

## THE GLOBAL SPREAD OF COVID-19 AND HOW BUSINESSES SHOULD OVERCOME THE EFFECTS OF THIS CRISIS

18 March 2020

# DIFFERENT SECTORS ARE BEING EFFECTED FROM THE GLOBAL SPREAD OF COVID-19 BOTH FROM DEMAND AND SUPPLY FACTORS

## THE SPREAD OF COVID-19

- The global spread of the coronavirus has resulted in significant economic fallout, which is severely hampering not only trade and supply chains, but depressing domestic consumption demand in affected countries and around the world. The spread will have an impact on demand and supply factors that will overall weaken global economic activity and will affect a variety of different sectors.

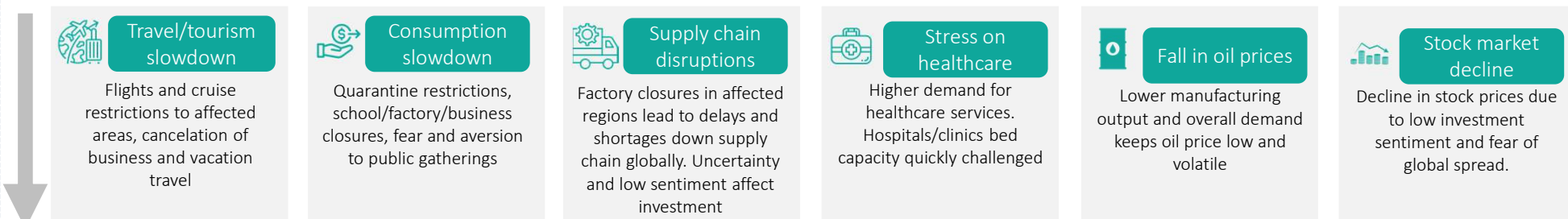


## Impact of the coronavirus on the global economy

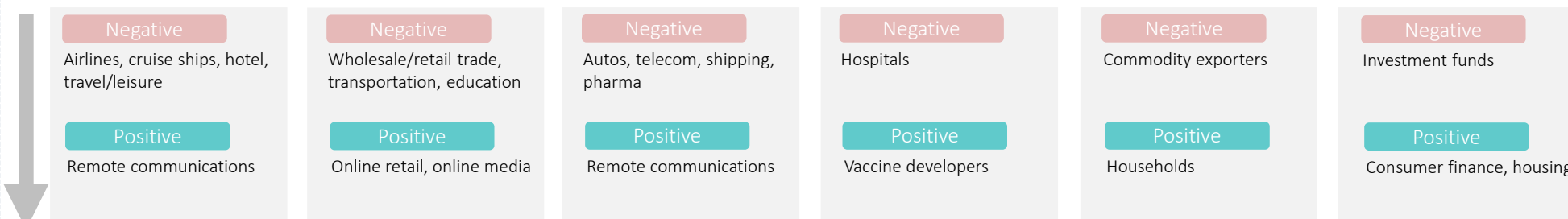
### ECONOMIC EFFECTS



### CHANNELS OF IMPACT



### SECTORS AFFECTED



# BUSINESSES SHOULD ESTABLISH A RISK MITIGATION FRAMEWORK AGAINST THE ECONOMIC UNCERTAINTY THAT MAY BE CAUSED BY THE SPREAD OF COVID-19...

## RISK MITIGATION FRAMEWORK

- As businesses contend with external disruption on all sides, COVID-19 represents yet another highly unsettling, unexpected, and potentially damaging force. This pandemic requires fast and decisive action, but this is complicated by ongoing changes in guidance, shifting predictions of the human impact, and intense challenges in accurately forecasting the short and medium-term commercial and financial implications. We've identified three things that businesses can do in order to be better prepared to mitigate against the effects of COVID-19 which includes:

### STEP 1: ASSESS RISK



- The first step to establishing control is to identify the key risk areas within your organization. Risk exposures will differ from business to business and from sector to sector, but the vast majority will experience some degree of revenue, supply chain or workforce disruption.
- Once risk areas have been identified, it is essential to determine how commercial and financial performance is likely to be affected over time. This will require a comprehensive financial forecast and a communication plan internally and with key external stakeholders.

### STEP 2: FORECAST FINANCIAL IMPACT



- Once key risks have been identified, your business needs to evaluate different financial scenarios, which can be determined with the development of a detailed cash flow forecast that can reflect on liquidity, business position and make it easier to map out different options/scenarios.
- Given the high level of uncertainty associated with the virus's ongoing spread, developing strong liquidity is key to building resilience. This can be done in a number of ways, but in the short-term, managing and preserving cash relies on the creation of a strong cash management foundation. This can include stretching payables and stepping up collections, delaying capital expenditures and restricting non-essential expenditures, and prioritizing disbursements and collections.

### STEP 3: COMMUNICATE WITH STAKEHOLDERS



- Open and regular communication will reassure stakeholders (both internally and externally) that your business is under control and that proactive steps are being taken to mitigate the risks associated with the crisis.
- Stakeholders, especially banks and other creditors, are likely to want to see that the company has undertaken a sensitivity analysis to understand the impact of risk items under relevant scenarios, as well as an options analysis to pre-agree mitigation actions that may become necessary in the event of these various risks and scenarios materializing. This will give stakeholders confidence that the company is ready to implement contingency plans quickly in the event that they become necessary.

# ...THE MOST CRITICAL FACTOR IN OVERCOMING THE EFFECTS OF THE CRISIS IS TO MANAGE CASH FLOWS EFFECTIVELY

## BUSINESS EFFICIENCY IS CRITICAL DURING CRISIS

- Unexpected crisis, like the rise of COVID-19 create immediate problems, but worse, they expose long-standing underlying issues. Businesses that are not efficient and haven't addressed these issues before will be more vulnerable to the economic effects of the crisis. While the immediacy of a crisis naturally encourages short-term thinking, there are long-term objectives that can be implemented.
- Crisis bring focus and applying an effective crisis management strategy and contingency plan will help your business establish a strong longer-term institutional framework, which is an essential ingredient for long-term success.

## CREATION OF A CASH CULTURE

- In order for businesses to understand the financial impact of the crisis, they are encouraged to develop a detailed cash forecasting model and manage communications to vendors, customers, employees, and shareholders with a focus on cash as a key management measure.
- Management should model the anticipates of a liquidity crunch where outcomes are planned instead of being reactionary. The model should identify wasteful spending more easily and optimize the company's spending into more effective channels. The exhibit below highlights key actions that your business can undertake to effectively manage their cash flows during and post the crisis.

### Actions to preserve and manage cash

#### STAGE 1:

Build a strong cash management foundation

- Identify cash balances, cash accounts and their usage
- Prioritize current disbursements and collections
- Identify non-periodic and irregular transactions
- Restrict non-essential expenditures
- Stretch payables and step up collections
- Delay capital expenditures

#### STAGE 2:

Expand the focus to meet operational needs

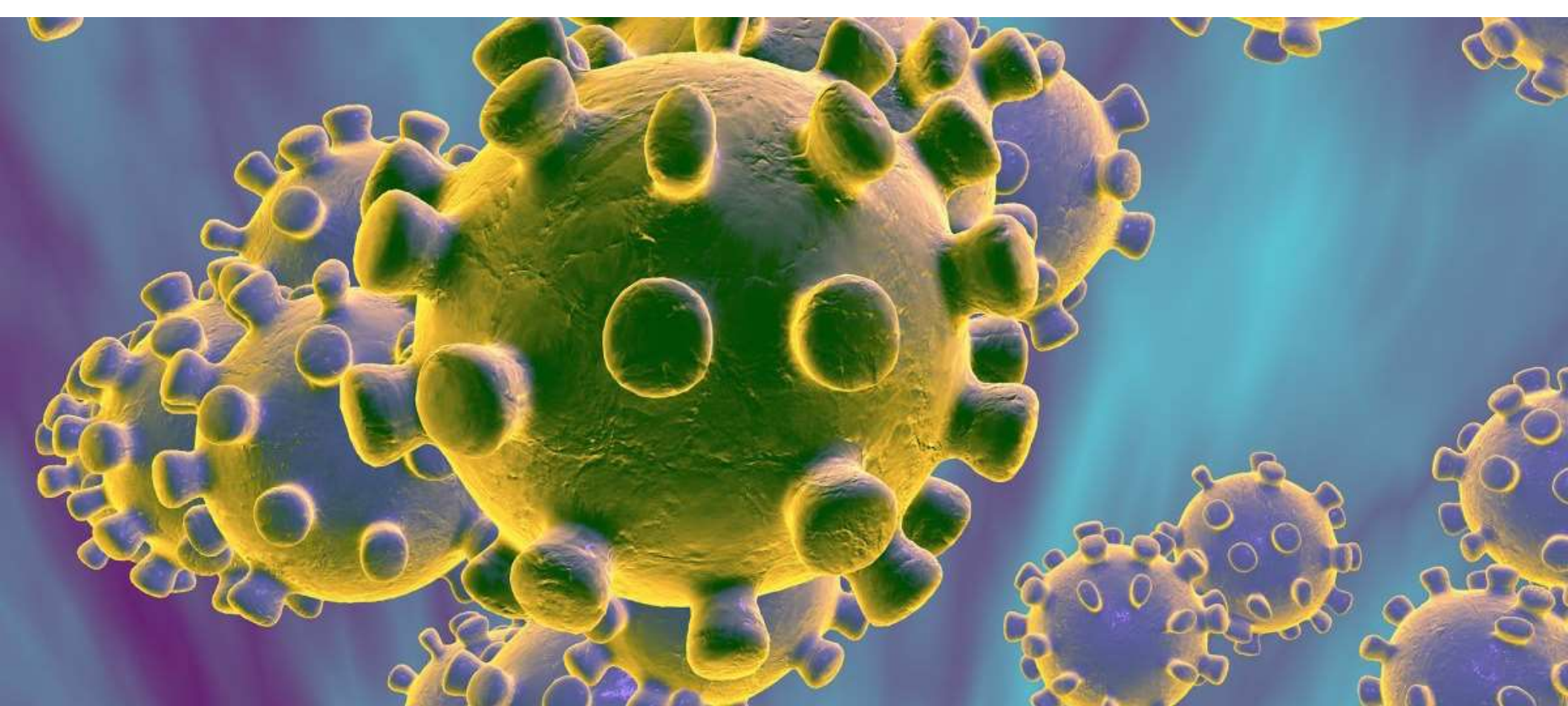
- Reduce inventories without impacting customer service
- Use leverage when dealing with non-essential vendors, customers, landlords and lessors
- Identify basic changes to the business
- Renegotiate terms with vendors or resource non-merchandise purchases

#### STAGE 3:

Optimize the balance sheet

- Sell non-core assets, monetize real estate
- Settle litigation
- Re-finance; obtain new debt





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