

Since publishing this article, the world economy has shifted significantly. For up-to-date commentary, please visit bakertillysr.nz/news-hub/covid-19/



Building business resilience to coronavirus

What are your options?

Amid the uncertainty created by the coronavirus (COVID-19), including how long the effects will be felt, it's worthwhile understanding what your options are.



STORY

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“Last week, I would have told you nothing had changed. This week, it has all gone to hell.”

NEW YORK TIMES

If your business is being severely impacted, is it better to restructure now rather than continue to lose money for an unspecified amount of time? Even if your business isn't directly impacted, there are still likely to be implications from the economic fallout coronavirus has created across the globe.

The broader picture

Travel bans. Sporting events cancelled. Large gatherings prohibited. Stock markets in freefall, OCR slashed. Get ready for the COVID-19 global recession.

Up until a month ago this seemed far-fetched. It was assumed that the Coronavirus outbreak would be a localised problem for China and that any spill over effects to the rest of the world could be managed by a bit of policy easing by central banks.

When it became clear that COVID-19 was not confined to China and that the economic effects would be more widespread, forecasts started to be revised down. But central banks, finance ministries and independent economists took comfort from the fact that there would be a sharp but short hit to activity followed by a rapid return to business as usual.

This is similar to what people thought in 2007, when it was initially assumed that the

sub prime mortgage crisis was a minor and manageable problem affecting only the US – that ended well!

The scary thing about COVID-19 from a business perspective is it affects both sides of the economy: supply and demand. The supply of goods and services is impaired because factories and offices are shut and output falls. But demand also falls because consumers stay at home and stop spending, and businesses stop investing.

Despite globalisation, much economic activity remains local but here, too, there will be an impact as people cancel appointments at the dentist, put off having their hair cut and wait to put their house on the market.

In a service-sector dominated economy much of the lost output is never going to be recovered. If people do not go out to their weekly meal at their favourite local restaurant for the next six months they are not going to eat out four times a week when the fear of infection has been lifted.

It also seems likely that the economic pain will go on for longer than originally estimated. Having imposed bans and restrictions, governments and private-sector bodies will be cautious about removing them. Countries such as Italy will be wary of opening their borders while there is a fear of reinfection.

What can you do?

There are several proactive steps you can take to give your business a stronger chance of recovery:

Speak to creditors

Don't suffer in silence. Speak to your bank to investigate options for an overdraft or revised payment terms. You will likely find them more receptive given the nature of the issue, which is beyond any business owner's control. Likewise, ask your landlord about concessions on your rent and discuss repayment options with creditors to provide some relief during the disrupted trading period. The IRD may also be willing to discuss options.

Voluntary administration

There's certainly hope that the situation can be resolved without taking drastic measures. However, should the need arise there are a number of restructuring options such as voluntary administration and formal creditor compromises that can ensure a business survives. These are alternatives to liquidation and provide companies with breathing space to organise and deliver a recovery plan for the business and its creditors.

An ounce of prevention is better than cure

Unlike the situation in the wake of the Christchurch earthquakes, there will be no vast rebuild programme to stimulate the economy again once the coronavirus outbreak has abated. Whatever the future holds, it's up to business owners to be proactive about managing their cashflow and seeking assistance before it becomes too late.

Taking preventive measures early will give your business the best chance of making a full recovery. We will continue to provide material on how your business can weather the storm.

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