

ADAPTING YOUR BUSINESS IN THE COVID-19 WORLD

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INTRODUCTION

I've been working with business owners for close on 25 years, and I have never experienced a situation like this past few weeks. There are no experts (despite some excellent marketers out there) in what to do next as no-one has experienced a similar situation in the modern environment.

While we have had economic upheaval at times in the past 25 years (two tech crashes, GFC, etc.) it has been a long time since we have experienced a recession in Australia. It's challenging to advise on the current climate as there are so many unknowns.

With that said, here is my take on some things to focus on. Before I get to business specifics, I first want to focus on one of the most important lessons I have ever learned. The advice was given by my Dad when I was in my mid-teens. His advice was, "don't waste energy (mental, emotional, or physical) on things you cannot control. Focus instead on what you can control and what you can do to best prepare yourself for the things you can't control. Let go of the rest."

That advice is more relevant today than it has ever been. We cannot control COVID-19, other people's responses to it, the Government mandates that relate to it, and the economic impact that COVID-19 may have. It may be a virus that's most challenging aspect of recovery is financial, not physical.

This publication has been written based on my experience with running businesses and advising businesses. It is designed to be a broad overview of some of the things you, as a business owner, should be considering right now. It is purposely broad to not get you bogged down in details. Each section has some essential action items for consideration and resources you might be interested in if you wish to delve deeper into any of the topics.

I sincerely hope you get something out of this.



PREPARING FOR CLOSURE PERIODS

How well prepared are you for a closure period? The closure may be government-mandated (although due to the financial ramifications, I believe this will be the last resort) or maybe a business decision based on a team member returning a positive result for COVID-19.

Some industries are by nature in a better position to adapt to shut-down periods. Those in service industries have the technology now to be able to continue regardless of location. There is likely to be some loss of productivity, but critically, the business can still operate.

You may be surprised at how many roles can be adapted to work remotely, so my advice is to review your current operations and determine how many tasks/roles you could set up to still work from another location.

Businesses that rely on a physical presence are in a much more difficult position. For these businesses, the topics below may be critical. My advice would be to prepare now as best you can to give yourself the best chance to make it through to the other side.

Action Items:

- ☐ What roles/tasks can you convert to work remotely?
- ☐ Review if certain aspects of your business can be outsourced short-term to businesses better placed to deliver those aspects in the current environment. Negotiate with these suppliers to ensure there is still a profit margin in it for you.
- ☐ Can you redirect customers/clients to online shopping for a while?
- ☐ Can you put short term arrangements in place to operate as an intermediary between your suppliers and your customers (e.g. can they ship orders direct to your customers)?
- ☐ Are there certain more profitable aspects of your business you can operate in this environment while "pressing pause" on the other areas of your business?

It's challenging to write a comprehensive list as every business/industry is different, but the main thing is to question every aspect of your business to see if you can adapt.

REVIEW YOUR DEBT

“ AS A BUSINESS OWNER, YOUR BUSINESS & PERSONAL AFFAIRS ARE ONE AND THE SAME, THEREFORE IT IS VITAL TO TAKE A HOLISTIC VIEW.

In challenging economic times, it is often debt that is at the centre of the problems faced by small business owners. As a business owner, your business & personal affairs are one and the same, therefore it is vital to take a holistic view.

My general advice to clients over the past few years given the low-interest rate environment is to (counter-intuitively) pay down debt. In low-interest environments, you have more available cash (lower interest costs), and it is my opinion that some of this should be diverted towards paying down debt and strengthening your business & personal balance sheet.

While I'm not a pessimist, I am a realist, and I have learned to ask myself the question "if things go bad (interest rate rises, recession etc.), how could I cope with this level of debt?"

There aren't many business owners out there now who have lived through the hard times as a business owner. I believe it has been so long since we have had a prolonged difficult economic period that we have achieved a level of collective inertia and have reverted to the colloquial Australian risk management strategy of "It'll be right mate." Put simply, we haven't had to worry about it for so long it's easy to assume we'll never have to worry about it.

We are about to learn in the current days, weeks & months ahead if we need to worry about it sooner rather than later.

REVIEW YOUR DEBT

Action Items:

☐ *Take a Snapshot*

Take a snapshot of everyone you owe money to both in business & personally. This includes bank loans, credit cards, personal loans, car loans, equipment loans, investment loans, tax debts, and creditors. Write next to each how much you owe, interest rate, repayment term, repayment amount, and due date. This snapshot will give you an excellent overview of your current situation.

☐ *Consolidation*

If times get tough, it's likely you will need to negotiate with banks, lenders, creditors, the ATO etc. The less of these you have to deal with, the easier the process will be.

Consider consolidating some debt if you can. It will mean that you have fewer negotiations to enter into. It will also mean simpler cash flow forecasting as there are fewer repayments/payments to factor in. You may also have an opportunity to lock in lower interest rates to give some level of certainty.

Eliminate any smaller debts if you can comfortably do so.

☐ *Negotiate*

If you are forced into a shut-down period or we enter into a recession, it is likely at some stage that you will need to negotiate with organisations you owe money to. Make sure you have strong relationships with them – people are always more willing to negotiate with people they know, like & trust. Touch base with your key suppliers and creditors and discuss how the relationship can continue to work for both of you through this period of time.



REVIEW YOUR EXPENSES

While many business owners review their expenses at time intervals, every expense must now be considered. Expenses generally fall into one of two categories: fixed or variable.

Fixed Costs

Fixed costs are costs that don't have a direct correlation with turnover. The most common examples include wages, rent, utilities, and interest on loans. As many fixed costs are contractually bound, they can be challenging to adjust in the short-term. This is where negotiation becomes critical.

Variable Costs

Variable costs are costs that have a direct correlation with turnover. The most common examples include the purchase of goods for resale, raw materials used in producing products, and sales commissions. These costs (subject to purchase quantity requirements) generally change in line with sales.

Don't Stop Paying Though

As a side note, it's very easy when reviewing expenses and cash flow to take the approach, "I'm not going to pay anything because I don't know what will happen next." While I am advising a pragmatic approach, if we all stop paying each other, the entire economy will fold like a deck of cards quicker than you can imagine. It is critical we all support each other, and try and run our businesses as normally as possible. Yes, we will need to all adopt some flexibility, but let's band together and support each other. My (crazy) dream is that this leads to the rise of small businesses as a united front.

Action Items:

- ☐ Review your profit & loss statement and sort expenses from highest to lowest. Focus on the most significant costs first.
- ☐ For each expense categorise as essential or discretionary.
- ☐ Eliminate as much discretionary expenditure as you can.
- ☐ For essential costs, review where you could save some money or negotiate with suppliers.

YOUR TEAM

It is likely when you review your expenses that wages will be your highest cost. Conversely, your team is also your most significant asset. It has never been more imperative to align your team and bring them together. You may need to make some tough decisions and it is essential that you communicate, with clarity:

1. Where you are at as a business
2. What this means for your team members individually and collectively
3. What changes your team may need to prepare for
4. Why you are making these decisions

When this is all over, you want your team to return motivated, aligned & ready to rebuild momentum. If you do not handle this challenging period effectively, you may lose valuable team members. Once our lives return to normal, while other businesses are building momentum, you will be busy hiring new team members and training them.

Action Items:

- ☐ List out all staff members, salary, and roles to give yourself a good overview of your current commitments.
- ☐ Review all contracts & relevant awards to ensure you understand your obligations.
- ☐ Get help from a suitably qualified employment lawyer, HR organisations, or Fair Work. Making mistakes in this process could prove very costly later on.
- ☐ Communicate with your team regularly and ensure they understand you are doing your best to look after them while looking after the business to ensure they have normal employment to come back to when this is over.

Resources:

<https://www.fairwork.gov.au/about-us/news-and-media-releases/website-news/coronavirus-and-australian-workplace-laws>

CASHFLOW PROJECTIONS

As accountants, we love nothing better than a great financial model or spreadsheet. The main problem with this is while it makes sense to us, many business owners either don't understand them or they aren't practical to use daily. There are some great systems out there for finding the balance between accuracy, timeliness, adaptability & simplicity. At the moment, many do not have the resources (mental, emotional, time, money) to implement.

The good news is for right now, a simple cash flow model should give you valuable information. Again, focus on the key items, including:

1. Sales
2. Debtor Days (how long on average it takes your customers to pay you)
3. Highest fixed costs
4. Debt repayments
5. Tax obligations

Action Items:

- ☐ Work out your cash position at the moment (i.e. how much cash do you have available?)
- ☐ Estimate how much cash you expect to be coming in. Use increments of no more than fortnightly (ideally weekly or daily) as you will need to adapt quickly if cash is drying up.
- ☐ Estimate your payment commitments using the same time increments as above.
- ☐ This will quickly show you where you can expect to have a cash deficit (i.e. no money left in the bank).
- ☐ Get ahead of the game if it appears you will have a cash shortage. You will need to start to negotiate, borrow funds, or sell assets to meet commitments. The sooner you start, the better your chances of navigating through with creditors.
- ☐ Sensitise your forecasts so you can estimate the impact changes will have. For example, what if sales drop 20%, 30%, 50% etc? What if customers start paying me on average 60 days after invoice instead of 30 days?

ASK FOR HELP IF NEEDED – DON'T WAIT UNTIL IT IS TOO LATE

ASSET PROTECTION

If things don't go well with your business, you want your best chance to protect the assets you have worked hard to accumulate. It's imperative you know exactly where you are in terms of asset protection. The laws concerning protecting assets are complicated with intersections between several different Acts.

Ideally, asset protection is a long term strategy, not something done on a short-term basis. It is very difficult to protect assets on a short-term basis given claw-back provisions, insolvency laws, costs, and tax considerations.

Action Items:

- ☐ List out all loans and what assets they are secured over. Detail the value of the asset, the amount of the loan, and the owner of the asset (i.e. personal, business entity, or investment entity).
- ☐ List out all personal guarantees, including loans, suppliers, and trade credit agreements.
- ☐ Review with your accountant or commercial lawyer what options you have available to minimise personal guarantees and manage security given for loans.
- ☐ Get advice before any movement of assets, giving personal guarantees, taking out a loan, and particularly if you are worried your business may become insolvent.
- ☐ You must understand your obligations before taking any action.



A SIDE NOTE ON NEGOTIATION

You will have noticed that the concept of negotiation has been mentioned numerous times throughout this publication. At the moment with so much fear, uncertainty, and pressure on us all as individuals and businesses, it is easy to focus exclusively on our own survival.

In my experience, the most successful negotiations are where you consider the needs of the other party as well. The term "win-win" is cliché, but it is critically important in times like these. It's not a guarantee of a successful outcome, but it will give you the best chance.

Resources:

Book – *The Go-Giver* by Bob Burg and John David Mann

AVOID THE OSTRICH

The biggest mistake I have seen made is what we refer to as "The Ostrich." This is where it all becomes too much, and business owners stick their heads in the sand. This strategy will not get you through. By all means, throw a tantrum, unplug, recharge or give yourself a timeout if you need to.

Once that is done, you must switch back on and deal with the challenges. There is a myriad of help out there, and if there is one thing to remember is that being a business owner can seem lonely, but you never walk alone.

CONCLUSION

This concludes part one, which has focused on the things you need to be looking at and actioning right now. It is heavily compliance and financially based but hopefully it has given you some help. Part two will be released next week with a focus on preparing your business for a reboot when the immediate crisis is behind us.

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