



RETHINKING OUR FUTURE: Supporting business recovery

June 2020

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COVID-19: THE JOURNEY

The COVID-19 crisis will continue to affect businesses in different ways and at different times. The journey, however, is likely to be similar. Our framework to support businesses through the journey identifies the key stages, issues and opportunities businesses should consider as they progress towards succeeding post COVID-19.

After businesses react to the initial shock of the crisis and establish resilience, it will be critical to look forward and consider how they will realise their potential in a post-COVID-19 environment, recognising that the model for success will be different in the future.

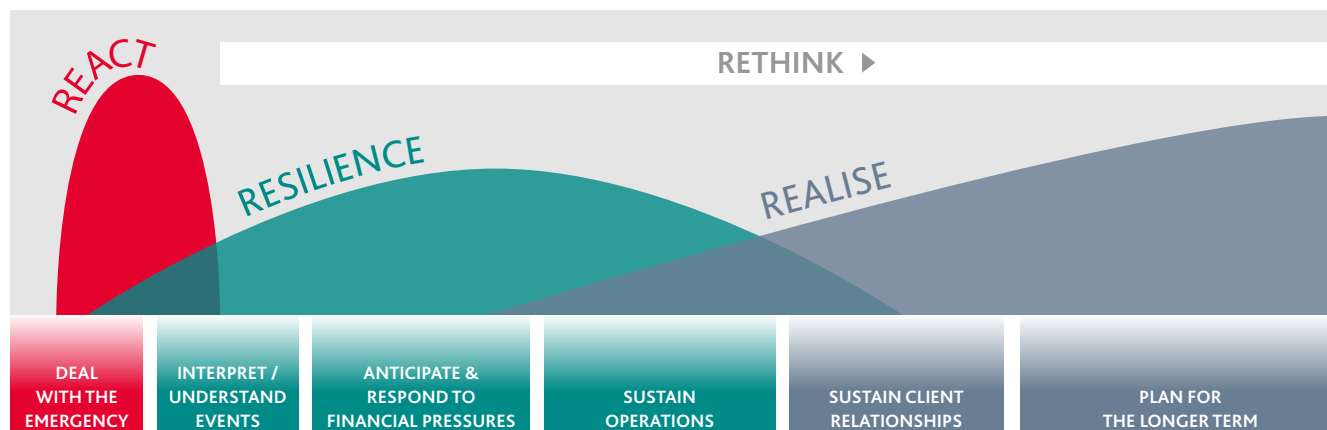
Although longer term planning will be important, in the short to medium term the focus should be on how businesses will recover. Here we discuss the key issues businesses should consider as they recover from the crisis.

The road to recovery is likely to be a bumpy one as restrictions are lifted and financial support is withdrawn to recognise the change in risk to health and the economy. Businesses will need sufficient funding and the right operating model to emerge successfully. We consider that a robust and detailed recovery plan will be essential for most businesses to support their recovery from the crisis.

A recovery plan needs to be suitably agile and responsive to anticipate and identify the options and corresponding practical actions required. Early planning should inform current decisions to ensure businesses are able to recover as smoothly and effectively as possible.

Most businesses failed during recovery in the previous global financial crisis

Has your business considered how to establish and when to implement a recovery plan?



THE CORE ELEMENTS OF THE RECOVERY PLAN

- ▶ A short term cash flow forecast covering a rolling 13 week period
- ▶ A strategic plan for the business covering its transition from the resilience stage to the realise stage
- ▶ An operations plan to deliver the strategy
- ▶ An integrated financial forecast model covering the next 12 to 24 months trading period
- ▶ A funding review covering both internal and external sources of finance
- ▶ Contingency planning as a fall back or in the event that the strategic plan is not delivered or sufficient funding is not available

COVID-19: THE SIX CORE ELEMENTS OF A RECOVERY PLAN

SIX CORE ELEMENTS OF A STRATEGIC RECOVERY PLAN

1. **A short term cash flow forecast** covering a rolling 13 week period
2. **A strategic plan** covering the businesses transition from the resilience stage to the realise stage
3. **An operations plan** to deliver the strategy
4. **An integrated financial forecast model** covering the next 12 to 24 months trading period
5. **A funding review** covering both internal and external sources of finance
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1. A SHORT TERM CASH FLOW FORECAST (STCFF)

Given the predicted levels of uncertainty during the recovery period, we consider that a robust 13 week cash flow forecast will be an essential practice for most businesses in this period. Properly prepared, a short term cash flow forecast is an effective tool to understand the immediate cash requirement of a business and identify possible steps that can be taken to allow the business to operate within available cash resources. In addition, it may take some time to develop a longer term plan for the business and, if necessary, secure appropriate funding. Careful and regular monitoring and management of cash in the intervening period may prove critical to effectively navigating the early period of the recovery and possibly the survival of the business.

Characteristics of an effective STCFF:

- ▶ Prepared on a receipts and payments basis
- ▶ Updated daily/weekly and reviewed by management regularly
- ▶ Supported by an effective escalation policy
- ▶ Modelled at a level that supports tactical decision making and resourcing
- ▶ Models key dependencies and potential vulnerabilities.

2. A STRATEGIC PLAN

Businesses will have to be agile and reactive as they exit resilience and progress through the realise stage. Despite this need for flexibility, we consider it critical that businesses have a base case view of their strategy during this period and use this to inform how they navigate their recovery.

If the business already has a pre-crisis strategic plan, this should be reviewed to determine if an update or change in strategy is required. If a strategic plan does not exist, then we recommend that one is developed as a matter of priority.

The anticipated path to recovery will be central to the strategic plan. Will the business immediately revert to pre-crisis levels of revenue, production/service provision and employees, or is a phased recovery more likely and what will this look like? Critical considerations in the development of a strategic plan will therefore include:

- ▶ Is your business model fit for purpose?
- ▶ What are the key areas of your business that will be affected by the crisis in the short, medium and long term?
- ▶ Will historical ways of working be appropriate or should they change?
- ▶ Will your target markets continue to require your products or services at pre-crisis levels?
- ▶ Should you consider additional or alternative markets or services?
- ▶ Is your service delivery model appropriate?

3. AN OPERATIONS PLAN

As part of the base case strategic plan development process, it will be necessary to consider if changes to the operational aspect of the business are required. The focus of this will be on cost reduction and performance improvement actions to support the business through the resilience stage and positioning it to capitalise on opportunities of the realise stage. Operational activities may include implementing new ways of working, reconfiguring the operational footprint and, if necessary, a closure of parts of the business. A detailed operations plan will be required to provide a basis as to how and when the cost reduction and performance improvement actions will be implemented and when the associated benefits will be delivered.

Key questions to address in developing an operations plan:

- ▶ Is your operating model appropriate to deliver your strategic plan?
- ▶ How will you revert to normal working patterns and at what rate?
- ▶ In what order should you restart operations to minimise disruption and risk?
- ▶ How long will it take for your supply chain to recover and are your supplier agreements appropriate?
- ▶ Do you have sufficient stock to service your customers?
- ▶ What is an appropriate operational footprint for the business as it progresses through the recover stage and beyond?
- ▶ Have you considered the impact of abnormal levels of absence due to COVID-19 on resource planning?
- ▶ What is the appropriate level of resourcing as recovery progresses?
- ▶ How will you measure progress and risks?

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4. AN INTEGRATED FINANCIAL FORECAST

The base case strategic plan should be modelled in an integrated financial forecast in order to fully understand the associated financial implications and the quantum/timing of any funding requirement. The forecast should also incorporate operational cost reduction/performance improvement plan activities where they are relevant to the forecast period.

In addition to the base case, realistic alternative scenarios should be modelled so that any significant financial implications can be understood and contingency plans developed if necessary.

The forecasting process should not be a static, one-off exercise, but rather a dynamic tool used to support decision making as the business navigates its recovery.

A robust integrated financial forecast should:

- ▶ Include trading, balance sheet and cash flow statements
- ▶ Cover a forecasting period of at least the next 12 months, and ideally a 24 month, period on a monthly basis
- ▶ Be prepared with input from finance, operational and commercial teams
- ▶ Model different financial and operational scenarios considered appropriate by the business
- ▶ Be updated as frequently as necessary to reflect changing conditions in the commercial and operational environment.

5. A FUNDING REVIEW

The integrated financial forecasts may indicate a funding requirement to support the implementation of the base case strategic plan. Where this is the case, a funding review should be performed which takes a structured approach in considering the available funding options and ensuring the business secures the sources of finance it requires. The focus of a funding review should initially be on internal sources of funding (i.e. working capital improvements), followed by potential creditor payment plans and available debt or equity sources.

Key considerations as part of a funding review:

- ▶ Is there excess stock and debtors which can quickly be converted into cash?
- ▶ Do you have leverage with key customers/clients to negotiate more favorable payment terms?
- ▶ Can you review your supplier payment term model and/or discuss payment plans to avoid excess cash outflows?
- ▶ Do you have a robust credit risk management policy and does this need updating?
- ▶ Is there scope to agree/revise a time to pay arrangement with HMRC?
- ▶ Is there scope to discuss funding arrangements with the pension scheme?
- ▶ Are existing lenders supportive of the business and would they potentially be willing to increase their exposure to fund the strategy?
- ▶ Are there potential new lenders, including asset based lenders or specialist debt funds, who may be interested in funding the business?
- ▶ Would Private Equity (PE) funds be interested in investing, by way of equity and debt, in the business?

6. CONTINGENCY PLANNING

Uncertainty is anticipated to be a significant feature during the recovery period and there may be a risk that the strategic plan cannot be delivered and/or the business cannot access the required levels of funding. Given this, we recommend businesses develop contingency plans which could be implemented if required.

Key questions to ask in developing a contingency plan:

- ▶ Is the business capable of turnaround and would a voluntary arrangement with creditors support this?
- ▶ Could parts of the business be carved out and sold – either through a normal M&A process or an accelerated special situations process?
- ▶ Could loss making parts of the business which cannot be turned around be wound down easily, either in a solvent or insolvent manner?
- ▶ Are directors aware of their duties in the event that the business becomes insolvent?

COVID-19: HOW BDO CAN HELP

STAKEHOLDER MANAGEMENT

In any recovery situation stakeholder management is critical to success, whether that be important clients, trade suppliers, secured lenders, employees, management teams or shareholders.

Having a structured restructuring plan which sets your recovery strategy clearly should help you to garner the support and buy-in of parties who will be critical to the implementation of the plan and therefore longer term success of the business. The plan should highlight areas where support from third party stakeholders is needed and how that feeds into the overall strategy.

IMPLEMENTATION

Successful implementation of the recovery plan will require key stakeholder alignment. This alignment should be sought as the plans are being developed. Ongoing monitoring of the progress to the plan should be performed at least monthly and if necessary at more frequent intervals.

In the event that performance is not in line with the plan, then boards and management team will need to determine what actions are necessary to improve performance, whether the recovery plan needs to be updated in light of new market and operational intelligence, or if a contingency plan needs to be implemented.

HOW BDO CAN HELP

We have the experience and capability to develop a robust and agile plan that will support you on your road to recovery, incorporating key financial, operational and organisational elements. Our multi-disciplined team work with you to develop a recovery plan that identifies and assesses potential options, opportunities and risks at each fork in the road.

The impact of COVID-19 on any individual business will be specific to that business, depending on its size, operational footprint, sector and geography. At BDO we have a broad team who can support your recovery. From operational improvement and effectiveness to insolvency, debt advisory, and the sale of part or all of a business, our specialist teams are available to help. We can also assist in accessing Government support packages.

We set out here the contact details of key members of the team who will be able to help, or ensure that you are put in touch with the right person. Where more than one individual or team has the necessary knowledge and expertise then they can be the key point of contact to help you navigate through this difficult period.

Whatever your situation, we are here to support and help.



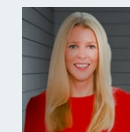
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COVID-19: ADDITIONAL SUPPORT

There are many sources of advice and support available to you at this time:



For a more detailed assessment and review of your current options please visit the BDO [Coronavirus \(COVID-19\) Hub](#) which is updated daily.



Alternatively, click here to contact our **National COVID-19 Taskforce** who will be able to put you in touch with the right sector and technical experts to help you assess your options at this time.



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Government advice is also directly available from a number of business-focused websites.

- ▶ [Coronavirus business support](#)
- ▶ [Retail, Hospitality and Leisure business advice](#)
- ▶ [Employers and Business Owners advice](#)
- ▶ [The British Business Bank Loan Scheme](#)
- ▶ [The Bank of England Corporate Financing Facility](#)



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