

# How to respond to COVID-19 in the IT and business process outsourcing sector

Last updated:

01 July 2020

The global outbreak of the COVID-19 virus is having a major impact on international trade, travel and communication. Like many other sectors, companies in IT and Business Process Outsourcing are facing major challenges. This study provides you with a step-by-step plan. It includes the immediate actions you should take and actions that prepare you for doing business after the crisis.

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## Effects of the COVID-19 crisis

The COVID-19 crisis is still developing. Different countries have taken different steps to react, ranging from ignoring the threat of the virus to announcing more or less complete lockdowns. Countries are now in different phases of the spread of the virus, and it is unclear if another wave of infections is coming.

The current crisis cannot be compared to anything the world has seen so far. Almost every day, a new theory emerges that explains part of what seems to be happening and why one country is affected more than another. Due to the measures taken so far by most governments, it is clear that economies worldwide will move into a deep recession. There is also a fear that, as a side effect of the crisis, more people in less developed will die from starvation than from the virus.

During the early phases of the crisis, there was hope that a vaccine would soon be available. Now, experts warn that the virus may be endemic. This would mean that we would never be able to produce a vaccine that will stop all the coronavirus variants. We will need to live with it as we do with influenza viruses. The best option may thus be a cure that minimises the effect of the virus.

How long this crisis will take is difficult to predict. It is very likely that within some months, the situation will have returned to a new kind of normal, and the economy will start to recover. Still, research indicates that some things we were used to will probably change. We will travel less for business purposes now that we have become used to videoconferencing. We have also gotten used to buying more goods online. This will be good for webshops, but, of course, bad for traditional retailers with physical shops.

Will small businesses in IT and Business Process Outsourcing (ITO and BPO) be able to influence what is happening on a worldwide scale? The answer is clearly NO. Still, with new information becoming available every day, you should be able to better survive this crisis. Use this time to plan for the future when markets open up again, and enterprises and consumers start buying again.

In this study, we look at what your ITO/BPO company can do to continue your businesses, as well as how you can prepare for the future.

### **Tip:**

For more information, see our recent news article on [how the COVID-19 crisis affects the ITO and BPO sector](#).

## **How should you respond to the present situation?**

### **1. Make a COVID-19 Crisis Plan for various scenarios**

You have your Business Plan and Export Marketing Plan. Although those contain scenarios, you probably have not made plans for a situation like this. To get a good understanding of what types of actions you should and should not take, you need to make a short and detailed Crisis Plan. This Crisis Plan should deal with unusual circumstances and include an action plan and cash flow statement for your company.

The following steps list the key subjects that your action plan must be based on.

### **2. Prepare scenarios**

Small businesses typically do not have a lot of cash. European companies may get financial aid from their governments. But this probably will not happen in developing countries. This means that you will have to make sure you have enough cash to survive this crisis. You should prepare many scenarios for the short-term (typically 1 month), the medium-term (2-3 months) and the longer-term (6 months).

In the worst case, it may be best to end your business today. There have been enough examples of people that have spent all the money they had to save their business. They lost everything in the end, including their house and pension.

Reasons to end might be that you are close to retirement, or your business has not been doing well. You may also be in a market segment where revenues have been declining for a while now. Since you are in ITO or in BPO, this is unlikely.

So let us assume your situation is not that bad and your company can survive this crisis. Where should you start?

### 3. Minimise your costs

Your profit and loss statement has two sides: costs and revenues. The first thing to look at is your cost side. This is generally easier to influence in the short-term than your revenue side.

“Cash is King” is an expression used often for small businesses, but it has never been more true than it is today. You will need cash to pay your salaries, taxes, rent and other expenses. Normally, your revenues will at least be equal to your expenses. However, since the outbreak of COVID-19, you have probably already seen a drop in revenue. This might become worse in the coming period. If you do not react, your company will go bankrupt once your cash has been spent.

#### Salaries

Let us look at the individual costs on your expense sheet. In ITO and in BPO, salaries are the biggest single cost. How can we reduce this?

#### Reduce staff numbers

The most obvious way is to reduce your staff numbers, starting with temporary and supporting staff. Before you act, you should list the services/products that have to continue. For example: if you are starting up a new line of services, you have hired people with specific skills. In the first months, the costs will be much higher than the expected revenue. Because of this, you might prefer to focus on your existing services and postpone new activities. This might mean that you will fire highly skilled people instead of people with relatively low salaries.

Another thing you should take into account is your process. Certain skills are required for each step. Some of these will be dedicated to a single person, while others that are more volume related may involve several people.

Assuming that you will need to have every skill available to be able to continue your service, the obvious people to let go are those in jobs that you have several people for. You could also replace a person that has a specific task, for example, bookkeeping, by an outside agency, if there is a substantial financial gain. Another option is to delay tasks that are not directly vital to your processes, such as scheduled training by an outside agency.

#### Limit working hours

Besides firing people, another option is to limit the number of working hours. Your employees know that the economy as a whole is under pressure. Because people will fear losing their jobs, they may be more flexible in supporting the company with its struggle. You could offer to reduce their working hours by a certain percentage and lower their salary accordingly.

People may be willing to accept a lower salary and still work the same number of hours. You could offer to pay them the difference when the crisis is over. Another option is to give them shares in your company. The advantage with shares is that when people become a co-owner of the company, they are much more interested in doing whatever they can to save it. A disadvantage is that the decision-making process in the company may become more complex and time-consuming

#### Limit benefits

Related to the salaries may be a number of [benefits](#) that require cash. These could be bonuses, profit sharing, allowances for food, health or transport, and so on. See if you can stop or lower benefits. For example, if people work from home, you could lower their transport allowance. In general, delaying payments helps your cash position.

#### Communicate clearly

In everything you do regarding your staff, make sure you communicate clearly. People are aware of what is

happening, and the worst thing for them is to not be informed. Employees generally think in terms of worst-case scenarios. Be clear about what you intend to do, why you are doing it and what the uncertainties are. This way, people will be more relaxed, as well as more productive and cooperative.

## **Other expenses**

Paying taxes is another major cash outflow. You need to investigate your options to reduce or delay paying taxes. Governments in developing countries are not likely to give you direct subsidies. Still, they may allow you to delay paying taxes like VAT or social taxes.

Another cost is the rental of your office building. Many companies have successfully negotiated with their landlords. These landlords know that this crisis will affect them as well. If your company goes bankrupt, it will not be the only one, so they may not be able to lease the building to another company if you leave. You should try to either lower or delay rent payments for a certain period. It can help to start by announcing that you will end your lease contract on the first possible date. That will put some pressure on the negotiations.

Minimising your electricity and insurance costs is more difficult, but you can look at delaying them. However, be careful! If they are going to cut you off if you pay them one month later, it may stop your business activities.

This also applies to other incoming bills. Perhaps you normally pay bills in 28 days. But what happens if you delay your bill payments by 14 days? Some companies send letters to announce that they will pay later. This is relatively easy for big companies, but more difficult for small and medium-sized enterprises (SMEs). Make sure that it does not stop your basic processes. If you do not have access to your servers anymore, you will probably not be able to work at all!

### **Tips:**

- Reduce salary costs without fully disrupting your processes.

- Stop or pause all business activities that are not generating a profit.

- Communicate everything you do with your staff and explain why you are doing it.

## **4. Secure cash flow into the company**

Reducing your current cash outflow is a quick way to help you with your cash position. However, another way to improve your cash position is to get new cash into the company.

### **Governments and NGOs**

First of all, you should look at initiatives from your government and NGOs. You may be able to get a grant or a loan, or a mix of both. Look at the requirements you need to meet to get access and apply. Do this quickly, because the funds available may be limited.

### **Shareholders**

Another option is to get new shareholders on board. If cash is your biggest problem, you may prefer to keep 50% of the shares of a company that has survived the crisis. This is better than 100% of a company that has gone bankrupt.

If you are not the sole shareholder in your company and you have enough private funds, this might also be a good time to increase your share percentage. You can issue new shares. This means that all shareholders will

need to pay for their part, making new working capital available to the company. If they do not want to buy these new shares, you can buy the leftover shares and increase your share in the company.

## Banks

A more difficult option is to try to get a loan. Banks will generally be reluctant to give you a loan, but you can at least try. Having specific fixed assets that you can use as collateral might help. SMEs are typically more likely to get loans from relatives or friends than from banks. This is a particularly interesting option if you need a loan because of an outside event like the COVID-19 crisis, and not because you and your company are not performing.

## Assets

If you have fixed assets, you could also consider a sale and leaseback construction. For example, if you own your office building, you could sell it and guarantee the new owner commitment to a long lease period at a certain rent. This may get you a significant amount of cash. Selling company cars might be another option.

## Customers

Although this is often not the case, you may be in a position where your customers heavily depend on your services and/or know-how. So if your company goes bankrupt, they will have a major problem as well. If this applies to you, you could ask customers to help you out by paying invoices quickly or giving you advance payments. You could even ask them for a loan to help you get through this crisis, or make them a shareholder to protect their interests.

## Revenues

The crisis may have caused you to lose customers or made you unable to get new customers fast enough. This would lead to a situation where the gap between your costs and your revenues is widening quickly. Assuming that the crisis will pass and things will become somewhat normal again, you need to close this gap as much as possible. A way to do this during the crisis period is to offer services below cost price, something you would not normally do.

For example, if your costs are 100 per month and your revenues are 75, you have a gap of 25. With a cash position of 125, you could stay in business for 5 months ( $5 \times 25 = 125$ ) before you run out of cash. If you offer services at a loss, the directly related costs might increase by 5, but your overhead would stay the same. If you gain 10 in revenue, where you would normally charge 15, This adds up to costs of 105 and revenues of 85: a gap of 20. With a cash position of 125, you could now cover 6.25 months ( $6.25 \times 20 = 125$ ) instead of 5.

Having said this, working below cost price is not a strategy you should follow for a long time. But it could help temporarily during the crisis. Preferably, you should try to get some business from a market segment in which you are normally not active. Otherwise, your current customers may also force you to lower your prices.

Not all companies are negatively affected by this crisis. [Some are even doing better than ever](#). Typical examples in Europe are food and Do-It-Yourself retailers, as well as online shopping. This also includes the customer service departments of these online providers. This offers an opportunity for specific IT-companies due to ongoing shortages of programmers. Contact centres could also benefit, as big online retailers will outsource more customer service work. Chat traffic is particularly interesting, as the language requirements are relatively low.

### Tips:

Delay payments and renegotiate contracts.

Try to get new working capital in the company.

If needed, offer services/products below cost price.

Focus on the sectors benefitting from the crisis. If you are in ITO, you can offer your services both to companies in these sectors and to their IT-suppliers.

For more information, see our study about [finding buyers on the European outsourcing market](#).

## 5. Do your research

Another aspect of making your crisis plan is determining what markets and services/products you should focus on in these new circumstances. As always, there is too much information available, and it is impossible to take everything into account. You need to think about what information is important to you, and how often you need to update this. You should research different markets. Start with your local/national market and then move on to regional and overseas markets.

What phase of the crisis are they in? How does this affect your business? Can you compare what is happening in your country to other similar countries? Based on the outcome of your research, you can adjust your Crisis Plan. You will need to separate your local markets from your export markets in terms of the time to start or restart activities.

You should look for signs that markets and restrictions are changing. Look for opportunities that let you restart your marketing and sales activities. What are governments planning? What restrictions are they putting in place or removing? It is also important to see whether certain trends are emerging because of this crisis. For example, if companies restrict the travel of their employees, does this create an opportunity to develop software to help your existing customers with working from home?

### Tips:

Do specific research that is relevant to your company and act on it.

Think of what information is important, so you do not become overwhelmed.

For more information on the effects of the crisis, see, for example, McKinsey's [evolving perspective on COVID-19: implications for business](#).

## 6. Take Health and Safety measures

A company cannot survive without its employees. It is responsible for their wellbeing. You should investigate all potential ways to improve the health and safety situation of your people.

Can your staff can work safely from home during a lockdown? Do you need to provide them with specific equipment?

Remote working is generally not a problem in ITO. In BPO, making outgoing calls is the most common task. Call centre staff can thus relatively easily work from home. Modern platforms can put incoming calls through to remote workers as well. However, you need to consider how to deal with privacy requirements from customers. You should prepare protocols for people working from home that you can share with your customers.

For both ITO and BPO companies, data protection is particularly important. Is data secured? Are you using a virtual private network (VPN)? Does everybody have the latest virus scanner and updates?

If you do have people working at the office, do you have a protocol that states they need to wash their hands every hour? Do your staff share equipment like keyboards, and should they have their own? Do you have enough means to disinfect the office and the equipment? Can people keep enough distance? Do you need sneeze screens between workspaces? Can you organise safe transport?

### **Tips:**

Define your health and safety protocols and communicate them to your staff.

Check your IT/data security.

For more information, see these [tips for cybersecurity when working from home](#). Also, read [8 best practices for working remotely](#).

## **7. Communicate with your customers, staff, mentors and other stakeholders**

Your staff always thinks in terms of the worst-case scenarios. For example, “I am going to lose my job”, “the company will go bankrupt”. Customers and prospects may think the same way. To counter this, you need to increase your communication with customers.

Let them know what you are doing. Share what measures you have already taken to ensure staff safety. Also, let them know about the continuation of your operations and the security of your and their data. Mention every success story or activity you do to show that your company is doing well and is in a good position to survive this crisis. These could be things like training or certification. Use your website to communicate and send regular emails to your customers and stakeholders.

This is also the time to use the mentors and advisors around you. Talk to your consultants, your former professors and business friends about what you are doing. Openly discuss your problems and the way forward. Keep your other shareholders informed as well.

### **Tips:**

Communicate with all stakeholders of the company.

Make sure you are sending the right message.

For good examples, see KLM’s [Coronavirus: most asked questions](#), BPESA’s [reflections of the South African sector in lockdown](#), CrossWorkers’ [blog](#) and [how Capgemini Netherlands managed its massive remote-work migration](#).

## 8. Implement your Crisis Plan

Having included all of the above in your Crisis Plan, you should now put it into action as soon as possible. Make sure that all actions are realistic and achievable and that you have the support of all your stakeholders.

After implementing your Crisis Plan, how should you prepare for successfully doing business after the COVID-19 crisis?

## 9. Update your Business Plan and Export Marketing Plan

Once you have dealt with all the actions in your Crisis Plan, you should have time to update your old Business Plan and Export Marketing Plan. You will definitely need to make some changes. This includes the timing of introductions of new services in new markets and the build-up of revenues over time.

For this, you will need to redo the research you did for your business planning process. Based on what has already happened, you may want to adjust your strategy. Is market X still the market you want to be in? Has your financial position changed so that you can only enter market Y with 1 service instead of 2? Is your marketing budget still adequate?

Since cash will still be a problem, you should look at ways to get closer to a launch or a market without spending too much money. In most plans for SMEs in ITO and BPO, using an agent is seen as a good way to enter the European market. Now, you can find such a person. Finding the right agent and negotiating the terms will generally take a couple of months. This could all be done without spending too much cash. Because your potential agent will probably have the same problems in his own market, it might be easier to get in contact with them.

### Tips:

Update your Business Plan and Export Marketing Plan.

Find an agent, for example through LinkedIn. For more information, see the chapter on [working with an agent to find a strategic partner](#) in our study about tips for finding buyers on the European outsourcing market.

## 10. Apply for certification

Getting an [ISO 9000](#) quality management or [ISO 27001](#) information security management certificate is a good way to show your stakeholders that you still believe in the future. In some countries, local governments and NGOs like CBI, ITC or the World Bank may be able to support you financially. This is probably a great time to go through the process because your staff is not as busy.

The certification process forces you to rethink all your internal processes. It also shows you if your company could simplify, change, or increase quality in its processes. Having certification will definitely make it easier for you to do business in Europe. This also applies to the Corporate Social Responsibility (CSR) programmes that CBI offers. Getting any kind of certification at this moment will make you a better company at a very affordable price.



### **Tips:**

Use external funding to apply for certification.

For more information about certification, see our study on [buyer requirements](#).

## **11. Train your staff**

Over time, people working with software for your internal processes will use fewer software options. This is either because they were trained on the job, or because they have forgotten what they learned during the initial training. This is the time for your super users to train other staff members to optimise their use of the software. This will make your staff more productive, as well as more motivated. It is also a good time to train people on skills they lack or need to improve. This could involve additional language training or certain software certification.

### **Tip:**

Use internal training to improve productivity and quality.

## **12. Perform market research**

When planning for the future, understanding longer-term developments in the market is very important. Some existing trends will continue. One of the biggest drivers of outsourcing is the ageing population in Europe and the United States. The current crisis will not change this. Still, the economic downturn will have an impact on certain sectors. You should follow how unemployment in the ITO and BPO sector is developing. Demand may stay strong, and the sector might benefit from the crisis.

You have to look in detail at the sector in the country in which you are active. Follow which companies go bankrupt. You may want to approach their customers, or you may want to offer their skilled staff a job.

### **Tips:**

Use research to understand the bigger picture and to be able to act on opportunities.

For example, use our [market information on providing outsourcing services to Europe](#) and the World Bank's [COVID-19 related content](#).

## **13. Look at new options**

A common expression is to “never waste a good crisis”. This is also the time to look beyond your normal boundaries. Can you join forces with other companies? You could consider a merger, but partnerships may also be interesting, as long as they lead to lower costs or more revenue.

You could also explore whether the crisis opens up new opportunities. For example, governments and NGOs may need apps related to the virus, or software for their special information services. Perhaps they need contact centre capacity. Do not wait for a Request for Proposal (RFP) process, come up with a proposal without being asked!

### Tips:

Consider a merger or partnership.


Try to develop a new service or product related to the current crisis.

For examples, see [mobile apps during COVID-19](#).


This study has been carried out on behalf of CBI by Peter Vogelaar.

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