

Small Businesses

The Day After Covid-19

One day soon, the lockdown will be lifted and we will go back to work.

In this article I will try to cover two outcomes. One to help you continue and run your business and the other is what you should consider if you need to shut it down.



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By: [Tomer Spitkowski](#)

As entrepreneurs and small business owners, we are always worried about the future. How do we grow our business? How will we get more customers and income? How are we going to pay our staff, the bills our expenses, and also ourselves (last of course)?

This used to be our day to day in normal times and I'm sure, like me, despite trying to prepare for changes in the market, none of us could have been prepared for what just happened. These are unprecedented times and the situation isn't like any other crisis we have ever experienced.

The actual shutting down of the country for an unknown amount of time will take its toll on us all.

I don't know if the decisions taken by the UK or any other government were right or wrong, only time will tell. This article isn't about trying to compare the importance of preserving a single person's life vs. the need to save a single job. All I am trying to highlight is that there will be a time when everything reopens and we will need to deal with the consequences, whatever they might be.

As a business owner, you must start to think about what you will do the day after COVID-19

I think that at this point, it's impossible to predict what will happen. None of us know how consumer behaviour will change. It is also hard to predict, even in the B to B market, how the behaviour of our existing customers will change and how many of them will be able to weather the storm and survive.

What I am 100% certain of is that each of us, business owners, will need to change and adapt to survive and even with the best efforts, not all of our businesses will.

In this article I will try to cover two outcomes. One to help us continue and run our business and the other is what to consider if we need to shut it down.



What do I need to do to preserve my business?

I wish we could all wave a magic wand and turn everything back to normal. All businesses will reopen again, our customers will go back to their previous behaviour and all will be just as it was. This is, however, wishful thinking.

Too many people lost their jobs. Too many people are afraid for their health and income. Too many people will be more careful with their expenses and many small businesses won't be able to survive the loss of income.

Even the blessed attempts by governments (different solutions in different countries) will only help or save some of the business. Many businesses that were struggling with cashflow before, won't make it and even healthy businesses will need to adapt in order to survive.

So, what is it that we can do? here are some ideas and insights:

- **Manage your Cashflow** – The single main reason most businesses fail is a negative cashflow. It's not the sales or the marketing and not even the customers. It's the attention to a positive cashflow in your business. When you think about it, it's extremely simple. The amount of money coming in needs to exceed the amount of money going out. The issue is, that most of the time, we are so busy running the business and thinking about so many things that we neglect to check and monitor this single most important item. Let me reiterate, more money needs to come in than go out. So, the first task you must perform, the day you reopen your business, is to figure out what your cashflow looks like and what you need to do to make it positive. I know it's going to be hard to predict the income, but I advise you to do the best you can, and I suggest you create 3 scenarios: best case, most likely and worst case. While it's ok to base your plans on the most likely and keep the "best case" as an upside, you must also plan for the worst case. You need to know what you are going to do if this scenario materialises.

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- **Focus on profit, not income**– Your income is coming from your customers and clients. Now is exactly the time to think about them. Unfortunately, when I say, “think about them”, it doesn’t necessarily mean give them everything they want or “the customer is always right”. I suggest you think about them in a little selfish way (don’t worry, they will benefit from that in the end because they’ll continue to enjoy your products and services).
Try to identify who your best customers are, and when I say best, in this perspective, I mean who are the customers that give you, not the most amount of money, but are the most profitable. Remember, we are trying to survive, and we can’t afford to be nice to everyone. If you are selling to the mass market, this advice might not be relevant but many small businesses have only few tens or few hundred customers and you need to know who your profitable customers are. If you have customers you serve for “strategic reasons”, it might be time to let them go. Many of you know that, in most cases, a “strategic customer” is a customer you are losing money on, in the hope that one day he will become profitable. Well, right now you can’t afford hope. If you are losing money on a customer, either turn it around immediately or stop providing them your service or product. Yes, it will decrease your income, but it will increase your profit and cash flow, and this is what is most important right now. I want to be very clear on this point. In a survival situation, the size of your income is less important than cash flowing into your bank account. If you don’t increase the cashflow, you will become insolvent and need to close down the company.
- **Monitor your expenses** – If you still haven’t spent the time to think how you can decrease your expenses, there’s no better time to do it than now. As you know there are 2 kinds of expenses; fixed and variable. We tend to think in the following way:
 - Fixed expenses – rent, insurance, taxes, interest, bank costs, overheads and administrative salaries, etc.
 - Variable expenses – direct materials, direct labour (sometimes), sales and marketing, etc.

Well, you naturally feel that you can control the variable expenses and change them in accordance to your needs, but you can’t change the fixed expenses.

Let me tell you what I think about this, fixed expenses are fixed only in one place and that is in your mind. Do you really think you can’t contact your landlord and ask him to reduce or postpone the rent for a short period of time? well, I am a landlord, as well as a business owner, and I can tell you I would rather help my tenant than lose him. Also, we know that the government in the UK is already trying to help by waiving business rates, and I hope other countries will do the same, but if your government didn’t take that step, do you really think if you approached the council they wouldn’t take the current situation into consideration? I am almost 100% sure they will, and they will try to help.

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The same approach should be taken with utility companies. Just speak with them to see how they can assist. Remember, we are all in this together.

On top of this, it's now time to eliminate all the unneeded expenses; the subscriptions you forgot about, the service you don't really need and more. Here is a simple way to do it. Just go to your business bank account and cancel all direct debits. You will immediately get calls and letters from your providers asking you to renew them. I am almost certain there will be a few providers you simply forgot you're paying for, and these will be the ones you should cancel. So, my biggest advice here is to try to minimise your expenses and remember that fixed expenses or only fixed in your mind.

- **Your staff** – I gave a lot of thought before writing this part, as one might think it's inappropriate or inconsiderate. Let me start by saying that I truly believe that your staff is indeed the biggest asset your business has. Your business can't survive or thrive without them and you should give a significant amount of thought before you lay someone off, especially in these hard times. However, you have to consider two things:
 - Do you have the right people?
 - Can you afford to maintain your entire team?

The first question is extremely important. In normal times, you hire people out of necessity and need, and sometimes, they turn out to be not exactly what you needed or what you wanted. However, in many cases you would still keep them. Well, these aren't normal times and you need the best employees on your side to help you survive. So now, it's time to look again at every staff member you have and decided whether you should keep them or not. If you decide someone needs to be replaced, be determined and decisive and do it right away.

A lot of great people are going to be out of jobs and there's a great opportunity to get those "A" stars you always wanted.

The second question you have to ask yourself is if you can really afford to keep everyone. If you can't, make a quick decision and adjust the size of your team to the company income. Prolonging this decision might be a fatal mistake that can take your entire company down and cause everyone to lose their jobs. It's one of the hardest decisions, as a business owner, to lay people off but sometimes, there's no other choice.

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- **Taking loans and financing** – Yes, your government will try to help. In the UK and the US, steps have already been taken to help small businesses by either giving them loans or trying to reduce or postpone their expenses. However, you must remember one thing. Loans are money given for a period of time. They will have interest and they will need to be paid back. Furthermore, even if the loans are backed by the government, it's very likely that banks will still ask for securities and personal guaranties. So, I urge you to think carefully before you commit all of these to your business. There are ways to protect yourself and your assets such as:
 - Invoicing the assets outside the company and leasing them back to it
 - Get personal guarantee insurance
 - Restructure the company in a way that will protect its assets and allow it to continue to trade

I am now going back to my first point. If you can manage a positive cashflow, control and manage your expenses and communicate well with your customers and debtors, you might be able to avoid the need to take further loans and create a future burden on your company. However, please consider the risk in giving personal guarantees, especially if you are close to retirement. Is it really worth risking your personal assets, you've worked so many years to accumulate, in an attempt to save a business that might not be salvageable?



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What if I can't continue?

So, you have done everything you possibly could and still, it's not enough. You understand that your business, the way it is currently structured and the way it is trading simply can't recover. What's next?

It takes an entrepreneur and a business owner to understand what I am about to say. Only they know how hard it is. The sleepless nights, the turning and twisting in bed being worried about the business, the money and the burden of responsibility, knowing that so many people rely on you. However, no matter how much you've tried and how hard you've worked, sometimes, you realise that the business just can't survive.

It was Nicholas Murray Butler, the President of Columbia University, in 1911 that said "I weigh my words, when I say that in my judgment the limited liability corporation is the greatest single discovery of modern times, whether you judge it by its social, by its ethical, by its industrial or, in the long run...."

It is important that you remember, your company is an entity of its own, it isn't you.

I'd like to share with you that even when you truly believe there's nothing more you can do, there are more options out there and you should consider the following before you decide to close the company:

- Maybe there's not much you can do but someone else can come up with a fresh view or different knowledge that, when utilised, can turn the situation around.
- Do you really know how to protect the staff and the remaining assets in such situation? Perhaps someone can help do so. Contacting an insolvency practitioner might seem like the next best step but much can be done before that.
- Is there a right and a wrong way to put the company into administration or wind it up?
- Is it worth trying to sell whatever's left of the company, and have someone else save your legacy or even shut it down and deal with this stressful situation?

The answer to all these questions is probably, yes. However, when you come to the point where you feel the end of your company is close, you seldom think about these questions.

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The truth is that even when you feel you are out of options, actually, there are many things that can still be done. Here are just a few options:

- You can merge your company with another company and create efficiencies you couldn't achieve on your own.
- You can partner with someone that can take a fresh view on the problems and come up with ideas you haven't thought about.
- You can sell your company, even for a nominal figure and have the new owner take the steps you might have found very hard to do
- You might be able to restructure the company in a way that will save it and give it new life. You just need to know how to do it.
- Even if you signed personal guarantees, there might be ways to cancel or minimise them.

You 'll be surprised to know that some or all of these things can be done, but you might need help taking the appropriate steps. Choosing the right option is crucial. Your decision might be different if the business is young and you have a lot of energy and stamina or if you've worked in the business for many years and was considering retiring soon. If the first applies, you might be the solution while if the latter is the case, it might be best for someone else to take over.

I am writing this article in the UK and subject to the UK's rules so this part might be different in other countries, however, please remember that as a director of a business, you have feudatory responsibility to the company. Any step you take and any decision you make will be carefully looked at if your company goes bust. You have to consider at least these few things:

- You are obligated to promote the success of the company – every decision you make needs to be subject to this.
- Avoid conflicts of interest – your decisions must be perceived to be fair and unbiased. You aren't allowed to favour one debtor over the other, especially not yourself.
- If the company becomes insolvent, it can't continue to trade. If you become aware of this situation, it is your duty to stop its trading.
- There are many more duties for you as a director and it's important that you learn the rules in your own country if you aren't already familiar with them.

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As long as you follow the rules and do everything in the best interest of the company, you are protected by the limited structure of your company.

To summarise, time isn't on your side. Whether you can save your business or if you need to close it, decisions must be made now, and preparations must be made for each scenario. I wish I could believe that the government will save your business, but my experience taught me that it is more up to you than anyone else.



About Tomer

Tomer Spitkowski is an angel investor, and entrepreneur, a speaker and a property investor. He led companies as a CEO, President and an executive and invests in the UK property market, as well as buy and consult to small businesses in the UK.

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