

# MANAGING THROUGH COVID-19

## TIPS TO ASSIST SMALL BUSINESS MANAGE THROUGH THE BUSINESS IMPLICATIONS OF COVID-19

COVID-19 presents a significant threat not only to human health but also to business. For many businesses, steps by governments to contain the public health risks of the virus, such as restricting the movement of people and shutting non-essential businesses will result in a sudden fall in demand for products or services, labour shortages and supply disruptions.

In short, steps taken by governments to control the spread of COVID-19 will be a shock to many businesses that could place their immediate future in serious jeopardy. Further, there is no way of knowing how long such actions will be required to contain the risks to public health. It should be noted failing to impose such controls is very likely to have even larger ramifications for business and society.

There are a range of actions you should consider implementing to manage your business through the COVID-19 pandemic to ensure its survival and place it in the best possible position to take advantage of the recovery. Fundamental to managing through the crisis is to keep 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.

**Below is a list of actions you can undertake at this time**

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#### 1.UPDATE YOUR FINANCIALS AND KEEP THEM UP-TO-DATE

Possible action	Comments
Bring your financial statements up-to-date and keep them up-to-date.	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 financial position of your business.
Determine the cash position of your business.	This includes calculating the cash you have deposited in a bank and determining what assets can be sold quickly.

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### 2.DO A FINANCIAL HEALTH CHECK ON YOUR BUSINESS AND REPEAT REGULARLY

Possible action	Comments
Identify your key business indicators. Such indicators will quickly tell you how your business is performing and continually measure those indicators	<p>There are several key indicators which will quickly tell you how your business is tracking. They could include the:</p> <ul style="list-style-type: none"> <li>• value of daily sales</li> <li>• cash balance of the business</li> <li>• debtors' balance</li> <li>• value of orders and bookings.</li> </ul> <p>Create a graph showing these key indicators and update it daily.</p>
Determine the financial health of your business through analysis of your financial statements.	<p>Knowing the state of your business' finances is fundamental to assisting you decide what you can and should do to manage through the crisis.</p> <p>A significant amount of information on the health of your finances can be gained by analysing your financial statements through financial ratios.</p> <p>You should implement a process to review these ratios on a regular basis so that you detect and address adverse movements or opportunities earlier.</p> <p>Further information on ratio analysis, including examples, can be found in CPA Australia's <a href="#">Small Business Disaster Recovery Toolkit</a>.</p>
Analyse your liquidity on at least a weekly basis, if not daily.	<p><b>Quick ratio = <math>\frac{\text{Total current assets} - \text{Inventory}}{\text{Total current liabilities}}</math></b></p> <p>This ratio helps to answer the fundamental question "If the business does not have any sales income, could the business meet its current obligations (without having to sell inventory at 'knock down' prices)."</p>
Analyse your solvency on at least a weekly basis, if not daily.	<p><b>Debt to asset ratio = <math>\frac{\text{Total liabilities}}{\text{Total assets}}</math></b></p> <p>This ratio measures the percentage of assets being financed by liabilities. This ratio should ideally be</p>

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	less than 1, indicating that there are enough assets to meet all debt obligations in a worst-case scenario.
<b>3.ACT NOW TO IMPROVE CASH FLOW</b>	
<b>Possible action</b>	<b>Comments</b>
Prepare a cash flow forecast. Update that forecast throughout the crisis, at least on a weekly basis; better still daily.	<p>Cash flow forecasts should give you forewarning of any cash flow problems so you can act early to address them.</p> <p>Your accounting software should be able to assist you prepare a cash flow forecast – if not, speak to your accountant for help.</p>
Identify your forward bookings, forward orders and work in progress.	<ul style="list-style-type: none"> <li>• Quantifying your forward bookings – forward orders and work in progress is a good way to identify your future cash flow.</li> <li>• Can you fill those orders and complete your work in progress? That is, can those orders be turned into completed sales?</li> <li>• Are clients cancelling orders? If so, what is your cancellation policy, such as a loss of deposit or payment for the work completed?</li> <li>• What is the credit risk of those customers?</li> </ul>
Identify products or services in high demand.	<p>Even in a crisis, certain products will be in high demand, therefore:</p> <ul style="list-style-type: none"> <li>• Focus any promotional activity on those items</li> <li>• Do not discount high demand items</li> <li>• Package low demand items with high demand items to get those items out of the door to make room for these high demand items.</li> </ul>
Reduce stock orders.	<ul style="list-style-type: none"> <li>• Reduce stock orders, particularly stock in low demand.</li> <li>• If you have items in high demand, increase orders of such items.</li> </ul>
Contact your debtors and ask them to pay you, even if before the due date.	<ul style="list-style-type: none"> <li>• If your debtors are experiencing cash flow difficulties themselves, negotiate periodic payments and make sure they stick to their side of the deal.</li> </ul>

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	<ul style="list-style-type: none"> <li>• Produce aged debtor reports and follow up with aged debtors.</li> <li>• Check payment progress every day and address any slow payment immediately.</li> </ul>
Reduce debtors by encouraging customers to pay at the point of purchase or to pay early.	<ul style="list-style-type: none"> <li>• Consider introducing an up-front deposit requirement for critical items required by your customers so you share the supply chain risk (e.g. something like 30 per cent deposit to secure supply). Note, however, that in imposing a deposit, you must ensure that you are able to refund the deposit if you are unable to deliver.</li> <li>• Only pay commission to sales staff when payment is received on their sales.</li> </ul>
Invoice as soon as the product or service is delivered ... don't delay.	<ul style="list-style-type: none"> <li>• It is good business practice to invoice as soon as a good or service is delivered.</li> <li>• If it is a large order, use a progressive payment structure and consider collecting 80 per cent prior to the delivery of the product and the balance 20 per cent on delivery.</li> </ul>
Seek payment extensions, even temporarily to your credit terms with suppliers.	<ul style="list-style-type: none"> <li>• Seek an extension to your payment terms with your suppliers and/ or reduce orders.</li> <li>• Check your supply contracts to determine under what circumstances you can cancel orders if necessary, delay delivery, or pay in smaller instalments.</li> </ul>
Check your sales contracts to determine under what circumstances you can cancel orders if necessary, or at least delay delivery.	Review your sales contracts to see if you can/ should limit the ability of customers to cancel orders.
Cut spending you believe unnecessary in a crisis.	<p>Some spending cuts may need to be drastic, however be cautious as such cuts may make it very difficult for your business to fully recover.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• renegotiate supply arrangements to reduce the price you pay, the size of your orders, and extend your payment terms</li> <li>• renegotiate your credit facility with your lender to get a cheaper interest rates and better terms</li> <li>• renegotiate leases to get lower rent and better terms from your landlord</li> </ul>

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	<ul style="list-style-type: none"> <li>negotiate the postponement of the delivery of any high value items that is not needed at this moment.</li> </ul>
Look to reduce staff costs.	<ul style="list-style-type: none"> <li>If staff are left idle due to the nature of their work or a significant reduction in business activity, ask them to take their annual leave, long service leave, leave at half pay, reduce the hours of work or leave without pay.</li> <li>Explore the use of facilities that governments have made available to support employees whose remuneration/ livelihood is impacted by COVID-19, e.g. salary subsidies, cash payouts etc. It may be that the government support payments to staff who have lost their jobs is higher than what you would be able to pay them if you retained them on the payroll.</li> <li>Consider implementing a recruitment freeze.</li> <li>Consider cutting contractor or employee numbers.</li> <li>Keep local employment laws in mind when considering changing work arrangements, including terminating employees. You may need to seek professional advice as to how best to do this.</li> </ul>
Delay capital expenditure, unless necessary.	<ul style="list-style-type: none"> <li>With staff working from home, you may find it essential to spend more on technology to support such change in work.</li> <li>While governments may offer incentives to make capital investments, still ask yourself whether the business case to make such an investment stacks up.</li> </ul>
Seek finance from your lender.	<ul style="list-style-type: none"> <li>Speak to your lender about a new loan, increasing your current credit limit and/or restructuring your current loan/s.</li> <li>If you identify that you need finance from your bank, get in early and demonstrate that you are on top of your business and understand your cash flow.</li> <li>Take advantage of any support your lender is offering such as interest free holidays and government guarantees.</li> </ul>

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	<ul style="list-style-type: none"> <li>• Only take on additional credit if you can afford it.</li> </ul>
Take advantage of any cash payments and other assistance governments and financial institutions are offering.	<ul style="list-style-type: none"> <li>• This may require you to get your tax lodgments up to date.</li> <li>• Negotiate payment plans with the tax authorities.</li> <li>• Consider taking up lodgment and payment deferrals offered by regulators. However, it may be advantageous to you to lodge early in some circumstances.</li> <li>• You may want to seek professional advice on how best to capitalise on these initiatives, based on your business's needs.</li> </ul>
Determine your own personal financial position to see if you can inject cash into your business.	<ul style="list-style-type: none"> <li>• In the short term, you may need to inject some of your own resources into the business to keep it viable, or at least, reduced your drawings from the business.</li> <li>• Only put your own personal money into your business if the business will remain viable.</li> </ul>
Seek external investors for your business.	You may need to get a financial injection into your business from investors. Please be aware that you may not get a good price for selling a share of your business at this time and that having an investor buy part of your business may reduce your control over your business.

### 4. DEVELOP A CONTINGENCY PLAN SETTING OUT HOW YOU WILL OPERATE YOUR BUSINESS SHOULD THE GOVERNMENT IMPOSE TIGHTER RESTRICTIONS

Possible action	Comments
Develop a contingency plan on how your business will operate if the government closes non-essential businesses.	<ul style="list-style-type: none"> <li>• Businesses should put in place contingencies for continuing operations should the government take stronger measures to control the spread of COVID-19. This must include the possibility of halting business operations.</li> <li>• CPA Australia has a list of <a href="#">questions</a> that may help you develop that plan.</li> <li>• Ensure responsibilities are assigned to the right staff and follow up on progress.</li> <li>• Develop a list of daily actions, such as routine checks on staff working from home and on key</li> </ul>

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	<p>suppliers, and measuring key indicators of the financial health of your business.</p>
<p>Develop a plan on how you will serve your customers should you and your staff be confined to home.</p>	<ul style="list-style-type: none"> <li>• Consider whether the roles your staff undertake lend themselves to them working from home.</li> <li>• For staff that are in roles that can work from home, consider whether you have the technology to support them working remotely.</li> <li>• Consider whether you have adequate cybersecurity to protect your systems and staff working from home.</li> <li>• Consider whether you have adequate insurance to cover staff working from home.</li> <li>• Consider how best to manage and motivate staff working from home. Video conferencing may be one way to keep in regular contact with staff and check on progress.</li> <li>• Do you have the online presence to continue to receive orders from customers?</li> <li>• If you can receive customer orders remotely, how can you fulfill customer orders if you and your staff are working from home? Can you or your staff legally fill orders from home? If so, how will you get the stock to the homes of your staff, and from their homes to the customer?</li> <li>• Can your sub-contract the filling of orders to a business that is operating, including overseas?</li> <li>• Continually review the situation. Staff workloads may drop the longer a shutdown continues.</li> </ul>
<p>Establish a plan for what you will do if your business must shut down and cannot operate or can only partially continue operations.</p>	<ul style="list-style-type: none"> <li>• Inform your staff of the shut down and remain in touch with them throughout the shutdown.</li> <li>• Be transparent with your staff over the state of your business during the shut down.</li> <li>• Ask those staff who cannot work from home whether they can undertake online training to improve their skills before your reopening.</li> <li>• Consider retraining those staff who cannot work from home on tasks they can do at home.</li> <li>• See above suggestions on reducing staff costs.</li> <li>• Regardless of the situation, don't forget to continue to undertake necessary tasks to keep yourself on top of your business, including producing regular financial statements and chasing down outstanding debts.</li> </ul>

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	<ul style="list-style-type: none"> <li>• Inform your customers that you have temporarily shut down. Keep them informed about your planned reopening.</li> <li>• Inform your key suppliers you have temporarily shut down.</li> <li>• Ask the providers of security services to your business to increase their operations around your business.</li> </ul>
<p>Consider doing that 'housekeeping' work on your business that you often don't get the time to do.</p>	<ul style="list-style-type: none"> <li>• Undertake some training yourself. Do research on 'that' topic that has been bugging you.</li> <li>• Devote time to catching up on your reading on the latest trends in your industry.</li> <li>• Go to your back-ups and look things up. This is a good test to see if your back-ups are working.</li> <li>• Develop or revise your policy and procedures manual and consider how best to ensure staff follow this manual. A well written manual can add value to your business and reduce the need for the business owner to be in the business.</li> <li>• Get your paperwork up-to-date, including minutes of meetings, etc.</li> <li>• Call your accountant, your lender and other advisers for a general chat.</li> <li>• Call other people in your industry and your neighbouring businesses for a general chat and to see how they are going.</li> <li>• Revisit your will and succession plan for the business.</li> <li>• Regularly check in on the welfare of your staff.</li> <li>• Look for checklists and other tools that may help your business in the recovery and beyond.</li> <li>• Do a review of your business operations to look for efficiency and costs savings.</li> <li>• Do a reality check on whether you want to continue in the business you are in.</li> <li>• Revisit your strategic plan. Consider how it may need to be revised in the changing environment.</li> </ul>



## 5. KEEP IN REGULAR CONTACT WITH STAFF

Possible action	Comments
Ensure your staff contact list is up to date.	<ul style="list-style-type: none"> <li>• Circulate the updated list amongst your staff; don't forget to include your contact details as well.</li> <li>• Encourage everyone to keep in regular contact with each other.</li> </ul>
Contact all staff on a regular basis to establish their location and whether they are safe and well.	<ul style="list-style-type: none"> <li>• Be positive in your interactions with staff.</li> <li>• Be transparent on the future of your business with staff.</li> <li>• Show empathy.</li> </ul>
Ask whether your staff members or their family members have been infected.	<ul style="list-style-type: none"> <li>• Keep a record of what the staff may tell you in case you need to act.</li> </ul>
Ask when staff will be able to return to work.	
If staff cannot work from home, or their work time is not filled, ask whether they can undertake training courses.	Identify online training courses staff can undertake.
If working from home, put in place steps to measure performance.	Establish easily measurable milestones that can be measured.
Assign responsibilities.	Each staff member should be given a role or responsibility to undertake in helping you manage through a crisis. Everyone should be well informed on who is doing what.
Put in place succession plans for employees with critical skills for your business.	<ul style="list-style-type: none"> <li>• Consider which of your employees are not easily replaced and which business functions need to keep operating. Look for others who can learn the task/role.</li> <li>• Outsourcing may be an alternative solution.</li> <li>• Develop a roster so that critical staff are always available to keep essential business systems and processes running.</li> </ul>

## 6. INCREASE ONLINE SALES & KEEP IN CONTACT WITH YOUR KEY CUSTOMERS

Possible action	Comments
Begin selling online or increase your focus on selling online.	<ul style="list-style-type: none"> <li>It is almost certain that consumers will change behaviour during a lockdown and spend more online.</li> <li>If you haven't already done so, you should research different online platforms to see which one is best to sell your products to reduce your reliance on your shop front.</li> </ul>
Review how best to deliver your products to your customer and potential customers.	<p>To be able to sell online, you need to investigate how best to get your product or service to your customers. The best method of delivery will depend on the nature of your business and the products. Options to consider include:</p> <ul style="list-style-type: none"> <li>Using the postal/courier/delivery services</li> <li>Hiring delivery trucks or bikes</li> <li>"Click and collect" at your business premise</li> <li>"Parcel lockers" that allow you to deliver to a locker and the customer to retrieve the package from the locker.</li> </ul> <p>You may find that a combination of the above would serve you well depending on where and who your customers are.</p> <p>Plan for how you will meet orders placed online should the government close non-essential businesses. In such circumstances, you may only be able to dispatch your goods from home.</p>
Suppliers of services should investigate digital solutions to the delivery of services to reduce the need for face to face contact.	
Talk to your key customers about your ability to deliver reliably to them during the crisis.	<ul style="list-style-type: none"> <li>This would be particularly valuable if you are a key supplier to your customer.</li> <li>Consider regularly engaging with your customers (via SMS, WhatsApp, email, social media, etc.) to provide an update on: <ul style="list-style-type: none"> <li>changes in business operations such as trading hours and the services you can provide</li> <li>what stock you have available</li> <li>what stock will be replenished soon.</li> </ul> </li> <li>Regular engagement will also become a feedback channel that encourages customers to</li> </ul>

	share with you what they need, and how they want to access that product or service.
<b>7. KEEP IN CONTACT WITH YOUR KEY SUPPLIERS</b>	
<b>Possible action</b>	<b>Comments</b>
Talk to your key suppliers about their ability to deliver reliably to you during the crisis.	Work closely with your suppliers to ensure supply – if necessary, consider collecting deposits from customers and passing it on to the supplier to secure the order.
Consider not only their ability to produce the inputs you need but also the transportation of the products to you. Keep to the agreed costs/prices.	Consider their geographic location. If your supplier (or their key suppliers) is based in a location hard hit by COVID-19, production may slow or stop, and/or their ability to get those supplies to you restricted.
Identify alternate suppliers in case your key suppliers can no longer supply you.	Source them now and start price negotiations early.
Speak to your landlord about your rent and your lease.	<ul style="list-style-type: none"> <li>You should contact your landlord and/or their agent to discuss lease terms and rent. Don't wait for the annual rental review.</li> <li>Identify alternative premises with cheaper rent that you could move too.</li> </ul>
<b>8. REALITY CHECK</b>	
<b>Possible action</b>	<b>Comments</b>
Do you have a succession plan in case you fall ill? If so, is it up to date?	Speak to your lawyer and accountant.
Reassess your strategy and business model – how can you innovate now so that when the doors reopen you can lead the market?	<ul style="list-style-type: none"> <li>Can you foresee any possible emerging opportunities for your business following the crisis?</li> <li>Will you be in the financial position to take advantage of these opportunities?</li> </ul>
Keep up with announcements from governments and banks.	<ul style="list-style-type: none"> <li>Speak to your accountant on small business support measures governments and banks will announce.</li> <li>Determine what you may need to do to access such assistance.</li> <li>Seek advice on whether there is a business case to take advantage of support measures such as incentives to make capital investments.</li> </ul>

Can you afford to continue to run the business while your business is recovering?	
Are you prepared for the potential extra demands that recovering your business will place on you, both personally and financially?	
Were you happy running your business before the crisis?	
During the crisis you should 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.	<p>Ask yourself:</p> <ul style="list-style-type: none"> <li>• Did you have a profit target and were you achieving this?</li> <li>• Do you like being your own boss?</li> <li>• Was there adequate cashflow in the business prior to the crisis?</li> <li>• Are you achieving the return on investment you want from your business?</li> </ul> <p>If you answer no to these questions, consider exiting your business. Speak to your accountant and lawyer on the best strategies to exit your business.</p>

## 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.

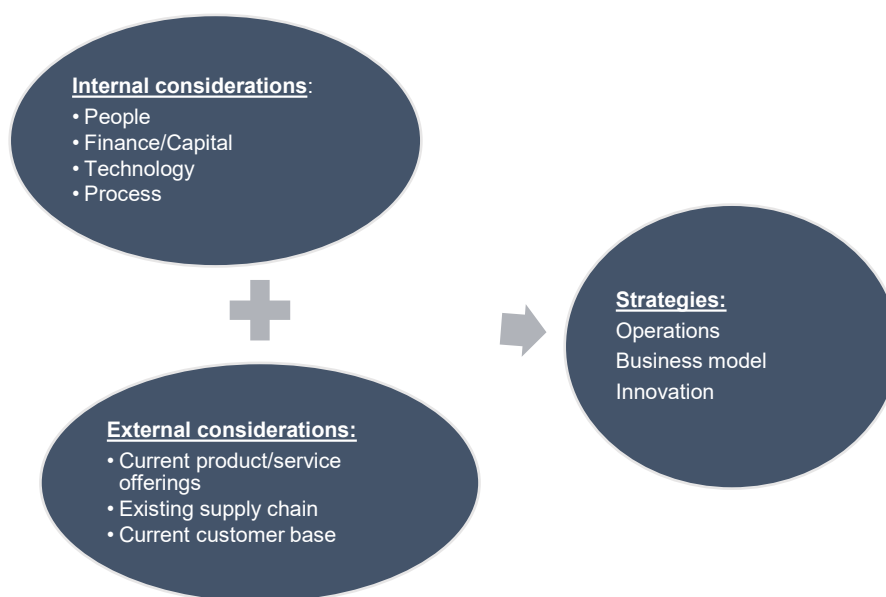
If your small business is in financial difficulty, be very wary of anyone cold-calling you, promising financial salvation. Such people may advise you to deliberately liquidate your company to avoid paying debts and continue your business through a new company. This is called illegal phoenix activity and in Australia directors 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. Find a CPA if you don't have a professional accountant you can turn to for advice.

The Australian Restructuring Insolvency & Turnaround Association (ARITA) with the support of CPA Australia and CA ANZ, has released a special guide for accountants in public practice that outlines steps they can take to help their clients with companies in financial distress. [View the guide here.](#)

## CONCLUSION – WARNINGS AND OPPORTUNITIES

If the controls on the movement of people and restrictions on business operations goes beyond six months, businesses should review their longer-term viability. Your review should cover:



Regardless of when the restrictions impacting your business end, the negative repercussions of the virus may last for several years for many businesses. Recovery will be difficult, and your future business may be very different and smaller to the business you took into the crisis. However, those who are proactive in protecting their financial position may find themselves in a stronger position than their competitors when the recovery does come, opening up future opportunities for growth.