

COST REDUCTION AND OUTSOURCING BENEFITS DURING THE COVID-19 PANDEMIC

The World is in the grip of a Pandemic that has brought not only businesses but entire continents into a state of uncertainty. Governments are locking down Countries in an attempt to contain the virus, many events are cancelled, schools closed. The UK is suggesting that people over 70 self-isolate for several months!

It is clear that the effects of this Pandemic will be far reaching on businesses Worldwide. In the eschewing months, many will need to consider their organization's survival by drastically cutting overheads until the virus no longer remains a threat. It may even mean that businesses will be forced to lay off large proportions of their work force.

This poses the question: how do you maintain the level and quality of service during a crisis when you also know that your company's survival means that you will be making key elements of your customer service functions redundant?

The following strategies looks at assuring company longevity through combining two methodologies; employee restructuring and outsourcing:

Employee Restructuring:

One of the largest company operating costs is that of its employees and reducing that cost can be achieved through employee restructuring:

- **Employees taking paid leave** – Encouraging paid leave allows the company in the early days to have employees reduce their vacation entitlement, thereby not becoming a critical non-value adding expense when the company experiences later potential cash flow issues
- **Unpaid leaves** – Employees can be encouraged to take unpaid leaves. Usually these requests are at the will of the employee, but during the Coronavirus outbreak, it may be necessary. HR guidance on these matters are that most employees will be willing to engage with this cost reduction method provided the communications with the entire company are open, honest and frequent. There are legal consequences also; the employee must agree in writing to the unpaid leave action.
- **Reduced hours** – Similar to unpaid leaves and can be more palatable to some employees, particularly as this approach is more flexible and can fit in with the personal lives of the workers, especially if they have children and particularly if schools are on lock down. Again, communications and documentation are important
- **Reduced Salaries and benefits** – Employers can reduce the salaries in one of three ways;
 - Reduce the salary portions that are unaffected by End Of Service Benefit (EOSB) provisions. This means the employee is not losing out on long term service benefits

- Reduce salaries by targeting those benefits that attract no EOSB, the final proportion of the reduction being that of the base salary itself
- Percentage reduction that is indifferent about how the salary is built up; all are reduced equally.

Clearly there are legal considerations to be looked into as well as the HR management of the entire process.

- **Redundancy** – As a measure of last resort, organizations should consider laying off employees. If the business sales have reduced, the company will have to resize to match the available trade. Business owners terminating their staff on notice should demonstrate that there was a “valid” reason. Whether the current crisis is a “valid reason” will have to be assessed on a case by case basis by a trained employment lawyer.
- On the execution of the exercise, HR professionals are able to develop a series of score cards and critically assess those people that remain being a better fit during the down turn and when the company recovers. Off boarding personnel has the obvious legal documentation to consider as well as the personal elements that also have to be dealt with on a case by case basis

We would strongly recommend that businesses considering this route of cost reduction to engage with reputable HR and Legal professionals. All actions must carefully consider the employment contracts as well as the provisions set out in the UAE labour law to mitigate claims for arbitrary termination which could see the employee being awarded 3 months' salary.

Outsourcing Opportunities:

Outsourcing is frequently a sought-after value for money alternative to address the back-office functions of a company. Why do it yourself when others can do it better and cheaper than you can and especially if you are considering saving costs through an employee restructuring program?

- Accounts payable – Purchase to Pay
- Accounts receivable – Quotation to Cash
- Reporting from valuable P&L, Balance sheets and Cash Flows to more detailed management information, analyses and KPI's
- Payroll for both mainland and Free zones
- HR management particularly for quick and efficient off-boarding
- Regulatory outsourced officers – CO/ MLRO/ Risk/
- Finance officer
- Corporate governance – oversight- regulatory change management / NED

Your business service level is likely to be unaffected, but at a fraction of the cost of employing a full suite of staff.

Entrepreneurs should consider using the down turn as an opportunity to look at their processes to see whether they are as efficient as possible and how much could possibly be automated. It is usually quicker and more results driven to have an outsourcing firm do this for you. Significant value can be added through Business Process Re-engineering exercises.

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Many entrepreneurs trade without business plans, or any view of the future and what possible risks lie ahead. With the current COVID 19 the road ahead is likely be rougher than it once was. Without understanding imminent hazards, there will be little hope of planning to mitigate these obstacles. It will be more than likely we witness many SMEs going into liquidation over the coming months.

If as a business' owner, you do not have the time or skill set to build a business model and strategize about manoeuvring around the pit falls in your path, this too can be outsourced:

- Systems Review
- Business Process Re-engineering
- Cash flow planning
- Business planning and budgeting
- VAT Consultancy
- Variance analysis
- Compliance Monitoring Programs & Control Testing Assurances
- Corporate Governance

Usually the above activities can be outsourced. A virtual CFO, who can be employed as often as you like: for several months or just a few days during critical periods and/or a CO/MLRO as an individual authorised by the regulator to conduct compliance monitoring and appropriate control testing and assurances as temporary cover.

These individuals have a wealth of experience from decades of working in the financial services field as well as other non-regulated trading companies. The advantage here is that the business owner has access to real experience and know-how for the fraction of the cost of a junior accountant or full-time compliance officer, but will add significant value far beyond the cost of their temporary engagement.

If you are looking for strategic guidance on a more consistent monthly basis, many companies employ a Non-Executive Director (NED) who will attend your monthly board meetings, offer sage council and ensure the companies governance is robust and effective.

During rapid economic change, you may be presented with earlier unseen opportunities; perhaps a competitor sees strategic value in buying your company, or indeed you may see an opportunity to consolidate your position in the marketplace by buying a competitor. There is huge value in outsourcing the preliminary steps to buying or selling a company.

- Due diligence
- Company valuations
- Data Room population
- Behavioural training to face investors

EMPLOYEE RESTRUCTURING ASSISTANCE					
Action	Legal Advice	Drafting Letters	Termination Letters	Notice Letters	HR Project Manage/Comms
Taking Paid Leave - Vacation		USD 500			USD 250/ Hour
Unpaid Leaves	USD 1,000	USD 1,000	USD 800	USD 800	USD 250/ Hour
Reduced of Salaries & Benefits	USD 1,000	USD 1,000	USD 800	USD 800	USD 250/ Hour
Reduced Hours	USD 1,000	USD 1,000	USD 800	USD 800	USD 250/ Hour
Redundancy	USD 1,000	USD 1,000	USD 800	USD 800	USD 250/ Hour

OUTSOURCING			
Service	Measure	Frequency	Costs From
Accounting & VAT Compliance	Transaction	Monthly	USD 300
Payroll	5 Employees	Monthly	USD 150
Systems Review	10 Hours	One time	USD 1,500
Business Process Re-engineering	40 Hours	One time	USD 5,500
Business Planning	30 Hours	One time	USD 4,000
CFO Services	Per Hour	As needed	USD 250
Non-Executive Director (NED)	8 Hours	Monthly	USD 1,500
Compliance Officer	5 Hours	Monthly	USD 1,750
Money Laundering Reporting Officer	5 Hours	Monthly	USD 1,750
Finance Officer	10 Hours	Monthly	USD 2,000

Who we are

Re/think is a boutique accounting, regulatory and compliance, VAT advisory, audit, HR consultancy, recruitment and business advisory firm. We specialize in assisting SME clients with cost-effective, high quality services and solutions. We create value by investing in highly qualified and motivated people and working closely with leading industry partners to provide our clients a one stop shop for all of their business support.

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Who will assist you



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