



As the world grapples with the exponential spread of COVID-19, as a business owner, you need to be preparing for what could very well become an economic downturn that will last not just for the next few weeks, but possibly months. No one knows how long the virus will take to work its way through the Western World and eventually subside. It's hoped that with the return of warm weather in the Northern hemisphere, the virus will fizzle out by Spring. But it's possible that it could take longer. Look at Mainland China, which is ground zero for the virus. It's just now starting to allow people to leave quarantine and return to normal daily life. This is four months after the virus first occurred there, and two months after the economy was virtually shut down. North Americans and the rest of the Western World could well be facing similar timelines as we start up the curve of the spread of the virus in our region.

We suggest, therefore, that you start planning now for the possibility that your business volume could be significantly reduced for the next few months, if not completely shut down. It goes without saying that in these unprecedented times, the first priority of every person, government and business, is the well-being of people. There are many resources available that are advising us how to keep people safe, with advice on social distancing, enhanced infection control and prevention, and so on. Knowing that you're already doing everything you can to keep people safe, this post will focus instead on some practical tips for you to think about from a business continuity perspective.

STAY CALM – YOU ARE THE LEADER in your business, and right now your people, your customers, your vendors and other stakeholders need to hear from you. Be the voice of reason and reassurance that they can rely on at this critical time. Communicate often, letting your people know that **WE WILL GET THROUGH THIS**. Share your concern but also your plans with them, so they know you have thought through the way forward, and that they can depend on you to keep on going as best as is possible in the circumstances.

- Be Empathetic – your people are stressed; let them know you understand how they're feeling and that you have their best interest in mind
- Be Passionate – show you have the resolve and energy to deal with this situation head on and will see it through to the end; recognize the hard work of your team and let them know you are proud of them
- Listen - to their story; people want to talk; be their ear
- Be Caring - ask if anyone they know has been affected personally by the virus; how can you help?
- Be Available – encourage people to reach out
- Be Patient – we could be in this for a while; don't stress about what you can't control; focus instead on what you can control

CASH MANAGEMENT: As we said, it goes without saying that at all times, people come first, and peoples' well-being is everyone's priority during this crisis. But the harsh reality is that the economy is dependent on the long-term survival and prosperity of business. And in business, **CASH IS KING**. If business slows down significantly, or worse, stops, then cash flow won't be far behind, and when cash flow dries up, so will the business. So, now is the time to put measures in place to protect cash flow, before it's too late. It's time to build your war chest. Take steps now to:

- Aggressively collect outstanding receivables - enforcing security if necessary; don't wait until your customers are in a cash crunch to ask them to pay you; now is not the time to be last in the long line of businesses that will be chasing your customers for payment
- Prioritize payments – categorize which vendors you absolutely must or should pay

in full, and on time. These are the ones that supply critical goods and services to your business, and/or are most vulnerable if not paid quickly and fully, versus those that are either not a critical supplier to your business, or are more solid financially and more capable of weathering the coming storm

- Request extensions on payment terms with your important vendors before you need them; remind your vendors that you are an important customer and that by working together to get through the coming downturn, you will be a stronger customer for them in the long run
- If current payment plans are in place, these may need to be adjusted to be longer; be proactive in approaching your vendors on this
- Ask your landlord for rent abeyance now - perhaps for 2 to 3 months; again, it's in the long term best interest of your landlord that your business survives through this period
- Consider stripping cash from the business and holding it personally; you can always put the money back into the business down the road if necessary
- Look closely at your spending – be prepared to cut discretionary spending, defer projects or large capital outlays if possible, and unfortunately, be prepared to have to make the hard decision to reduce payroll (more about that later)

BANKING RELATIONSHIPS: Those of us that have been around the block a few times know that when it comes to bankers, they can be a fickle bunch. They can be our best friends when times are good, but when the bear comes around, watch out. Don't turn your back on them, because if that claw lashes out to grab you, you want to see it coming:

- Forecast your cash flow - keep a running forecast of your expected cash position based on expected cash receipts and payments over the coming weeks and months so you know where you're at and where you'll be
- Monitor your lines of credit closely, especially if the accounts are margined on receivables, inventory and work in process; know where you stand on the margin values, and keep a tab on how close you are to approaching limits
- Monitor your bank covenants – know when you have to report, and forecast where you'll be on the covenants on the reporting dates
- Keep the bank informed on a timely basis; despite the unflattering things we said about bankers above, they are usually reasonable business people that want to see you succeed and will work with you to make that happen, *but they hate surprises*. If your forecasts show you're going to bump up against your line limit, or not make the margin or covenant requirements, the earlier you talk to your banker about it, the more likely they will be able to waive limits, etc., and the less likely they will be to call your loans
- [BDC has announced a program to support entrepreneurs during the Coronavirus challenges](#), with quick turn around on small business loans, working capital loans and purchase order financing, plus tailored solutions as required
- [Export Development Canada is providing advice and solutions](#), and is closely monitoring the impact of the global pandemic on trade in various jurisdictions, and can assist exporters

CREDIT FUNCTION: Just as you will likely be approaching your suppliers to arrange extensions over the coming days and weeks, you can expect that your customers will be doing the same with you. Be prepared:

- Assess how severely each of your customers will be affected by the coming instability; this will be largely related to the impact on their customers and supply chain
- Establish authority levels in your business for the extension of credit: who will be authorized to extend credit, by how much and for how long

SUPPLY CHAIN MANAGEMENT: With so many imports in North America now coming from Asia, and China in particular, we've already been dealing with the impact of the shutdown of manufacturing in those areas due to the virus. Production there might not come back on stream immediately. In addition, as the virus affects North Americans, businesses will likely be dealing with regional suppliers that are unable to fill orders. Plan for shortages now:

- Forecast Sales by Product, compare against current inventory and calculate requirements for the coming months to plan your production schedule
- Determine the material quantities you will require to meet your production schedule

and source the product now

- Assess which of your suppliers might face challenges in delivery of product within your deadlines and search for possible alternates

INFORMATION TECHNOLOGY: Now more than ever, the investment you made in creating a virtual environment will begin to pay off. Leverage your technology:

- Encourage your employees to work remotely; set expectations about responsibilities and accountability through a “remote work policy”; hold regular virtual team meetings to keep employees engaged and informed
- Where a portal exists for clients and vendors to share information with you, communicate this and use it
- Don’t fall down on security; your IT people will be working at full capacity but they must remain vigilant about security

HUMAN RESOURCES MANAGEMENT: Some of your employees might be off work due to being sick with the virus. The federal government is eliminating the one week waiting period for sick employees to be eligible for employment insurance during the COVID-19 pandemic. When business begins to slow dramatically, or you have to shut down due to quarantine orders, which might come, you will need to reduce payroll expense. This will likely create hardship for employees. You can ease some of the pain by considering the following:

- Vacation – relax vacation policies and allow employees to take their full accrued vacation as paid time off
- Prior to a quarantine order, consider reducing the work week, allowing flexible work days, and/or dividing your work force
- Be lenient with your time off without pay policies
- Temporary lay offs are available as a last resort – make sure your payroll department is ready for quick filing of records of employment to allow your employees to access employment insurance as quickly as possible
- While employees are off, stay in touch with frequent communications regarding return to work; make sure your employees know how to get in touch with you and your health insurance providers

INSURANCE: Now is the time to look at what insurance you have, and assess what you need, so you can cover growing risks. Talk to your broker now about:

- Business interruption – your policy might provide coverage for loss of profits due to this type of business environment (pandemic)
- EDC insurance - provides export insurance
- Receivables Insurance - covers risk of non-payment in certain circumstances

As mentioned earlier, although we are entering uncharted waters, we will get through this, together. Talk to your Zeifmans advisor for more information about the suggestions above, and be well.



416.256.4000 | zeifmans.ca

The strategies, advice and technical content in this publication are provided for general information only and is not intended to provide specific financial, tax, accounting or other advice. Readers should consult with their professional advisor regarding their particular situation. © Zeifmans LLP 2020. All rights reserved.

