

LIQUIDITY IN CRISIS: WHY THINKING LIKE A STARTUP CAN HELP BUSINESSES RECOVER

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Businesses left languishing due to social distancing practices during the first weeks of the COVID-19 pandemic must reenergize their operations. For most, weeks of revenue loss have reduced cash flow, threatening the crucial liquidity that businesses now need to move from crisis response to stabilization and growth.

As cash flow concerns mounted in the early weeks of the crisis, most leaders made quick and prudent decisions to preserve the financial stability of their companies.

In the next phase of the economic response to this crisis, stabilization and recovery will require a bolder rethinking of how businesses and entire industries operate, compete and ultimately thrive.

Think Like a Startup — Regardless of Your Size

Startups thrive amid disruption. They know the value of their product or service yet are agile enough to change the way things are done internally and in the market when needed. Growth, relationships and customer engagement are a core focus.

Coming out of this crisis, every business must act like a startup, especially in terms of cost and liquidity. Even if accounting costs increase as businesses confront excess and obsolete inventory or operations below breakeven, organizations are being forced to jump-start operations, buy materials and maintain staff — all with limited cash while generating demand from a tepid consumer base. Embracing a startup mentality when it comes to capital can help organizations recover and stabilize faster.

Stay Lean and Agile

Consider the following recommendations for how to think differently about capital and growth plans in the days ahead.

Reevaluate strategic plans. The world is not the same place it was before the crisis. Consumer preferences and behaviors are changing quickly. Global supply chains are vulnerable, and markets are shifting, all of which changes how companies compete.

Organizations should be thinking about how to recover but at the same time considering how to reposition and redesign for long-term growth. Breakthrough innovation often emerges in crisis. Don't overemphasize recapturing lost value at the risk of inhibiting new thinking that could lead to more efficiency, increased demand and greater market share in new business landscapes. Now is the time to reconsider long-term plans so that investments can quickly shift to areas that will support sustainable growth.

Take a long-term view on staff reductions.

Businesses will be tempted to cut staff to conserve cash. While this may work in the short term, it can be detrimental to the growth that should be central to all recovery plans. Avoid broad generalizations on banning new hires. Furloughing of certain positions may still be necessary, but maintain hiring for select activities that keep the right talent in place to innovate and drive demand.

Build a weekly cadence for financials reviews, including tracking sales and modeling cash. During recovery, traditional monthly reviews of financial performance are not sufficient. Teams must adopt a daily or at least weekly cadence to monitor performance and react in real time to the changing business conditions.

Lock down your procurement processes.

Future market demand is uncertain. To avoid ending up with excess supplies and unnecessary costs, procurement processes should be immediately paused and reevaluated, and all auto-replenishments and ordering thresholds should be halted.

Keep Your Story at the Forefront

Like startups, businesses will be operating with limited capital coming out of this crisis. To maintain access to sources that can support their growth, businesses should be having proactive discussions with all stakeholders, including customers, suppliers, equity sponsors and banks, about their vision for recovery and beyond.

Cutting through noise is paramount. Banks and lenders are inundated with communication from their clients, some of who are reporting insolvency and others who are still viable despite the crisis. Banks are interested in preserving their healthy accounts and are also looking for loyalty from clients. Make it easier for banks to make decisions about supporting your growth. Help them understand your business by telling your story in

the terms that matter to them so that they can be an advocate for you. Understand your cash and liquidity position and be able to articulate it along with stabilization plans that include a vision for growth.

This is a time to market yourself to ensure people understand what your business is about and why supporting your business benefits them.

Forecast Multiple Scenarios

Given the phased approaches to reopening the economy and looming public health fears, demand is not going to immediately take off. The world has changed. Even those for which coronavirus has been a boon due to temporary consumer buying behaviors will have to model for evolving consumer demand.

Amid the uncertainty of this crisis, businesses cannot get fixated on financial models that are based on past trends. A business's next four weeks of cash flow can be modeled with certainty. Beyond that, multiple scenarios should be run and regularly updated to give leaders a view of the strategies and initiatives that could support recovery and growth.

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