# Back to Basics: 8 Ways to Rethink Your Business

**While COVID-19 has had an unprecedented impact on most businesses, there are tried and tested steps you can take to find solutions to challenges and perhaps even turn the crisis to an advantage. Ian Brenner, a Partner at GlassRatner explains.**

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*Stop, drop and roll!* Everyone remembers that simple fire safety technique taught to us as children. While sound advice, when an actual fire breaks out, panic typically trumps logic. In our experience, this tends to ring true for businesses when they are hit with a crisis—they forget the fundamentals.

To help companies survive the next few months and beyond, there are certain practical tools and questions that leadership teams should be challenging themselves to reinvigorate and, in some cases, rethink their company's future direction.

Here are eight pragmatic steps you can take to steer your company through the crisis, with an eye towards emerging even stronger on the other side stronger.

## 1. Get to grips with your short to near-term cash flow

It sounds obvious. Yet you'd be surprised at how few companies have a deep understanding of their cash flow. The solution to avoid flying blind lies in modelling a rolling 13-week cash flow forecast—showing the projected end-of-week cash balances for the quarter ahead.

This model is especially useful where lenders and investors are involved. Right now, these stakeholders are understandably jittery. The leadership team's ability to provide up-to-date and detailed forecasts is a powerful management tool, particularly in times of crisis. Financiers want to know management is on top of the business and watching out for their interests.

### *Anticipate the triggers used by your lenders*

You'd be well-advised to also include the financial covenants—and any borrowing base margining formulas—of your lenders into the forecast. Including lending covenants allows you to anticipate and proactively deal with any potential liquidity gaps, covenant breaches, or collateral erosion. If gaps or breaches are spotted, consider what levers can be used to mitigate or lessen the breaches or how quickly these breaches will recover.

Companies that are proactive in identifying and communicating gaps, solutions, and time frames to their investors often results in a better outcome; such as a temporary covenant waivers, amended terms or forbearance agreements.

Leadership teams who are transparent and have the relevant financial information at hand evoke trust. Lenders and investors are usually more open to negotiating terms when they feel their interests are aligned. They are also a source of information, so leverage their knowledge from dealing with other industry players who are their clients or contacts.

*The devil is in the detail*

As is often the case when putting together forecasts, there are nuances to be aware of. For example, noting whether the payroll is weekly, bi-weekly or monthly. This is key to figuring out if there are peak weeks you need to address—such as where both payroll and rent fall due in the same week.

There also may be lump sum annual or quarterly payments on the horizon such as insurance payments. Many suppliers and service providers, particularly during this pandemic, have been open stretching out payments from quarterly or annual to monthly. This can significantly reduce liquidity constraints.

*Sourcing your forecast inputs*

Look to the following sources of information to complete and validate the forecast inputs:

- existing budgets and forecasts
- key contracts including loan, supplier, and lease agreements
- historical financial statements, also useful for a ‘smell test’ to validate the forecast
- current liabilities including trade accounts payable, accruals and other debts on the balance sheet

It’s easy to overlook certain receipts and disbursements. The more common omissions are:

- pre-authorized payments (i.e., leases, and bank charges)
- irregular payments on annual contracts like insurances and licenses
- unusual items such as refinancing fees
- sales taxes paid on supplies and collected on receipts with a forecast refund or amount to be remitted

## 2. Turn potential strategic outcomes into numbers

There is no crystal ball to tell us how hard or for how long a business will be impacted by COVID-19. A financial model with the flexibility of providing a worst-case scenario over varying lengths of time can help a company understand the magnitude of the gap that may need to be bridged.

A fully integrated model showing cash flows, the balance sheet and income statement with inbuilt flexibility will help ground your strategic discussions and show the impact of:

- operational improvements
- working capital changes
- elimination of non-core businesses or assets
- savings achieved through any cost reductions or headcount reductions
- acquiring top line sales to support the adjusted cost and debt structure

Based on the outputs, the leadership team will be well placed to formulate a short-list of action items. Among these, we would suggest asking a few hard questions. Let’s look at these next.

## 3. Take a hard look at the fundamentals

In the short term, the crisis has inspired us to question some of the fundamentals we may previously have taken for granted:

- are you optimizing your cash conversion cycle??
- do you know who your best customers are and have a strategy to manage and retain them?
- what pressing opportunities and threats face your business?
- does the leadership team have the bandwidth to deal with everything they are facing right now?

Answering these questions will set the stage to consider more far reaching changes that may be required as we come out of COVID-19. We’ll discuss this next.

## 4. Re-examine your business model

Does the business model itself need transformation? Some industries were already crowded and ripe for disruption, even before COVID-19. Companies in these segments may struggle to recover without significant restructuring. For other companies, modelling and comparing different revenue streams, including subscription-based, pre-paid, and one-off revenue models may offer lucrative alternatives.

Other questions worth exploring are:

- will your existing services or products, and pricing strategies continue to yield results?
- how will your current sales organization and approach to winning business be set up for success?
- how will you get the appropriate return you need on your SG&A spend?
- are lower revenue forecasts unsustainable given current debt levels and what options are available to align these?

## 5. Prepare for financial opportunities

For the time being, there is a virtual stand-still in merger and acquisition activity. As we begin to have more clarity on the timing of a restart, we believe there will be substantial corporate activity, including mergers, consolidations, and acquisitions of distressed organizations.

Ask yourself the following:

- is your company ready to take advantage of merger or acquisition opportunities?
- can additional top-line revenue be purchased to support the current fixed cost and debt structure?
- what opportunities might emerge to form partnerships or strategic alliances?

## 6. Assess your management talent

As you redefine your 2020 business plans, what resources and expertise will you need on the management team to deal with the present challenges? Having the right capabilities to lead and manage through the crisis will be instrumental to the company navigating these uncharted waters.

For the foreseeable future, business continuity will remain an elevated risk. As part of the business continuity planning process, identify those essential skills and related staffing requirements to perform and maintain essential services and functions.

## 7. Keep in mind the emotional impact

Organizational change is generally fraught with emotion. COVID-19 has only served to amplify the emotional pressure on the leadership team and organization. As you move forward with strategic and other changes, consider:

- are your leaders equipped with the necessary EQ skills to manage their own and others' emotional and psychological distress?
- how are your leaders addressing the emotional aspect of organizational change?

- does your leadership have the skills and discipline to manage change effectively?
- how are your leaders keeping staff engaged while working remotely?
- how is management addressing corporate wellness and mental health?

### 8. Seek outside experienced help

Part of the reason companies often struggle through change, especially of this magnitude, is because they lack specific in-house competencies and skill-sets. If that's true for your organization, then there may be particular areas in the business where the support of experienced interim resources or advisors could provide some much-needed expertise, leadership, or relief to your teams. The right resource may be able to help with:

- building out a 13-week cash flow projection
- modelling a flexible, fully integrated financial model
- providing an experienced sounding board for evaluating and executing strategic alternatives
- coaching and support to bolster management skills and mitigate emotional impacts
- advice around merger and acquisition opportunities

## Forging ahead

The challenges companies are facing today are extraordinary. Without minimizing the human and financial impact, companies have the chance to reflect on and then implement strategic changes for the better. Sometimes great good can come from being forced to confront what we all too often put off for another day.

## Post-Pandemic Planning

How do we prepare ourselves for the future of work when the future is suddenly here and wrought with uncertainty? Get started.

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