

Staying Ahead of the Curve

Considerations for Consumer Product Companies During COVID-19

By Gabe Lengua, CPA, Partner

As everyone deals with the impact of the Covid-19 pandemic, business owners need to adjust priorities, reevaluate all aspects of their business, refine messaging and, yes, also plan for the recovery because it will come. While some industries will be hit harder than others, consumer companies have their own unique set of challenges.

What a difference a month makes. Consumer companies started 2020 on a solid note and optimism was high. The pandemic certainly changed that, and many companies are now just looking to survive. This is a serious crisis, unlike others we have seen, but it is not the only one we have faced in recent decades. At this time, it helps to think back to how your company responded to a previous crisis and what you learned from the experience. There are things you can do now and in the coming weeks to help stabilize your business. Here are some suggestions as you navigate through.

Adopt a People-First Mindset

The first priority of an organization during a pandemic should be the safety and well-being of its workforce. Provide people with the necessary protective equipment, especially important for factory and warehouse workers, and support remote work and virtual collaboration capabilities.

Cash Flow Forecasting

This is critical given the evolving nature of the pandemic. Cash flow forecasting is an essential tool that will help you manage liquidity and provide some clarity. Forecasting should be constantly updated for new information as it comes in. Make sure you have the right members of your management team involved and use your outside advisors as a resource. Put ancillary projects, capital spending, marketing and otherwise, on hold and focus on accelerating receivable collections where possible. Also, speak with your bank. In difficult times, you will get a better idea of your relationship with the bank. Know your availability and accessibility to additional funding. The CARES Act recently passed by Congress includes the SBA Paycheck Protection Program which may be applicable to your business. We would be happy to consult with you on this and assist with the application process.

Customers

Talk often with your customers during this time. Companies must continue to communicate with customers through multiple channels, reinforce that customer interests are a priority and provide useful and relevant information. Find out how they are doing and adjusting to the new realities. There is a balance here. While you want to strengthen relationships with customers, you need to be wary of risky orders and enhance your credit checks. You also may need to spend more time on collection calls over the coming weeks. The bottom line is to balance the needs of your customers while not losing focus on your business and cash flow needs.

Supply and Inventory Management

The outbreak of Covid-19 in China and, subsequently, Europe and elsewhere created severe supply chain disruption. While many factories in China have come back on line, the process was slow and the disruption created bottlenecks and complicated production plans. We have spoken with many clients who have said

they are currently reevaluating their reliance on China and considering diversifying sourcing. This is understandable and, in the long run, may make sense but, short term, you need to consider several things.

- Identify goods that may surge and others that may fall given the changes we are currently experiencing and adjust production plans and warehouse allocation accordingly.
- Identify your supply chain's weakest links and address them in order of priority.
- A significant increase in at-home consumption driven by customers' desire to buy goods but minimize public exposure should be considered.
- Improve working capital by turning older, slow moving merchandise into cash through significant markdowns.
- Review vendor payment terms looking for opportunities for discounts and extended terms.

Marketing and Messaging

With more people now at home due to the pandemic, daytime media audiences are growing. With that in mind, consider a shift to online and digital media. Adapt your messaging to be relevant and appropriate in the context of the pandemic. Health and safety messages, even if you do not focus on that space, will be viewed positively by your customers. Brands can play an especially valuable role during a humanitarian crisis such as this.

The Recovery

It may not seem that way now but we will find our way through this. When this crisis passes, there are several things you should consider.

- Review customer and market data to highlight areas where you gained and lost market share. Determine how your customers weathered the crisis and identify priority actions.
- Rebalance your inventory levels.
- If you hadn't done so already, create a supply chain contingency plan for the next crisis. This would be a good time to consider other sourcing options.
- As a greater sense of normalcy returns, review those expense items that were delayed and prioritize.
- With respect to acquisitions, the M&A wave has been strong over the past five years, with sky-high valuations. The current situation has certainly changed that. Many deals have collapsed or been put on hold with purchase prices lowered, in some cases significantly, due to the impact of the pandemic. For consumer companies who had an acquisition strategy, post crisis would be a good time to review potential targets and connect with the broader M&A community regarding possible transactions.

Emerging Stronger

There is no doubt that the current crisis is having a significant impact on consumer companies. Similar to other industries, consumer companies need to take a short-term view for obvious reasons. But this is also a time to reevaluate all aspects of your business and by doing that and planning with an eye toward the more intermediate term, companies can navigate effectively through this and emerge stronger on the other side.

Contact Us

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For information on developing an e-commerce plan or for assistance with your consumer operational strategy, please contact your engagement team or:

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