

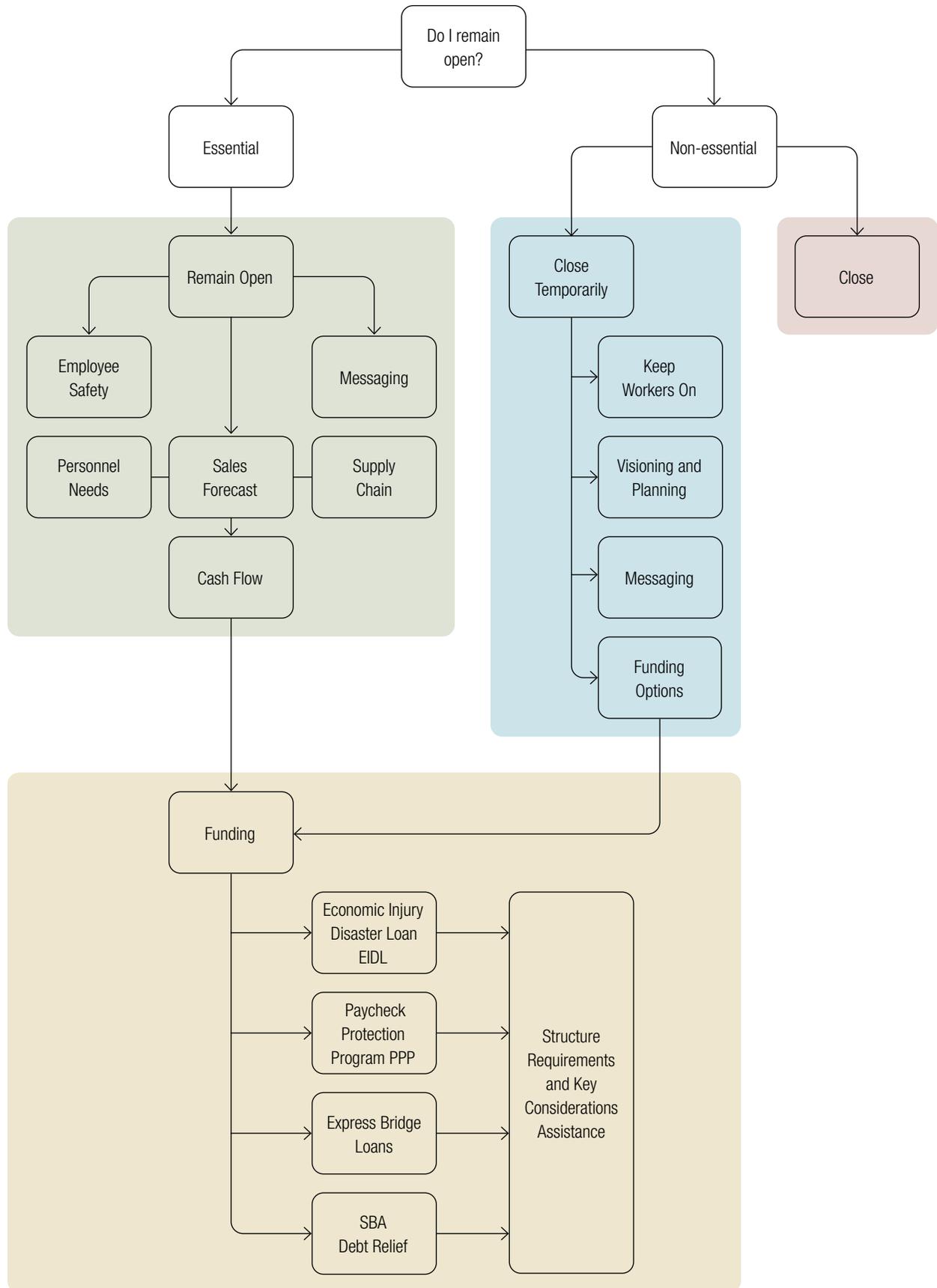


*A Strategic Business Approach
to Navigating COVID-19*

The effects of COVID-19 have been immediate and completely disruptive, for both consumers and businesses. As owners struggle to deal with the uncertainty, anxiety levels are high. How will non-essential companies survive? How do essential businesses plan with so many variables in play?

To help offset the economic repercussions of the global pandemic virus, the United States Congress has authorized the country's largest-ever relief package. But the details of the assistance and the processes by which businesses can access the funds are changing day-by-day and often hourly. As an owner, what decisions do you need to make and in what order?

At the root of anxiety is uncertainty. Address the uncertainty and you can lower the anxiety. In other words, have a plan. The following is a strategic approach to help owners and managers sort through the issues and arrive at the decisions that help them weather the storm. The goal of this paper is to both help you understand what needs to be done and help you focus on creating a plan to conquer the anxiety.



Do I Remain Open?

Whether to stay open or to close is the fundamental question. In some cases, this decision has been made for you. In North Carolina, Tennessee and South Carolina, all non-essential businesses have been ordered to close. If you are not sure whether your business is classified as essential or non-essential, check the appropriate link: [North Carolina non-essential businesses](#), [South Carolina non-essential businesses](#), [Tennessee non-essential businesses](#).

Whether your business is deemed essential or non-essential, the decision to stay open or reopen in the future comes down to one of two determinations. The first is based on a careful analysis in which you determine that there is a logical path forward. The second is entirely non-rigorous; you simply feel obligated/compelled, for whatever reason, to put the higher purpose of the business ahead of the financial and business difficulties. Both reasons are valid, and the good news is that either way, there are ways to fund the company until the economy begins to pick back up.

Essential Business: Assessing Your Position

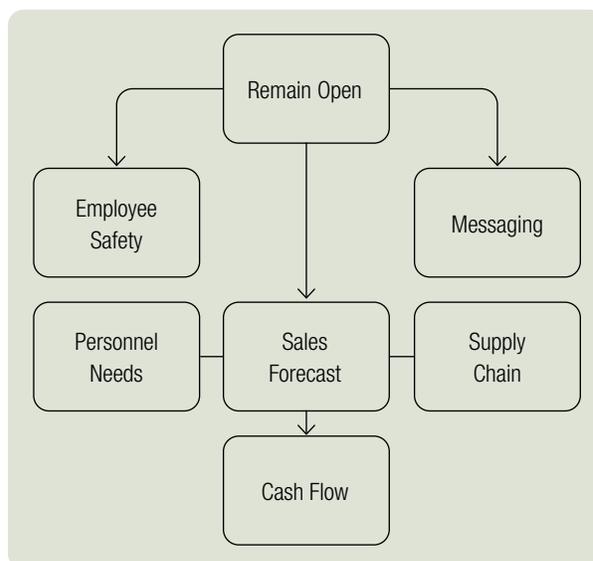
If you own an essential business, you are not obligated to remain open. The question is, can you afford to stay open? The following are areas to consider in making that decision.

Employee Safety: Part of the decision to remain open depends on how safe your employees feel and whether they understand that, if they feel sick, you'd rather them stay home. Both employees and employers are struggling with this issue. Business owners can help by taking positive steps like creating a work environment that keeps workers spaced at a safe distance and provides PPE for those who need it.

During this time, a little understanding goes a long way; workers who are out sick need time to recover fully. Alternatively, you may have employees who are trying to care for someone at home who has the Coronavirus. Insisting the worker come in may jeopardize the rest of your employees and put undue stress on that employee. Depending on their job responsibilities, you may want to consider giving them the option of working from home. In the most successful companies, mutual consideration, respect and loyalty between employer and employees are a core part of the business' personality.

Messaging: Accurate and transparent communication during a time of crisis is critical. What is your messaging strategy to your various stakeholders? Employees, customers/distributors, suppliers, industry partners, etc. You should outline not only what you want to let your stakeholders know but how often and in what manner you plan to communicate. Clear and consistent messaging with stakeholders is even more important if you plan on closing temporarily and reopening in the future.

Estimating Your Cash Position: Perhaps the most significant determining factor in your decision to remain open is your cash on hand and



Assume that any government assistance you apply for and receive won't arrive for several weeks.

anticipated cash flow over the next several months. You should assume that any government assistance you apply for and receive won't arrive for several weeks. You are primarily relying on your cash reserves to carry you through the initial dry spell. While you may have accounts receivable on the books, you can't be sure you'll collect them because you have no idea how your customers have been affected. The critical question you need to answer is: "How many months/weeks of cash on hand do we have?"

Personnel Needs: As hard as it is to let people go; chances are most businesses will need to cut their headcount to make it through these tough times. Two relevant questions here: whom should you let go and when? To decide who goes and who stays, consider how much you have invested in each employee. The positions that take the shortest to train will be the easiest to replace. Also remember that some jobs are revenue-positive, contributing directly to the bottom line while others are revenue negative. Since cash flow is critical, you may want to give preference to those who can generate revenues.

Sales Forecast: To gain a basic understanding of your 3-month sales forecast, you'll need to reach out to your largest customers to see how their businesses have been affected. Do not assume anything. Ask your customers, distributors and others in your sales channel how their accounts receivables are expected to be affected.

Supply Chain: If you rely on suppliers, check with them to see how they are being affected. How will a disruption in their deliveries affect your ability to produce product or service your customer? Even if your current providers appear un-affected, you may want to identify potential alternate suppliers just in case. Specifically, you need to understand their expected plans regarding capacity, quality control and terms. Don't be afraid to ask them to extend payment terms. Most suppliers understand, especially if you are taking the initiative.

3-month Cash Flow: Cash flow consists of your expected revenues, typically represented by sales, versus your expenses, which are your payroll and operating costs. Forecast your cash flow in 3-month increments, quarter by quarter. Based on your projected cash flow, you should be able to determine if you have a financial path forward. A couple of things to keep in mind:

The situation is fragile and fluid. The supplier you're counting on today may file bankruptcy tomorrow or the production manager who's been with you from day one may be in the hospital next week.

Be conservative in your forecast, use a weak-case and worst-case scenario to determine how much additional funding will be needed. You might as well borrow based on the worst-case scenario. You can pay it back without pre-payment penalty if you end up not needing it. Finally, remember that just because your cash flow projections are weak doesn't mean you're out of business. There is help if you're willing to accept the risks.

Families First Coronavirus Response Act

FFCRA requires employers with 50 or more workers to provide employees paid sick leave and expanded family/medical leave for reasons related to COVID-19. It guarantees all employees up to 80 hours of paid sick leave due to COVID-19 and reimburses covered employers for this cost. If an employee is ill or quarantined, they are paid 100% of their rate of pay. If they are needed at home to care for someone with COVID-19, they receive two-thirds of their rate of pay.

[Download the official FFCRA notice.](#)

Just because your cash flow projections are weak doesn't mean you're out of business. There is help if you're willing to accept the risks.

Funding Options

As stated earlier, there are financial assistance programs to help businesses weather the COVID storm. Some assistance is in the form of loans that will be forgiven by the government, but others do have to be paid back. With the rules still changing, assume that any loan you get will need to be repaid. Ask yourself if accumulating debt that could take years to pay off is worth staying open; remember that the results of staying in business include providing a livelihood for your employees and continuing to build your business. Money is available, but that doesn't mean you have to or should take it.

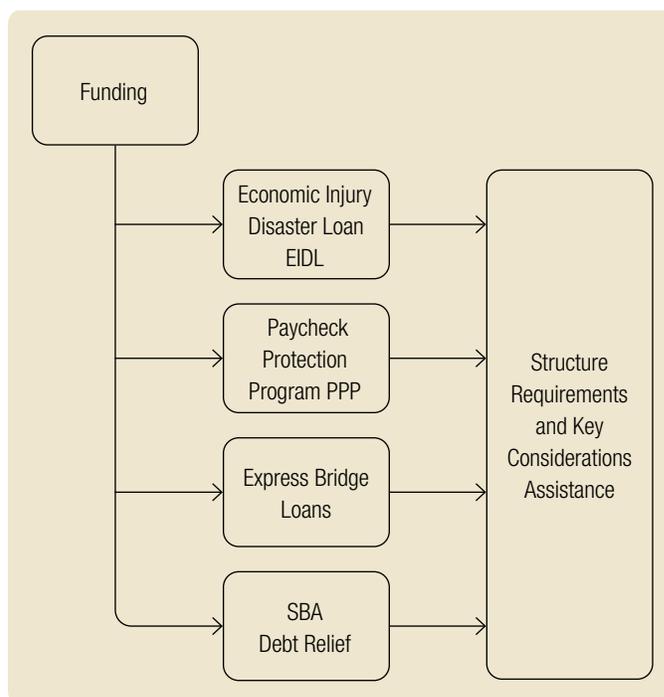
Economic Injury Disaster Loans (EIDL): The EIDL offers up to \$2 million for working capital, including fixed debt and payroll. The interest rate for businesses is 3.75%, with a one-year deferment on repayment. When applying for an EIDL, you can also request a \$10,000 grant for immediate working capital. This is an advance against the EIDL and will supposedly be paid in three days after the request.

Paycheck Protection Program (PPP) Loans:

PPP loans provide up to \$10 million per business. You apply for this loan through an SBA-certified lender, and the list of participating lenders is continually changing. The loan amount is calculated by multiplying your 2019 average payroll costs for all employees (up to \$100,000 in salary per employee) by 2.5. Once the loan is secured, document your payroll expenses for eight weeks, then submit your documentation to the lender for approval. If approved, the government will forgive the portion of the loan used for payroll through June 20. For the amount not excused, the interest rate is 1% for a two-year term.

Express Bridge Loans allow small businesses who currently have a business relationship with an SBA Express Lender to access up to \$25,000 quickly. An Express Bridge Loan is designed to help small businesses overcome a temporary loss of revenue or to bridge the gap while applying for a direct SBA Economic Injury Disaster loan.

SBA Debt Relief: If you currently have an SBA 7(a), 504 or microloan, the SBA will automatically pay the principal, interest, and fees for a period of six months. The SBA will also automatically pay the principal, interest, and fees of new 7(a), 504, and microloans issued prior to September 27, 2020. There is also additional SBA debt relief for current



Applying for an EIDL and PPP Loan

You can apply for an EIDL and a PPP loan (see below) both but can't use funds from each loan for the same expense. Businesses with under 500 employees are eligible to apply.

For more info on SBA Funding

To get the most current information on funding details, go to: [SBA Coronavirus Relief Options](#)

serviced Disaster (Home and Business) Loans. If your disaster loan was in “regular servicing” status on March 1, 2020, the SBA is providing automatic deferments through December 31, 2020.

Temporary closure

If your business is deemed non-essential, you need to close your physical location, but employees can still work from home. Even if you are designated an essential business, you are not obligated to remain open. In some cases, temporary closure maybe your best option. In deciding whether to close temporarily or permanently, ask yourself: “Why is this business important to me? Do I have the energy to rebuild it? Do I have the support of my employees?”

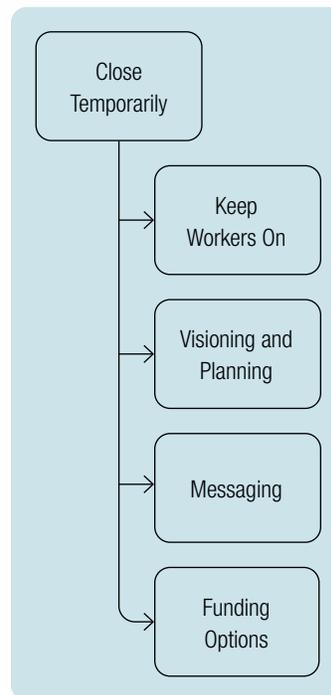
Here are some other things to consider:

Should I keep my employees on the payroll? Under the Paycheck Protection Program, if you are closed, the government will loan you 2.5X your average payroll for up to eight weeks. They will then forgive that loan amount to the extent you use at least 75% of the funds for payroll during the 8 weeks immediately after you receive the loan, and you hire your employees back by June 30, 2020. But how many of your employees are willing to wait till the business reopens? If employees leave or you decide to let them go, much retraining will you need to do? A lot of that depends on the type of position you’re trying to fill. Relationship-driven jobs like sales and those that rely on processes unique to your business will be tougher to fill and retrain.

How long will it take to refill my sales funnel? Consider the length of your sales cycle. For many business-to-consumer companies, it’s measured in days or weeks, enabling them to begin generating sales revenue almost immediately. For business-to-business companies, especially those selling high-ticket items, the sales cycle can be years. Based on how long your sales cycle is, you know how many weeks or months of expenses you need to cover to survive a restart. Depending on how well you message while you’re closed, you need to budget more for marketing in order to kickstart sales.

Supply chain resiliency: If you rely on suppliers or other business services, how long before they’re back on-line, assuming they’re still in business? Depending on how they have been affected, there’s no guarantee that their terms, capabilities and even quality will be the same as it was pre-Coronavirus.

Stakeholder messaging: If you’re planning on reopening, you need to be able to hit the ground running (as much as possible) from day one. Keep your stakeholders close, and you can shorten that curve.



While the government will cover up to 2.5X your total payroll for up to eight weeks, how many of your employees are willing to wait till the business reopens?

Visioning and planning: When you do reopen, it will be in a different business climate. If you can keep your key management team intact and engaged, you can spend the downtime planning and preparing to operate in a post-Coronavirus environment.

Funding options: Of course, the key to being able to weather an extended closure is being able to fund the business without any revenue. Thus far, it appears that the government business rescue package is addressing that need. Look at the funding options under Essential Businesses for more information about what's available.

Permanent Closure

Perhaps the toughest decision a business owner will make is to decide to close permanently. If that is the grim decision you're faced with, know that you are hardly alone according to a poll conducted March 25 – 28 by the US Chamber of Commerce and MetLife, Twenty-four percent of small businesses say they will close permanently within two months or less due to the economic fallout of the coronavirus pandemic. The most common reason given for closing is a lack of an adequate cash cushion.

If you decide that there is no viable path forward and you need to close, make it a clean and compassionate break. First, ensure you have no outstanding commitments such as leases or other contracts, loans that you personally guaranteed. Consulting with a bankruptcy attorney can ensure there are no legal loose ends that can entangle you later. Finally, be as transparent and honest with your employees as possible. If this pandemic has taught us anything, it's that we are more connected to and more dependent on each other than we ever thought.

Final thoughts

Hopefully, this guide has helped you to better understand and prioritize your options and challenges.

Our intent is not to provide specific answers, but to suggest a framework for addressing the challenges you are facing. When it comes to making the tough decisions, we recommend speaking with professional advisors you trust, whether that's your internal management team or outside experts.

If you wish to speak with a Kaplan CFO, feel free to email us at info@kaplancfo.com. As the hub of an extensive local business network, we are in constant contact with banks, lenders, insurance providers, attorneys, HR firms and other professional services organizations.

This paper represents the input and insights of our referral partners and clients as well as the cumulative experience of our eleven CFOs.

As this situation continues to unfold, we promise to work closely with those in the local business community to keep you informed and prepared to the best of our ability. Together our business community can and will weather the storm.

Coronavirus Small Business Survival Guide

The US Chamber of Commerce has developed a Coronavirus Small Business Survival Guide. It contains a variety of articles, best practices and expert tips to help you guide your company through these troubled waters.

Check out the [Coronavirus Small Business Survival Guide](#).



kaplancfo.com

828.424.7644 | info@kaplancfo.com