

How to Strengthen, Optimize or Restructure COVID-19 Affected Operations

By Andrew Suh, CPA, Partner

The recent outbreak of the novel coronavirus (COVID-19) has introduced unprecedented challenges to the economy and businesses. Large scale quarantines, travel restrictions and social-distancing measures continue to drive a sharp fall in consumer spending and confidence. Businesses are facing several significant challenges that require rapid response.

During these uncertain times, it is understandable for business owners and managers to feel that many issues are beyond their control. However, our specialists are fully equipped to leverage in-depth experience gained during previous economic downturns to guide management through today's challenges.

Credibility with Lenders

Maintaining a strong relationship with lenders is imperative. Businesses must be proactive and communicate early and regularly. Transparency is key to maintaining credibility. If your business is at risk of defaulting on a loan, whether as a result of late or missed payments or failure to comply with covenant ratios, early communication with the lender allows for open discussions and more time to address the situation.

Achieving a favorable outcome requires that you anticipate requests from your bank for financial information and prepare it with an understanding of how such data will influence the financing entity's decision. Adopting the lender's perspective is essential to securing continued support for your business through this difficult time.

Liquidity Management

In order to navigate through a crisis, you must first understand your cash "runway" – that is, how long your business can operate at the current cash spend rate with the current amount of cash on hand.

Analyze your working capital profile with an eye towards identifying opportunities to extend the runway. Focus on assets and liabilities related to credit, such as accounts receivable, accounts payable and inventory. You may be able to enhance liquidity by billing customers earlier or more frequently than you do now. If your business typically carries large amounts of inventory, consider how much less you can carry without a detrimental impact on sales. Reach out to vendors and suppliers to arrange for longer payment terms or even a consignment arrangement; such negotiations may be easier than you expect as vendors may also be in a liquidity crunch, counting on you to stay afloat and continue the partnership.

Operational Improvement

Most businesses will look to reduce expenses during distressed situations, which is a valuable strategy for managing short-term cash flows but may not be in the best long-term interests of the business. This may be an opportune time for a strategic assessment of your business and for identifying opportunities to launch performance improvement initiatives.

- ***Are there certain parts of the business that are underperforming or not aligned with your overall strategy?***

If so, they may not only drain cash flow but are most likely demanding valuable time of the management team that should be focused on new, time sensitive concerns. Carving out these assets to be sold or discontinued can provide an influx of cash and/or increased time for

management to shift its focus to other initiatives. Consider different exit scenarios, such as a sale or wind-down, to ensure you obtain maximum value.

- ***Are your operating costs optimized?***

As the U.S. economy has enjoyed continuous expansion over the past decade, many businesses have experienced revenue growth – but that often comes with increases in operating expenses. Therefore, now may be the right time to evaluate your operational processes and assess if your personnel and fixed assets are being deployed in an optimal manner. Reducing headcount may appear to be the quickest solution but it's worth considering whether personnel can be shifted to fulfill other functions of the business.

- ***How effective is your business development strategy?***

Evaluating all sales channels – direct and indirect, internal and external – can help you determine whether personnel are appropriately assigned to each channel. If you have a formal incentive plan for business development personnel, consider whether a refresh might motivate and incentivize your staff. If there is no formal incentive plan, consider developing one. Equally important is ensuring that your business has the capability to track business development activity through CRM software and similar platforms.

- ***Do you have adequate systems for tracking and monitoring your business?***

Robust tracking systems allow you to optimize the accuracy and timeliness of key processes, such as billing and accounts receivable, budget and forecasting, purchasing and supply chain management, inventory and asset management, and more. You should also consider strengthening management reporting frequency to at least quarterly, if not monthly, in order to help management team members track and monitor business performance. Information can be a powerful tool to motivate and empower personnel with a sense of ownership surrounding the company's operating performance.

Bankruptcy

After considering all other alternatives, the fresh start that bankruptcy reorganization offers may be the most viable option in certain situations. In such cases, our expertise in accounting, tax and valuation is indispensable to navigating complex bankruptcy reorganizations.

How We Can Help

Typically, businesses facing cash flow challenges are also strapped for the time required to solve them. PKF O'Connor Davies can help you tackle these challenges by assessing, developing and executing a tailored plan for your business – one critical to freeing management to focus on running the business and addressing critical issues. Our extensive experience guiding managers during times of distress can prove essential to maintaining credibility with lenders, vendors and other stakeholders as well as optimizing operations and, if necessary, preparing for restructuring or bankruptcy.

Contact Us

If your business requires assistance during these challenging times, we are here to help. Please contact the partner in charge of your account or:

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About PKF O'Connor Davies

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