PREPARING FOR COVID-19

TIPS FOR SMALL BUSINESS TO PREPARE FOR COVID-19

DETAILED SUMMARY OF TIPS TO ASSIST SMALL BUSINESS PREPARE FOR THE BUSINESS IMPLICATIONS OF COVID-19

The coronavirus or COVID-19 presents a significant threat not only to human health but also to business. For many businesses, likely moves by governments to contain the public health risk may result in a sudden fall in demand for your products or services, labour shortages and supply disruptions.

Businesses must assume that health authorities will ask people to stay home to contain the spread of COVID-19, or that large numbers of your local population will voluntarily stay home. This will result in people consuming less and purchasing in different ways. It will also impact staff availability, especially for businesses where employees cannot work from home.

It is also likely that your operations will be impacted by supply disruptions as your suppliers' grapple with the same issues.

In short, COVID-19 will be a shock to many businesses that could place their immediate future in serious jeopardy, and there is no way of knowing how long this pending crisis will last.

As part of a comprehensive risk management strategy there are a range of actions you should consider taking now to prepare your business for COVID-19, to place it in the best possible position to not only navigate through the crisis but to also be better prepared to take advantage of the recovery.

Fundamental to your preparations is keeping up to date with official information on COVID-19 and any directions public health authorities may issue. It is therefore important to follow the website of your local health authority.

1. UPDATE YOUR FINANCIAL STATEMENTS

To be able to make the best possible decisions in a difficult environment, you need access to the most up-to-date information on the state of your business finances. Therefore, we recommend you bring your financial statements up to date and keep them up to date.

2. LIST POSSIBLE IMPACTS On YOUR BUSINESS, ESTIMATE THE FINANCIAL IMPACT AND DEVELOP MITIGATION STRATEGIES

Discuss with your staff, key suppliers and key customers what the likely impact of COVID-19 will be on your business. The impacts on a business will likely be most significant in the following area:

- **Sales –** particularly if you have little to no online presence.
- **Staff availability –** with people likely to be subject to restrictions on their movement, their ability to work will be curtailed, particularly if there is limited scope for them to work from home.
- **Supply chain –** particularly if you rely on suppliers from badly impacted parts of the world.
- **Finance –** particularly if your cash reserves are low.

If your business is already impacted, start by listing what those impacts are. If you are not impacted yet, you should still be able to make some informed projections. In listing those possible impacts, attempt to quantify what those impacts will have on your business and identify possible strategies to mitigate those impacts.

See example worksheet – List of Potential Implications of COVID-19 on your Business (PDF)

3. PERFORM A FINANCIAL HEALTH CHECK ON YOUR BUSINESS

Knowledge of the financial health of your business is fundamental to assisting you decide what you can and should do now to place your business in the best possible position to navigate through the crisis.

A significant amount of information on the financial health and performance of your business can be gained by analysing your financial statements through financial ratios.

Information on such ratio analysis can be found in CPA Australia's Small Business Disaster Recovery Toolkit.

4. RE-DO YOUR BUDGETS WITH NEW ASSUMPTIONS

The assumptions you may have used to produce your budget are most likely no longer relevant because of the crisis. Working with your accountant, take the list of possible impacts of COVID-19 you have developed and re-do your budgets. Include a range of possible previously unthinkable scenarios, such as a 50 to 80 per cent decline in sales over three to six months, or a supplier being unable to supply you a key item for six weeks.

Carefully consider how each of those scenarios impacts your cash flow.

5. ACT NOW TO IMPROVE CASH FLOW

After re-doing your budgets and determining the financial health of your business, including your cash reserves, you are likely to find your business will struggle with cash flow in the near future. You must therefore act now to improve cash flows.

The first step to improving cash flow is to prepare a cash flow forecast, and updating that forecast throughout the crisis, possibly weekly. This will give you forewarning of any cash flow problems so you can act early to address them.

The following tips to improve your cash flow may appear unorthodox and extreme. Some of them we would not recommend in a normal situation, however you may soon be operating in an environment you have never experienced:

STOCK MANAGEMENT

- Take steps to increase sales, especially of stock that may not last three to six months.
- Focus your promotions towards these stock items.
- Reduce stock orders, particularly stock you assume will be in low demand during the crisis.
- Increase purchases of stock you think will be in high demand during the crisis.
- Promote the selling of excess, slow moving and/or obsolete stock.

DEBTORS MANAGEMENT

- Contact your debtors and ask them to pay you, even if before the due date.
- If your debtors are experiencing cash flow difficulties themselves, negotiate periodic payments and make sure they stick to their side of the deal.
- Invoice as soon as the product or service is delivered … don't delay.
- Produce aged debtor reports and follow up with aged debtors.
- Reduce debtors by encouraging customers to pay at the point of purchase or to pay early.
- Only pay commission to sales staff when payment is received on their sales.
- Review your sales contracts to determine under what circumstances customers can cancel orders. If necessary, update those contracts to limit the ability of customers to cancel orders.

CREDITORS MANAGEMENT

- Seek payment extensions, even temporarily to your credit terms with suppliers.
- Check your supply contracts to determine under what circumstances you can cancel orders if necessary, or at least delay delivery.
- Negotiate instalment plans with the tax authorities.

SPENDING

- Cut spending you believe unnecessary in a crisis, such as advertising.
- Delay unnecessary capital expenditure.
- Look to reduce staff costs by reviewing staffing arrangements. This could include reducing employee or contractor numbers, reduced working hours or implementing a recruitment freeze. You may need to seek advice as to how to do this.
- Reduce your drawings from the business.

SEEK FINANCE TO FILL CASH SHORTFALLS

- Speak to your lender about introducing or increasing your overdraft facility. Demonstrate that you are on top of your business and understand your cash flow.
- Determine your own personal cash position to see if you can inject cash into your business.
- Seek out other investors to see if they can inject cash into the business.

CHANGE YOUR BUSINESS MODEL

- Increase your investment in selling online. If you are not selling online, you should seriously consider doing so.
- Look at different ways to deliver your product or service to your customers.

ASSET MANAGEMENT

- Sell or lease out assets you don't need.

Some of these actions may be detrimental to your business in the recovery stage. Keep an eye open for changes in the environment so that you can return to normal business operations quickly.

6. INCREASE ONLINE SALES

Recent experience from markets already impacted by the virus shows that customers are likely to stay home (whether at the instructions of health authorities or by choice), and therefore, purchase more online. To remain viable, many small businesses will need to begin selling online or increase how much they sell online.

A key part to preparing for the crisis is investigating different online platforms to see which one is best to sell your products to reduce your reliance on your shop front. You should also review how best to deliver your products to the customer. Your accountant may be able to assist you with these important considerations.

Suppliers of services should investigate digital solutions to the delivery of services to reduce the need for face to face contact. Consequently, you may choose to close some of your physical locations.

7. PUT IN PLACE A CONTINGENCY PLAN

See example checklist – COVID-19 contingency plan (PDF)

8. TALK TO KEY SUPPLIERS

Talk to your key suppliers about their ability to delivery reliably during the crisis. Consider not only their ability to produce the inputs you need, but also the transportation of the products to you and keep to the agreed costs/prices. For example, if your supplier (or their key suppliers) are based in a location hard hit by COVID-19, production may slow or stopped, and/or their ability to get those supplies to you is restricted. Consequently, those key supplies take longer to arrive. If authorities impose import restrictions based on the product origins, then more time will be spent at customs clearance points before you are able to utilise the goods.

In such a scenario, you should consider setting up alternative suppliers, including local suppliers even if more expensive. Source them now and start price negotiations early.

9. IDENTIFY EMPLOYEES WITH CRITICAL SKILLS FOR YOUR BUSINESS

Consider which of your employees are not easily replaced as well as which business functions need to keep operating regardless. Look for others who can learn the task. Outsourcing may be an alternative solution.

Where such employees can work from home, make sure they take the equipment (such as a laptop) they need to work from home, with them every night in case you have to close your premises at short notice.

Consider developing a special roster so that critical staff are always available to keep essential business systems and processes running.

10. MEASURE, MEASURE, MEASURE

There are a number of key indicators which will quickly tell you how your business is tracking. They could be as simple as the value of daily sales, or the cash balance or the debtors' balance, or the value of orders and bookings.

Create a graph showing these key indicators and update it daily or at least weekly. It will quickly show you any trends as they emerge.

11. DO A REALITY CHECK ON YOUR BUSINESS

Use the crisis as an opportunity to reflect on your business, how it was being run, how you would like it to run post crisis and whether it is still right for you. Questions to ask yourself include:

- Were you happy running your business before the crisis?
- Were you making the profit you wanted?
- Do you like being your own boss?
- Was there adequate cashflow in the business prior to the crisis?
- Are you achieving the return on investment you want from your business?
- Are you prepared for the potential extra demands that recovering your business will place on you, both personally and financially?
- Can you afford to continue to run the business while your business is recovering?

Can you foresee any possible emerging opportunities for your business following the crisis?

12. IF YOUR ARE IN FINANCIAL DIFFICULTY, SEEK PROFESSIONAL ADVICE EARLY

During the crisis, regularly ask:

- is your business able to pay your creditors, your tax obligations, employment obligations and make loan repayments as they become due?
- Do you have adequate financial reserves to cover debts due and payable in the next few months?

If you answer no to these questions, you should immediately seek professional advice, as your company may be insolvent or near insolvent.

There are risks if you continue your company while it is insolvent. For information on the consequences of insolvent trading in Australia, visit the **Australian Securities and Investments Commission** (ASIC) website. ASIC has a list of registered liquidators that are experienced in providing advice in the area of insolvency and reconstruction. Getting advice from a registered liquidator, or your accountant or lawyer to understand the complexities in this area is important.

If your small business is in financial difficulty, be very wary of anyone cold-calling you, promising financial salvation.

Such people may advise you to deliberately liquidate your company to avoid paying debts and continue your business through a new company. This is called illegal phoenix activity and in Australia those directors that are found to have undertaken such activity may face large fines and up to five years imprisonment.

If you are approached by anyone cold calling you offering such advice, speak to your accountant or lawyer.