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Business in the Time of Coronavirus

Part 1: Assessing the Risk

As the new coronavirus spreads across the globe, few, if any, companies will be immune to the impact of the virus and the attempts to contain it. More is being learned about the new coronavirus every day, but it is unlikely that there will be a vaccine or treatment available for COVID-19, the disease it causes, within the next few months.

It is important for business leaders to assess the risks posed to their people and their company by the new coronavirus and to refine that assessment as events move forward. A reasonably broad, fact-based risk assessment should inform the key decisions that business leaders will face and lead to better outcomes for their people and companies.

While it's difficult to accurately predict the actions of national and local governments, organizations like the WHO, and businesses as they work to contain the spread of the new coronavirus, some of the actions taken so far (lockdowns, quarantines, restrictions on gatherings) give an indication of what's possible or likely in the coming months.

This whitepaper provides a high-level framework and sample questions for assessing business risk from the new coronavirus. It takes a broad perspective but can be easily refined and customized as needed. Ideally, a business would evaluate risk within each area and assemble a

composite view of overall business risk. Overall business risk should be reviewed in its entirety, not one area at a time. It should then be possible to prioritize the highest risks for mitigation. When going through the framework, some risk mitigation approaches will be immediately apparent and other issues will have to be addressed through collaborative effort across leadership teams.

Workforce

The fear, uncertainty, and doubt surrounding the spread of the new coronavirus has permeated most companies and families in the country. Concerns about health understandably have a significant impact on the productivity and mental wellbeing of employees, including leaders. There are five key areas to evaluate.

Infection

Are your employees working in large, co-located teams? Is there frequent in-person interaction between different locations or teams? Does the work require physical hand-off of material or documents from one person to another? What is the demographic makeup of your workforce?

How rapidly would the COVID-19 infection spread across your workforce if a small number of employees were infected? What percentage of your workforce is at elevated risk of a severe COVID-19 infection due to demographics or historical aggregated claims data?

Mobility

Are your employees at risk of being quarantined? Could they have to stay home due to school closures? Could they be prevented from getting to work or returning home due to travel restrictions or limited transportation options?

What percentage of your workforce is at risk of not being able to get to work even when healthy?

Effectiveness

What work can be done while trying to limit infection and under mobility constraints (maintain a six foot distance from co-workers)? How seamlessly can employees work remotely? What mission-critical work will be most challenging to carry out?

How effective can your workforce be when working remotely or under changed work conditions, and what work is at the greatest risk of failure?

Morale

Will your employees feel that their employer is looking out for them and for their families? Will business decisions be seen as employee-centric or simply focused on the bottom line? Is the company culture resilient enough to help employees through what could be a long period of dislocation?

What will happen to employee morale under challenging work or home conditions?

Leadership

Is there a plan in place for making decisions if key leaders are infected, quarantined, or otherwise unable to work in a regular manner? Are the right leaders across locations, business units, and functions available to provide insights and inputs? Is there a plan in place to communicate with employees, external stakeholders, regulators, governments, etc.?

How resilient are your leadership and communication plans and how might they fail?

Going To Market

This is a key question for any business facing disruption by the new coronavirus. It is critical to understand both the changes to demand and their potential duration.

Demand

Has demand for your product gone up (masks), gone down (cruises), or become difficult to predict (child daycare)? Does your product depend on in-person interactions (event planning) or can it be arms length (food delivery)? What could change demand from your customers' customers (and their customers...)? How likely is it that demand will spike or plummet? Are there customer or product segments where demand is more likely to be stable or grow? Is seasonality of demand a factor? How long will disruptions to demand last, and what conditions need to be met (e.g., a COVID-19 vaccine) to end the disruptions?

What is likely to happen to demand for your product? When will demand return to a stable or viable level?

Sales and Marketing

Are sales dependent on in-person meetings with your salesforce? What are the risks for online sales? Are there potential issues with partners or referral networks? Are marketing activities at risk of disruption?

Can Sales and Marketing maintain current demand, or grow it?

Operations

Inputs come in, you do something to them, and outputs go out. It's a simplification that works whether you're an investment manager working with market data or an industrial company making anvils. All three aspects of ongoing operations are at risk of disruption from the new coronavirus.

Supply Chain

Many of the early business concerns about the new coronavirus were related to global supply chains and the impact of factory shutdowns and impaired logistics in China. Over time, as the virus spread to Europe and other parts of Asia, it has become clear that the initial concerns understated the supply chain issues.

What raw materials or partially completed parts do you obtain from high-risk areas? Which of your suppliers (and their suppliers, and their suppliers...) are at risk of not being able to provide what you need? How resilient are the transportation logistics and data infrastructures for critical inputs?

What are your primary supply chain risks, and which ones are mission critical?

Production and Inventory

What quantities of inputs do you have in inventory and how long will that buffer last? How dependent is your production machinery on readily available operators, spare parts, maintenance, power supply, etc.? What quantities of outputs do you have in inventory and how long will that buffer last? Is the inventory of outputs more at risk of buildup or of rapid drawdown? How much space do you have available for inventory?

How robust is your production process and equipment? What are your non-financial inventory risks?

Delivery

What are the risks associated with getting your product to market? Could government or public health restrictions affect your ability to go to market? What are the risks to your distribution network? Is there an impact to resellers?

How reliable is your delivery platform and what is the risk of delivery failure?

Financial

Cash is King. The most significant financial risk is running out of cash. It looks like credit will stay cheap, but may also not be readily available.

Cash

How much cash do you have? How easily is it accessible? Is it in the right locations to feed into payroll, A/P, and other expenses? What is your burn rate likely to be after factoring in the impact of the new coronavirus?

What is your risk of running out of cash?

Credit

What lines of credit are available, including from suppliers? Could the credit be pulled back, and how likely is that? Can credit terms be negotiated? Can credit be readily turned into cash?

Could you lose access to credit, and can current credit be used to bolster your cash in hand?

A/R, A/P, and Expenses

Are A/R at risk of delay or nonpayment? Can the terms for A/R and A/P be changed without your agreement? What planned expenses (hiring, bonus payments, capex) can be deferred and what are the implications of deferring them?

What are the risks associated with your cash flow?

Administrative and Support

HR

Many of the questions around Leadership risk also apply to HR, which takes on significant responsibilities during a health crisis.

Are there plans in place to maintain HR support through infections, quarantines, or other issues? Is there a robust employee communication plan in place? Are there policies on sick leave, working remotely, etc. that need to be proactively updated? What about policies on business travel, the number of people in an in-person meeting, or attending a conference? What additional people-related expenses (paid sick leave) and resources (EAP support, backup child care) could be required? Are there contingency staffing plans for operating with a reduced workforce? If self-insured, is there appropriate health care coverage, and what unplanned expenses could the company have to cover?

What are the risks associated with providing supplemental financial and other support to employees? Is HR ready to provide that support? Are policy updates required? Are there staffing plans for a situation where many employees are unable to work?

Information Technology

Your company's IT infrastructure should already have robust plans to address outages, cyberattacks, etc. What may not be in place is support for the large-scale changes in how your employees will work.

Is there sufficient VPN capacity for remote logins? Is video conferencing bandwidth in place? Are your communications providers able to meet your projected demand? Do service agreements with providers have to be updated? Are electronic signatures and other digital workflow services in place?

Can IT support the expected changes in how your employees work?

Legal, Regulatory, and Compliance

There is the potential for new rules and regulations related to product safety, internal meetings, etc. These regulations could have significant impacts on your company (e.g., will your product have to be certified to be "coronavirus free" or made from "ingredients not sourced from coronavirus zones") and may have to be implemented rapidly.

Do you have robust lines of communication in place with your regulatory bodies? What is the risk of significant regulatory changes? Are there plans in place for how to address changes?

What is your risk from changes to the regulatory landscape?

Other Support Functions

Depending on what your business does, it could be important to assess the risk from other support functions in order of priority. Facilities management, especially cleaning services, will be important for any employees not able to work remotely. Security, onsite health clinics, etc. will also face new risks and may require additional resources.

What are the most important risks from support functions?

Mitigating the Risk

The business risks of the new coronavirus can be partially mitigated, but are likely to require some tough decisions. Mitigation strategies will depend heavily on the context of your business. Part 2 of this series provides a playbook for risk mitigation.

What Comes Next

The impact of the new coronavirus is likely to lead to permanent changes in business practices. Expect to see changes ranging from supply chain overhauls to new remote work practices. Businesses will have to plan for the next potential pandemic and should thoughtfully apply the lessons from the new coronavirus. Understanding the changes in your business landscape will open up new opportunities in the wake of the new coronavirus. Part 3 of this series presents a framework for applying the lessons learned and identifying growth opportunities.

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