

Five Best Practices for Business Owners During Uncertain Times

The COVID-19 crisis has created an uncertain time for business owners, regardless of the industry in which they operate. Many business owners are facing issues related to employee safety and business continuity, while concurrently working within the confines of government orders, managing supply chain disruptions, dealing with reduced revenues and cash flows, and reacting to plummeting commodity prices.

Given these challenging times, the BMO Business Advisory and Transition Planning team has outlined five best practices to help business owners focus and manage their business effectively. This list is not exhaustive, nor is it a substitute for consulting with trusted business advisors. Please speak with your BMO financial professional who can connect you with a BMO Business Advisory and Transition Planning Specialist to discuss the complexities and issues associated with your specific business.

Best practices

- 1. Cash management and protecting liquidity.** Managing cash flow is always important, but it's all the more critical right now in order to gain visibility and implement an action plan for cash inflows and outflows. This entails reviewing monthly expenditures in detail to categorize expenses as non-discretionary versus discretionary. There are several strategies that can free up cash flow through working capital management with accounts receivable, payables, and inventory. When managing receivables, invoices should be sent to customers in a timely manner with a diligent followed up process to ensure collection. This is also a good time to reach out to customers to understand their financial position as they are likely facing similar challenges. If possible, discuss faster payments terms, but consider the long-term effects of demanding swift payment from customers if they are unable to comply. Likewise with suppliers, this is an opportunity to renegotiate any agreements currently in place. Call your most significant suppliers and discuss the possibility of more favourable financial terms, such as purchasing discounts, payment deferrals or extended payment terms. Be aware that this may create a negative impact on the quality of service you receive from your suppliers, especially for those that play a key part in your business value chain; thereby potentially eroding the quality of service you provide to your customers. Lastly, if you have any slow moving, obsolete inventory, investigate the possibility of turning these items into cash flow in the short-term. You may also want to spend some time understanding individual product profitability and the corresponding inventory turn. This way you can avoid tying up cash in unproductive inventory and prioritizing profitable purchasing.
- 2. Manage customer and supplier relationships.** This is an opportune time to open the lines of communication with customers and suppliers. By reaching out to customers and understanding how they have been impacted by COVID-19, you will gain insight into future demand for existing products or services, and how you can continue to adapt your offering. The insight gained from this exercise will also improve your own forecasting capabilities. Equally important is communicating openly with suppliers to better understand your supply chain and any potential delays or shortages. Most importantly, being proactive in obtaining this information will give you time, should you need to procure inventory elsewhere and make contingency plans as needed. This is also an opportunity to alert customers and suppliers of any potential disruptions in your ability to procure or deliver goods and services in the short- and medium-term, which will allow them to better plan within their own businesses
- 3. Understand the impact of contractual agreements.** COVID-19 has caused disruptions in supply chains, increased/decreased demand for specific products, cancelled events, and resulted in alternative work arrangements for employees (e.g. working from home). If you are contractually obligated to accept deliveries from

suppliers or provide goods/services for customers, you may be in a situation where you cannot balance supply and demand to meet contractual obligations. In this case, consider a professional review of the wording of the contract, governing laws, industry norms, and the specific impact of COVID-19 on your business to assess if you can be rightfully excused from the contract under a force majeure clause. This type of clause is intended to cover certain events that are beyond the parties' control, but must be investigated fully by a legal professional to ascertain if it applies to your specific contract.

4. Manage lender/investor relationships. If you have lenders or investors with a financial stake in your business, it is critical to communicate early and often with them regarding the challenges your business is facing. This is an opportune time to create financial models with a range of scenarios (e.g. base case, best case, worst case) to quantify the impact of COVID-19 on your business and existing financing arrangements. These models should consider covenant breaches as well as projections for additional financing costs as required. By engaging early with lenders and investors, you can obtain a clear understanding of your options, including alternative or additional financing arrangements, as well as any flexibility within your existing capital structure.

5. Consider your personal financial, estate and tax plan. While the focus here has been on your business, it is just as important to review your personal financial circumstances in this unprecedented time of economic disruption. Just as you have done for your business, review your personal expenses and gain clarity regarding your cash inflows and outflows. Speak with your BMO financial professional to stress test your personal financial and estate plans and ensure that they continue to reflect your goals, and that these goals remain achievable. This may also be the time to initiate individual or business tax planning strategies, some of which can be beneficial to implement in a downturn economy.

The concepts outlined in this article are not one-time events that you undertake and move on from, but should be revisited as visibility improves and we move toward the new normal. As more information becomes available and as circumstances change, your approach can be adapted.

The only certainty is that we will emerge from this turbulent time, so it's important to be ready for what will come next. In the meantime, face the challenges presented by COVID-19 by reacting swiftly, accepting that perfection is not realistic, and connect with your trusted advisors should you need further assistance. These actions will go a long way in ensuring the continuity of your business with minimal impact and disruption.



Speak with your BMO financial professional, who can connect you with a BMO Business Advisory and Transition Planning Specialist for further assistance in managing your business during these difficult times.

