

GUIDE

# Managing Business Uncertainty

Helping businesses manage during  
challenging times



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Read Time: 9 minutes

## Change is a constant in business. But when faced with exceptional events, leaders need to take a hard look at their tools, systems, processes and—most important—strategies.

Steering a company during uncertain times requires an analytical approach with an emphasis on visibility, control and agility.

You need visibility into cash flow, receivables, projects, inventory and operational risks. You need prudent advice, a list of potential sources of capital and a single-minded forward-focus. With so many critical decisions to make, you need the right numbers, and you need them right now.

Not all businesses are affected equally. In this guide, we'll lay out a framework for leaders whose companies are viable but who recognize that they must substantially change their approach to remain as healthy as possible.

For those businesses, we recommend examining three questions:

- What can you see right now?
- What can you control now?
- How can you be agile to change now?



# Visibility: Take Stock of the Situation

Access to capital is important at all times, but crisis events make it more critical. A fall in demand or supply chain disruption has an immediate effect on cash flow. Unless you have reserves, liquidity can become a problem. That's particularly true for smaller companies, which often require access to credit lines as part of normal operations.

The good news is that these companies have existing relationships with credit providers, and therefore have the connections needed to open discussions.

Take stock of resources on hand, pending liabilities and outstanding receivables. Then make a best guess estimate of how much cash you'll need to sustain operations for various timeframes, based on your estimate of how long it will be until you can resume normal operations.



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With accurate, up-to-date financial data and “what-if” scenarios in hand, you can determine what steps you need to take. The nature of the crisis will dictate how willing suppliers, landlords, lenders, tax authorities and insurers are to work with you. Each has a vested interest in the long-term health of your business and may be willing to help by decreasing, extending or deferring payments.

## Visibility Checklist

- Update your balance sheet to determine total assets (bank, accounts receivable, unbilled receivable, other) with an emphasis on liquidity (cash on hand).
- Determine liabilities (accounts payable, credit and other) with an eye to which payments may be put off.
- Determine your short-term cash requirements.
- Evaluate receivables risk in light of current business conditions with the expectation that:
  - Days sales outstanding (DSO) will increase and
  - Bad debt write-offs may also increase.
- Run some tabletop exercises based on the most-likely scenarios to quantify the impact to your P&L, cash flow and balance sheet of short-, medium- and longer-term disruptions.

# Government Pandemic Response Resources

Government agencies are making funds available to help businesses cope with the COVID-19 pandemic. While the nationwide legislative response landscape continues to evolve, here are a few resources for companies interested in applying for grants, loans and other assistance:

**\$2 Trillion Stimulus:** The stimulus bill enacted at the end of March contains a [number of business assistance programs](#). The \$500 billion lending fund includes \$4 billion for cargo air carriers and \$17 billion for companies that work in national security. Of the remaining \$481 billion, there is wide latitude in providing loans to businesses, states and municipalities. There is a specific provision for businesses with between 500 and 10,000 employees that require no payments in the first six months. And, small businesses that don't lay off employees could have loans converted to grants.

**USBA Disaster Loans.** The [U.S. Small Business Administration \(USBA\)](#) is making [loans available](#) to supply working capital to small businesses, agricultural cooperatives and nonprofits in states that have declared a state of emergency and applied to the SBA. Businesses can borrow as much as \$2 million at a 3.75% interest rate for businesses (2.75% for nonprofits) for a period of up to 30 years.

**Income Tax Filing Delay.** The IRS has extended its federal tax return filing deadline from April 15 to July 15 for tax payments up to \$10 million. Grow Wire is maintaining a list of [income tax deadlines for all 50 states](#).

**State and Municipal Programs.** Many cities and states, including San Francisco, Los Angeles, Illinois, Colorado and Florida, have set up their own business assistance programs. Details can usually be found on the [governor's website of your home state\(s\)](#).

**Term Asset-Backed Loans.** On March 23, among other stimulus projects, the Federal Reserve resurrected the [Term Asset-Backed Loan Facility](#) from the 2008 financial crisis. The program, worth \$300 billion, will support the flow of credit to employers, consumers and businesses.

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# Control: Determine Immediate Priorities

In difficult circumstances, it's wise to pay attention to the basics: process, performance and people. Let's look at each.

**Process:** Most businesses operate on a 12-month budget cycle and manage to strategic plans with longer timeframes. But during periods of extreme uncertainty, the focus must shift from long-term to immediate priorities: Make payroll, cut costs, maintain liquidity.

How you define priorities will influence decisions going forward. Communication is critical now. In times of crisis, people are worried. The more you establish clear goals and objectives, the better your team understands where they stand and what they need to accomplish.



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Remember: During periods of growth, some level of inefficiency is tolerable. When companies need to contain costs, this isn't an option. As you manage through a downturn, eliminating inefficiencies by redesigning sloppy processes and/or automating manual tasks can improve cash flow in the short term and better position your company for growth in the long term.

## Process Checklist

- Use a 30- to 45-day window for purposes of planning immediate actions. Develop contingencies based a variety of assumptions for actions you may need to take beyond that.
- Evaluate multiple scenarios during the planning process:
  - How will we fund operations if business conditions don't improve?
  - How will our priorities change if business conditions become more difficult?
- Are there changes we can make that will improve our position for the short term?
- Review budgets to ensure you're not spending now for future initiatives that may not happen.
- Identify sources of cash, even if you don't need them yet.
- Start to work out payment terms with suppliers and other accounts payable to maximize available cash.
- Financial controls are important now, especially around cash-related functions and reconciliation. Some key steps to control expenses:
  - Put an approval process in place for all expenditures,
  - Reconcile all bank and supplier statements
  - Set alerts for late payments so you can [proactively take necessary actions](#).

**Performance:** Monitoring key performance indicators (KPIs) is particularly important when dealing with economic uncertainty. To edit Peter Drucker's famous quote slightly, you can't manage what you can't measure. KPIs help leaders spot performance issues while there's still time to adjust.

And not only do you need to track KPIs, you need to do it in near-real-time; standard monthly or even weekly reports don't give you the gift of an early warning.



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**can't measure.**”

— PETER DRUCKER

## Performance Checklist

- We've mentioned DSO, also called days receivable. That is, how many days, on average, it takes your customers to pay invoices. The lower this number, the better, but in times of crisis, expect at least some customers to deviate from average. Address delays promptly.
- While normally associated with manufacturing, most businesses will benefit from tracking cycle time, that is, the time it takes from the start of production to when an order is complete. If you're in a position where your product or service is still in demand, customers likely want it yesterday. Reducing cycle time allows for a shorter lead time, thus increasing customer satisfaction and ultimately cash flow.
- Time to close books refers to how many days it takes your finance team to produce a P&L statement, balance sheet and other analyses so that you can understand your current cash position. Again, this should be measured in days, not weeks or months.
- Other KPIs that increase in criticality during a crisis: gross profit margin, customer satisfaction and general and administrative costs as a percentage of current revenue.

**People:** Critical events can be destabilizing for employees, and that can reduce productivity — exactly what you don't need in a crisis. Frequent communication that addresses the concerns of front-line employees is a hallmark of good management.

Let people know what's happening in the business, even when the news isn't great.

Engagement will help reduce turnover. Losing experienced, productive team members makes it more difficult to succeed when the situation returns to a more normal footing. Doing what you can to retain people, to the extent possible, will put you in a much better position to compete going forward.

## People Checklist

- For leaders who need to slash labor costs, consider strategies such as cutting hours or offering unpaid leave or furloughs rather than layoffs. Some companies temporarily reduce salaries based on ranges, with the lowest-paid workers losing less than executives.
- Investigate local, state and federal government programs aimed at stabilizing unemployment. An example is work-sharing, where some or all employees' hours are cut versus laying them off. Those employees may then receive unemployment benefits proportional to the reduction in hours.
- If you do need to lay off workers to keep the business viable, determine what if any support you can offer, and ensure you're in compliance with state and federal regulations, notably the [Worker Adjustment and Retraining Notification \(WARN\) Act](#).



# Pandemic Scenario Planning

Business leaders looking to run tabletop planning exercises to determine various scenarios of how COVID-19 could play out have resources.

- Inside Higher Ed [offers a primer on running a tabletop exercise](#) from an expert who's taught scenario planning to business school students, corporate executives and military officers for several decades. It's based on three plausible scenarios with assessments on the relative likelihood of occurrence provided by [McKinsey's Global Health + Crisis Response Team](#).
- PWC offers [a comprehensive planning document](#) for setting up a COVID-19 response.
- Bain & Company [provides crisis-response guidelines](#), including a model for business leaders to estimate their exposure to the coronavirus fallout and test their P&L and liquidity.
- A Wharton professor of operations, information and decisions [analyzes four possible scenarios](#) that the pandemic's evolution could take, from "still normal" to the somewhat alarming "pale horseman."

When constructing best- and worst-case scenarios, consider:

- Reported incidents of COVID-19 in the areas where you do business
- State-of-emergency declarations by government officials (local, state or federal) that will affect funding and your ability to conduct operations if you're not deemed an essential business.



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- Self-reporting by employees regarding potential exposure.
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# Agility: How Can You Change to Win?

Crises are challenging, but they don't last forever. Eventually, there's a new normal. While some companies struggle to stay in business, others end up perfectly positioned when opportunities for growth appear. How do they do that? Creativity.



**“Chance favors the prepared mind.”**

— LOUIS PASTEUR

Once you have a handle on short-term issues, think about how to position your company for success when economic conditions stabilize and growth returns. Leaders who can take a deep breath and focus their best and brightest on reimagining products and services will be positioned to win.

Remember: Switching up products and services is a challenge during growth periods. A slowdown can be the perfect time to implement innovative ideas.

Capital may be in short supply, but opportunities for investment will be plentiful, whether through internal initiatives, acquisitions or newly formed strategic partnerships. It's possible that cash is cheap, acquisition targets are available for bargain prices and suppliers will offer attractive terms to sign on new business.

It is vital that business leaders carefully time investments with an eye toward recovery, to position themselves to take full advantage of the growth that inevitably returns.

## Agility Checklist

- Employees know your business and customers, so consider crowd-sourcing ideas on how to generate new revenue.
- Think about areas where you faced hiring challenges a few months ago, and train employees in the skills you'll need when growth returns.
- Look at new ways to combine your products and services as well as how to enhance them, such as by adding premium levels or even changing to an as-a-service model to begin generating monthly recurring revenue.
- Rethink pricing strategies. The classic tactic of setting marginal revenue equal to marginal cost ( $MR = MC$ ) still works in some cases, but read up on how software companies are succeeding with product-led growth, or how you could bundle free durable components with by-subscription consumables. See Gillette razors or Quip toothbrushes.
- Analyze what new or underserved markets you could break into.
- Wring out as many supply chain efficiencies as possible, including adding diversity of suppliers.
- Talk to your CIO and COO about technical or process advances on their wish lists. This might include canceling capital-intensive technology purchases in favor of as-a-service options that deliver more flexibility or retooling a paused assembly line to add automation.

## Bottom Line

All major crises change things in the short term, and then for the long term. Managing through uncertainty is an art and a science. Keep tight control of cash and an eagle eye on the balance sheet. Listen to employees, customers, shareholders and other stakeholders. Communicate. Be honest and transparent to the extent possible. Think different so that when the crisis is over, your company is poised for success.

Understanding the fundamental needs of your customers will help you deal with unknowns and new scenarios as they play out. What if you can take some of the guessing out of the equation? NetSuite

helps business reduce uncertainty by providing real-time, anywhere, visibility and control of your financials, payroll, projects, inventory and suppliers. With insights into your business now, you can make smarter decisions with confidence.

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