



Bridges Over Troubled Waters - In Troubled Times Revert to the Basics

It doesn't feel like more than a decade has slid by since the scary days of the Global Financial Crisis. Many of us will recall very clearly how in around 2008 the uncertainty caused by events that occurred a long way from our shores took hold and resulted in some very challenging times for business. Now, we are faced with challenges of a different nature but nonetheless just as troubling.

None of us know how long the effects of COVID-19 will be with us nor how widespread the fallout is going to be. The government has been quick and decisive in its response and unfortunately certain sectors are already experiencing devastating consequences from the necessary measures.

Some industries will be less affected than others, but the ripple effect will be felt across the wider economy as people lose jobs and face severe personal financial pressures.

What can you do right now to protect your business? There is no silver bullet solution but the best advice anyone can give you is that you make sure your business fundamentals are sound.

Be as business-fit as you can be and here are a few suggestions.

Quite simply, follow the **CAMEL** principles

Capitalisation:

Ensure you have your gearing right – your business must have an acceptable match between its earnings capacity and its ability to service its debts from that capacity. If you have any doubts, now is the time to call the bank manager. Now, more than ever, banks will be likely to have a sympathetic ear.

Debt rescheduling: making sure that long term assets are not funded by short term debt is a good option, as is asking your bank to consider a hold on principal repayments to make facilities more affordable while we ride out the effects of COVID-19

Assets:

Now is the time for you review, critically, the Assets part of your balance sheet. If you have assets that are superfluous to present requirements, consider realising them and put future asset acquisition plans on hold particularly if the purchase is not essential to short term survival. Employ some analysis to determine what is performing and matching the business' hurdle rate. The corollary is that if you can afford to invest, times of adversity can present some great opportunities.

Management: In times of economic adversity quality management decisions will steer the business through to survival and future success. In tough times management must make sure it has its finger well and truly on the pulse of the organisation, to have current and accurate information to hand to enable sound decisions to be made. Now is a good time to be revisiting the budgets and forecasts and changing course accordingly. Modern information systems present a wealth of useful data, but often much of it is ignored by management. Be innovative in employing data analytics tools to generate and analyse real-time information critical to the making of good management decisions. Make sure all the data necessary to manage the business is readily available; you cannot manage effectively with out-of-date information – *if you can't measure it you can't manage it.*

Earnings:

It goes without saying that if long term survival of a business is to be ensured, it must make a profit. In troubled times like these there needs to be a single-mindedness in the preservation of earnings. Both revenue preservation and cost-cutting must be at the forefront of the minds of management. While nobody wants to take tough decisions like retrenching resources in difficult times, sometimes they must be made with short term pain being felt for long term survival.

Last, but by no means least.

Liquidity:

Preservation of cash flow and sound working capital management can make all the difference between success and failure in times of adversity.

It cannot be emphasised enough that liquidity is the lifeblood of any business. While profit may be likened to nourishment, cashflow is the equivalent of oxygen for a body. A business may be able to wear losses for a while but cannot survive for long without cash flow. In times of adversity management must be ruthlessly determined in preserving it. Consider revisiting provisional tax estimates and looking at ways to match cash in and outflows.

It's an old saying but it's true "Cash Is King".

While these strategies should represent nothing new to you, now is a good time for you to be reverting to the basics in plotting out the survival of your business through the COVID-19 challenges.

Remember, you are not alone in this. The government has made a relief package available which will surely will be expanded as events unfold and hopefully the banks will also come to the party with their own measures to help businesses in distress.

Our economy has weathered storms before and we will do so in this one too. In the meantime, remain positive and take care of the health of yourself, your people and your business.

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