

Prushka Business Survival Guide

THE COVID-RECESSION

HOW THIS CAN HELP YOU?

This guide was prepared in early April 2020.

It is relevant as at that date but will be updated regularly as circumstances change.

The writer is Prushka CEO, Roger Mendelson.

The principles outlined apply to all size businesses.



WHY AM I QUALIFIED TO WRITE THIS GUIDE ON BEHALF OF PRUSHKA?

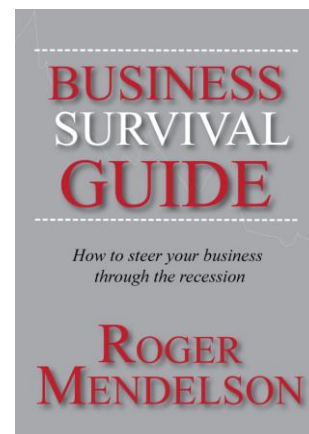
I have been a practicing commercial lawyer and businessman for over 45 years.

I was the founder of Prushka Fast Debt Recovery in 1976 and it is now an Australia wide debt collection agency providing No Recovery – No Charge debt collection services for our over 58,000 clients, comprising some very large clients but mostly SMEs.

I wrote a book which was published by New Holland Publishers called **Ten Mistakes Businesses Make and How to Avoid Them**, based on the experiences and mistakes I had made and the publisher asked me in 2008 to very quickly write a Business Survival Guide, which I wrote in 2008. At that stage, Australia was expecting to suffer a major recession, following on from the Global Financial Crisis (GFC).

The principles outlined in that book apply just as much to the Covid-Recession, as they did then.

I am a hands-on businessman, just like you. We work with distressed businesses, know about cash flow and can give you practical, useful advice.



WHAT IS AT RISK?

With such chaos in the Australian and world economies, your business faces a very real risk of failing.

On the other hand, you also have a unique opportunity to survive and to prosper, as the recession passes.

Many of your competitors will fail, allowing you to attract good staff at potentially much lower wage rates and you will have learnt how to operate your business a lot better. Nothing teaches a soldier better about battles than being in one.

THE FOUR STAGES

The Covid-Recession will involve four stages, as all recessions do, regardless of the cause.

CHAOS: This is the stage we are currently in. At this stage, there is mass panic, circumstances change daily, government regulations and support schemes are constantly changing and it is impossible to make a prediction as to the outcome.

WORST CASE SCENARIO: This is a situation which must be planned for, even if it does not eventuate. It comprises the situation where basically most or all revenue has ceased, business operations cease, there are still expenses being incurred but not enough cash to pay them. The business will be a shell.

EMERGING PATTERN: At this stage a pattern begins to emerge. It may involve the business operating at a significantly reduced capacity but there being less daily or weekly shocks, orders return and it becomes possible to operate the business at a much reduced level.

REBUILDING: At this point, realistic plans can be entered into for rebuilding the business back to where it was and beyond.

Clearly we are in the **CHAOS STAGE** but your planning must be carried out on the basis of **WORSE CASE SCENARIO**, understanding when we are in **THE EMERGING PATTERN** stage but also planning for **REBUILDING**.

OPPORTUNITIES WHICH WILL ARISE

Business Survival is essentially based on the law of the jungle. I.e. survival of the fittest. Many of your competitors will fail.

There will be significant downward pressure on wage costs.

It will be possible to hire high quality new team members who will be grateful for a job and prepared to work for significantly below their previous wage level.

There will be increased demand for your products and services due to failure of some competitors. Your business will be more agile, efficient, cohesive and customer-focussed than ever before.

THE CHAOS STAGE

SURVIVAL PLAN

The Survival Plan **must** incorporate the four stages.

The worse thing to do is to be reactive, to go into panic or meltdown mode or to make decisions which are not consistent with the plan.

The plan **must** be flexible but if it is well thought out, it will provide the framework for future decisions.

GET YOUR TEAM TOGETHER

No matter how small or large your business, you need to get a Survival Team together.

You cannot handle this on your own, even if yours is a very small business.

The economic situation is not of your making and it impacts on every one, so all of your team members will have an interest in helping you to ensure that the business survives.

The team may include your accountant and should be diverse so that all voices are heard.

There is an old saying – that generals tend to fight the last war. You need to genuinely and openly listen to a many divergent views.

The team should not just comprise the senior executives, business owner or financial people.

If you are an owner-manager, you will gain strength from the support you receive. This is not just your problem, it is the problem for all team members, your suppliers and your key customers. They will want the business to survive.

OBTAIN INFORMATION

It is critical that you obtain real information about what is going on in your business, how your customers are responding during the **CHAOS STAGE** and how your team members are feeling.

The best way to do that is to get information flows back to the Survival Team. A simple way to do this is to set up an email address which is copied to all members of the Survival Team. Example, call it survivalideas@xxxxx.com.au and actively encourage all team members from all levels of the business to use it frequently and in particular, to encourage them to talk to your customers and to email their responses through to that address.

Without getting unfiltered information through to the team, in real time, decisions will be made in the dark, major mistakes may be made as a result and certainly, opportunities will be missed.

Hold one-on-one discussions with team members from all levels and customers or clients. Some great ideas will emerge. Be open to all ideas.

COMMUNICATION TO TEAM MEMBERS

The Survival Team should communicate with all team members on, preferably, a daily basis.

Work from home (WFH) team members should meet by Skype or whatever medium you use, at least daily and be encouraged to call both colleagues and customers, rather than emailing them.

They will all be concerned about their jobs and their families and will be reassured if they are kept up to date. If you leave them an information vacuum, they will become dispirited and think the worse.

The messages you need to get across are that the problem is being looked at proactively, decisions are being made and that the paramount driver is for survival of the business and thus, survival of jobs.

Getting all team members informed is critical. They must understand that they are part of the solution.

Don't shy away from talking about job losses and reduced hours. They will expect this.

COMMUNICATION TO CUSTOMERS

If you have an email data base of customers, you are well placed to communicate with them.

Use this sparingly because you don't want to overload them.

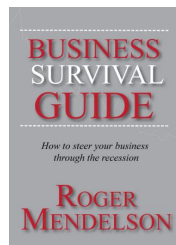
However, the important message is that your business is open, operating and keen to assist them.

Invite feedback.

Call major customers. They will appreciate hearing from you and will give you useful feedback.

REDUCING THE IMPACT OF A BUSINESS COLLAPSE

At the same time as you are working hard on survival of the business, you need to get advice from your accountant about steps you can take to protect your personal assets. There are certainly steps you can take and you must take them now. However, this is too technical to go into here (refer to Chapter 3 of the Business Survival Guide book). To order your E-Book from Amazon, click on image of the book.



To order a hard copy, send your postal details to clientservices@prushka.com.au and your Prushka Client Number. No need to pay now. We will bill \$21.95 (including GST + Postage) to your account.

REDUCING LABOR COSTS

The reality is that your business will have to take steps to cut labor costs.

This is a difficult step to take but it is akin to cutting off a dead limb to save the tree.

Prepare a staged plan for this.

First to go will be casuals. As demand reduces, more of the work will need to be done by permanent employees.

A critical question is – who will we need to rebuild the business?

Look through each employment contract and analyze the cost of letting people go.

In general, those entitled to a large payout should be amongst the last to go because you cannot afford the cash drain of large redundancy payments at that stage.

Work on a plan for voluntary reduction of hours. If you bring your team along with you, you will be surprised at how open they are to doing this. Example, full time employees may be asked to reduce their time to 4 days a week and, if things don't improve, then down to 3 days a week.

Most will agree to this because they can see that it is better keeping their job secure, even if the income is less, than trying to find a job in a hopeless jobs market.

The underlying principle is that the burden must be shared proportionally by all team members. e.g. A 20% short-term reduction must apply to all levels of the business and this must be open and transparent.

Thus, the plan should also include discussions with more senior management about taking a temporary pay cut until business picks up.

The new Jobkeeper Package will allow you to retain everyone you wish to. Even if a particular person may have no future in the business, keep them employed and pay them the \$750.00pw for the 6 month period. This helps them and gives you the option to bring them back as demand picks up.

CASH FLOW

Reporting

A prime focus of the team must now be on the cash flow of your business. This may have been a backroom function before but it now must be a front room function.

Get the following reports from your bookkeeper or accountant:

- Daily cash balances for all accounts.
- Weekly debtors report, broken down into 30 days, 60 days, 90 days and over 90 days.
- Weekly total labour costs, including add ons such as Payroll Tax and Superannuation.

List all lump sum or unusual payments which are required to be made within the next 6 months, go through them and see which can be deferred. This may involve negotiating with suppliers and financiers.

Defer Payments

It is critical that the Survival Team take all possible steps to defer payments.

When placing further orders from your suppliers, insist that the order must be subject to payment in 90 days, rather than their standard trading terms.

Defer all purchases of capital equipment unless it is absolutely essential and any capital equipment should be purchased on a deferred payment basis.

Speak to your regular suppliers and negotiate instalment arrangements for accounts which are currently due. If you are open with them and stick to your payment plans, most will be grateful to you.

Get rid of old stock

Get rid of old stock by massively discounting it. You need cash now rather than higher returns later.

Reduce your tax for the 2020 year

Discuss with your accountant about ways and means to defer profits you have made up until the date the Covid-Recession hit, into the next tax year. The last thing you need is a heavy income tax bill for the 2020 year, when you will have shifted from profits into losses.

There are many techniques accountants can legitimately use to smooth income and expenses between the two tax years.

Understand all government benefits available

There have been numerous announcements, sometimes conflicting, about what benefits are being offered to businesses.

They will not come to you. You need to have a good understanding of what the benefits are, how they apply to your business and what steps are required to obtain them. In some cases, you may require external help in understanding this, such as from your accountant.

For any business other than a micro business, set up a small group to focus on this issue.

Flexibility

This is the time to remove barriers and use team members in the most flexible way imaginable.

Some areas of the business will be quiet or even defunct. Move team members in those areas to busy areas.

Bring in job-share. It may suit some people to make a temporary switch to part-time. Turn one full-time role into a job-share role for 2 people, where they work as a team, to achieve the same result.

CREDIT AND COLLECTIONS

Collecting money will become critical to the survival of your business.

Check out new customers very carefully, if it involves a significant order and particularly if the customer is a new business customer, use [Prushka New Customer Forms](#) to obtain information about your new customer. Download a proforma Form suitable for your business [here](#). There is no charge for this.

Use [Prushka Collection Stickers](#) on all of your invoices. Use of them on your invoice and statement will speed collection because they introduce the Prushka name at an early stage. [Click here](#) for details and to order.

Your payment terms should be reduced right down to either payment in full upon completion or delivery or at the latest, within seven days from date of issue of the invoice. This should be shown on all quotes and on your website e.g. "Until further notice and due to the Covid-Recession, all orders from 30th March, 2020 will be on the basis of payment in full within 7 days".

For orders involving a cost to you in ordering components or special stock, obtain a deposit large enough to cover your exposure.

Incorporate a clause in your trading terms to provide that if the customer is in default and the debt is referred to a debt collection agency, the customer will be liable for all debt collection costs. Download a free clause [here](#).

If your new customer is a private company, ask for director's guarantees. [Click here](#) for a free Prushka Director Guarantee document.

Get on the phone on the day payment is due and ask why payment has not been made.

Be prepared to accept instalments from your customer if he is unable to pay in one hit. Better to get an arrangement in place rather than nothing.

Get out old debts written off over the last 4 years and send them in to Prushka now. Debts have a life of 6 years, even if you have written them off in your books.

TAKE STOCK OF WHERE THE BUSINESS IS AT

During the **CHAOS** stage, the Survival Team must regularly sit back and analyse where the business is at, what steps have been implemented, how effective those steps have been and think with a clear head about further steps.

This is why obtaining communication back from all staff members is so critical. It is dangerous to make decisions in a vacuum.

WORST CASE SCENARIO

DEFINING THE WORST CASE SCENARIO

As no one has a crystal ball and can predict with any certainty where the Covid-Recession will go, planning must comprise the worst case scenario.

This step will comprise examining every avenue of the business operations and predicting what they would look like in the event of the business having either nil revenue or revenue insufficient to enable it to continue.

WHAT WILL IT LOOK LIKE?

Imagine the business with the doors closed, orders having stopped coming in, creditors building up and operating losses building which cannot be met from reserves.

This scenario is not viable for any business for other than the very short term.

WHAT YOU CAN DO TO LESSEN THE LOSSES DURING THIS STAGE

Basically, turn off the tap wherever possible.

Reduce staff to the absolute minimum; reduce overall payroll by making agreements with staff to work for reduced hours, on the basis of reduced pay and incorporating take-up of all support options provided by both the Commonwealth Government and your state government.

Talk to your landlord. Be open and don't make demands. Be reasonable but know in advance what you want.

Suspend ongoing supply contracts. This is far preferable to cancellation. You will find that suppliers will be open to this idea, on the basis that they will retain you when the **EMERGING PATTERN STAGE** is reached.

The temporary changes to insolvency law which were introduced in March 2020 will help protect directors from exposure to insolvent trading claims, if they are acting responsibly. However, you cannot replace reliance on them if you “roll the dice” and gamble on a premature return to normalcy.

During this stage, focus on communicating with staff, customers and suppliers, with a view to maintaining relationships.

WHAT IS THE TRIGGER POINT FOR A TURN AROUND?

As this is a virus-inflicted recession, the turnaround will relate back to control of the pandemic.

Don't be swayed by the situation overseas. It is not really relevant to you unless you are either an importer or exporter. What is relevant is the control of the pandemic in Australia.

HOW CAN I USE THIS TIME PRODUCTIVELY?

This is an excellent time to free your mind and reimagine the business in the **New World** which will emerge as the pandemic ebbs.

Previously and certainly during the **CHAOS STAGE**, you will have been taken up by activity. During this second stage, activity will have wound right down.

Questions to review will have to do with:

- Demand for your product or service in the **New World**.
- How well are customers and suppliers communicating with us?
- How well are we communicating with our customers and team members?
- What threats will emerge to our business in the **New World**, where there will be far greater take up of technology than ever before in the history of mankind.
- If I were to plan my business from scratch, how differently would I do things now than before?
- What new areas can the business move into, using its resources, knowledge and skill-set, in a way that has never been considered before?

- What products or services can we switch to which will be in demand in the first 12 months of the [New World](#)?

EMERGING PATTERN

WHAT IS IT?

This is the stage where **chaos** has passed, **worst case scenario** has been planned for, although it probably won't be reached and there is a general settling down of the society, economy and the Virus.

No bells will ring when this stage is reached.

It needs review of many different parameters in your business.

THE OUTSIDE WORLD

The indications you are looking for is that the news and current affairs programs on radio, TV and newspaper coverage are treating the Virus as almost secondary news.

The focus will be on the Covid-Recession, rather than the Covid Virus.

The reporting will be much less urgent and immediate, there will be more public joking about the whole situation and the government medical experts will be receiving less airplay.

The area to focus on is Australia. From the point of your business, it is irrelevant if new cases and death rates in say Spain or Iran are increasing. That is really a function of their internal politics, rather than of the Virus itself.

There is a point in time when you need to ease off the pedal of cutting, saving money and mothballing the business.

WHAT TO LOOK FOR IN YOUR BUSINESS

To a degree, this depends largely on the Survival Team's management of the situation.

Don't be swayed by what other businesses are doing. The Survival Team needs to think independently. The ultimate future of your business depends on it not being part of the herd.

If most of your team members have been stood down or are working from home, this is time to start bringing them back.

The best way to do this is gradually, to allow people to come back, settle down and just sort out technical bugs and other teething problems which will arise.

After several weeks of apparent settling down, it will be time to take stock of where the business is at.

It is during this **emerging pattern stage** that some really effective, innovative planning can be carried out.

THE FUTURE

There is no dividing line between **emerging pattern** and the **rebuilding phase**.

It is more a question that during **emerging pattern**, there may be some bumps in the road, some set backs in the economy and in the Virus outcome, so a great deal of flexibility is required.

It is critical to recognize the point where emerging pattern has become a stable pattern. That is the launching pad for **rebuilding**.

In this case, where there has been such massive worldwide dislocation and this being the only disease-caused recession in modern history, there is no rule book to work to. It will be a question of looking for green shoots and of confidence building very very slowly.

After the Covid-Recession is over, the Australian and western economies will be struggling to reach an even keel and governments will be awash with massive debt.

Normally, high government debt, particularly where there has been an increase in money supply as is occurring throughout the western world, results in inflation.

Cash flow for emerging pattern there will be a greater focus in the business than ever before.

MARKETING AND SALES

During this stage, begin active sales campaigns. The market will be less crowded, so your voice will be heard much better than in the crowded market place.

Spending and focus on marketing is critical at this stage, which will seem counterintuitive to the **Chaos** focus, which was on cost cutting.

REBUILDING

SORTING THE SUCCESSFUL BUSINESSES FOR THE NEW WORLD FROM THE DYING BUSINESSES

If your business has reached this stage, it has survived, which is the fundamental goal of this Business Survival guide.

However, do not have the attitude of “thank God it’s over, we can now go back to doing things the way we did”.

The rebound from recessions is historically slow and not euphoric. It is a case of two steps forward and one step backward. This is a traditional post-recession growth pattern.

CONTINUATION OF THE SURVIVAL TEAM

The Survival Team cannot simply disband at this stage. It is critical that it continues the process of dispassionate planning and thinking. The composition of the Survival Team may need to vary to take on board key people in the business or outside consultants who are able to think strategically and who have a good understanding of the nuts and bolts of the business. It must include marketing and sales people.

THE AUSTRALIAN AND THE WORLD ECONOMIES

The Survival Team will need to form an opinion about the **New World** economic landscape. This opinion will need to be flexible and will be updated as circumstances change. To not take this into account would be to make decisions in the dark, with no underlying opinion of the economy and thus, the business environment.

What will the **New World** look like? This is where feedback from team members and customers is critical.

The team should not made decisions based on “gut feel”. If the feedback process is working well, ideas and trends will emerge which no one would have thought of or may have otherwise discounted as being unimportant.

A good process is to form focus groups of team members, with the intention being to define what the **New World** will look like in terms of the business.

As a first step, the focus groups should discuss how they see the **New World** will look within their market place. This may be your local area, your suburb, your city, your state or Australia as a whole, depending on the business.

SOME POINTS TO CONSIDER IN DRAWING A PICTURE OF THE NEW WORLD

- How has the Virus and the ensuing Covid-Recession impacted on the way people communicate with each other?
- Is there a community concern that the Virus may return or mutate into something similar and just as concerning?
- Will businesses operating on WFH revert fully back to the office, will there be a hybrid arrangement or will WFH team members be so sick of the home environment that they will wish to come to a physical work space again?
- How has the take up of technology in the community going to lead to greater reliance on tools such as online ordering, Zoom and online meetings than in the past?
- At what point in the future will the public switch from being cautious savers to conspicuous consumers again?

HOW HAS YOUR BUSINESS CHANGED?

The fact that your business has survived indicates that it has been adaptive, flexible, able to make and act on decisions quickly, it has retained a core group of team members who will have learned from the experience, feel a pride in the role they played in the survival of the company and be eager to keep their jobs.

Team members who have been given greater responsibility, discretion and authority and have been listened to as equals by management will not want to go back to the way things were. That is, being a cog in the wheel of an army-style, authoritative, organisation.

The Survival Team needs to list all of the strong points which emerged within the business which enabled it to thrive.

WHAT WILL BUSINESSES IN THE NEW WORLD LOOK LIKE?

It is difficult to be prescriptive because there are so many unknowns. However, the view of the writer is:

- Your business is no doubt smaller than it was before.
- There will be a tighter, less structured management team than before.
- Management will be much more consultative of team members and customers.

- Technologies adopted by the business during the Covid-Recession will be retained and built upon and essentially form the base of a new way of communication.
- Greater efficiencies will have developed, layers of decision making will be reduced, decision making will have been greatly speeded up. All of this will apply to the future.

THE FIRST TWELVE MONTHS OF REBUILDING

The Survival Team needs to make a decision to move into **rebuilding** at the earliest possible time. Don't wait for confirmation. There will be ups and downs but it is the smart businesses which will be out of the running blocks early.

Right from the early days, the attitude to risk must change. Up until this point, the whole strategy was to reduce risk, contract and aim to survive. However, businesses cannot do that in the longer term. They will be left behind. By nature, successful businesses must take on risk, innovate and plan for growth.

Good Luck

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