

Preparing for a Pandemic

Not your average business disruption

“American businesses are beginning to recognize that a pandemic flu outbreak would present a clear and present danger to their employees, their operations, and their bottom lines.”

– Tommy G. Thompson, Former Secretary of the U.S. Department of Health and Human Services, Independent Chairman, Deloitte Center for Health Solutions, a part of Deloitte & Touche USA LLP¹

Spectrum

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of business issues
and solutions



Avian flu has sparked a great deal of media discussion about the specter of a global pandemic, and with it, much discussion about a pandemic's potential impact on the global economy. There's good reason to be concerned: a study by the Lowy Institute for International Policy estimated that even a mild pandemic would cost the world 1.4 million lives and close to 0.8% of GDP – about US\$330 billion.² What's more, historical records show that pandemics are recurring events that have taken place every 24 years, on average, during the past 300 years. The most recent pandemic, an outbreak of Hong Kong flu that killed about 40,000 people in the U.S., occurred in 1968-1969; many leading researchers believe that it's only a matter of time before the next one strikes.

Are U.S. businesses prepared to survive a pandemic outbreak? In our experience, many seem to have given at least some thought to the issue. Relatively few, however, appear to be undertaking a planning effort focused specifically on the special circumstances of a global pandemic, according to Mike Evangelides, Principal, Deloitte Consulting LLP (Deloitte Consulting), and national leader of Deloitte & Touche USA's Pandemic Preparedness services.

"Especially since 9-11, many organizations have developed what they believe to be very robust business continuity plans," says Evangelides. "That can lead some people to think, 'My existing continuity plan can handle a pandemic. Why would I need to do more?'"

But such an attitude can be very risky, he cautions.

"Most business continuity plans are set up to deal with point-in-time events like terrorist attacks or natural disasters," Evangelides says. "But a pandemic is very different from those types of threats. Simply having a 'traditional' business continuity plan isn't enough – you've got to have one that addresses the specific challenges that a pandemic may generate."

One major difference between a pandemic and other types of disruptions is that the effects of a pandemic would likely last for several months or even years, as people fall ill in waves over an extended period of time. "It's not like a bombing or an earthquake where you can aim to get back to normal in a few days or weeks," says Steve Ross, Director, Deloitte & Touche LLP, and leader of the organization's Business Continuity Management service offering. "A pandemic would likely force businesses to adapt to a new 'normal' that could last for months or even years."

Also, in the case of a pandemic, it will be people rather than physical assets that may be unavailable. "A pandemic in itself won't wreck your factories or offices," Ross points out. "The problem will likely be the labor shortage resulting from illness, the need to care for sick family members, and possible quarantine measures." In fact, the Center for Infectious Disease Research & Policy (CIDRAP) estimates that between 25% and 50% of the workforce could be absent at any one time during a pandemic influenza outbreak.³

Finally, we believe that the effects of a pandemic will be felt across multiple geographies as well as across all of a company's business relationships. "Don't forget that we're talking about the risk of a *global* pandemic," Evangelides says. "You can pretty much count on a significant fraction of your people not being able to work no matter where they are. On top of that, your customers, your suppliers, your lenders, and your competitors will also be trying to deal with the situation at the same time you are. You can't just plan in terms of what you will and won't be able to do – you need to also think about how your key business relationships might be affected."

A broad-based, strategic approach

Because of the wide-ranging implications of a pandemic, it's essential for businesses to take a broad-based, strategic approach to pandemic preparedness. "This isn't just a matter of business continuity – it's a matter of business strategy," says CIDRAP director Michael T. Osterholm, PhD, MPH.

"The labor shortage of a pandemic will have an impact on every aspect of doing business," Ross explains. "But at the same time, you can't sink all your resources into preparing for everything that possibly *could* happen. You need to develop a strategic view of the pandemic risk to determine where to focus your efforts."

Approaching the pandemic risk strategically means asking some very basic questions about an organization's current state and its desired state in the event of a pandemic. "Before you do anything, you need to ask yourself: what's the strategic goal for the organization during a pandemic?" says Ross. "Are you going to focus on just staying viable until it's over? If so, what does 'staying viable' entail? How much revenue can you afford to lose? What about market share? What messages do you want to communicate to customers, shareholders, and analysts?"

The next step, says Evangelides, is to define what the business will have to look like to accomplish its goals during a pandemic. "Figure out who your most important customers are today, who'll they'll be during a pandemic, and who they'll be after the pandemic is over," he counsels.

Making this determination may not be as straightforward as it seems. "All of your customers will likely experience changes in supply and demand during a pandemic, so your biggest regular customers may not necessarily be the most important ones in a pandemic situation," Evangelides cautions. "There will certainly be much greater demand for health care supplies and services, for example, than there usually is – and probably much lower than normal demand for discretionary items such as travel and entertainment." Osterholm agrees: "You should be realistic about whom you can afford to serve from both a financial and a public-relations perspective. If you need to make a choice between a luxury goods retailer and a food-service company, for example, there may be social, political, and legal implications for whom you choose to serve first."

Identifying key customers in this way can allow a company to make strategic decisions about the activities it needs to prioritize in a pandemic. "What businesses will you stay in, suspend, or get out of?" Evangelides urges companies to consider. "Which customers will you serve, which won't you serve, and who are the ones you will serve but at a delayed or lower level of service? Which services or products will you offer as normal, which will you reduce, which will you increase or change, and in what way?"

Certain companies may even want to consider a temporary change in focus during a pandemic, using their capabilities to provide pandemic-related goods or services to make up for decreased demand for their usual activities. "Companies can become creative about what they can do to help the situation, even if it's not their primary business," says CIDRAP's Osterholm. "For example, a retail company may not be moving much of its usual product, but it might be able to use its distribution system to help ship drugs, food, and other critical freight around the world."

The strategy drives the tactics

Having carefully considered these issues, companies will then be more effectively poised to tackle the many tactical issues they'll need to deal with in case of a pandemic, say Evangelides and Ross. "At this point, you can start to identify the specific challenges you might face in different areas and, more importantly, what you can do now to prepare for them," says Ross.

Health and safety

Obviously, one of a company's most important concerns during a pandemic will be to have enough healthy employees to run the business. This is a particular concern for companies in industries such as manufacturing and many types of service industries, where employees must work in close physical proximity to each other and/or to customers.

"Employers have a vested interest in helping to keep their employees healthy and preventing the spread of illness in the workplace," says Randolph Gordon, MD, MPH, Senior Lead, Deloitte Consulting, and the former State Health Commissioner for the Commonwealth of Virginia. And, even though no intervention by an employer, or anyone else, is certain to stop the spread of pandemic illness, that doesn't excuse employers from doing what they can to protect their people. "To promise protection is unethical, but to do nothing is unacceptable," says Osterholm. "Companies should take a commonsense approach to helping employees avoid getting sick and making each other and their customers sick."

One way employers can help prevent the spread of illness, says Gordon, is to help educate their workforce. "If a pandemic hits, public health agencies will communicate prevention information to the general public. An employer can reinforce those messages and put them in the context of the company's particular work environment."

Employers may also want to examine their sick leave policies – and, more importantly, their corporate culture – so that they encourage appropriate behavior among employees during a pandemic, and discourage inappropriate behavior. "It may not be written into a policy, but many companies have a culture in which people are expected to come to work if at all possible, even if they're sick," Gordon says. He recommends that companies strongly discourage ill employees from coming to work and allow employees to take sick leave to care for family members who are ill. "People will miss work to care for a sick loved one whether or not their employer allows it," Gordon says. "Employers who recognize and support that need are likely to have fewer problems with retention than those whose policies don't allow taking time off to care for relatives."

Also crucial, Gordon says, is to examine policies regarding the chain of command for company leadership during a pandemic. "Executives are going to get sick too, so there has to be a well-framed, readily available policy that details how management expects the company to be run in their absence," he notes. Steve Ross recommends that such a policy "provide guidance without being overly prescriptive. Management should have confidence that their successors can make sound decisions and rectify mistakes."

Teleworking

For jobs that can be done from home, teleworking can be an extremely useful way for employees to get needed work done without running the risk of on-the-job infection. But enabling employees to telework effectively can be harder than it sounds, cautions Tim Kane, Senior Manager, Deloitte Consulting, and leader of the organization's Virtual Workplace service offering.

"Just because a company has a virtual private network (VPN) and can hand out laptops to employees if a pandemic occurs, doesn't mean that it's well prepared to do business in a virtual manner," says Kane. Effective teleworking, he explains, depends heavily on having both the right technology and the right HR programs in place.

"Companies should think carefully about what information and tools their employees will actually need to work effectively at a distance, and consider how to make those available to employees," Kane says. Depending on the company, this might mean implementing tools such as Web-based e-mail, follow-me voice mail, virtual meeting technologies, browser-based access to key databases – "whatever is needed for teleworkers to continue to do their jobs remotely," Kane says.

Then there's the people and change aspect of teleworking, which Kane believes can be even more challenging. "Preparing your employees to telework involves education and training, not just on how to use the technology, but on how to work well with people you don't see," Kane says. "If people are prepared and have the mindset that they're going to work remotely, they'll find a way to do it even if they have to work around imperfect technology. But if people aren't on board with working remotely and don't have the skills to do it, the likelihood of their being effective goes way down."

To help employees develop these skills, employers should consider implementing training focused on virtual communication and management – teaching them, for instance, how to monitor the output of direct reports working at a distance, or what channels to use to communicate various types of information. "You don't want to communicate personal or sensitive information, give someone a bad performance review, or lay someone off using e-mail," Kane says by way of example.

"More and more businesses are moving to telework as part of their operating model anyway, because they're seeing that it makes people more productive," Kane notes. "Companies that work that way on a regular basis will have a definite advantage if a pandemic makes it necessary for employees to work remotely."

What about jobs that can't be done from home? "Utilities, manufacturers, and other companies whose employees have to physically work together will likely find it difficult to use social distancing strategies to curtail infection on the job," says Evangelides. In addition to doing what they can to protect their employees from getting sick, Evangelides suggests that such companies explore the possibility of cross-training some of their employees. "Under any scenario, you won't have enough people left in key positions to continue output as is," he says. "But if you can think about who else in your workforce in less essential roles can be cross-trained to do those key tasks, you may be able to increase your chances of being able to maintain some percentage of your output even if many of the 'regulars' are absent."

Finance

It goes without saying that a pandemic is likely to have a significant impact on a company's financial performance and cash flow. In addition to determining how to soften the blow to operating income, says Carl Lane, Principal, Deloitte Financial Advisory Services LLP (Deloitte FAS), a company should also be prepared to quickly and accurately collect, analyze and communicate relevant information about its financial status and results to its lenders and shareholders.

"In a distress situation, especially one that could last for an extended time, banks and other creditors will be more interested in short-term financial performance and expectations than in the longer-term information that they typically focus on," Lane says. "Realistically, many lenders would probably recognize that a pandemic is a special situation and that a company's financial results during a pandemic might not reflect its general ability to pay its debts as they come due. But they're still going to want frequent updates on the company's profitability and liquidity, perhaps in more detail than would normally be the case."

Producing the raw data to perform such analyses shouldn't be a problem for most companies; it's the kind of financial and operational information that executives should routinely use to make management decisions. "The challenge," Lane says, "would be gathering that information in a form you can analyze quickly and present in standard formats." A company that feels it might struggle in that regard might want to develop new processes, or enhance current ones, for collecting, analyzing, and communicating the necessary information.

Lane also says that a company should evaluate the need to revise debt covenants with its lenders regarding catastrophic provisions. "Many loans already have clauses regarding 'acts of God,' but the language may leave some ambiguity about whether a pandemic falls into that category," Lane says. "Companies may want to evaluate those clauses to confirm that they reflect the potential for a pandemic, and negotiate such agreements where they're absent."

Supply chain

Today's supply chains move more products over a larger geography on tighter schedules than ever before. Supply-chain partners integrate processes to move goods through complex networks of parties, often on a just-in-time basis. This close coordination among trading partners can be essential to providing good service and controlling costs – but it can also make supply-chain activities especially vulnerable to disruptive events such as a pandemic.

"Where you have so many players trying to synchronize their activities so precisely, there's normally very little margin for error," says Joe Slota, Director, Deloitte Consulting, who leads the organization's Secure Value Chain service offering. "That may be fine in the normal course of business when you don't expect many errors. But in a pandemic, neither you nor your trading partners are likely to be able to operate normally."

Slota notes that a disruption anywhere in today's highly interdependent supply chain will tend to have a ripple effect on the entire system. Even though companies may have contingency plans in place to deal with localized or temporary disruptions, a pandemic is likely to have a more extensive and longer-lasting impact both within and among trading partners. "The concern isn't just whether you'll have enough of your own people to pack the boxes and load them onto the trucks," Slota says. "It's also whether or not your carrier can show up with the truck on time, and what you should consider doing in case it can't."

"For any disruption, but especially for a pandemic, you need contingency plans that build resiliency and flexibility into how you deal with adverse events," continues Slota. To help achieve that resiliency, Slota advises companies to undertake scenario-planning exercises to analyze how both the organization itself and its trading partners might respond to a pandemic situation, along with any other disruption that the organization may face.

"You've got to understand what the current state of your supply chain is relative to a pandemic disruption, and more importantly, what your suppliers are planning to do in such a situation," Slota says. "This can go as far as looking at your suppliers and asking them what they're doing for preparedness. You might even consider rebalancing your portfolio of trading partners with respect to preparedness. To do this, you could seek out your partners' resiliency planning leaders to discuss the steps you each will take if a pandemic should occur. You may choose to help those who want to lead but can't achieve effective resiliency planning and implementation on their own for various reasons. You may also want to eliminate relationships with partners who can't achieve resiliency or are not willing to do so to meet your objectives." He adds that some trading partners may wish to engage in some kind of certification process similar to the contracts around Y2K compliance that were established before 2000. Such contracts, he says, could specify reciprocal agreements between suppliers and customers for the levels of service they could expect from each other during a pandemic.

"I think there has to be a lot of real collaboration between organizations that have these kinds of business relationships," adds Slota. "Companies will have to think carefully about what really constitutes adequate confirmation of service levels during a pandemic. Certification can be a first step toward achieving that, but even more important is to talk to your partners to better understand their plans and adapt your own plans to theirs. A piece of paper isn't usually enough to truly understand and trust a trading partner's commitment – you need to have discussions and see specific evidence, if possible, to make an informed judgment about what they're really going to do."

A significant challenge, Slota warns, can simply be for a company to get their arms around the extent of the task. "You want to start by examining who your partners are, what kind of relationships you have, and what agreements are already in place," he says. "But supply networks are so complex that you can't wait until it is completely analyzed before you move forward."

"Your supply chain and its activities – plan, source, make, deliver, and return – is what ultimately satisfies your marketplace needs," Slota says. "A lack of resiliency baked into this equation can and will have very serious consequences for the entire enterprise. Securing your value chain is of fundamental importance with pandemic or any other disruptive event."

Critical infrastructure

"In a pandemic, the folks who keep the water running, the lights on, and the phones working will be facing the same labor issues as everyone else," Evangelides says. "You may well have to adapt to shortfalls in utilities and municipal services."

Planning for such shortages can be a multidimensional effort, Evangelides continues. "In some cases, it's working with your utility providers to make sure there's a plan in place for continuity of operations. In other areas, you may want to work with state and local governments to see what plans are in place."

Although a business may not be able to prevent shortfalls altogether, good communication with providers can help leaders understand what to expect and take anticipated shortages into account in their overall planning efforts. "If electricity stops altogether, there's nothing you can do about it," Evangelides says. "However, if you know that there will be rolling blackouts or that everyone will be asked to cut electric usage by some percentage, then you can plan for that. It's a matter of talking to your providers to understand what their plans and capabilities will be, and planning your own operations accordingly."

Regulatory requirements

"Because of workforce shortages or other issues, a company may not be able to meet certain regulatory requirements in the special circumstances of a pandemic," says Ross. "It's important to explore beforehand just how much flexibility might be in the regulations and what kind of understanding you might be able to reach with regulatory groups."

Issues to discuss with regulators, says Ross, include expected customer service levels and the possibility of extending compliance deadlines during a pandemic. "In theory, regulators ought to be open to discussions like this, especially governments that are already concerned about the possibility of a pandemic," he says. "There might even be a first-mover advantage for companies that approach regulators sooner. If you're the first to have the discussion, you may help shape what the regulators say to the rest of the industry."

At the other end of the tunnel

An important aspect of pandemic planning is to prepare the company to thrive after the pandemic is over. That means taking steps to preserve the company's image in the marketplace as well as the employees it will need to ramp up its activities as the economy returns to normal. Cautions Evangelides: "Some actions that might seem reasonable in the thick of a pandemic – like reducing headcount to control operating costs – may backfire in the long run if it's perceived as self-serving or opportunistic."

CIDRAP's Osterholm believes that businesses also have an important role to play in supporting their communities during a pandemic. "This may be a time for U.S. business to show some leadership and help the entire country get through a pandemic more or less intact," he says. "For example, a company might think about ways it could allow employees to support their local communities in their efforts to deal with the pandemic." He

adds: "The mark of character, for a person or an organization, comes out in times of duress. Those that do the right thing for the right reasons will likely reap the benefits after the fact."

Evangelides points out that advance planning in itself is one way to demonstrate corporate concern for employees and communities. "If you're developing contingency plans in case of a pandemic, that's a sign that you're thinking about the risk and taking steps to control it," he says. "It's the same sort of thing that happened after 9-11: companies that developed disaster recovery and continuity plans gained points with investors and the general public for being prepared."

Planning makes a difference

Evangelides and Ross encourage companies to invest the time to think strategically about their options for doing business in a pandemic and to lay the groundwork ahead of time for an appropriate response.

"All the science behind this says that it's not if a pandemic will happen, it's when," Ross says. "The challenges will be significant, and planning can make a difference. Ultimately, companies must embrace planning on behalf of their employees, shareholders, and customers."

There are no shortcuts to developing a plan that works for every organization, Evangelides adds. "The planning process – establishing your goal, looking at your customers, and then figuring out your priorities – may be pretty similar for everyone," he says. "But the actual analysis of who's important, what's important, and what you want to do is going to be unique to each company." He and Ross urge companies to take a proactive approach to managing this very real risk.

"The issues companies would face during a pandemic can be dramatically different from those arising from most other types of business interruptions," Evangelides says. "The more these issues are thought out prior to a pandemic outbreak, the smoother the response will likely be."

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