

WOODARD™

COVID-19 Roundtable

Navigating Pandemic Recovery & Repositioning



- Education
- Coaching
- Community
- Resources



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- Published author McGraw Hill, *Accounting Today*, *CPA Practice Advisor*, *AccountingWEB*, *The Journal of Accountancy* and *Insightful Accountant*.
- Career Trainer to over 125,000 accounting professionals
- 2012, 2014 – 2019 – Top 100 Most Influential People by *Accounting Today*



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Topics for Discussion:

- The Pathway to Recovery & Success: The Big Picture Concept
- Considerations as You Work With Your Customers

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Who is Elliott Davis?

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Consulting



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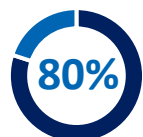
Pathway to Recovery & Success: The Big Picture Concept

There is tremendous uncertainty in the market...

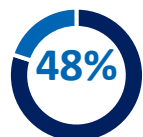
While it may be difficult to predict the exact outcome of COVID-19 on the economy, it is important for businesses to begin preparing for different scenarios and establish a resilient go-forward response plan

Recent survey of top concerns for CFOs...

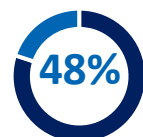
Question: What are your top-three concerns with respect to COVID-19? (Top answers shared below)



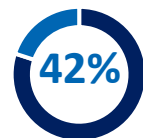
Potential global recession



Decrease in consumer confidence and a reduction in consumption



Financial impact including effects on operations



Effects on our workforce / reduction in productivity

What we are hearing from our customers...

“How do I interpret government action – both new restrictions and legislation – and make the best decisions for my company?”

“With so little clarity about what the next weeks and months look like, how can I develop reasonable financial projections to inform critical decisions?”

“I need to reduce expenses drastically right now – what all are the levers?”

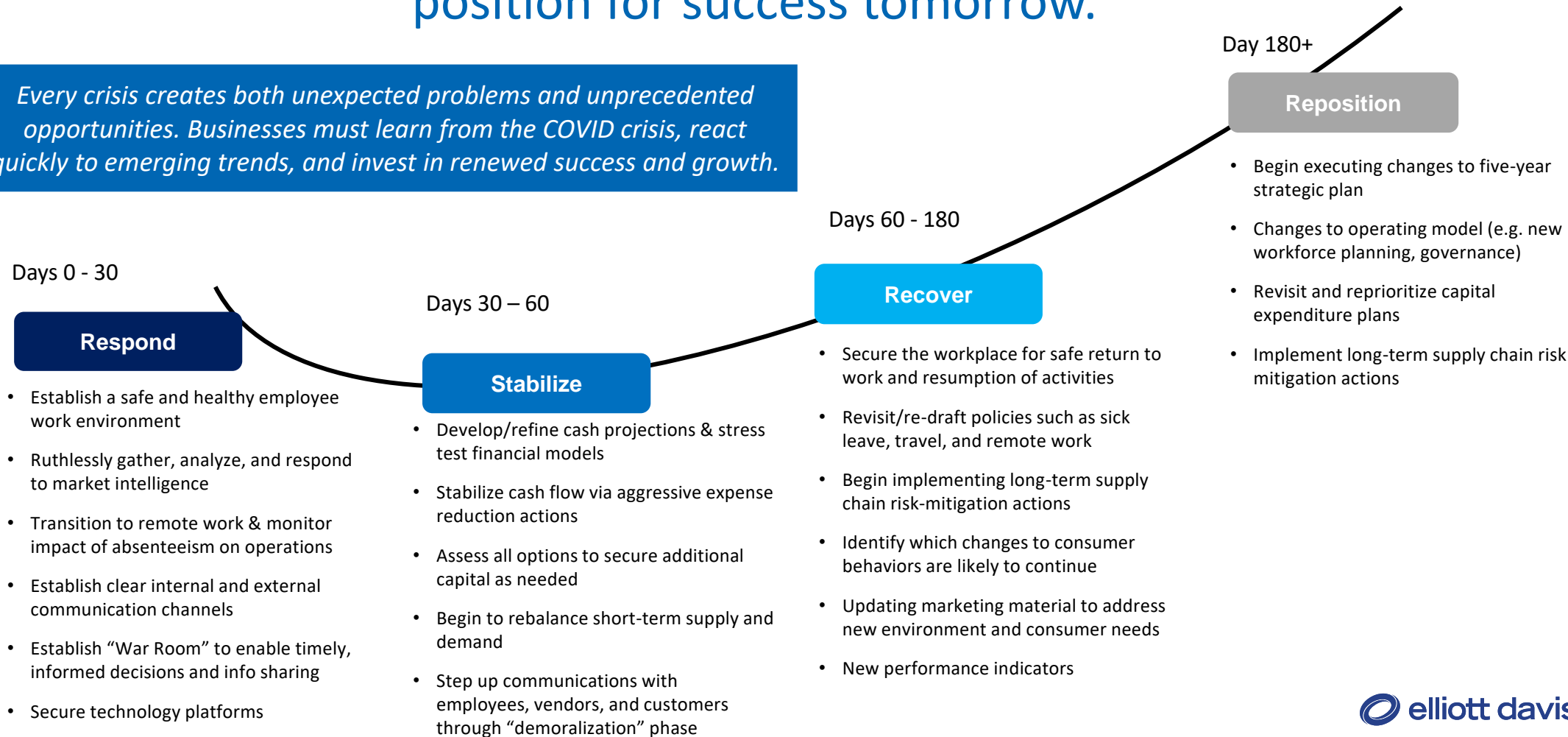
“I’m worried we don’t have the resources available to manage the complexity”

“How will I need to reposition the business to emerge from this successfully?”

How are other companies managing this? What could I be doing differently?

Business Leaders are faced with managing today's response but must also position for success tomorrow.

Every crisis creates both unexpected problems and unprecedented opportunities. Businesses must learn from the COVID crisis, react quickly to emerging trends, and invest in renewed success and growth.



Days 0 - 30

Respond

- Establish a safe and healthy employee work environment
- Ruthlessly gather, analyze, and respond to market intelligence
- Transition to remote work & monitor impact of absenteeism on operations
- Establish clear internal and external communication channels
- Establish “War Room” to enable timely, informed decisions and info sharing
- Secure technology platforms

Days 30 – 60

Stabilize

- Develop/refine cash projections & stress test financial models
- Stabilize cash flow via aggressive expense reduction actions
- Assess all options to secure additional capital as needed
- Begin to rebalance short-term supply and demand
- Step up communications with employees, vendors, and customers through “demoralization” phase

Days 60 - 180

Recover

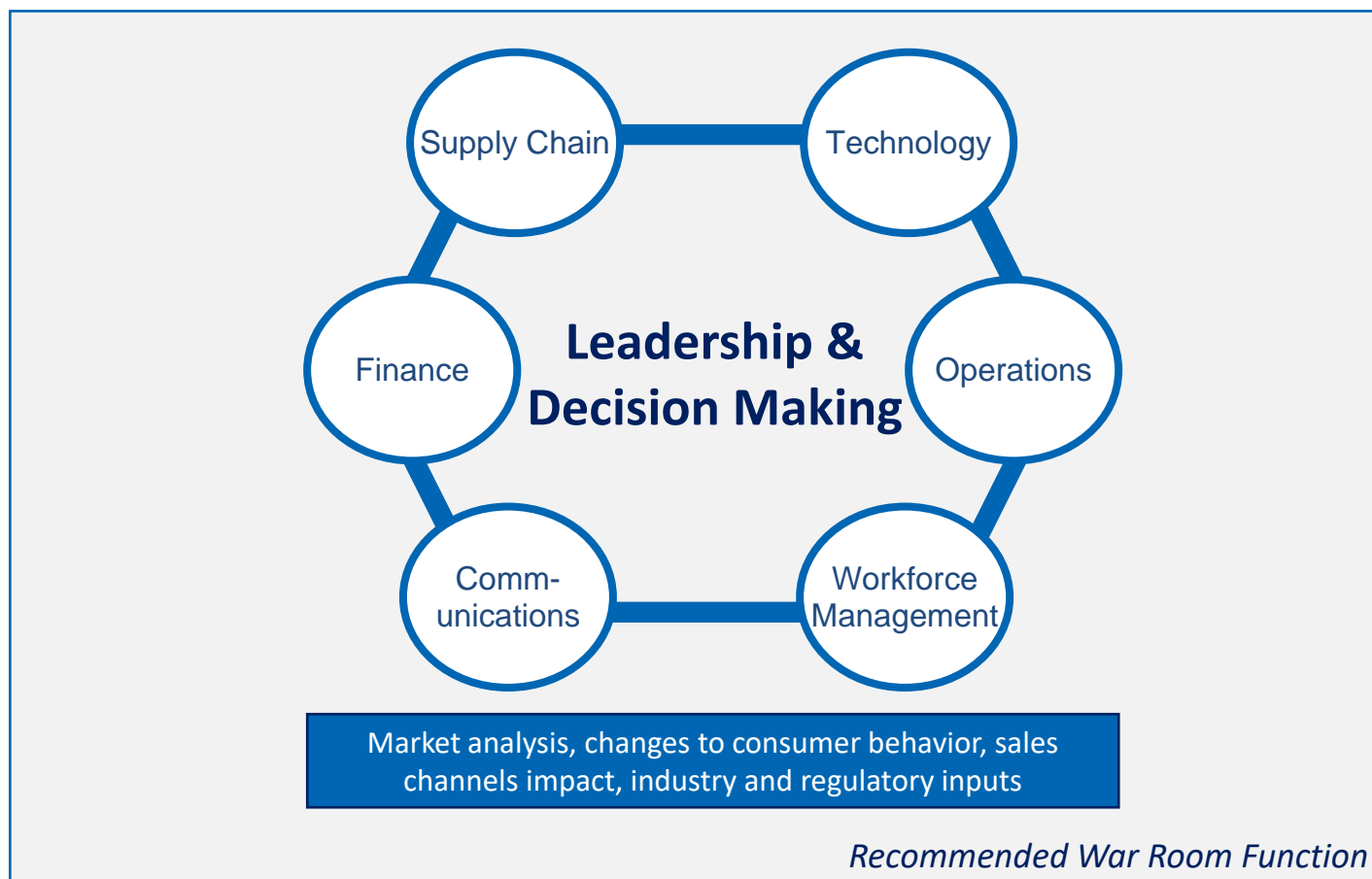
- Secure the workplace for safe return to work and resumption of activities
- Revisit/re-draft policies such as sick leave, travel, and remote work
- Begin implementing long-term supply chain risk-mitigation actions
- Identify which changes to consumer behaviors are likely to continue
- Updating marketing material to address new environment and consumer needs
- New performance indicators

Day 180+

Reposition

- Begin executing changes to five-year strategic plan
- Changes to operating model (e.g. new workforce planning, governance)
- Revisit and reprioritize capital expenditure plans
- Implement long-term supply chain risk mitigation actions

Successfully navigating the continuum requires managing multiple domains and their interdependencies.



Primary Leadership Objectives

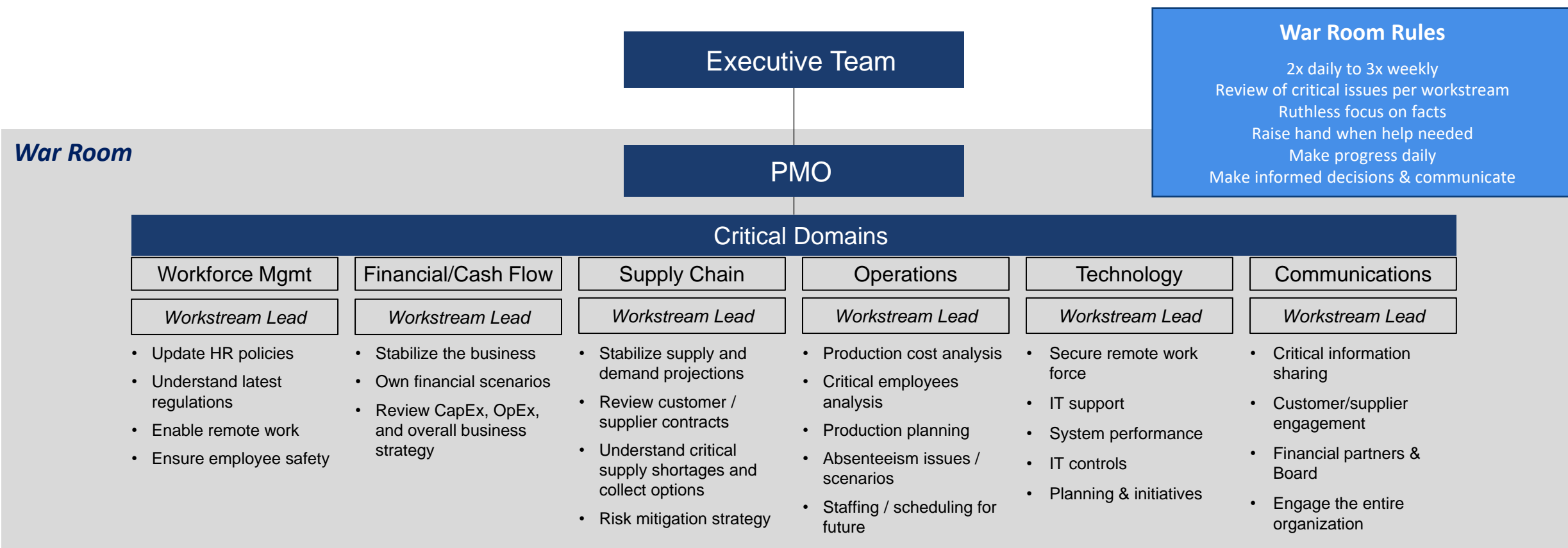
- Workforce safety, maintaining engagement*
- Managing cash flow and expense discipline*
- Effective coordination across stakeholders*
- Enablement of remote work, data security*
- Impact of latest regulatory news*
- Continuity of supply, maintaining production capabilities*
- Recognizing shifts in top line performance and opportunities to replace*



Considerations as You Work With Your Customers

Our approach: War Room structure, rules, and activities

Establishing a Program Management Office with clear Workstream Leads drives coordination between top management and all the critical workstreams to make timely decisions and take action with clarity, focus, and urgency



Running an efficient War Room can greatly increase speed and quality of critical decisions and actions

How we drive the process

- Proactively manage critical workstreams
- Assign individuals to lead info gathering and comms efforts; present critical decisions within each workstream
- Use illustrative status reporting tools to facilitate actions
- Establish 1x or 2x daily War Room meetings to drive alignment and enable a fast, yet fact-based response

Benefits of a War Room

- Provides single source of truth to executive team
- Manage-by-facts approach improves decision making by limiting bias and speculation
- Collective problem solving across functional areas
- Increased team commitment to an objective. Complete alignment of priorities
- A more disciplined way to set objectives, manage risks, and monitor progress under intense pressure

Illustrative status reporting

3/25 WAR ROOM

Master Issues List

Objective: Develop and maintain a master list of critical issues by workstream to enable timely resolution

CRITICAL ISSUES	OWNER	RISK	LATEST UPDATE	DECISION NEEDED
Objective: Maintain continuity of supply while aggressively lowering working capital burden				
1. No incoming supply of PN 416-7942-1 until 4/15	Owner 1	■■■■■	Vendor says supply unavailable. Looking at outsided distribution channels. ALT part 416-7942-2 available for \$0.08 premium available 5/15 - needs exec approval drop dead 3/25	YES - 3/25
2. No demand update from customer ABC since 2/25	Owner 2	■■■■■	Customer unable to provide stable demand signal. Recommend assuming demand cut to 50% to reflect warehouse pullrate. Need exec decision.	YES - 3/25
3. Customer XYZ aged AR now \$87,235.00 > 90 days	Owner 3	■■■■■	Connected with CFO this a.m. - cannot PIF. Committed payment plan NLT 3/27 EOD	N/A
4. Market prices of fastener 412-9847 now \$4.18/ea vs. \$0.98 standard	Owner 4	■■■■■	Need exec approval to secure 100K pc at new price with \$320K purchase price variance risk. Need exec decision.	YES - 3/25

OVERALL PROJECT STATUS

Weekly Status Reporting – Achieving Goals

GOAL: Achieve growth by entering into select markets while improving overall balance sheet performance

INITIATIVES	OWNER	Due Date	STATUS
High-level initiative title			
2a. Roll out Instant Issue Debit Card	Smith	5/30/20	■■■■■
2b. Roll out Rewards Checking Account	Jones	5/30/20	■■■■■
2c. Increase select fees (DD/NDF, Wire & Stop)	Smith	5/30/20	■■■■■
2d. Change Passbook Savings Product to Statement Savings	Jones	5/30/20	■■■■■
2e. Conduct study on fee structures for loan accounts and provide recommendations.	Smith	5/30/20	■■■■■
High-level initiative title			
3a. Conduct evaluation of market entry method (de novo or acquisition)	Jones	5/30/20	■■■■■
3b. Open new branch in target market	Smith	5/30/20	■■■■■

UPCOMING MILESTONES

- Include upcoming milestones that project team and leadership need to be aware of
- Insert immediate next steps (particularly those that have dependencies)
- Include key accomplishments to recognize team effort

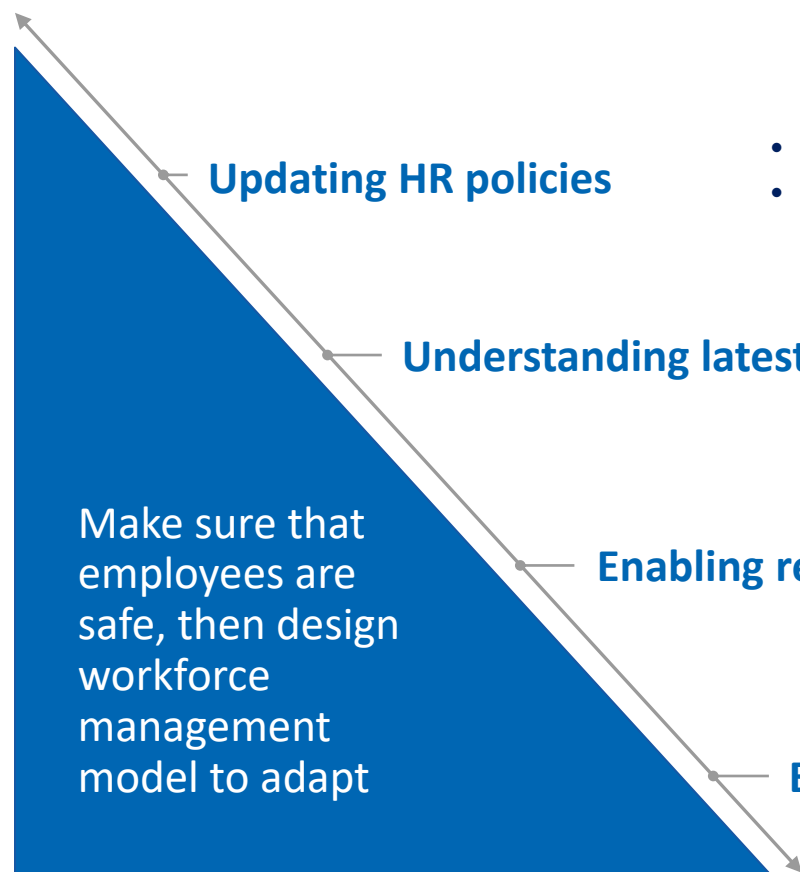
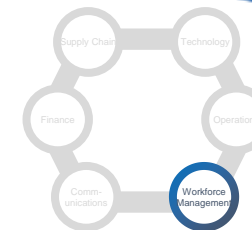
CRITICAL ISSUES

- Include issues requiring decisions or other actions from leadership
- Include key risks that may jeopardize a successful or on-time completion of the project (or key watch items that may evolve into risks)
- Include key communication points for the project team and leadership

■ On Target (no issues can be created with the current source of funding)
■ Watch Item (Monitor risk and mitigate plan in place)
■ High Risk (Monitor risk with developed mitigation plan)

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Workforce Management: Important to focus on employees during crisis, beginning with safety



Updating HR policies

- Develop/Update escalation policies for crisis management (e.g., virus onsite)
- Update travel, meeting, availability, work remote policies

Understanding latest regulation

- Assess impact of latest regulations (e.g., FMLA)
- Understand when to consider stopping work (if not mandated)

Enabling remote work

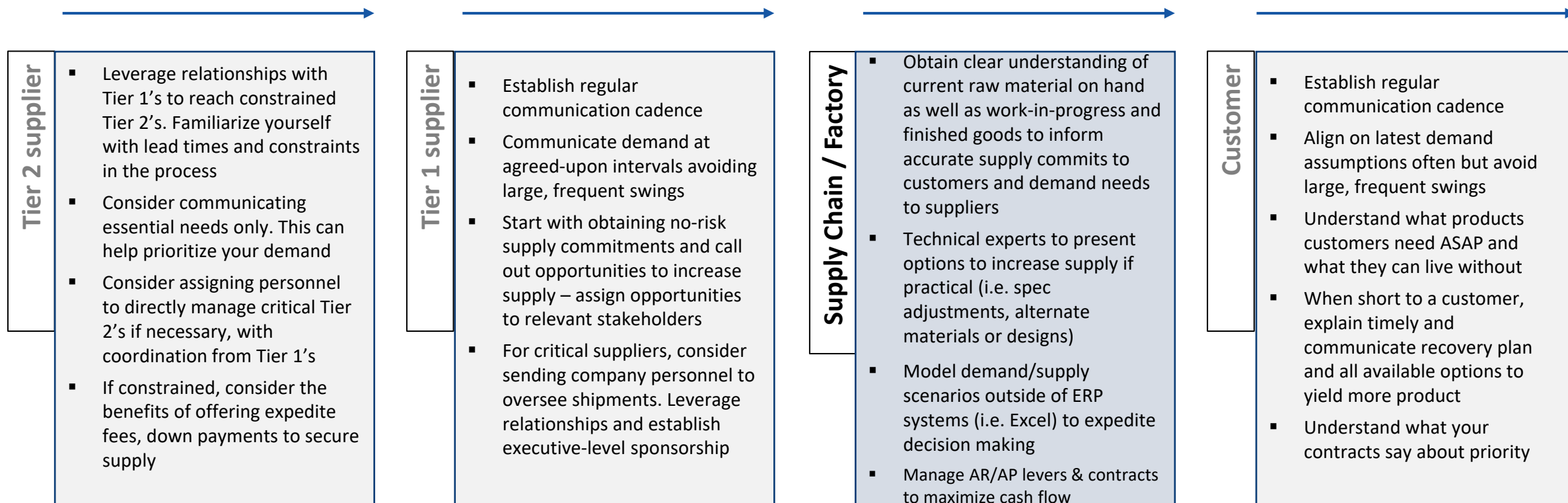
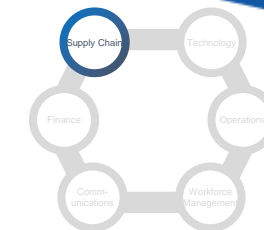
- Ensure connectivity / capability when working remotely
- Enable hardware and systems to allow for remote work (e.g., VPN)

Ensuring employee safety

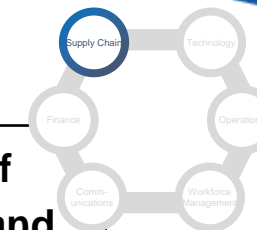
- Understand CDC safety guidelines
- Ensure communication of sick-leave policies

Supply Chain: Timely, informed decisions in supply chain are critical to business continuity and cash flow management

Critical to manage the end-to-end supply chain and take complete responsibility for business continuity



Proper supply chain management should involve questions about trade offs



Managing procurement risk requires weighing working capital, cost, and resource burden versus the benefit of optionality. As industries emerge from the COVID-19 crisis, we advise reconsidering the procurement playbook and look to strengthen newly exposed weaknesses, focusing more on total cost of ownership (TCO)

Low working capital targets

Lowest possible cost

Sourcing only in “low cost” regions

Achieve scale with suppliers via spend aggregation

Low procurement overhead

Buying from only distributors

Holding buffer of critical raw inputs

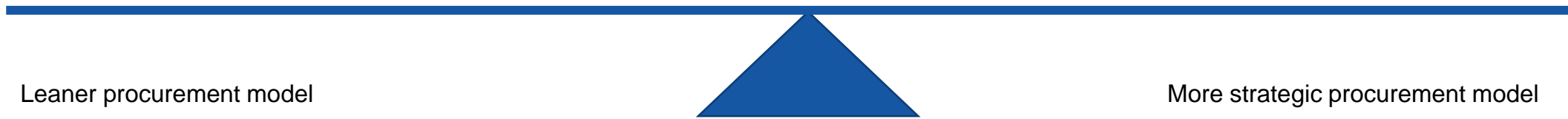
TCO model (+ tariffs, freight, cost of poor quality)

Alt. sites for natural disasters (tsunami, pandemic, etc)

Dual source critical, high-risk components

Resources to manage a multi-tier supply chain

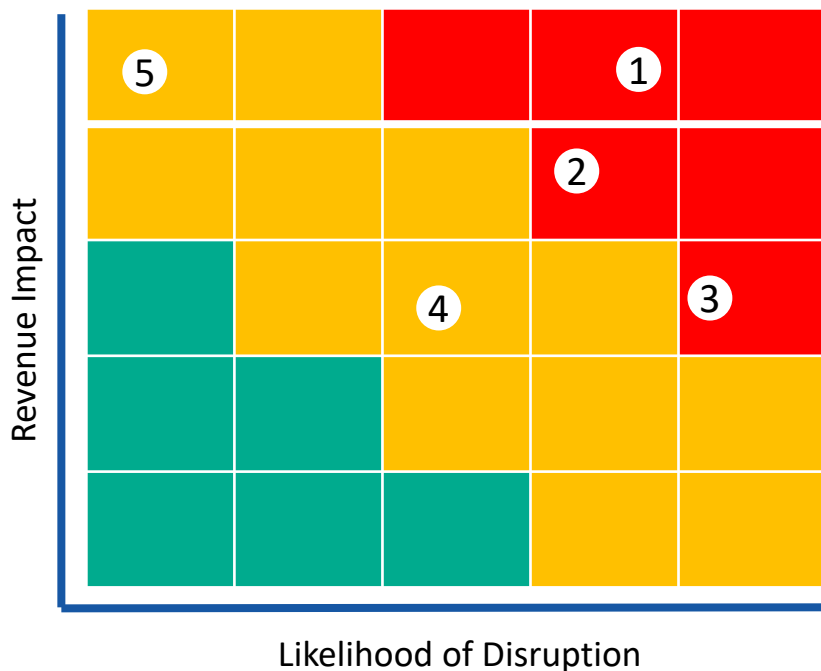
Investing in vendor relationships



Leaner procurement model

More strategic procurement model

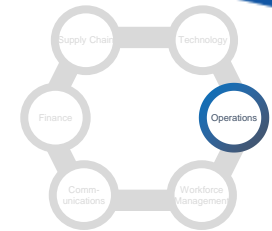
Risks should be identified and mitigated across all parts and categories



- Multiple sources
- Multiple geographies
- Buffer stock
- Robust supplier contract

Product Category	Part Number	Current State	Future State Options	Cost of Disruption	Cost to mitigate
Sheet metal 1	416-3280	Single-sourced, China-origin. AVG buffer stock on hand = 2 weeks	(1) Increase raw mat'l buffer in-house to 3mo. (2) Qualify 2 nd supplier from JPN	\$5MM revenue loss/mo.	- \$250K working cap increase - \$200K to qualify
	416-3281				
	416-3290				
Owner: Current Status: ... Next Steps: ...					
Seals 2	818-XXXX family	Rely on distribution in low qtys without vendor contracts	(1) Consolidate distributed hardware spend into sole distributor to gain EoS, secure contract		
Owner: Current Status: ... Next Steps: ...					

Operations: Increasing and understanding flexibility in operations will be critical as the supply chain is disrupted

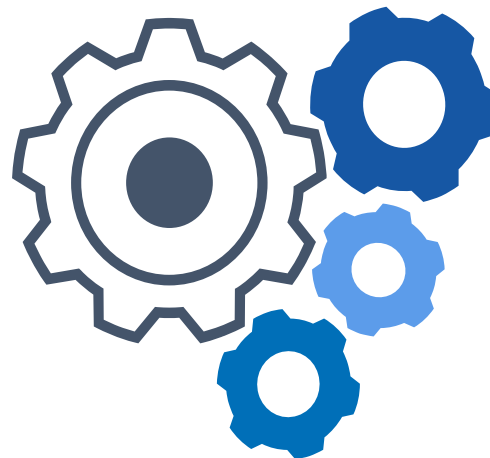


Production cost analysis

Capture fixed and variable costs; levers to impact

Analyze cost impact of production misses

Analyze impact of production flexibility on cost and risk



Critical employees analysis

Identify positions requiring technical or regulatory expertise

Assess outsourcing options for backup

Identify opportunities for cross-training employees

Production planning

Assess ability to meet demand

Stabilize production (given demand uncertainty / volatility)

Understand constraints of supply chain on production flexibility

Assess risk and impact of missing customer orders

Absenteeism issues / scenarios

Identify minimum employees to maintain operations

Develop plan for 30+% absenteeism

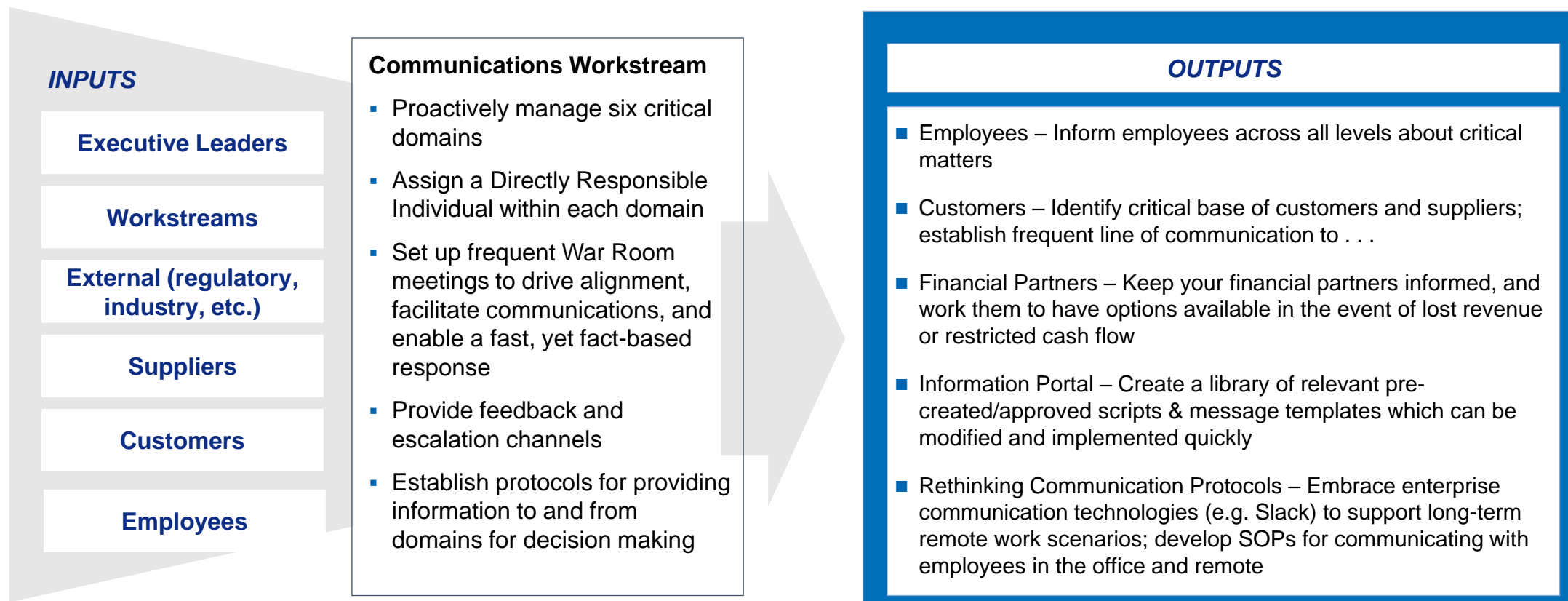
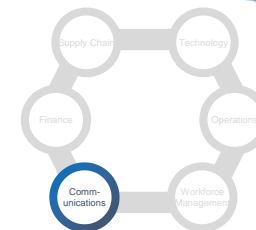
Staffing / scheduling for future

Determine staffing levels and assess skillset (are there new skills required to meet needs?)

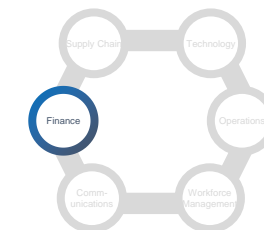
Assess opportunities to add flexibility to production / operations

Communications: Effective and frequent communication is vital to a successful crisis response

An effective Communication workstream is able to gather and synthesize information from a variety of sources, and deliver messages at appropriate frequencies to a number of different stakeholders



Finance: Having an updated view of the company's cash position is critical for making decisions



Iterative refinement of business scenarios based on latest inputs

Stabilize the business

- Identify short term levers that could impact cash position (e.g., SBA Loan)
- Review A/R, A/P, Contracts and examine for opportunities improve cash flow
- Understand the impacts of latest regulations (e.g., payroll)

Develop business scenarios

- Measure impact of economic “V-shaped” recovery and prolonged recession
- Revise scenarios frequently to account for latest information

Project supply & demand and measure impact

- Work with supply chain, operations, and workforce management team leads to understand expectations for business
- Ensure that disruptions are modeled (e.g., spike in raw material cost)

Review CapEx, OpEx, and overall business strategy

- Based on the cash position from different scenarios, take a critical lens to current CapEx and OpEx plans
- Review the overall strategy and press for opportunities to add new revenue streams if cash position requires it

Develop (Update) robust cash flow model

- At a minimum, have a rolling 13-week cash flow model that allows for scenario analysis to understand how changes will impact cash position
- Once short-term view is complete, expand model through year end to provide visibility for more strategic business decisions that will be made

Additional Resources: [elliottdavis.com/covid19](https://www.elliottdavis.com/covid19)

Webinar: <https://www.elliottdavis.com/covid-19-webinar-business-continuity-uncertain-times/>

Summary resource: <https://www.elliottdavis.com/maximize-incident-response-effectiveness-guidance-mid-market-companies/>

This summary article has seven links:

- <https://www.elliottdavis.com/maximize-incident-response-effectiveness-internal-external-communications/>
- <https://www.elliottdavis.com/maximize-incident-response-effectiveness-financial-readiness/>
- <https://www.elliottdavis.com/maximize-incident-response-effectiveness-human-capital-workforce-management/>
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QUESTIONS?

We're here to help.

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