

## Pandemic preparedness and the turnaround consultant

By Roberto Cortez and Matt Riley

Experienced turnaround consultants are accustomed to companies in distress — financials in disarray, staff being pared to the bone, bankruptcy looming. They know what swift remedial actions they would advise clients to take in those extreme circumstances, and in what order.

But what if the entire playing field changes suddenly — and in ways no one alive has experienced? What if there is a pandemic flu outbreak affecting hundreds of thousands of people all over the planet? During the last few years, disease surveillance experts have been monitoring a potential outbreak of avian (or bird) flu centered in Asia. Historical trends would indicate that a pandemic outbreak may be past due.<sup>1</sup> Today, the continued outbreak of swine flu (“H1N1”), traced to its origin in Mexico, heightens awareness and concern of a severe pandemic.

Just six years ago, the Severe Acute Respiratory Syndrome (SARS) crisis caused 800 deaths, cost East Asian economies an estimated US\$40 billion and cut air traffic by 45%. The World Bank estimates that if the avian virus, which is currently endemic among birds in some countries, should mutate into a strain that could be transmitted between humans and become a pandemic, world GDP could drop by 2% annually — which amounts to US\$800 billion, or 20 times the impact of the SARS crisis.<sup>2</sup> We have already started to see the potential of this type of impact from the measures that have been taken with respect to H1N1 (e.g. quarantines, travel restrictions, school closures).

SARS is considered less dangerous than the avian flu, and SARS emerged as a threat in early 2003, but was quickly contained. Even though 8,100 people worldwide got sick with SARS, less than 10% died. There is a concern that a pandemic flu outbreak would disproportionately impact

### Coming to terms: endemic, epidemic, pandemic

A disease is endemic when it exists permanently in a particular region or population. Malaria is endemic in parts of Africa, and avian flu has already become *endemic* in parts of Asia (among birds). An outbreak of an infectious disease becomes an *epidemic* when it attacks many people in a short time and spreads through one or several communities. A *pandemic* is an epidemic that spreads across a large region (continental or worldwide), affecting not only more people than would normally be expected, but a larger geography than would normally be expected.

young adults rather than the very young or very old as with the seasonal flu.<sup>3</sup> This scenario would create a unique dynamic as the long-term effects of losing a significant portion of this productive demographic worldwide could have expanding and long-lasting economic impacts.<sup>4</sup>

Turnaround consultants who are not only forewarned of the possible effects, but also forearmed with the steps to take and tools to counter the effects will be best equipped to help their clients through some tumultuous times.

### What should businesses be doing now? How can you advise your clients to prepare?

A pandemic flu would likely affect industries asymmetrically. Some service businesses might survive moderately well by encouraging employees to telecommute, but other, more labor-intensive businesses and the retail sector could suffer significant disruption, with absenteeism in 25% to 50% of their workforce.<sup>5</sup> One

1 <http://www.who.int/csr/disease/influenza/pandemic10things/en/index.html>

2 “Economic Impact of Avian Flu: Global Program for Avian Influenza and Human Pandemic,” on [web.worldbank.org](http://web.worldbank.org) (viewed 5 September 2007).

3 *The New England Journal of Medicine*, Klaus Stohr, Ph.D., January 27, 2006, Volume 352:405–407

4 Sherry Cooper of BMO/Nesbitt Burns. “The Avian Flu Crisis: An Economic Update” (white paper), March 13, 2006, p 3.

5 “10-Point Framework for Pandemic Influenza Business Contingency Planning,” Center for Infectious Disease Research & Policy, University of Minnesota, September 8, 2006.

study pinpoints some particularly vulnerable industries, in addition to the poultry and pork industries, as those that would experience the most immediate impact: tourism, travel and transportation, hospitality and entertainment, insurers, religious facilities, retailers of nonessential goods, and providers of nonessential services or those that could directly spread disease.<sup>6</sup>

This asymmetry will affect demand and supply for essential goods and services unevenly as well: The demand for insurance, pharmaceutical, healthcare and telecommunications would likely jump. Planning would be made more complicated because of the unpredictability of the pandemic's effects; even companies with established crisis management teams could be hobbled if essential members of those teams are incapacitated.

According to a 2006 report by Mercer Human Resource Consulting,<sup>7</sup> basic preparatory steps companies can take should include:

- Developing a pandemic business continuity plan
- Establishing a budget for preparedness
- Forming of a crisis leadership management team
- Engaging in workforce planning (including skills inventory)
- Developing an employee communication strategy

#### What corporate needs arise in a pandemic?

After Y2K and 9/11, many companies are already able to better assess business continuity needs. What's different about preparing for a pandemic whose timing, magnitude, and asymmetrical effects are so unpredictable?

As noted above, pandemics cause unique damage. They affect people, not physical assets. The likely direct impact could include sickness of employees, closure of offices and travel restrictions. The likely indirect impact could include absenteeism as a result of closures such as schools and daycare facilities. Unlike most natural disasters, a pandemic could last for months instead of moments. And the geographic scope could be huge, affecting not only employees, but entire supply chains, partnerships, lenders, competitors, and customers. Consequently, pandemic preparedness should be more strategic than tactical (like many business continuity plans). It should include a focus on financial and *operational* preparedness and an ability to maintain the *communication* that will allow for the right financial data to be delivered efficiently to the right party.

- Corporate directors and officers: They will need prompt notification as they will not only be the key decision-makers throughout the crisis, but will also be the public face of the company. They should be provided with all relevant data as it becomes available so that they can make informed decisions regarding the direction that the company will take.
- Federal, state, and local health authorities: They should be given information that will allow them to assess the impact on the public and on the societal infrastructure, as long as the disclosure does not involve proprietary or confidential data. The more vital the service provided by the company, the more relevant the information will be to the authorities.
- Commercial banks the company does business with: The data to be provided is dictated by the financial assistance that the company expects that it will need from the banks. If liquidity or operations are impacted to such an extent that a cash infusion will be required or loan covenants are in jeopardy, lenders should be appraised of the financial situation so that they can help assess the options.
- Investment banks that advise the company: They should be provided with data that impacts any work that they are performing on behalf of the company.
- Law firms that handle the company's commercial activities, employment issues, and litigation: They should be provided with data that impacts any work that they are performing on behalf of the company. In addition, they should be supplied with data that will allow them to give counsel to the company regarding potential legal issues and how to avoid them or to minimize the exposure, and how to plan so that any reactive or proactive steps taken by the Company are done properly.
- Independent auditors: They should be provided with data that impacts any work that they are performing on behalf of the company.
- Insurers, including casualty insurers and other risk managers: They will need data that substantiates any losses for which the company is seeking reimbursement.

<sup>6</sup> Cooper, p 2.

<sup>7</sup> Mercer HR Consulting Perspective, "Preparing for a pandemic: Easing the Avian flu's impact on employee welfare and productivity," June 2006, p. 4.

### Who will the key contacts be for a company?

When determining who to contact and when, the company should also consider those parties that will require, or that may be comforted by, non-critical information. This group will include current employees, retirees, smaller vendors, service providers, etc. A separate hotline should be set up (possibly with pre-recorded daily updates) so that normal operations are not disrupted by having to address a flood of calls from concerned parties.

### What data should be prepared for key contacts?

#### • Short-term financial performance

Depending on the severity of the impact, a corporation may be fighting for survival or it may be fighting for a return to normalcy. Either way, a company must be ready to generate and evaluate short term financial data, as they need to identify significant changes that may occur on a daily or weekly basis. Since companies may need to draw on established credit or establish new lines under these circumstances, lenders and creditors can be given comfort if financial updates are available as the situation changes.

#### • Cash flow forecasts

Cash is king. A company that has a clear understanding of its current and expected liquidity will be in a position to proactively pay key creditors, extend credit, support employees or even assist the larger community.

#### • Cash management activities

Priorities need to be established so that critical cash needs are addressed first. Once these priorities are established cash management needs should be controlled from a central point in order to help promote consistency.

#### • Detail regarding incremental costs

Costs may increase externally as suppliers, shippers and vendors pass on increases, or internally as unexpected expenses are incurred to deal with the issue. Early identification of these costs will allow for accurate evaluation of each increase and help each company design a focused response backed by hard data. Because the response is driven by the financial performance and liquidity data developed internally and not as a result of emotion, the company's efforts will be synchronized.

#### • Business interruption mitigation activities

Help management understand how supply chains are being supported, identify customers that have been lost or gained, and assess the financial impact on company revenue.

#### • Insurance coverage

Help management understand what the insurance plans cover, how quickly the company can expect the carriers to respond to short term claims and the type of assistance that can be expected from insurance carriers under different crisis scenarios.

**Communication:** As with other, more ordinary turnaround engagements, it makes sense to communicate often and fully with everyone that makes a company run — employees, vendors, commercial and investment bankers, major customers, and regulatory authorities.

### Next steps

Both corporate officers and outside advisors can help prepare a company for the real possibility of a pandemic that could threaten its very viability. An ounce of preparedness now may be worth a pound of panicked, ad hoc remedial effort later.

• **Understand insurance and financing agreements** — look at agreements with a “crisis lens” that considers how they will operate in the extreme circumstances of a global disaster.

• **Develop standardized information formats** — enhance current business continuity planning to include basic report formats and clear instructions for who needs to see them, and how often.

• **Contingencies for getting/transmitting key data** — develop redundant ways of getting mission-critical information to the right people, anticipating that there may be significant breakdowns in utilities, electricity, and other infrastructure. (As a practical example, everyone on the pandemic-preparedness/business-continuity team should have a non-corporate e-mail address that can be used if your corporate server goes down.)

• **Focus on ability to recover** — to the extent possible, keep the information you produce truthful but positive, emphasizing that the distress being experienced is caused by outside factors but that the business is sound.

• **Be the right professional** — management will want to discuss their plans with a professional who understands crisis and who has seen first hand what does and what does not work. This is not a situation in which to learn a lesson from a bad choice.

A Chinese motto maintains that “crisis is opportunity.”

The best way to consider our current situation is that we are living *between* pandemics. Another one will happen, perhaps in month, perhaps in years. But there is time — for now — to treat this potential crisis as an opportunity to evaluate the scope of risks and to take steps to mitigate them. Seize the opportunity.

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