COVID-19 Preparedness: A South African Perspective

A novel strain of Coronavirus (COVID-19) was first identified in Wuhan, Hubei province, China, in December 2019. Public authorities internationally are taking decisive action to respond to this emerging public health threat, which has caused the business community to reconsider the adequacy of its own pandemic preparedness measures. To date, thousands of infection cases have been confirmed within and outside of China with almost 90 countries currently affected. The first case of Coronavirus in South Africa was confirmed on 5 March 2020. Our experience shows varied responses from clients, with some to not believing that the pandemic will impact their businesses, however over the past few days we have seen growing acceptance that given the global nature of business, no business is immune.

We believe that it is critical for African businesses to understand both the direct and indirect impact of the Coronavirus on their operations and extended supply chains, in order to protect their employees, understand the impact of their production and supply and consider the changing competitive landscape.

COVID-19 is likely to affect both the global and local economy in three main ways:

- by directly affecting production,
- by creating supply chain and market disruption, and
- by its financial impact on firms and financial markets.

While it is important to develop a rapid understanding of this impact, organisations also need to be cognisant of the impact of misinformation and circular reporting of Coronavirus. It is already evident that the advent of sensationalist reporting may result in uninformed decisions. While the Coronavirus might present a significant risk to some organisations, local business also have to consider the opportunity presented by a possible increase in demand for intermediate goods created by supply chain shortages in China and other impacted regions.

**Strategy**

South African businesses that rely on intermediate goods from other regions and or businesses will have to rethink their sourcing strategy to ensure minimised impact on their operations and consider more drastic scenarios to prepare for these in the event that they materialise. A possible economic slowdown could also have a severe impact on liquidity and working capital of local businesses. Businesses therefore need to revisit their funding and credit strategies early on to avoid major disruption.

**Production**

South African businesses have already been affected by supply shortages caused by slowdown of imports from China and other regions. In order to reduce the impact an end-to-end supply chain assessment should be considered in order to assess inventory levels, identify alternative suppliers and whether it is cost effective to expedite deliveries to increase levels of critical inventory. Many manufacturing firms rely on imported intermediate inputs from China and other businesses also rely on sales in China to achieve their revenue targets. Local businesses have already seen an increase in demand caused by China supply shortages and therefore have to ensure they are geared to take advantage of this opportunity.

**Transport and Logistics**

With many South African businesses relying on imports from China, the slowdown in China has already seen effects on imports to South Africa. This does not only affect the resilience of organisations relying on imports but also creates supply chain issues for local suppliers due to increased demand. Local transportation restrictions can also impact on the profitability of local businesses.

**Sales**

Sales might be impacted by changing customer preferences and demand. Globally, consumer businesses have already seen panic buying of certain household commodities and the demand for pharmaceuticals is expected to increase. It is critical to proactively manage and communicate with key stakeholders to minimise the impact of disruption.

**Mobility**

It is critical for businesses to revisit emergency succession planning material to understand the critical roles and responsibilities the organisation can’t afford to lose. Consider forming an ad-hoc or temporary Coronavirus or Crisis Committee. The number one priority for global firms is to provide flexible working solutions for its employees, local businesses therefore need to consider changing their telecommuting/other policies in light of continuing developments and launch a communication campaign to support affected employees.
Based on our current analysis, we have identified a number of potential scenarios for businesses to consider and reflect the potential paths that the disease outbreak and the global economy, might take.

1. **The worst is over.** Transmission in China has slowed already. Although some isolated outbreaks occur elsewhere, these do not create a massive spread of the disease. As the global number of cases stabilises, China’s economy returns to normal, and there is little impact outside of some areas such as Iran that are not important for the global economy. Some companies in South Africa experience short-term supply disruptions, but the impact on the South African economy is small and temporary.

2. **Year of the virus.** Although the spread of the disease in China slows, outbreaks occur on a rolling basis around the world. Each outbreak requires slowing production in that area, and in a globalised world, that means rolling disruptions to different regions and industries as outbreaks occur and are controlled. The impact on South Africa can disrupt economic activity enough to slow growth substantially. South African businesses that are nimble enough to manage switching suppliers and that have enough liquidity to survive periods of low sales and revenue will have a competitive advantage.

3. **Global pandemic response.** Economic centres around the world are subject to Wuhan-style shutdowns as people panic over the spread of the virus. Uncoordinated decisions on a country-by-country basis disrupt the movement of both people and goods. Global manufacturing declines, as businesses with international supply chains can operate only intermittently. Tourism and related businesses decline sharply, and tourism-based businesses and regions suffer. It takes more than a year for the World Health Organisation and the United Nations to develop an accepted global response that prioritises health measures based on effectiveness and cost to the wider economy, and for this response to be accepted in the major world economies. Global GDP stagnates, international trade falls and a global recession is a distinct possibility.

4. **Financial crisis.** Delayed shipments and production schedules create financial problems for companies with heavy debts, especially in the United States. The decline in global equity markets and flight from risk—investors selling assets such as high-yield bonds and volatile stocks—exposes investors who have under-priced risk. Concern about counterparty risk accelerates the decline and dries up liquidity in financial markets. Central banks scramble to manage the problem. Financial markets—and the global economy—recover after a V-shaped recession.

To date more than 145 controls have been implemented by global and local government organisation to control the spread of the Coronavirus. These controls range from outbreak controls for some or all people within affected regions to travel restrictions as highlighted by the Deloitte Travel Risk eMap. This escalating threat has led businesses to consider their own pandemic preparedness measures. It is important that organisations are proactive and prepared, while remaining pragmatic, as the situation continues to evolve.

**Deloitte’s early intervention actions and point of views are highlighted below.**

**Early Intervention**

- Assess organisational exposure. Organisations with key dependencies in China will need to take decisive action in response to the emerging threat. Businesses should understand their exposure to the threat to determine what constitutes a proportionate response.
- Review your pandemic and crisis plans. It is essential for your organisation’s resilience to ensure your pandemic plans are up-to-date and fit-for-purpose.
- Prepare for a proportionate response. Determine meaningful organisational activation and deactivation triggers and review continuity procedures to better understand your critical staff, functions and operational hubs.
- Monitor your global travel policy. Organisations should proactively monitor latest travel guidance for all affected areas and review travel policies. Aligning with any third-party providers and the capability to rapidly communicate with business travellers are important.

**Communicate**

- Communicate with your employees early and often. Employees will rightly expect organisations to provide accurate and authoritative information. Organisations can build pandemic awareness into business-as-usual internal communications: share information and infographics from authorities; educate business travellers on measures to take and symptoms to look out for; and encouraging functions and teams to review their pandemic arrangements.
- Engage with critical suppliers and the extended supply chain of these critical suppliers. Businesses should have sight of their critical suppliers’ pandemic preparedness measures and encourage ongoing dialogue on current-state readiness should the threat materialize. It will be important to have visibility on the status of Tier 2 suppliers and understand whether a direct or indirect disruption risk exists for key supplier fulfilment.
- Remain in contact with key stakeholders. Businesses may need to coordinate with local and national public authorities as part of regional preparedness activity. Communications with other stakeholders, including investors and customers, will be key to maintaining stakeholder confidence.

**Plan, Monitor & review your response**

- Stay up-to-date with the latest advice and information. International and national public health bodies will continue to provide information and advice. They will also publish latest statistics on suspected cases which will provide useful metrics to track the evolving threat. Businesses will need to ensure that this is being built into organisational preparedness measures.
- Keep plans, policies and procedures actively under review. Organisational preparedness is an iterative process. Plans, policies and procedures should be adaptive and flexible to the emerging threat to ensure an organisation remains prepared and protects its people, reputation, strategy and bottom line.
Disruptions to global business value chain due to the Coronavirus have been heavy. Free movement and operation of people, raw material, finished goods and factory operations have all been significantly impacted. In order to reduce these disruptions, businesses should employ an enterprise-wide supply chain disruption prevention framework to limit downtime and position the operational ecosystem for success as the event unfolds. Embedding a structured crisis response framework and approach is key to manage the current crisis and be prepared for future crises. Businesses can also leverage risks sensing and situational awareness and active oversight technology to stay abreast the latest COVID-19 developments.

Start the conversation

If you have any questions relating to the impact of Coronavirus on your business please don’t hesitate to contact our Deloitte team.

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