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Preparing to reopen: How to adapt and seize opportunities from COVID-19

For the most part of early 2020, the COVID-19 pandemic meant mass shutdowns, dramatically affecting many businesses across a wide section of the market.

Now, as the initial health fears begin to subside and forced shutdowns and isolation measures are relaxing across most states, businesses have started reopening. This comes with considerations including dealing with the remaining restrictions, adapting to the changed landscape and ideally, if possible, seizing opportunities that may present in the near term.

For many businesses assisted by the Government stimulus and support payments intervention, the outlook perhaps looks more promising than what was initially forecast, when considering a six month ‘hibernation’ period and the related assistance of Government’s measures to support businesses. Although uncertainty is improving, with recent relaxation in restrictions, uncertainty still exists in isolated areas and as such, the reopening of businesses will obviously present many challenges. The upside is that, with a business landscape that has been turned on its head, those challenges can offer opportunities for businesses that are prepared and agile enough to adapt to the changed circumstances.

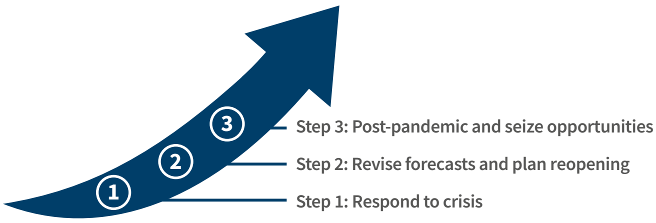
In order to adjust to changed trading conditions, business owners will need to plan carefully and not automatically revert to the decision making processes employed previously. Savvy operators will recognise and accept that large segments of the market will not return to the ‘old’ normal – at the very least because of continued social distancing until a vaccine is widely available - and they will need to be flexible, being open and alert to capitalise on opportunities that arise.

Although impacted businesses will feel the damaging impact of COVID-19 for some time, there will be many businesses that emerge successfully.

WHAT BUSINESS OWNERS ARE DOING TO EMERGE SUCCESSFULLY INTO A POST COVID-19 MARKET

We expect to see successful operators taking a series of actions over the short to medium term to conserve cash and restructure their businesses for post COVID-19 operations. Ideally, these actions will be a combination of:

- capitalising on the operators' own immediate past actions, whereby they will have acted to stabilise and protect their business through, for example, rightsizing operations, eliminating unnecessary expense, pivoting product offers and adjusting supply chains and inventory levels; and
- making use of the various Government funding and incentives available.



Owners will plan on ensuring their businesses are restructured to emerge profitability from the downturn (via leaner, more efficient operations and potentially now free of historical issues, such as legacy debts incurred as a matter of necessity during the downturn) and with the ability to seize opportunities that present (having access to sufficient working capital and further funding, if required).

WHERE BUSINESSES ARE EXPERIENCING COVID-19 RELATED LOSSES, PREPARE FOR RE-EMERGENCE

Respond to crisis | Hoard cash

- **Reduce expense and cash outflow (where not already underway)**
- Suspend payment of dividends
- Defer vendor payments wherever possible
- Stop all discretionary capex spending
- Reduce all advertising and marketing spending, except email and digital where ROI positive
- Reduce salary costs:
  - Stand down employees where necessary
  - Terminate temporary staff and contractors where non-essential
  - Consider reducing corporate staff by at least 25%, corporate salaries by 20%-25% and top executive cash salaries by ~50% for duration of the crisis
  - **Freeze hiring of any non-essential roles and defer start dates for any new hires in the pipeline**
- Consider rapidly monetising owned real estate assets
- Cancel seasonal purchases and reduce/decrease open orders
- Draw down available lines of credit and evaluate all available financing options

Revise cash flow forecasts

- **Complete a detailed, 13-week liquidity forecast with varying scenarios**
- **Create a revised 'three-way' cashflow forecast (linking profit and loss to balance sheet to cashflow) — a plan for the business to emerge from the downturn**
- Identify near-term cash improvement options (e.g., lessor/lender concessions, supply chains, inventory consolidation)
- Review ongoing initiatives for strategic impact, projected benefit/ROI, cash and other resource requirements
- Ensure forecast accurately reflects:
  - Changes to Australian and State Government assistance measures
  - Recommencement of lease payments
  - Recommencement (and payback of deferrals) of Federal and State tax obligations (PAYG, GST)

Test business plan/contingency scenarios

- **Recast business plan and drill down on business unit profitability**
- **Determine achievability of plan under a variety of likely and "could never happen" scenarios**

Plan for reopening

- **Develop a communication and strategic plan for when the decision is made to reopen the business**
- **Coordinate with key stakeholders (landlords, security, cash management, marketing partners)**
- **Create contingency plans:**
  - **Closure of business segments that are not cash flow positive (consider allocation of fixed costs)**

- **Closure of any business segments failing to satisfactorily perform or make a positive cash contribution to the overall business**
- Plan any promotions to align with reopening of business
- Design appropriate loss-prevention protocols
- Assess inventory positions and timing of new product launches

POST PANDEMIC OPERATIONS AND SEIZING OPPORTUNITIES

Strategise

- **Evaluate longer-term restructuring solutions with landlords and lenders, including closure of low-volume/low-profit business segments**
- Define promotional strategy and plan for remainder of year
- Develop communications and change management program to help teams understand the shifts that need to happen in order to quickly implement plans
- Create a messaging platform for the recovery period that highlights the underlying strengths of the business, establishes a path forward, and conveys confidence in the future

Optimise

- **Evaluate corporate and SG&A functions for cost reduction opportunities**
- **Assess broad range of scenarios (including possible resurgence of COVID-19)**
- Reduce working capital
- Evaluate vendor agreements to identify contracts that are no longer competitive and consider using force majeure language to terminate agreements

Monitor

- **Monitor signals of economic recovery (acceleration/deceleration) and adjust strategy (preferably monitor internal leading indicators such as subscription renewals and new contracts rather than lagging indicators such as most reported economic data)**
- **Monitor traditional and social media, analyst reports and other forums to understand how stakeholders are thinking and what competitors are doing**
- Monitor inventory levels across all nodes of the network and redeploy as necessary to maximise sell-through
- Monitor expenses and update scenario planning
- Identify supply chain constraints/disruptions and define strategy to minimise the impacts on operations

Engage

- **Communicate a clear vision for the future, specifically highlighting steps the company is taking to care for employees, customers and other partners while also protecting enterprise value**
- **Engage, as appropriate, with media, investors, analysts and other third parties to shape the narrative around the business, mitigate any criticisms and build confidence in the future**
- Train and support functional and field leaders in establishing clear expectations, accelerating the adoption of any new ways of working, and keeping teams motivated and sharing progress
- Leverage business employees where possible to complete the business' critical operations

THOUGHTS ON FORMAL INSOLVENCY APPOINTMENTS

We are often asked whether business owners under stress in the current environment should be looking to liquidate. Although that is a possibility if an owner feels they have exhausted all of their options (and even then, we would recommend they seek expert advice before committing to the decision), our short answer would be no, if it can be avoided, particularly whilst the raft of stimulus and support packages currently on offer to business persist. Some of these include:

Suspension of insolvent trading laws

Have supported directors wishing to continue to trade, in circumstances where they might otherwise have not had the confidence with the COVID-19 Safe Harbour protection due to expire on 31 December 2020, directors should make sure they are compliant with those obligations.

Bank facility deferrals

Our experience has been that most initial requests for support have been granted, with banks beginning to look at those customers around July 2020, prior to arranging the future course with their customer.

JobKeeper Payment Scheme

JobKeeper appears to have worked successfully to prevent thousands of employees requiring access to JobSeeker or other Federal Government support packages. Due to expire in September, the Government has extended the JobKeeper Payment by a further six months to March 2021.

National Code of Conduct for Commercial Tenancies

Requires landlords to work with eligible tenants, effectively sharing the financial risk and cashflow impact of any COVID-19 effects.

Consequently, we see the current situation, that of external support existing but where such direct support, such as by way of JobKeeper/Seeker payments and legislated rent deferalls, is in the process of being withdrawn, as potentially an opportune time for businesses looking to remerge from COVID-19. Businesses that hope to go on to future success and believe they have or would be able to put the required business model and structures in place – but are potentially weighed down by legacy issues – could consider the merits of a strategic voluntary administration appointment.

By making use of the breathing space afforded by the voluntary administration, directors have an opportunity to work with the voluntary administrator to structure a proposal in the best interest of the business' creditors, which closes out those issues, best places the business on secure footing going forward, free of legacy concerns and able to capitalise on the opportunities presented in the re-emergence from COVID-19.

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