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BUSINESS STRATEGY

MANAGING A BUSINESS FOLLOWING A CRISIS

QUICK GUIDE

MANAGING A BUSINESS FOLLOWING A CRISIS

Getting back to business

Following a disaster, it is anything but 'business as usual' for you, your employees and customers, but the faster you can return your business to some level of normal operations, the quicker you can restore your income, jobs and the goods and services you supply to your customers.

The time it takes for a business to return to something like normal operating levels depends on a number of key issues:

- Overall damage assessment – whether you can trade from your existing premises, and what stock, supplies, equipment and other key assets that are recoverable or not recoverable.
- Your insurance coverage and how quickly your claim can be processed.
- Any government assistance you can access.
- Communication with employees, customers and suppliers.
- An assessment of the business' financial position.
- Developing a plan to reopen your business.

Evaluating your financial position

Businesses affected by a disaster should take the time to evaluate their financial position before making decisions on whether to reopen their business and, if so, how they should operate in the new environment. Important considerations to bear in mind in evaluating the financial position of your business include:

- The business may have substantial outgoings before you can restart trading, therefore you need to know how you are going to pay for such outgoings and if the expenditure is even possible.
- there may be a significant period before the business can restart trading, therefore you may have to rely on existing sources of cash and other assistance until that time.
- determining your financial position can assist you to make claims for insurance such as business interruption insurance, which will also help you decide which direction you want to take your business.

To evaluate the financial position, the first step is to attempt to reconstruct your financial records. The initial focus of reconstructing accounts is to determine the cash position of the business, including cash at bank, plus any cash inflows (from existing debtors that are recoverable, insurance payouts, government assistance and other sources), less any cash out flows (such as payments to suppliers, staff, loan repayments and other payments).

Recovery planning

Once you have established your financial position, you will have more information around how and when to reopen. The next step in re-opening your business is to develop a recovery plan.

A recovery plan should state what the business needs to re-open, such as processes and resources critical to re-opening, and your recovery objectives detailing the actions needed to achieve the objectives and who is responsible for those actions.

Such a plan, together with cashflow forecasts and profit and loss forecasts, will help you determine whether it is viable to re-open and how the business is going to finance the re-opening.

In developing such a plan, it may be very difficult to make assumptions in a post-disaster environment – past experiences may no longer be relevant and the market may have changed significantly, at least in the short

term. Therefore, it is important to reanalyse your market taking the new conditions into consideration.

If financing the planned re-opening looks too difficult or unachievable, the plan may have to be modified or you may need to consider exiting the business.

Steps to getting back to business

Checklist for re-opening your business after a disaster

Different businesses will be affected by a disaster in different ways. This checklist is aimed to assist businesses that have been directly affected by a disaster. It will lead you through some of the many issues you will need to consider before and after re-opening your business.

Mark with a 'Yes' or 'No' when you have considered a question or tick where you have acted upon a question.

Preliminary Assessment	
<i>Should you re-open your business?</i>	
Were you happy running the business before the disaster?	
Were you making the profit you wanted?	
Do you prefer being your own boss?	
Have you considered other opportunities?	
Are you prepared for the potential extra demands that recovering your business will place on you, both personally and financially?	
<i>Have you done an assessment of the damage?</i>	
Are your premises operational?	
Can you recommence trading from your premises without significant repairs?	
Is any of your stock, supplies and equipment recoverable?	
Have any of your staff been affected by the disaster?	
<i>What are your chances for future success?</i>	
Have you analysed the potential demand for your product or services post disaster?	
Have any of your key customers and/or suppliers been affected by the disaster, and if so, how will this impact your business?	
Has the disaster led to other businesses in your area closing and if so, have you determined how this may impact your business?	
Preliminary actions	
<i>Have you contacted your insurer?</i>	
Have you give your insurer your preliminary damage assessment?	
Has your insurer been able to tell you what your insurance payout is likely to be, when it will be made and whether it will be in the form of cash or asset replacement or a mix of both?	
<i>Have you contacted your staff and other key stakeholders?</i>	
Are you keeping staff and stakeholders, including key customers, suppliers and lenders informed of what you are doing?	
Do you need to disengage staff for the time being? Seek advice from The Chamber before you do.	
Do you need to postpone purchasing supplies for the time being?	
Can you cancel orders that you have made?	
If customers have ordered stock and it is lost or you cannot supply at this time, have you informed those customers?	
Financial position of the business	
<i>What is the current financial position of your business?</i>	
Have you reconstructed the financial records of your business?	
If you cannot fully reconstruct your accounts, do you have access to historical financial	

statements or industry benchmarks?	
Have you determined how much cash your business has currently available by creating a cash flow statement?	
Have you created a balance sheet and a profit and loss statement from the beginning of the current financial year to the time of the disaster?	
Have you used the information in the cash flow statement, profit and loss statement and balance sheet to analyse the financial health of your business at the current point in time?	
Recovery plan	
<i>Questions to consider in creating a recovery plan include:</i>	
Have you considered and noted your recovery objectives, actions and priorities?	
Have you established a recovery team with clear responsibilities from the recovery plan?	
Can you support such team members working off-site?	
Are you aware of all the requirements to re-open the doors for business?	
Do you need to arrange for the short-term lease of essential equipment until they can be replaced?	
Do you have adequate resources (staff, finances, etc.) to bring the business up to normal operating levels or to a level you want or to the level that reflects the current market conditions?	
Have you costed your recovery plan?	
Can you afford this plan?	
Do you have a marketing strategy to promote that you are open for business?	
Have you incorporated your lessons from running your business prior to the disaster (good and bad) in your recovery plan?	
Have you incorporated your analysis of the market conditions post the disaster in your recovery plan?	
Does the recovery plan reflect your financial goals (for example the profit, net profit margin or return on investment you want to achieve)?	
<i>Have you considered the following as part of your recovery plan?</i>	
Addition of new product lines or removal of existing product lines?	
Addition of new services or a reduction of services?	
Reducing operating costs?	
Adoption of new technologies and processes?	
Relocation?	

Re-opening your business

There are a number of key elements that you need to give serious consideration to and ensure you establish some processes around for the re-opening of your business.

Finance

As part of the planning process analyse the financial health of your business. This will allow you to determine whether it is financially viable for you to re-open your business, and also assist with finding areas where the business can be improved and where your business was doing well before the disaster.

Financial ratio analysis is a common method used to analyse the financial health of a business, and in normal circumstances, predicting the potential for success or failure and progress of a business. However, due to the changed circumstances after a disaster, this type of analysis may not be effective in predicting future trends, particularly if the disaster has been reasonably widespread, in which case the overall economic impact will impact the business environment for some time. This will need to be taken into account with assessing the future viability of your business.

Using financial ratio analysis will however be useful to spot any trends that were emerging in your business prior to the disaster and to compare how your business performed against similar businesses in the same

industry. This information can then be used to help plan how your business should ideally operate after you re-open it.

Can you afford to reopen your business?	
Have you completed cash flow and profit and loss forecasts?	
Have you used these forecasts to run 'what if' scenarios to measure how your cash flows will be impacted by unexpected events?	
Do you intend to fund the re-opening of your business from existing sources from the business, your own resources, other investors and banks and other lenders or a mix?	
Do the forecasts and your financial statements show whether the business can afford to use internal or external sources of finance to fund the re-opening?	
If not, can you adjust your recovery plan so that it is affordable?	
If you cannot afford your recovery plan, have you considered exiting your business?	
Where the business has existing debt financing arrangements, have these been reviewed to ensure that the finance facility and structure fits the new needs of the business?	
Sources of finance	
Even if you can fund the re-opening of the business from existing sources, have you analysed whether it is better to use external sources of finance?	
If you are seeking debt finance, have you spoken to your bank about your recovery plan and your funding needs?	
What existing lines of credit does the business have access to and can these lines of credit be accessed to fund the re-opening of your business?	
If you do seek debt finance, what security does the business now have available?	
If you are seeking debt finance, have you determined the amount, the term and the reason you are seeking the money (e.g. to fund stock purchases or buy equipment)?	

Tips for improving the financial position of your business.

The importance of financial management cannot be over emphasised, especially when business conditions become difficult. While profits may be the measure of success, it is cash that determines business survival. There are a number of ways you can look at improving the cash position of your business:

1. Convert your customers' outstanding debt into cash.
2. Prepare regular cash flow forecasts. If your business is having cash flow difficulties, you should be preparing forecasts regularly as they will show the likely extent of any crisis, and how long it might last.
3. Keep an eye on your entire cash cycle. If you are in a difficult cash position, skew promotions towards those services or products which consume less resources or which can be turned into cash more quickly, but don't undersell your products or services.
4. Measure and reward the right behaviour in your staff. For example, sales commission should only be paid on receipt of payment, not when a credit sale is made. This will encourage sales staff to focus on making sales to customers who are most likely to pay.
5. Make full use of your terms of trade as this amounts to an interest-free loan. Don't pay your suppliers too early or outside their agreed trading terms. Be seen as a solid, dependable customer, as this will give you better scope for negotiating deals and favourable trading terms.
6. Don't let personal drawings get out of hand. Ideally, only take a modest but regular wage or drawing, and leave the remaining cash in the business.
7. Keep any fringe benefits or withdrawals of stock to a minimum.
8. Don't hide your problems from your bank. Keep the lines of communication open. Demonstrate that you are on top of your business and understand your cash flow. Show you can provide financial information if you need to ask for temporary relief on loans

Ideas to improve the profitability of your business:

1. A profitable business is generally a successful business and your margin is a measure of that success.
2. Prepare financial statements on a regular basis. They will give you the information you need to determine your overall profit margin, where costs can be saved, be used to determine the margin on individual items of stock and to compare how your business is performing against industry averages.

3. Focus on boosting profit. Retained profit is an important source of cash to meet your obligations and it can also be used for investment. To maximise profit, you need to focus on sales that give you the highest margin, not just 'sales'. The only exception to this rule is when you deliberately set out to achieve another aim, such as disposing of dead stock to make way for profitable stock.
4. If possible, don't discount prices on lower margin products or services. Use an alternative strategy, such as bundling in support services for a higher price. This is an especially valuable strategy with slow moving lines as it justifies the investment in them.
5. Understand the profit contributions of each of your products, and your main customers. This will show you where to best focus your efforts and identify opportunities for improvement.
6. Don't discount unless you can achieve the same or better gross profit margin. It may require large increases in sales to generate the same amount in gross profit. While some price discounting may be required to get shoppers' attention, a much better approach is to deliver the discount through, for example, an add-on product. This should deliver more dollars of gross profit to the business.

Operational requirements

There are a range of operational aspects, from location, to leases, to equipment, to actual daily operations, that you need consider as part of your reopening strategy.

Mark with a 'Yes', 'No', or 'Action'.

Location	
Given the potential changed market conditions, is your business premises situated in the right location?	
Are there any plans by local government or others that may impact the viability of the location of your business, such as changes that may restrict access?	
Have other businesses re-opened or are going to re-open in your area?	
Is the size of your premises too large or small given the future potential of your business?	
Lease and tenancy agreements	
Is the property no longer habitable? Or is the property un-tenantable?	
Do you have a standard Auckland District Law Society [ADLS] lease?	
Are you able to still pay your rent?	
Major equipment	
Do you still have the plant and equipment your business needs to restart?	
If not, will you receive equipment or money to purchase new from your insurer or will you have to finance the purchase of this equipment yourself?	
If you have to purchase the equipment yourself, have you analysed whether it is better to pay for, lease or hire purchase the equipment?	
Is the purchase of the equipment (including maintenance costs and insurance) justified given the possible changed market conditions?	
Is the necessary expertise readily available to install the equipment?	
Inventory	
If stock or supplies are to be replaced, have you reviewed historical information to see which stock is slow-moving?	
For stock identified as slow-moving, have you considered removing this from your range?	
Have you made an assessment of whether the changed market conditions will impact upon the buying patterns of your customers?	
Marketing	
Do you intend to advertise that your business has re-opened?	
Is there any promotion of your local area by government and others?	
Are you able to collaborate with others in your local area to market and attract customers back?	

Pricing	
Have you undertaken a break-even analysis to determine whether the prices you charge are making the profit you want to achieve?	
Have you compared your pricing to your competitors?	
Staffing	
Are your existing staff still willing and able to work for you?	
Are you able to pay your staff?	
Can the staff assist with the re-opening of the business?	
Has the potential changed market conditions (possible falling demand) impacted on your ability to retain your existing staff on the hours they previously worked?	
Business licences and supplier contracts	
If you lost copies of your business registration certificates, licenses and other official documents necessary to operate your business, have you approached the relevant agency to get them replaced?	
Have you made contact with your suppliers and kept them up-to-date? You may need to postpone deliveries or even cancel orders; either way keep the communication lines open.	
Have you reviewed the contractual terms of your business to ensure you understand the legal status of the various clauses for you, your customers and your suppliers?	
Have you considered rewarding those suppliers/customers that were loyal and supported you while you were unable to operate?	
Record keeping	
Have you considered what accounting system are you going to use or continue to use to keep the financial records up-to-date?	
Are there any improvements you can make to your record keeping system, such as keeping backups of your financial system offsite?	
Meeting statutory obligations	
What statutory obligations do you need to meet, such as lodging a tax return?	
Have the requirements to lodge and pay such returns/forms/obligations been delayed?	
Have your reconstructed financial records given you the necessary information and evidence to be able to complete such returns?	
Thanking everyone	
Have you thanked everyone involved in assisting you?	

Points to remember in the future

- Paying staff - bear in mind that in most cases employers will have a duty to pay employees even if they have been prevented from working. The determining factor is whether they are ready and willing to work, if so they must be paid (check their employment agreements). If you are not financially able to pay your employees both parties will need to agree to a temporary discontinuance of work where wages need not be paid. Discuss the option of employees consenting to annual leave, and if unable to agree, that you require annual leave to be taken with 14 days' notice in writing. The key here is open communication with your staff and seek advice if you are unsure of what to do.
- Have you considered putting in place a business continuity plan to help you in case you go through another disaster?
- Have you reviewed your insurance policies to see whether they are adequate and whether there are any gaps in your insurance coverage?
- Always remember to keep your own record of damage, use photographs or video to record accurately.
- Suspend and reduce non-essential outgoings as this will aid your cash flow recovery and also help you decide whether you need to carry on with these expenses in the future.
- Consider a contingency fund once you are back up and running, to cover insurance excesses and employee wages and outgoings to cover 3-6months should any disasters happen again.

- Keep your bank, accountant, lawyer, insurer and tax agent up-to-date with what is happening with your business to assist with maintaining an open and communicative relationship with them.

Reconstructing your financial records after a disaster

One of the first business steps you should take after a disaster is to attempt to reconstruct your financial accounts. Such reconstructed financial records will give you much of the information you need to make decisions on the future of your business.

If you have not been able to salvage your financial records, your first step to reconstructing your financial records is to seek evidence of past financial transactions. Such evidence will provide the base upon which you or your accountant can begin reconstructing your financial records.

The main source of such evidence will be from the business' own records. Where such records no longer exist or are incomplete, examples of other sources of such evidence include:

Inland Revenue Department

Prior income tax returns, Business Activity Statements, Fringe Benefit Tax returns, PAYE Annual Statements, Employer Declarations, Payroll Tax returns, etc.

Accountant and financial adviser

Your accountant and financial adviser may have copies of financial statements and tax returns for your business.

Off site sources

Check whether there are any files kept off site, for example, where activities are outsourced e.g. IT, payroll, etc. In such a situation, the service provider may have information still on file.

Ask staff whether they have records off site, for example, emails and other documents in their computer, memory sticks and other electronic storage devices etc.

Check with your off-site IT back up system provider as often their premises are designed for this very reason or can be hosted away from the disaster area.

Banks, credit unions and building societies

Past bank statements provide a great resource. For example, they may assist you to remember or allow you to take a good guess at many of the transactions through your account, even though the primary records of the transactions are gone. Banks can charge for replacement statements, however they may waive such fees following a significant disaster.

Surviving files

See if any files, including electronic files can be recovered from the disaster. For electronic files, even though the hard drive may look bad, experts may be able to recover the data. Whether this is undertaken will likely depend on how valuable the data is and whether the data can be sourced from elsewhere.

Lender

Where you have borrowed money from a bank or other lending institution, speak to that institution to determine what files they have. Banks may undertake an annual review of the business, for which they will have been provided by you with financial information, thus they should have on file your financial statements and forecasts.

Customers and suppliers

Customers and suppliers may have invoices, remittance advices, purchase orders, receipts etc that they may share.

The New Zealand Securities and Investments Commission

If the accounts are audited, the audited accounts may have been lodged with NZSIC. Check with your auditor.

Auditors

If the accounts are audited, the auditors may be able to provide copies of work papers and other records obtained during the audit.

Insurer

Speak to your insurer, as your insurer may have a list of the assets owned by the business (if provided by you at an earlier date).

Other government agencies

If your business has received government funding/grants, the awarding government agency may have records of the funding and how it was used.

Accreditation or certification bodies

If your business is subject to any other form of audit, certification or accreditation of your activities then they may have records that could be used.

Titles Office

The Titles Office should have copies of legal titles to your properties.

Lawyers and finance companies

They may have copies of contracts that the business has entered in to (including hire purchase agreements, lease agreements etc).

Email correspondence

Your business, your Internet Service Provider (ISP) or your staff may have copies of emails and documents forwarded to clients, suppliers and other relevant parties. This will also have the additional benefit of assisting with the reconstruction of a contact list if not backed up. If a blackberry/PDA is used, then significant data may be recoverable from this.

Share registries

Where the business owns publicly traded securities this information will be available from share registries.

Where it is not possible to fully reconstruct financial records, the information you have been able to find plus your knowledge of the business should give you a fairly comprehensive approximation of the financial position of your business.

If that is not successful, a potential solution may be to apply industry benchmarks to the information you have been able to reconstruct.

As well as reconstruction of records, and if not already considered, it will be worth putting in place temporary measures for the recovery phase to record current activities and transactions, help manage cash flows and enable you to work easily with key clients, suppliers and government agencies.

Following the reconstruction of financial records, you will be able to evaluate your financial position and from there, consider if, how and when to re-establish your business and relevant financing requirements.

Risk Management

Business difficulties can be caused by a range of external factors such as a fall in consumer sentiment, rising fuel prices, customers moving to competitors, difficulty accessing finance or increasing interest rates; or they could be caused by internal factors such as poor risk management, failure to manage cash flow properly or because of a margin squeeze.

Regardless of the causes, small businesses need to take action when the going gets tough. While there is no single cure-all, there are many steps a business owner can take to manage through the difficult times and position the business for future growth.

Some tips and suggestions for taking stock of your business

Adopting a risk management mind-set is the key. The first step is to take stock.

Business owners need to identify and manage any weaknesses in their business or their industry's performance, while not being blinded to any new opportunities that might emerge.

To enable you to take stock of your business, ensure that you:

- Understand your customers – their requirements and behaviours, and why they come to you.
- Have a thorough understanding of your business operations, cash flow and key performance indicators.
- Insure your business sufficiently to cover the excess that you cannot afford to carry yourself in a crisis - this may include business continuity insurance or loss of income, as well as building, plant, machinery and stock.
- Protect yourself against loss of data – with most electronic data these days it is vital for your business continuity to ensure you have good data back-up processes in place, and that you have copies of digital files stored off site, so that you can recover this information.
- Measure your business performance constantly and make adjustments as needed.

There are a number of key indicators which will quickly tell you how your business is tracking. They could be as simple as the value of daily sales, or the cash balance or the debtors' balance, or the value of orders and invoices you owe to suppliers. Or they could be an activity indicator such as total billable hours, occupancy or usage factor, the value of bookings for next week or an average sale value. Create a graph showing these indicators and update it daily or at least weekly. It will quickly show you any adverse trends as they emerge.

Make sure that you take action with a purpose and for the right reasons. Develop strategies that aim to boost your cash position and/or profitability [without starving the business of the essential investment in stock or promotion]. Remember - you can be making a profit but still go out of business because you lack sufficient cash. Cash is king.

Keep looking for underlying improvements in the business; don't just cut costs. In this way, your corrective actions will also put your firm on a better footing for longer-term success.

Insurance

This is always a big risk area, as you can easily carry too little insurance to cover all potential losses.

Before you try to get operational again, check with your insurance company **before** you attempt to deal with any repairs as they may assist with an interim payment to enable work to commence.

Find out from your insurer what the process is, for example, when does the loss adjuster visit and what can you claim for or the actions you need to take? Always make your own record of damages using photographic evidence and list the damage to plant and equipment. If you have perishables make a list of those and anything else your fridge/freezer contained and was lost through damage.

Understand your rights and obligations under your insurance policy. Issues you need to consider include:

- When and how operations will be resumed
- Whether advance funds are available or required
- How the elements of loss will be valued, and
- What precisely is covered?
- What your excess is and whether it will apply to each claim following the same disaster.

Collect and preserve all of the data that will be needed to calculate and prove your claim such as:

- Historical sales and costs data

- Information on recent business changes that may have improved business profitability, and
- Accurate records of extra costs incurred as a result of the damage to your property.

Talk to your insurer and loss adjuster to make sure that you agree the way forward as later disagreements can be costly. Legal advice may be useful if there is uncertainty or disagreement about what may be covered.

Change your attitude

Don't just do what you've always done. It is up to you to think about what changes will help you improve your business. This means looking back at what you did last time, and identifying areas of weakness with potential to improve. Remember that what you did last week may well have contributed to the unsatisfactory situation you find yourself in today.

When working through this process, consider new angles on old problems. Work on the parts of the business you can influence, versus those that are immediately out of your control. Put process in place to lessen the effect of the things that you have little control over.

You are part of a business environment, with others trying to do the same as you, so take the opportunity to learn from others in your industry.

Be prepared to be flexible. This is key. Continuing to do the same things is not a good long-term strategy for your business. Become highly adaptable and innovative – set yourself a goal to become your industry leader.

See our Quick Guides on Identifying Your Core Strengths and Staying Fit and Lean to gain further tips on identifying your strengths and weaknesses, and identifying where you can make improvements in your business.

Managing in Times of Financial Difficulty

When your business has suffered as a result of a disaster or some other crisis, finances are bound to suffer for a number of reasons. It is therefore vital to look carefully at your business operations and look at how you can best manage your operations through cost controls, debt minimisation and stock control, and refocus your attention to ways to maximise your sales and cash income.

Controlling costs

Costs need to be controlled to a level consistent with the firm's needs. Don't just cut costs. Longer-term and recurring savings are better than short-term wins. Once the easy savings are made, focus on improving sales and gross profit, as this will have a larger impact on the future success of your firm.

Ways you can look at controlling your costs:

- Identify the expenses that keep you in business. For example, presentation of premises, advertising and promotion, enhancing staff skills. Keep them at sustainable levels.
- Look carefully at your costs, without criticising every individual transaction or usage, as this may become counter-productive as well as time consuming versus actually addressing your current need. Often a review of the business' processes can eliminate the need for certain costs completely. For example, total interest costs might be reduced by negotiating a lower margin with your bank or by reducing the amount of debt being used.
- Measure the success of each promotional activity or campaign. For example, direct response type advertising campaigns (direct mail or emails or coupon ads) are considered more cost effective for the same campaigns than advertisements in papers or magazines and vice versa. Look for ways to measure response. This does not necessarily mean cutting your promotional spending: it just means increasing its efficiency.
- Look at your stock levels. Are you carrying a high inventory of stock that is redundant? If so, put it on sale, so that you can recover your money, and free up valuable space for items that are selling well at a profitable price.
- Be flexible in your staffing arrangements. Review staff availability against customer flows. For example, a core of full-time, permanent staff supplemented by a group of casual or part-time workers

may help you through busy periods. However, make sure you are familiar with appropriate legal requirements.

- Don't forget that your employees are a key resource, especially in today's employment markets. Replacing staff can be very costly, so do not rush out to immediately make staff redundant to suit the current environment, when in a few months' time, when things pick up you may need them again. Use motivation and incentives to create an environment where people want to stay and succeed.

Reduce your customer debt

Keep in regular contact with your customers about unpaid invoices. You would be surprised how many businesses don't chase up late payment. Keep in touch with your customers by asking questions such as:

- Were you happy with the product/service provided?
- Did we provide you with the right paperwork?
- When might we expect to be paid?

This is particularly important if you are discounting sales, as you have less gross profit margin to generate the cash you need to run your business. Here are some tips to help you manage your debtors:

- Negotiate periodic payments if that helps your customer clear overdue amounts. Make sure they stick to their side of the deal - for example, you might accept 90 per cent of the old balance if it's paid by a certain time.
- Perform credit checks and establish and agree on proper commercial terms for future dealings with customers, including realistic credit limits. Some customers may not be worth the effort if they continue to pay late, as they will be adding extra administration costs to your business.
- Make sure your invoicing and debtors are well managed. Don't let poor or sloppy processes, such as not preparing aged debtor reports, contribute to customers delaying payment.
- Encourage your customers to pay immediately with discounts for cash sales, for example.

For further guidance on managing your debt see the Quick Guide on Managing Your Debtors.

Control stock

The essential principle to stock control is to have the right level of stock to satisfy the needs of your customers and to have room for new items.

Keeping stock levels low, but workable to the delivery timeframes of your customers, reduces the amount of money you have tied up in stock, thereby freeing cash for other uses. It also helps to keep your storage and display costs down and reduces your risk of carrying 'unsalable' stock. Below are some tips to assist:

- Get rid of slow-moving and obsolete stock. Either put it all in a clearance bin so you can convert it into cash or write it off and destroy it to clear storage space. Carrying too much stock or dead stock means you are tying up cash.
- Removing the unprofitable stock will help you focus on the stock that generates the cash and the margins that keep you in business.
- Maintain necessary stock to maintain sales momentum and ensure customers are never disappointed over availability of the basic products in your range.
- Tighten the buying of your stock. Knowing the volume sales per stock item will help you buy the right amount. Carrying not enough stock may end up disappointing customers when you run out, while carrying too much means you are tying up valuable cash that could be put to better use.
- Negotiate deals with suppliers but avoid volume-based discounts. When money is tight, there is no point investing in next month's stock without good reason. Instead of volume discounts, try to negotiate discounts for prompt payment (unless your cash position is poor) or negotiate for smaller and more frequent deliveries from your suppliers to smooth out your cash flow.
- Don't let discount prices drive your stock-buying decisions. Buy stock you can sell at a profit in a reasonable time frame.

For further tips on managing your stock see the Quick Guide on Stock and Inventory Control.

Improve sales

Making sales is the reason you are in business. It's therefore important that you ensure that the sales you do make are profitable for you. Focus on the additional profit from sales. Don't think that more discounted sales are the true measure of success. Below are various sales tactics you could use to improve the profitability of your business:

- Don't chase just any sale; chase profitable sales. The only exception to this rule should be when you deliberately set out to achieve another aim such as getting rid of dead stock or building market share.
- Create added value with your offers. For example, provide a gift or bonus with certain purchases, or a discount on a second item, or include a free training session with the purchase of a capital asset such as a photocopier. This tactic is especially effective if you can bundle a slow moving or dead stock item at a discount together with a fully priced fast moving item. You are delivering customer value while making a sale of an item you might not have otherwise sold.
- Encourage companion selling and up-selling by your sales personnel.
- Use in-store signs to highlight the product of the week, or today's special. This is a very low cost way of generating traffic and interest in a retail environment. It might get customers into the habit of coming back tomorrow for the special of the day.

The best run businesses use the above ideas during the good times as well as the bad in order to maximise their profits and minimise risk. Using them can help your business to emerge in a much improved market condition which very likely will lead to long-term growth.

For Sales training check out the Certificate of professional selling [modules 1-6]. These courses offer attendees the chance to learn about the whole selling process; from finding and engaging the prospect through to selling add-ons and time management.

Business Continuity Planning

In the event of a disaster, it is important that core people and core skills are available to keep essential parts of your business operating. The following points are designed to help you to plan for the continuity of your business during and following a crisis.

Identification of core people and core skills

To operate your business even at a reduced capacity will require a certain level of human resource with an essential set of skills. So the first thing you should do is identify what core skills you require to continue to operate your business, and who your key staff are that have these skills.

Issues you may wish to consider in this assessment include:

- What are the 'essential' parts of the business?
- What are the core skills required to keep business running?
- Who are the core people required to keep the essential parts of the business running?
- Who are the core people required to manage the disaster contingency plan?
- Are there sufficient back-ups for core people and skills if there is a high level of absence?
- Are there other resources (e.g. volunteers, retirees) that could be drawn on if necessary?
- Is it possible to co-ordinate/operate your business through a 'virtual office' – that is, remotely, using telephone and email?
- Do you have any systems which rely on periodic physical intervention by key individuals, to keep them going? How long would the system last without attention?

Once the core people and skills are identified, ensure that they are aware of their position and how they will be managed in the event of a crisis or disaster. Consider strategies for minimising the possibility that they become personally or further affected themselves by the crisis or disaster: e.g. working from home even in very early stages of a disaster, or social distancing measures if a pandemic.

If working from home is not a well-established practice in your organisation, you may wish to encourage staff to give it a go, say once a fortnight, to aid familiarity and to help iron out any computer connection/technological/communication issues.

You may wish to have non-essential staff 'stand down' (with appropriate pay arrangements) for a period of time immediate during or after the crisis.

In some crises circumstances employees have the option of leaving their jobs. They also have the right to refuse to perform work if they believe it is likely to lead to their suffering serious harm. Their belief must however be on reasonable grounds, and they must have attempted to resolve the matter with their employer before they can continue to refuse. The right to refuse unsafe work does not apply unless the understood risks of the work have materially increased. To avoid such situations, it is best to have discussions with staff.

Business planning for reduced operations

During a crisis and immediately following you are not likely to be operating at your full capacity for one reason or another. This means you need to plan operationally for the reduce level of activity.

Issues you may wish to consider include in terms of planning for reduced operations include:

- What critical staff numbers and skills are required to keep essential sectors of the business running?
- At what level does business stop?
- What arrangements need to be made to minimise risk to staff?
- Who should make the decision to shut activity down when conditions or staff absence rates threaten safe business continuity?
- Could some, or all, of your business operations shift to having most staff work from home with little warning?

A crisis may affect your local area, or regions of New Zealand and the world differently in terms of severity and duration, with some areas experiencing worse affects than others.

Depending on the crisis, for example a pandemic, businesses with regional offices may need to consider rotating service delivery from hard hit areas to disease-free areas, or areas that have been declared to be in a post-pandemic period. Restrictions on movement of people from region to region may be imposed in a crisis, which may make rotation of staff difficult.

Businesses with overseas offices, or which use services outsourced from overseas (e.g. call centres), may be disproportionately affected, as they may, depending on the type of crisis, be worse affected, or not at all. This needs to be taken into account in terms of service delivery to customers.

As part of your planning, consider your communication needs and how they might be maintained with:

- Other business units in your organisation;
- Government;
- Key suppliers;
- Key customers; and
- Key contractors.

All this key operating and emergency management information will need to be stored in known, accessible and shared locations.

Areas of information to include:

- Company products and services, including the facilities, equipment and processes needed to produce them
- Products and services provided by suppliers
- Operations, equipment and personnel vital to the continued functioning of your business
- Backup systems — including details of arrangements of work outsourced or done offsite, for example:
 - Payroll
 - Communications

- Production
- Customer services
- Shipping and receiving
- Information systems support
- Emergency power
- Recovery support

This information should be stored both on and off site and be accessible for the 'recovery team' to tap in to as required in a crisis. There must be an individual or group in charge of developing the emergency management plan, and to regularly review and update as required.

More Information will be available in Part 2 Planning for a Crisis.

Keeping your business operational

You need to give thought in all your planning as to how shortages of supplies may affect your business operations.

Shortages of supplies may occur because of increased demand during the crisis (i.e. basics like food and water, essential services). You need to ensure that you have adequate availability of essential supplies for your customers, and know how to source more quickly if you need to.

You need to consider that shortages in supplies may occur because of disruptions in transportation systems or inability of suppliers to meet demands because of their own staff availability. Some New Zealand supplies travel considerable distances by truck, train, ship or aircraft, or come from overseas, and are vulnerable to any disruption. Absences of workers/drivers and other transportation staff may affect both the production and delivery of needed supplies. Supply lines may also be affected by mandated or self-imposed travel restrictions (e.g. transporters unwilling to travel through or to affected areas). Discuss with key suppliers a plan for regular shipments in the event of shortages or disruptions in transportation systems.

Collaborate with other businesses

If you are unable to get your business back up and running in a short space of time, you might want to collaborate with other businesses to ensure you don't let your customers down.

For example you could outsource work or orders that you are unable to complete in-house until you are up and running again. Consider forming a partnership with a similar business in another location to ensure you meet business obligations. If your premises are unusable, consider co-locating with another business.

Discuss some options with your staff. They may have some great ideas or solutions to limit the losses in your business, while business mentors are a great way to bounce ideas and see how viable a partnership could be.

For further assistance with your continuity planning see our resources on business planning, planning for change, marketing strategy, communications, customer relationships, and types of insurance.

Exiting your business

Sooner or later most business owners come to a time when they will start to think about moving on and exiting from their business. Regardless of your reasons and the strategy you choose, you will undoubtedly improve your outcome if you seek professional advice along the way.

The reasons why a business may be wound up are many – a crisis or disaster may just bring some of those reasons to the fore.

There are several ways in which you could exit from your business, including:

- Selling your business as a going concern
- Passing your business on to a family member, partner, employee or other stakeholder
- Merging your business with another business

- Closing your business – selling off the assets and cease to trade
- Liquidating – liquidation of your business and selling of the assets
- Forced closure – file for bankruptcy or liquidation.

For further information on options and ways to exit your business see our Quick Guide on Exiting Your Business.
