

Planning for COVID-19 Business Uncertainty

By Vikas Gopal

Global Managing Partner,
Finance & Shared Services Transformation

Abstract

The biggest global uncertainties today center around the COVID-19 health crisis and the stress on the world's healthcare systems. Hard on its heels are the economic concerns, particularly for people losing their livelihoods, owners their companies, and investors their savings. As business leaders, we have to address these immediate concerns – but we are also charged with preparing and planning for the eventual recovery, else we compound the problems for companies and their stakeholders.

In a crisis, it may be difficult to see past the immediate needs to secure revenue and working capital, but to be prepared, planning for multiple scenarios is needed now to avoid indecision and surprises later.

How long before we turn a corner?

The duration for both the current health and economic crises remains uncertain, now three months into the timeline. Yet financial and operational planning scenarios need to be drawn up now, based on when the damage currently being done to people and the economy comes to an end. Scenarios for an end in two, four, six, nine months -- or even as long as a year -- will be needed. The longer-term scenarios may not need to be especially detailed, but at a minimum each should model possible revenue, fixed costs, COGS, capital investments and other variable or discretionary spending.

For each duration, consider a best- and worst-case scenario for revenue and costs as the pandemic worsens and then improves in each respective timeframe.

Preparing for different eventualities

Were we certain of a longer timeframe, there are likely cost-cutting measures we would undertake today that would be damaging to recovery prospects should the duration prove to be shorter. As a result, action plans need to build on each other, with specific milestone dates when the next phase of change needs to be implemented based on the assumptions, which must also be continually assessed and updated.

In fact, regular – even daily – updates to the scenario plans are essential as information comes in. With a fast-moving event, the situation may improve or worsen suddenly. For example:

- In some countries – notably the U.S. and India, where access to coronavirus testing has been slower than in parts of Europe and Asia – cases of infection may still be significantly undercounted. Will we see a big spike in cases and the likely drop in the markets that it causes when effective tests become widely available?
- Conversely, would the ready availability of antibody tests – to determine those who have recovered from COVID-19, even if asymptomatic – allow some workers and consumers to return to a semblance of normal activity sooner?
- At what point do you need to invest in major structural changes to cut costs – including centralizing or outsourcing functions – to ensure long-term viability? Will you have the available funds to make the changes when you decide to do them?

- Many organizations are working on treatments and vaccines right now. Success or failure of these will likely be a big factor in consumer and investor confidence.
- As duration and claims rise, insurance carriers may run into liquidity issues. They will be taking losses on business interruption policies and, sadly, also on life insurance. At an extreme case – as with AIG in 2008 – they may find themselves unable to pay out on policies you are relying on to keep running.

Just as important, do not lose sight of what is needed to recover once the pandemic passes, especially if disruptions last longer than 2-3 months. Consider:

- Are your major suppliers and customers financially secure? Consider redoing creditworthiness due diligence and business partner risk assessments – recovery may be constrained if major customers or suppliers go out of business.
- If there is a longer duration to the pandemic, haulage, shipping and air-freight companies may cut capacity, making supply chain costs rise, or even leaving you unable to ship raw materials and products.
- How rapidly will the large number of furloughed and laid-off workers return to work and start earning money at a level to be confident again in their spending?
- As bankruptcies, personal mortgage defaults and other unpaid bills rise, will there be a tightening of the credit market, making it more costly or even impossible to get credit needed to fund your recovery activities?

Working today to plan for tomorrow

Worldwide, in these current circumstances, doctors and nurses are making plans for the care of each individual patient in their charge – and they are trying to prepare for the next patients to come in the door, as well. Epidemiologists are forecasting models of infection rates and hospitalizations, planning for a number of scenarios depending on the progression of the pandemic and the effectiveness of community efforts to contain it. Our responsibility, as business leaders, is to manage the current economic crisis as best we can while working toward whatever the future may hold. Only by clear-eyed analysis of the various possibilities – being neither overly optimistic nor overly pessimistic, but certainly realistic – can we fulfill our responsibilities for our stakeholders.

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