



Triage Before Turnaround: Cash Conservation

When a business is in distress, it's imperative that leaders proactively confront the situation—buying time to implement a sound turnaround plan. Paul Denton suggests performing triage on the ailing company and prioritizing actions to regain control and stability.

This four-part series sets out the key actions needed to stabilize the overall situation of a distressed business. Namely, to preserve and maximize the resources needed to survive in the short-term. More than ever, it's vital to establish controls over all cash and assets as soon as possible.

While these guidelines are important in a normal business climate, they take on even more importance when faced with the extraordinary demands placed on businesses by the COVID 19 pandemic. These are highly uncertain times with many companies still coming to grips with our new current reality—so it's essential to move on a short-term plan of action.

Below are the triage actions, but the order will depend on a number of internal and external criteria—such as the patience of your creditors (and investors), the capabilities of the rest of the management team, sales projection status, burn rate, and the list goes on.

Triage Action Plan for a Turnaround

- step one: ensure that enough cash is available to fund short-term needs and to fund the restructuring process
- step two: confirm management buy-in and set up a core team that is committed to the success of the project
- step three: verify that assets are safeguarded and preserved to maximize resources available for turnaround
- step four: understand the key financial and operating issues to rally short-term support from stakeholders

Step One: Establish a Cash-Conservation Program

Whether you're sitting in the driver's seat as a beleaguered CEO or you're a frustrated board that's hired an interim chief restructuring officer (CRO) to help stop the bleeding— the next 60 days are crucial.

While every situation is different, there isn't a magic bullet. However, our advice, if you are unsure of where to begin is to always remember that cash is king—begin by establishing a cash-conservation program.

Cash-Conservation Program

- Obtain or prepare detailed, rolling short-term, weekly cash flow projections and a lender borrowing base calculation (minimum of 13 weeks) to understand the size of any short-term liquidity issues
- Conduct high level review to:
 - review your current opening financial position and updated snapshot of accounts receivable, payable, and inventory, etc.
 - assess accuracy, availability and appropriateness of management reporting information
 - examine opportunities to expedite billings and accounts receivable collections
 - assess opportunities for postponement or deferral of payments with major creditors and suppliers
 - assess landlord concessions
 - assess government or CRA relief
 - assess potential bank relief or concessions
 - assess barter options to conserve cash and source critical supplies or services
 - assess owner management payroll deferral, work share programs to help retain and align employees
 - review other non-cash working capital items to determine the potential for accelerating conversion to cash
 - conduct a detailed review of operating expenses and capital spending to identify expenditures that can be deferred or eliminated without compromising the business
 - assess the need to immediately centralize control of expense approval & cheque issuance
 - identify redundant assets that can be sold

- identify any excess leverage capacity to support additional short-term borrowings
- develop documentation and system changes necessary to effect short-term cash conservation measures
- complete high-level financial diagnostic—addressing issues relating to strategy, operations, management, support infrastructure and financial issues leads to identification of “quick hit” opportunities—with a short implementation time frame, which produces immediate cash savings and galvanize the management team

Again, in this step, it’s crucial that a company conserves as much cash as possible for short-term needs. Once the cash conservation program has been established, finding a competent and committed leadership team is the next major task—which we will be discussing in our next article.

Recommended for you:

Interested in the next step? Gain insights on finding a competent and committed leadership team. [Learn more.](#)

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