Lessons from the 1990's... The recession we had to have... Why would COVID-19 be any different?

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The 1990 recession is now a generation ago. COVID-19 is hopefully a once in a century event. For those of us that lived and worked through the last one, here are some of the important things that we remember:

1. Value your banking relationship . . . Keep in touch . . . Money makes the world go around

The banks have greased the wheels of industry and commerce for centuries so stay in touch with your banker. Good bankers will make the effort to understand your business. The banks will not be able to support everyone when the crunch comes and will have to ration funding. To date they have not passed on pricing increases to cover their additional costs of operating and funding post the Hayne Royal Commission. Access to cash and capital will be critical. Make sure you are on their 'to be supported' credit list. You do not want to be a new to bank customer. What happens when bank extensions cease, and interest rates rise? Bankers don't like surprises so tell them in advance and provide them with regular updates.

2. How is your cash flow? Watch it like a hawk . . .

How does your cash flow look when JobKeeper, landlord concessions, and bank principal and interest extensions end, or when tax that was refunded needs to be paid?

Ensure you have a yearly 3-way forecast, a rolling 12 week forecast, budget to actual reporting and a quick profit reporting mechanism. It is too late to do something about a problem when the first you become aware of it is after the accounts have been prepared. You need a real-time quick reporting measurement.

3. Ensure you have a robust business model – Act early – Confirm your strategy

Review your business model. What needs changing for a COVID or post-COVID world? What is your strategy. Have you had it independently reviewed and really challenged? Don't be afraid to make the necessary changes now and right size the business. Do you need all those premises in a post COVID world? Can you outsource some functions overseas or through third party logistics or support solutions so you can focus on core business. Consider your business inputs, pricing, supply chain continuity and availability. What about the end stakeholders? Are you now in a multispeed economy in your business? How do you take risk off the table in your business?

4. Work out what opportunities to take . . .

If an opportunity presents itself, for instance, to make an acquisition, how can you make sure it is the right opportunity? There are always plenty of opportunities, the secret is working out which ones not to take. In a rush for the exits by distressed sellers in tough times everything gets a little crowded and unnecessarily hurried. Take your time and be considered, deliberate and strategic in what you do.

5. Are your people engaged?

Good people are always difficult to find. Once you have attracted the best people to your business ensure they are engaged, motivated, locked in and incentivised to excel. Get rid of the cynics. They always show their true colours in tough times.

6. Have an asset protection strategy

Insist that your active wealth (your business) is firewalled from your passive wealth (property, superannuation, toys, etc.) If something goes wrong then you want your passive wealth to be safe and you do not want the external insolvency practitioner taking a line of least resistance through your passive portfolio which may have taken generations to establish and just one bad event to destroy.

7. Corporate Governance

Establish an advisory board if you do not have one. If you are weak in a particular area, invite new talent with the experience and skills onto the board to address the gap. You do not lose any power as the owner by having an advisory board you still call the shots.

If you or someone you know needs help do not hesitate to contact your Fordham representative.

Remember the time to act is now!