as years of experience in crisis and risk management, we will explore different ways to help companies deal with the outbreak, and turn crisis into opportunity in such difficult time. They will cover corporate business strategies, employee safety and health, cash flow, customers and suppliers, social responsibility, and a long-term mechanism for crisis management.

1

Gaining insights into the dynamics: analyzing and predicting the impact of the outbreak

Companies should follow closely to the latest developments of the outbreak locally and internationally, analyze changes of the company's external environment. Companies should gain insights into the changing trends and be prepared to modify the logistics of their products and services.

New consumer sub-sectors are emerging during the outbreak. For example, many in the environmental services sector have accelerated the development of technologies and equipment to deal with the medical waste disposal problem. Meanwhile, kitchenware manufacturers are launching R&D and the production of disinfection cabinets, apparel companies are switching to the production of face masks and protective clothing, while remote diagnosis and treatment is gaining traction. A well-known e-commerce company in the country, formerly a conventional offline chain, shut down all physical stores and went fully online following the SARS crisis in 2003, seizing the opportunity to ride on China's e-commerce boom. In addition, consumer demand for tourism, shopping, food and beverages as well as entertainment will jump after a hiatus during the outbreak.

With crisis comes opportunity, enterprises, with a holistic perspective, should look into what opportunities the outbreak will bring, and make timely adjustments to the market, procurement, logistics, production and other aspects to take the lead when the market rebounds.

2

People-oriented: establish a forward-looking health management system to make swift response in case of public health emergencies

- 1. Employee health training.** Companies should conduct employee training on public health and associated risks, such as personal health management, hygiene for meal times, workplace cleaning and influenza prevention, in order to improve employee awareness on public health risks and the importance of health management, reducing inherent risks in respect of employee health.
- 2. Improve the medical security system.** A solid medical insurance system can be established by setting up employee health profiles referencing most health issues (such as annual employee insurance plans). A high-quality employee health management system with effective risk mechanism not only corresponds to the company's sustainable development management initiatives, but also creates a favorable corporate image that appeals to top talent and customers who value corporate social responsibility.
- 3. Monitor and share employee health information.** When health emergency is detected, the system should promptly share appropriate information through company email, OA and other channels. The communications will ensure employees are fully informed of the incident's current situation to promote the employee awareness in prevention, which can help contain the situation and lower health risks employees are exposed to. Furthermore, transparent information minimizes unnecessary panic and the adverse impact of emergency to companies.
- 4. Promote digitalization for remote work.** Another important lesson drawn from this crisis is the importance of remote work in the case of temporary business disruption. Companies should speed up the development of digital office systems and promote digitalization of all business and functional departments within the companies. At the same time, companies should remodel their management mechanisms to be fully compatible with digital office, such as the assessment of risks and importance of various positions in the company, flexible work arrangements when operation is at risk of disruptions, as well as employee supervision, assignment of tasks, work standards, performance evaluation and other aspects of remote work.

3

Find new resources and prudent spending to reduce financial pressure

- 1. Enhance cash flow forecast.** Owing to the outbreak, many company productions and operations are in hiatus as regular expenditures including rent and wages pile up, putting pressure on cash flow. In the case where new cash inflow through the sale of goods is no longer available, available cash reserve will become an important asset. Companies should promptly take stock of their readily available cash reserve and outline future expenditures to ensure that they are working with a realistic picture. They should formulate a detailed plan on the use of funds, strictly eliminate all unnecessary cash expenditures, and ensure that they will have sufficient funds to resume operation when the outbreak is over. In addition, based on the external environment that the company is subject to, the management should carry out risk-based analysis on the financial impact and the decision-making mechanism, build a financial forecast model for crisis, and determine the asset and liability level suitable for the organization. Furthermore, companies should predict possible future funding gaps through financial analysis, and make real-time decisions based on the forecast results to control risks in advance. They also need to keep an eye on the developments of the outbreak and in the event that cash reserves are drying up; they need to be transparent with employees, suppliers, banks and other relevant parties in advance in order to reach mutual understanding and address the challenge in concerted efforts.
- 2. Broaden financing channels.** Companies should raise capital proactively through the capital market or the introduction of new investors to improve the corporate governance and capital structure, and reduce the financial burden. In addition, it is necessary to proactively change how purchases and sales are settled and close the funding gap through credit sales of goods, advance collection of receivables, commercial instruments and short-term loan financing.

4

Cope with changes: actively adjust procurement and marketing strategies

- 1. Establish and enhance the strategic alliance network.** The outbreak has reduced business activities between companies and external parties, especially those require direct contacts. Under such circumstances, companies may consider establishing a new strategic alliance network with dealers, agents, and even certain competitors in the places where the business is located to share benefits, provide mutual support, and maintain customers to mitigate risks arising from the crisis.
- 2. Customer protection policy.** Companies should fully take stock of existing contracts and orders, conduct an overall assessment of contract performance, and actively communicate with customers to minimize losses. In addition, companies may consider launching a communication mechanism during the outbreak and optimize various processes to achieve efficient operation internally and effective communication externally in order to avoid losing customers due to slow communication or cumbersome processes. Companies should also introduce contingency policies during the outbreak to safeguard customer rights, such as refund or compensation on order cancellation resulting from the outbreak, and extension of the coordination period.
- 3. Consider a multi-source supply strategy.** A multi-source supplier strategy enables companies to adopt multilateral and multiparty procurement, establish a backup list of suppliers and decentralize source locations, thereby minimizing the risk of supply chain disruptions caused by emergencies. This strategy helps avoid over-reliance on a single supplier, improve the flexibility of raw material supply, and at the same time enhance security in procurement quantity and speed. Companies may also benefit from the competition among suppliers, achieving higher quality procurement and lower costs.

4. **Develop a backup logistics plan.** A singular transportation mode or strategy often proves inadequate in addressing emergencies. Companies should adopt various modes of transportation in the entire logistics system to avoid disruptions to the supply chain of raw materials and goods in case a particular transportation mode breaks down. They should also come up with a variety of logistics routes or channels to ensure that their supply chain will not be directly cut off by an emergency occurring in a specific area.
5. **Maintain strategic inventory.** Strategic inventory offers buffer against supply chain disruption caused by emergencies, but building up such inventory will incur additional costs. Companies may, based on a flexible supply chain strategy, introduce a suitable strategic inventory model and determine the size of inventory by taking all factors into account such as the value of inventory commodities, costs to build up a security inventory, risk of sales interruption and the diversity of raw material suppliers. They should consider working with upstream suppliers, downstream distributors and other manufacturing partners in establishing strategic inventory and share the buildup costs, reducing the company's own expenses.

5

Enhance brand reputation and social responsibility

- 1. Provide supplies and services with outbreak prevention support.** Health care institutions may offer free online consultations, Internet firms may provide remote collaboration and other professional services, while online education companies may provide free education resources. Home decorators can offer interior fit-out and installation services for hospitals in the worst-hit areas, and express logistics couriers can provide priority delivery for relief supplies. Brand image and integrity of a company should come before short-term profitability in exceptional difficult times. Enterprises that are able to achieve social credibility will be appreciated by various stakeholders and as such, a well-executed delivery plan on social responsibility will help companies increase competitiveness after the outbreak.
- 2. Be transparent and agile in response to news.** Monitoring public sentiments and news that are relevant to the company to avoid misunderstandings among investors and consumers resulting from fake news is key. Companies should clarify fake news in a timely manner and inform the public about the company's work arrangements and contact information during the outbreak in order to cement trust and confidence with the community is crucial.

6

Be prepared for the next crisis: establish a long-term mechanism for effective crisis and business continuity management

- 1. Prepare crisis and disaster scenarios.** Based on the attributes of the company's own industry and management, companies should identify key risks in various emergency and disaster scenarios, classify such risks and formulate risk response strategies. Also, they should consider running stress tests for significant risk scenarios.
- 2. Standardize crisis response processes.** Companies should establish a standardized and streamlined crisis response management mechanism in advance. When a crisis strikes, they should ensure the right people are doing the right thing at the right time, execute pre-assigned management procedures and operational measures to reduce losses and enable business sustainability. The decision-making process for handling crisis should have been established at the early stage and companies should consider the possible impact of the crisis beforehand. Companies should make pre-arrangements for information disclosure, internal and external resources, public relations, personnel and facilities backup.
- 3. Crisis response testing and drills.** A crisis plan requires testing and drills to ensure the company can still operate effectively after launching the response. Organizational coordination, response handling, decision execution and other aspects in the emergency response process should be tested comprehensively to optimize the processes, evaluate the outcome and improve the system.

Companies that are pushing forward against the headwinds in the outbreak must now do their parts, take effective measures to keep themselves afloat, and continuously learn from the crisis to improve their response mechanism. Once the outbreak runs its course, they will be able to quickly resume production and operations, and give the society a much-needed boost to resume normality as soon as possible.

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