How to save your company from the impact of Covid-19

By John Evans

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The global outbreak of Covid-19 and the subsequent national lockdown announced by President Cyril Ramaphosa in March 2020 have undoubtedly impacted many companies.

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Early intervention

What should a business do when faced with a crisis? The message from all experienced business turnaround and restructuring experts is to act quickly and adapt or make changes at the first signs of trouble. Early intervention is one of the keys to achieving a successful restructuring – if the company can identify the problem quickly, it can then implement solutions before too much damage is caused.

The reality, however, is that many businesses, especially the small to medium-sized ones, tend to leave things until it is too late. The senior team are often so focused on winning new business, delivering products or services and attending to administrative tasks, that they have little or no time to properly review and understand their financial information. Another common factor that delays action is a desire to preserve brand value, reputation and the confidence of customers.

There are many restructuring success stories, most of which go unpublished, but all demonstrate that well planned, timely interventions yield positive outcomes.

What are the signs that business is in trouble?

A clear sign that a business is in distress is when its management are spending more time focusing on the financial crisis and meeting monthly payment obligations than on managing the business. Once this happens it is very hard to avert formal restructuring processes as the management team have been so distracted by the cash flow crisis that they have stopped managing the business.

There are a number of reasons why a business will get into trouble, for example it may have lost a key customer, may be facing increased competition or as we are experiencing at the moment, has had an unexpected external disruption to its operations. The effect, however, is always the same, cash flow will tighten, revenue forecasts become less reliable and are often missed, creditor payments are delayed and in many cases tax and other statutory payments are missed.

What often happens is that the business owner or senior management team lose the ability to spot the early warning signs. This is where good management practices and having the discipline to spend time analysing the business and the changing environment are key but it also highlights the key role that auditors, lawyers and other external business advisors can play in starting the right conversations before a crisis actually hits.

Depending on the situation, one of the best options is for the distressed company to approach a chartered accountant (restructuring practitioner or business rescue practitioner) or the South African Restructuring and Insolvency Practitioners Association who specialise in advising distressed companies and managing their turnaround or business rescue.

How do you implement a successful turnaround strategy?

There is no one single solution for a company in trouble but rather a roadmap or guideline that should be followed and revisited many times during the process.

First is to understand the type of distress being faced by the business. Has performance been slowly deteriorating over time as the business and its products become less productive or relevant? Is the business faced with an unexpected event that has significantly impacted its cash flow or ability to operate? Identifying the root cause of the problem is key to developing an effective turnaround strategy.

The next key question is to determine whether the business is worth saving and if it is, how much it will cost to save it and who is going to fund the restructuring process. It is at this stage that advisors often have the hard conversations with clients whose business is no longer competitive or relevant or where the cost of returning it to its former glory far outweighs the benefit.

Assuming that the business is worth saving and has a champion who will fund and drive the process, it is vital that the directors consider the available options and take professional and legal advice. The involvement of specialist advisors will not only enhance the chances of success but can also assist directors in avoiding risks associated with reckless and insolvent trading.

The South African government, in response to the Covid-19 pandemic, has eased the burden on directors in this regard by proclaiming that the provisions pertaining to reckless trading will not apply for the duration of the declaration of national disaster and for 60 days thereafter. This breathing room will allow companies to design and implement restructuring plans which should maximise the opportunity for as many companies as possible to survive this crisis.

An important part of any restructuring is the willingness of key stakeholders to support the process. Detailed analysis of the company’s key customers and suppliers is essential. Equally important is starting the right conversations with those stakeholders who will often prove to be valuable allies in the restructuring process. These conversations will be key in our current environment where both our suppliers and customers are also facing uncertain futures. We have so far seen a number of indicators that this will be the case as the large banks and lenders have all made positive statements about assisting their clients, there appears to be a willingness from many landlords to assist their tenants, and the government has taken many positive steps to assist businesses during this difficult time. For more information on available resources and the various measures put in place visit SAICA's COVID-19 site.

Finally, robust implementation is essential but perhaps more important is that the team should monitor, re-evaluate and amend their plans along the way. This plan will have to be reworked and refined as one goes along, because time is always against a business in distress and no first draft restructuring plan will be perfect.

Business rescue has its benefits

Business rescue can be a useful restructuring tool in the right situation. One of the main benefits is the moratorium that is created by commencement of business rescue, which has the effect of providing breathing room for the company by protecting it from legal action initiated by its creditors for payment. Another benefit is that the business rescue provisions provide a structured framework for preparing a rescue plan and, most importantly, include a “cram down” mechanism which binds all creditors to the adopted business rescue plan, whether they voted in favour or against the plan.

Communication is key

It is essential that open communication takes place with all key stakeholders, regardless of the reasons for the distress or whether the restructuring is achieved informally or formally. Every restructuring process has a very personal impact on the employees, customers, suppliers, lenders and shareholders of that business. As such, it is important to develop a communication strategy and plan to secure and maintain the support of all stakeholders throughout the process.

Assessing your business health?

What is almost certain is that your business is not nearly as fit and healthy as it was before the Covid-19 pandemic. What remains to be seen is whether it can recover its vitality or if it will be a shadow of its former self. It is therefore vital that business owners and boards consider and plan for possible post-Covid-19 scenarios. Engaging with customers and analysing the market environment will enable you to develop several demand scenarios. These scenarios are the framework that will guide the planning process and highlight the changes that are required to survive.

None of us know how or when the lockdown will be lifted and what the full impact of the global pandemic will be. What is certain, is that companies are going to have to be flexible and nimble in their approach to dealing with the pandemic.

Navigating the current Covid-19 crisis

Almost every business in South Africa is faced with an uncertain future. To maximise the chances of survival, every company and board will need to conduct an honest assessment of the business and market environment, understand the available support, engage with its stakeholders and implement the changes that are required to maximise the chances of its survival. This process will need to be redone many times over the coming years and many companies will no doubt need to downsize or change their business model to survive. Those that act quickly and decisively are going to be best placed to not only survive, but thrive in the aftermath.

ABOUT THE AUTHOR

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