How to Regain the Initiative Amidst Uncertainty

Uncertainty—it's a word no business likes to hear, but it's been dominating the headlines for weeks now. From the COVID-19 pandemic to the oil war between Saudi Arabia and Russia, businesses have been sent into a reactionary stillness. Derek Church urges companies to persevere, move forward, and regain their initiative.

In the last month the world has been turned upside down by two incidents no one saw coming.

The first being the COVID-19 epidemic, previously thought to be isolated to certain regions of the world, blowing up into a global pandemic. Everyone initially underestimated the virus, became reactionary, and now we have lost the initiative as infection levels grow exponentially across the world.

Secondly, Saudi Arabia and Russia entered a geo-political fight over the crude oil market—sending crude prices into a nosedive, with the West Texas Intermediate (WTI) currently hovering around $25 per BBL, and Western Canadian Select (WCS) at less than $10 per BBL at the time of writing this article.

The suddenness of these two events have forced many businesses into a position—losing that they didn't expect and certainly didn't plan for. If we delay decisive action to regain control, options to address the current circumstances will start to quickly disappear—leading to greater liquidity constraints and risks of formal insolvency proceedings or business failure.

So how do we go about regaining the initiative? It starts with facing the situation head-on with a sense of urgency and focusing on what you *can* control now. Here is how.

Overview and Key Considerations

In order to be able to regain the initiative and come-up with a viable plan, you need to seek clarity about the current situation. Do a ruthless and objective assessment of the business and examine what the numbers are saying. Part of this assessment includes but is not limited to:

- taking a hard look at your leadership team
- taking decisive, focused and timely action
- focusing on cash flow needs
- seeking to restore flexibility into your business' capital structure
- creating a solid business plan that allows you and your team to move forward

Examining Your Management and Leadership Team

Leadership in a crisis is critical, start with a review of your current management team. Do you have the right skills, strengths and experience on the team to lead the business through this crisis? If gaps are identified, consider how to source the required talent. Often the team can be strengthened effectively by an external resource as opposed to going through the longer process of hiring. For example, retaining an interim leader.

Your leadership team should be separated into two teams. One should be focused on leading the business through the current crisis. The other team should be focused on maintaining ongoing operations. Each team should be left to focus on its assigned role.

Creating a Plan

Once you are sure you have the right people, you need to develop a plan.

Start by reviewing your business model. Consider where your organization is uniquely positioned to help and be competitive. In a distressed market, you may have to fight for market share to maintain revenue.

Next, review your operational structure, asset mix, staff complement and cost structure. Focus on initiatives that are critical to deliver the product or service, and which generates positive cash flow. Anything extraneous should be reduced or eliminated.

As a next step, review the capital structure of the business (how the business is financed). Debt is the cheapest form of capital, it's also the least flexible. Equity is more expensive but has a much longer time horizon and is far more flexible on when it gets paid. It's prudent to take measures to eliminate unnecessary leverage in the capital structure, or proactively negotiate more relaxed terms.

Finally, the plan must result in a critical path to get the company back to generating positive cash flow.

Monitoring Against the Plan—Reporting and Forecasting

The plan needs to be summarized in a form that can be tracked against, and which external financial stakeholders can understand. A financial forecast is the best tool for achieving this and here are some points to consider in its preparation:

- the financial forecast should be an integrated financial model with balance sheet, income statement and cash flow statement. This allows for the forecasting of short-term working capital liquidity and financial covenant compliance
- the action items of the plan developed should drive the assumptions used in the cash flow forecast
- the forecast should be prepared on a monthly basis and cover the period required to get the firm back to positive cash flows. A 13-week rolling cash flow forecast may be required if short term liquidity is a concern
- the forecast must be grounded on supportable assumptions and show the company returning to positive cash flow in a reasonable time frame
- it’s helpful to run various scenarios such as best, base and worst case in order to stress test your plan and the financial model

Proactive Communication with Stakeholders

Seize the initiative in communicating with your stakeholders, primarily your lenders, creditors and shareholders. Articulate the following in your communication with them:

- your plan and the required timeline to address the situation
- the risks with the plan and how you plan on mitigating them
- whether you will be outside the terms and conditions of your agreements, and the concessions or support you require from the stakeholders

Remember, it’s far better to proactively deliver bad news and your plan to address it, then to remain silent and force a stakeholder to act. Open and transparent communication is key to getting buy-in from stakeholders and maintaining trust.

Timely Action

When you are stressed and emotionally vested in a situation, such as the survival of the business you spent your life building, it can be difficult to focus and know where to start. However, you need to start somewhere.

The success of regaining the initiative revolves around you taking timely action. The longer you wait to formulate a plan and take decisive action, the less options will be available to you.

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