



What Now. What Next.

Weekly live discussion on leading through COVID-19.

April 1, 2020

Our first **COVID-19: What Now. What Next.** live discussion on April 1 brought together a panel of KPMG leaders who are working on business-critical issues affecting all organizations today. The panelists shared perspectives and responded to participant questions in three areas: managing a remote workforce, cash and liquidity, and the Stimulus package. Below are key takeaways from the discussions.

People first: Managing your at home workforce

***Matt Campbell** is a leader who helps clients to assess, understand, and address the unique talent-related risks for their organizations and workforce.*

Many organizations have moved part or all of their workforce to a virtual model in response to COVID-19. Forced changes in how we work are surfacing technological, psychological, work structure, and management practice issues.

— **Critically examine the work you are there to do:**

- Evaluate priorities. Redesign work processes to be done virtually. Reduce hand-offs and review cycles, and create autonomy in the work.
- Identify critical roles and review workforce plans. Reallocate key tasks.

— **Listen to the needs of your workforce:**

- Allow people to work independently; offer flexibility. If your team needs to be in a physical location, create A and B teams, and for remote teams, a.m. and p.m. shifts.
- Equip people with the right technology. Make sure they have the tools to interact, collaborate, and communicate virtually—not just email.
- Be responsive; work with them on their pressures; understand their expectations and comfort level with coming back to an office.
- Recognize them frequently—call your employees to thank them and recognize their efforts.

— **Team differently:**

- Introduce more structure and routine around teaming. Consider a morning “check in” call so that your team members are aligned on priorities for the day.
- Help renegotiate relationships that have been formed working in person.

— **Lead differently:**

- More empathy is required to engage people virtually. Leaders/managers need to creatively engage and motivate their workforce.

- Provide line managers and your leadership teams with the coaching, approaches, and encouragement to be effective in a virtual model.

— **Start planning:**

- Be proactive in developing scenario triggers (don't run off of anxiety). Different locations, functions, geographies, and labor pools will ramp up or ramp down at different times.
- Understand your talent and skills as critical decision inputs as you go through this crisis. Do a talent risk assessment based on skills and capabilities, in addition to capacity and cost. It could be too easy to give away hard-to-acquire skills and competencies when evaluating resizing.

Learn more: [COVID-19 and remote work podcast](#)

Cash and liquidity: The “four Cs” of responses; value preservation

Dan DenBoer is a leader in advising private equity firms on commercial, operational and value creation due diligence, as well as portfolio company performance improvement.

Businesses today need to prepare for the extreme disruption across short, medium and long term time horizons. Companies that prepare a dynamic, yet structured response to the cash and cost challenges in the short term stand a better chance of weathering this unprecedented disruption and emerging fit and strong when the storm passes.

In the short-term, all public and private companies need to adopt an immediate focus on the “four Cs:” Cash, Cost optimization, Capital, and Customer impacts.

- **Cash.** Focus on analyzing and understanding your levels of liquidity, crisis cash, and tactical working capital that are going to be required to optimize the business going forward. *Immediately establish a dedicated cash / cost control room with dedicated leadership.*
- **Costs optimization.** Think through the categorization of discretionary expenses: what can be controlled; what could be delayed; and what could be stopped immediately. Do this in alignment with revenue forecast scenarios to figure out what your organizational costs should look like in the future. *Immediately test your overall P&L and associated equity components of the balance sheet against short-, medium-, and long-term recovery models.*
- **Capital.** Think through whether there are any “no regrets” decisions on capital that you can defer today without negative impacts on the business in the short term. Make sure that you are deploying capital in ways that will set up the business for future growth, and give employees a sense that the company is investing in business improvements for greater stability. *Immediately identify the capital expenditures that are required to support stability and growth in the short term.*
- **Customer impacts.** Review your customer portfolios: understand who your customers are; how you can support them; and how to respond when they are in distress. Understand which customers might be most heavily impacted, including those that are not prepared to recover and might go away in the short to medium term. Redesign your business around supporting those most critical customers. *Immediately establish a revenue and customer war room tasked with increased levels of verbal and digital touch points with existing and prospective customers.*

There are three phases of this recovery: Where are we now (Value preservation); What's next (Value creation); and What the future holds (Value realization). To stabilize and protect value during the first phase, you need to maintain as much support for the business as you can with the tools that you have. Once these initial, necessary fixes are handled:

- Continue to focus on the health and safety of the employees. Nothing will slow down the recovery and value creation and realization phases more than employees who do not feel healthy and safe doing

their work and cannot maintain their productivity. *Immediately setup an HR response center to answer employees' questions, as well as to provide emotional support.*

- Stabilize supply chains and maintain balance. Look for alternative ways to maintain the supply and demand balance that you need to continue doing business. *Perform a thorough scan of your physical supply chain to uncover risks, bottle necks, and strategic alternatives.*
- Activate scenario planning around the worst cases over the next 30, 60 and 90 days and as well as how you might respond. *Prepare for the worst case revenue scenario as many initial forecast may prove to be overly optimistic.*
- Identify CapEx opportunities/investments, which will best position the businesses for recovery, as well as targeted expense outlays to support the business going forward.

Learn more. [Protecting working capital: How to find cash in a time of need.](#)

Stimulus Act: Legislative overview, Tax perspective

Tom West is a leader in advising clients on complex transactions involving corporate and passthrough taxation, with a focus on the private equity and mergers and acquisitions arenas.

John Gimigliano is a leader in advising clients on possible tax legislative and regulatory changes, and in assisting clients in navigating those changes.

Congress approved the \$2 trillion Coronavirus Aid, Relief, and Economics Security (CARES) Act.

Legislative overview

- There are two critical programs that people should be aware of: (i) the Small Business Administration (SBA) -backed \$349 billion Paycheck Protection Program, and (ii) the Treasury Department's \$500 billion lending program that will be administered through the Federal Reserve.
- The SBA program is for small businesses, generally those with 500 or fewer employees, and is time sensitive. The amount of a loan will be equal to two-and-a-half times your average monthly payroll, up to an amount of \$10 million, with a rate of 0.5 percent.
 - Borrowers should apply by June 30. (The earlier the better!)
 - Loans under this program are forgivable for basic operating expenses that borrowers incur for the eight weeks following origination.
- Treasury will establish a loan program for medium-sized businesses (500–10,000 employees) with favorable lending terms (capped at 2 percent interest). It will have restrictions on stock buybacks and outsourcing, and an employee retention requirement for a period of time.
- There is still guidance and regulation to come on both these lending programs which is expected within two weeks. Businesses need to continue to pay attention to this space.

Tax perspective

The CARES Act enacted \$600 billion in new tax relief and financial support components—much of it for businesses. Most of the business provisions are designed to put cash into the hands of businesses quickly. The bill came together swiftly and the rules around how to access cash can be complicated.

- Businesses can now convert their 2020, 2019, and 2018 losses into actual cash. To the extent you had losses, right now you can carry those losses back five years each to convert the tax you paid into tax refunds. A prior rule limiting the amount of losses you could convert to cash has been temporarily waived. That means you can go back and wipe out your tax liability in all of those prior years. Additionally, you will be carrying back these losses to years with higher corporate tax rates, which has some interesting financial statement aspects which you should be thinking about.

- Flying under the radar, is the payroll tax deferral provision that will give you access to additional cash flow in 2020. Employers do not need to pay the employer side of payroll in 2020. Instead, they can pay half in 2021 and the remaining half in 2022. So, in effect it's a big interest free loan from the federal government.
- Some of the provisions come with strings attached so full consideration needs to be made about trade-offs. For example, if you choose to take the payroll tax deferral you will not be able to take advantage of the Paycheck Protection loan program. Many companies are opting now to take the tax credit at the end of the year. There is the possibility of dual tracking; if and when you get the loan, you can make your decision at that time.

Learn more. [Analysis and Observations of the Tax Provisions Provided in the CARES Act \(COVID-19 "Phase 3" Response\)](#).

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