

Distributors need new resilience

Industry leaders prepare for waves of impact

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Commerce is the fuel that feeds the warehousing and distribution industry, and COVID-19 shutdowns have broken fuel lines around the world

During the first have of COVID-19, warehouse management, distribution and third party logistics have played an essential role in emergency response and ongoing resilience. The first wave of COVID-19 offers a case study into complex shifts in customer demand, work environments, inventory management and logistics management, along with the impacts on working capital. Now, as sites reopen, distributors need strategies and cost management to build ongoing resilience for future pandemic waves and policy actions that are difficult to predict..

“It’s important to consider that an easily spread disease like COVID-19 does not lend itself to a one-and-done [pandemic wave](#). As a matter of [fact](#), in contemporary times, we don’t have an incident of a viral pandemic only having one wave. Without a widely distributed vaccine or acquired immunity, COVID-19 will continue to present financial and operational challenges for the future,” said Grant Thornton Strategic Risk Services Leader Yvette Connor.

“It’s important to consider that an easily spread disease like COVID-19 does not lend itself to a one-and-done pandemic wave... Without a widely distributed vaccine or immunity, COVID-19 continues to present financial and operational challenges for the future.

— Grant Thornton Strategic Risk Services Leader, Yvette Connor

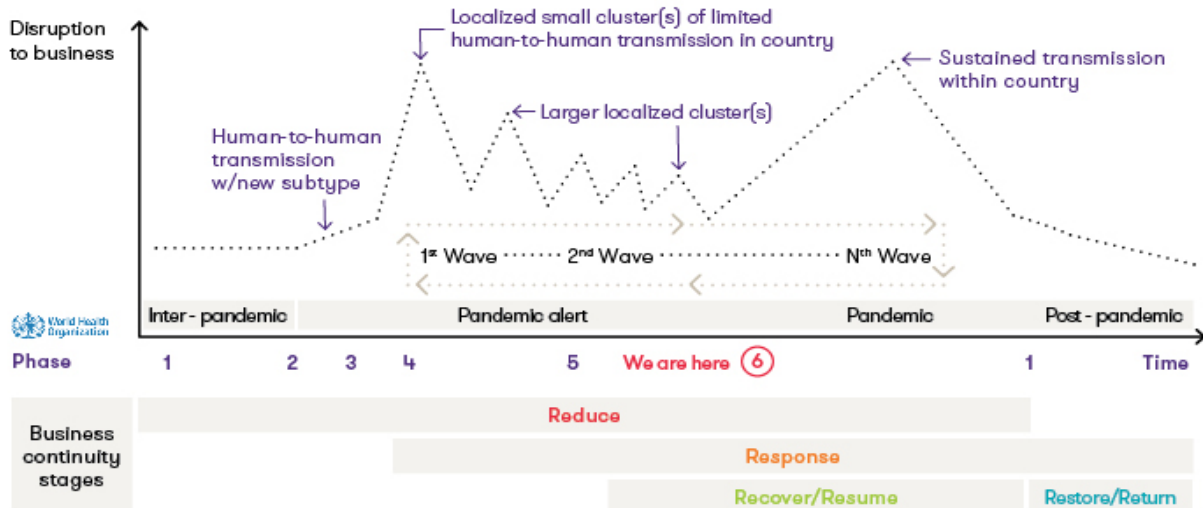
“The general idea is a pandemic bounces along a time continuum, across global regions, until the majority of people are immune,” Connor said.

We are in phase 6 of the World Health Organization (WHO) pandemic phases, and “another distinctive element of a pandemic is the unknown duration. Most business continuity plans are not calibrated for long time periods and multi-phased events,” Connor said. “Senior management needs to do that calibration, so business leaders can focus on activating resources and prioritizing responses according to an overarching business resiliency strategy rather than just ‘crisis event management.’”

The business continuity planning stages (at the bottom of the graph) provide an overview of how to construct and execute a multi-purpose business resilience approach calibrated for pandemics and other catastrophic events. “When we say resilience, we’re talking about reducing adverse business impacts by responding and recovering with the best use of resources, scenario planning, people and overall effort,” Connor said. Without a resilient business continuity plan, companies leave themselves open to missed opportunities to accelerate recovery and avoid more unwanted surprises down the road.

“Catastrophic events can blindside management teams, mainly, because we tend to be overconfident about how well we are actually preparing for adverse events,” Connor said. “Senior leaders need to discuss and challenge various re-opening planning goals. They need to battle-test updated resiliency plans by asking, ‘What range of scenarios do we need, and what are the risks associated with each scenario? Have we considered the various underlying scenario assumptions in enough detail? What might we be missing?’”

The World Health Organization (WHO) phases of pandemic impact



Recalibrate for resilience

To take a single-impact business continuity plan and recalibrate it for pandemic and broader resilience, you can start by considering four **impact zones**:

 <p>LIQUIDITY & CASH FLOW MANAGEMENT</p> <p>How much working capital is at risk today? What steps are you proactively taking to avoid insolvency issues?</p>	 <p>SUPPLY & DEMAND</p> <p>With supply chain execution at risk, how are you calibrating it with rapidly changing customer demand?</p>	 <p>EXTERNAL FACTORS</p> <p>How do you quantify and interpret the risk of hard to predict external factors on your supply operating model?</p>	 <p>PEOPLE & LABOR</p> <p>How would devastating losses in planned labor or a steep increase in human capital impact your business?</p>
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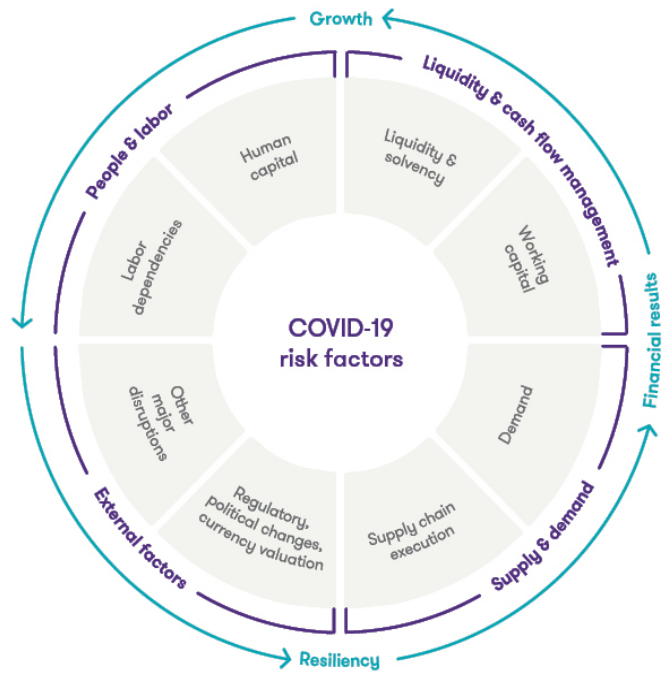
These four impact zones help identify the questions and risks that companies need to consider. By mapping the four impact zones to eight risk factors, companies can prioritize the mitigating responses they need to take to build their resilience and achieve better long-term results.

“When you think about the pandemic, it’s really those four impact zones, all represented in the wheel,” Connor said. “The outermost ring is important because that’s really what business strategy is all about: growth, protecting your brand, being resilient and ultimately hitting your financial targets.”

It’s results that matter, and that is the focus of this planning. “What we’re driving toward is actionable insights – not just illustrative visuals,” Connor emphasized. “We’re really trying to get to what you can do, and specifically what you should do now, and why,” she said. Your best options will depend on the kind of distributor you are, your shifts in workforce, your ability to shift or balance operations across multiple sites and other factors.

To recalibrate your business continuity plan for pandemic resilience, consider your risks in each of the four impact zones:

Grant Thornton pandemic risk model



Liquidity and cash flow management risks

As you evaluate your risks, consider these five guidelines for liquidity and cash flow management:

- **Understand** your working capital needs. Cash is king.
- **Optimize** costs, being relentless in cost control.
- **Evaluate and collaborate** with your customers and suppliers.
- **Communicate** early and often with your lenders.
- **Consider** liquidity in terms of tax opportunities from IRS changes, credit and incentives available from recent legislation.



LIQUIDITY & CASH FLOW MANAGEMENT

How much working capital is at risk today? What steps are you proactively taking to avoid insolvency issues?

Grant Thornton Restructuring Services Principal Paul Melville said “Liquidity is key at the moment, and that is likely going to be the case for a number of months. Companies fail because of a lack of liquidity. When you look at working capital right now, it’s crucial to forecast your needs for a number of different scenarios. When doing that, you must adopt a very deliberate and calm approach to what is a very, very complex problem. There are so many different moving parts in your liquidity and cash flow that you need to make sure that you have a methodology and approach that can be flexed and changed as circumstances dictate.”

“To the extent you can, if you have committed funding lines with your lenders, consider drawing down on your credit facilities to help you build up liquidity,” Melville said. He also encouraged open communication with lenders. “No banker wants to be surprised, so don’t surprise them with last-minute requests. Figure out what you need, run the scenarios, and talk to them. They will be much more receptive to helping you when they can see how thought-out, deliberate and methodical your approach has been.”

Supply and demand risks

As you evaluate your risks, consider these five guidelines for supply and demand:

- **Prioritize** the most important and profitable customer segments.
- **Streamline** supply chain and operating models to reduce complexity.
- **Recalibrate** labor, assets, capacity and working capital investments.
- **Shore up** supplier and third-party relationships to mitigate further disruption.
- **Evaluate** supplier solvency and manage any other risk factors.



SUPPLY & DEMAND

With supply chain execution at risk, how are you calibrating it with rapidly changing customer demand?

Grant Thornton Advisory Services Principal Jonathan Eaton said this is a time to watch your suppliers. “Suppliers want to hear from you about your business needs, in the same way you want to hear from your customers about their needs. So, being proactive in that dialog will ultimately help your suppliers serve you well,” Eaton said. “Communicate with them and make sure you know which suppliers create risk for your business, as some may not survive. Some people will give you bad advice and say, ‘Try to extend your payables terms.’ Well, if you try to extend your payables terms with suppliers that are already struggling, that is likely to be an issue. I think the right thing to do is be a good partner and pay on time in the same way that you want your customers to pay on time.”

External factor risks

As you evaluate your risks, consider these five guidelines for external factors:

- **Monitor** exchange rates for possible rebounds from Asian markets that strengthen the Chinese yuan and Malaysian ringgit against the US dollar.
- **Review** energy holdings and long-term policy for the coming year, to take advantage of abnormally low energy prices.
- **Expect** that lower energy prices will provide a tailwind for logistics and distribution.
- **Adjust** tax forecasts if changes to your suppliers mean that you will be taxed in different locations or at different rates.
- **Plan** how to claim losses in your adjusted tax forecasts.



EXTERNAL FACTORS

How do you quantify and interpret the risk of hard to predict external factors on your supply operating model?

Grant Thornton National Tax Leader for Industry Brian Murphy said “Tax leaders have their hands full monitoring and forecasting the impact of the pandemic and government responses, such as CARES. There has been a disruption to where items are sourced, manufactured, stored, shipped and sold, and that will have a dramatic impact on tax expense for the period.” Murphy said, “Whatever plans you may have had coming into the year have gone out the window and businesses will have to quickly adjust and implement new forecasts as quickly as possible. Pay particular attention to changes in earnings mix, intercompany pricing and the business’ ability to utilize losses.”

“Bringing this all together, you need a plan to monitor the changes, support the organization from a cash perspective and maintain up-to-the-minute modeling to stay compliant and achieve corporate objectives,” Murphy said.

People and labor risks

As you evaluate your risks, consider these five guidelines for people and labor:

- **Be careful** about workforce reductions that could leave you unable to recover as quickly as your competition.
- **Invite** your people to help find efficiencies and cost reductions.
- **Communicate** with your people early, often and transparently – they are seeking and seeing a lot of information, from various sources. If you don’t position developments in relation to your business, they will.
- **Update** policies to require multiple temperature checks, requisite hand and face cleanings with alcohol-based sanitizers, safe/sanitary food and enhanced medical facilities.
- **Plan** scenarios for pervasive illness, labor shortages, union discussions and surges in required wages.



PEOPLE & LABOR

How would devastating losses in planned labor or a steep increase in human capital impact your business?

“This might be the most important category,” Connor said. “While money matters in getting your business across the finish line, and cash matters in that equation, so do people – and it’s people who are most impacted by a pandemic. This is a human disease, not a machine disease, not a money disease.”

Every company has been watching its spending, but Melville said “Be careful. We are going to get out of this, and you need to be positioned to make sure that you can really take advantage of the opportunity that’s going to come up on the flip side of this. One thing that has been successful is incentivizing your teams to come up with cost savings, and thinking about how they can help you. Often, a lot of the valuable ideas come from employees.”

Prepare for the new risks

To maintain their market share, distributors must consider a complex range of factors. COVID-19 affects almost all of those factors, and forces a recalibration.

Distributors must keep making careful decisions amidst the confusion surrounding COVID-19. “Be methodical, be purposeful and stay calm in your approach,” Melville said. “Run multiple different scenarios. Be communicative and transparent with your stakeholders and lenders. That will give you the best chance of getting the liquidity you need to survive through these really difficult times and positioning yourselves on the upside to thrive.”

By recalibrating a pandemic-resilient business continuity plan, you can build the resiliency to weather the pandemic and recover on the other side. “We’re chasing a return to normal operation under these variable conditions that gives us the best possible outcome for a return to operations,” Connor said. “The quicker you can get to resiliency and make the most difference for your business, the more likely your restoration and recovery is going to be optimal for your business.”

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