



## ***“Batten down the hatches and live to fight another day”* - Reflections from the Front-line and Tips for Owners and Managers from Small & Medium-sized Businesses riding out the Covid-19 Storm.**

Tim Atterton, April 2020.

The saying *“batten down the hatches and live to fight another day”* is attributed to the Nordic Vikings as they traversed the Northern Hemisphere during the 9<sup>th</sup> and 10<sup>th</sup> Centuries seeking new lands to conquer and property to plunder. These Vikings were excellent seafarers and highly-skilled meteorologists; they understood that, more often than not, sunshine follows the rain; and if they could ride out a storm, however severe, then there would soon be a return to blue skies and more favorable conditions. In this vein, here are some personal, experience-based reflections and practical tips for owners and managers from small and medium-sized businesses battling to see through the current Covid-19 hiatus.

1. **Be Decisive.** In terms of critical decision-making, it's vitally important to get on the front foot in so far as possible; or in the current vernacular, get ahead of the curve. Employees and customers alike want their leaders and suppliers to be honest (*‘tell us the truth’*), inspirational (*‘give us hope’*) and competent (*‘do what you promised’*). Both will remember forever how they were treated during the Covid-19 hiatus. During these difficult times, it is important to be bold, resolute and decisive in taking rapid remedial action; introducing on-going crisis management procedures (for example, setting-up a ‘War Cabinet’, see below); and applying steadfast commitment to contingency planning with a view to future-proofing the business. Unfortunately, or more-likely fortunately, Australian businesses do not have as much experience of managing downturns and recessions as many in other parts of the world; as a result, there is a tendency to think that *‘it’ll be alright’*. Indecision, delay and prevarication are the enemy. Day-to-day problem-solving and firefighting are essential and inevitable, but quality time and resources must be devoted to medium and longer-term strategic thinking. It is better to overcompensate now and be wrong than be indecisive and passive and pay a higher, potentially ultimate, price later.
2. **War Cabinets.** One of the main criteria for expanding problem-solving capability and increasing the capacity to innovate within an organization is the need to eliminate *‘group think’*, develop new perspectives and broaden the knowledge and experience base to apply to crisis management. In this respect, mobilize a War Cabinet that meets regularly to address difficult issues as they occur and discuss a range of likely future scenarios that might emerge. On-line meeting platforms like Zoom are excellent in this respect; and it is amazing how quickly their use becomes integrated into standard business practice. Try to expand the group beyond the existing management team to include representatives from a cross-section of the business and across different paygrades; if possible, involve external stakeholders and other outsiders. Remember that it is vital to apply new thinking and identify creative solutions to a situation that has never been faced before. Try to change the rules of the game to reflect the reality of new trading conditions and establish new parameters for competitive advantage. In so far as possible, define a plan that positions the business where you would realistically like it to be at the end of the tunnel. It is useful to try to predict what a ‘new normal’ might look like in the future and work backwards from that position.
3. **Contingency Planning.** Considered strategic ‘crisis’ management, multiple scenario planning and future thinking is the difference between enduring the consequences as the Covid-19 hiatus fades into history and enjoying the future as it unfolds. Mobilize your ‘War Cabinet’ with a clear brief to **gather information, assess the evolving situation and drive action**. Allocate roles and responsibilities to trusted colleagues; continue to gather all available information including invaluable insights from informed employees, key customers and trusted suppliers; pre-determine and document iterative courses of action to be implemented as and when agreed thresholds (‘triggers’) are hit; meet regularly, possibly daily and most likely remotely; keep minutes; and hold individuals accountable for monitoring and responding to changes of circumstances in defined areas of business operations. Endeavor to identify key customers and top talent inside the business that need to be protected at all cost. Importantly, ensure that the business is not over-reliant on tacit knowledge held by key individuals. For whatever reason, these individuals may become unavailable and this knowledge needs to be captured and documented so that it can be accessed by others. It is important to

maintain a degree of flexibility, but contingency planning mitigates against knee-jerk responses and enables rapid and pragmatic actions that are not clouded by emotion and idiosyncratic prejudices.

4. **Communicate Optimism.** Colin Powell (former Commander of the US Armed Forces 1989 and US Secretary of State 2001 – 2005) famously said *“Perpetual Optimist is a force multiplier”*. The ripple effect of a leader's enthusiasm and optimism is awesome; conversely, so is the negative impact of cynicism and pessimism. Employees take their lead from their Boss, line-managers and supervisors; and a pragmatic outlook and attitude that communicates confidence, optimism and the firm belief that we will prevail and emerge successful is a cornerstone of overcoming any crisis.
5. **Be Realistic.** Points 1. to 4. above were brilliantly summarized by Jim Collins in his seminal book *Good to Great* published in 2001. In the book, Collins refers to the Stockdale Paradox viz.: *“You must never confuse faith that you will prevail in the end, which you can never afford to lose, with the discipline to confront the most brutal facts of your current reality, whatever they might be.”* Now, more than ever, business-owners and managers need to embrace the Stockdale Paradox. Tough, business-defining decisions are essential and, paradoxically, the failure to implement necessary hard decisions may well undermine employee's confidence in leadership and management irrespective of the personal implications.
6. **Seize Opportunity.** Every cloud has a silver lining. Henry Ford is attributed to saying that *“Business is never so healthy as when, like a chicken, it must do a certain amount of scratching for what it gets”*. Crises generate opportunities as well as cause problems as they create a new environment where the normal rules of engagement are suspended. This means that people, both inside and outside the business, are much more receptive to difference thinking, change and new ideas. Times of crises are great windows for innovation and re-engineering business models, redefining job-roles, reinvigorating supply chains, reviewing product and services offers, updating systems and processes, reassessing markets & routes to market and all other embedded practices and ways of doing business that may have become moribund, ineffective or even dysfunctional. Darwin's principle of evolution tells us that it is not the most intelligent of the species that will survive, but the most receptive to change. History is littered with examples of businesses that implemented huge change during times of great adversity and emerged much stronger. Indeed, many iconic businesses were founded during times of economic hardship. Always look for new opportunities and ways to establish competitive advantage; and, harsh as it may sound, there is no shame in taking advantage if your competitors stuff up during the current circumstances.
7. **Problem-seeking, Problem-solving.** David Hall, a well-respected UK-based author and acknowledged business transformation authority espouses an excellent business mantra that is hugely applicable to the current situation: *“Solve a problem, friend for life; solve a problem, premium price”*. Liaise closely with customers and suppliers to identify their problems and ways that you can contribute positively to facilitate their operations and overcome dilemmas; in so doing, you will forge or re-enforce relationships based on trust, understanding and mutual benefit (win : win) that will help you both survive in the short-term and maintain long after the Covid-19 situation has been resolved.
8. **Watch the Numbers.** Now, more than ever, is the time to maintain simple, accurate and up-to-date financial information; and define and closely monitor key performance indicators. Many business owners and managers are not particularly financially literate and are overly reliant on their external accountants for financial management input. Financial performance now needs to be managed daily. Two financial considerations are paramount during both good times and bad; and in particular; during the Covid-19 hiatus: (i). the need to reduce the breakeven point within the business so that it can survive on reducing levels of revenue; and (ii). the need to maintain healthy liquidity during the crisis through diligent cash management. Cash is always king, but particularly so during times of difficulty.
9. **Lower the (Breakeven) Bar.** Essentially, maintaining profitability (or containing losses) when revenue is falling is a function of managing and reducing breakeven or, as the Americans say, keeping the jaw open. The jaw is a very simple and compelling metaphor to apply during times of difficulty; essentially, it is the difference between sales and breakeven sales i.e. breakeven gap defined as a percentage of revenue. Fundamentally, there are only three levers that managers can apply to maintain the jaw (or, ideally, open the jaw further): increasing prices; improving operational efficiency and reducing fixed costs.
10. **Beware Arbitrary Price Reductions.** The temptation to cut prices to maintain sales in a distressed market is strong. However, reducing prices *de facto* raises the breakeven bar (and closes the jaw); and serves to make a bad situation worse as it means that the business requires more sales to breakeven in a reducing market.

Theoretically and paradoxically, the best sales strategy in a distressed market is to increase prices as this reduces breakeven and means the business can survive on lower revenue. However, increasing prices during the current Covid-19 hiatus or, indeed, any other external crisis will be difficult for most businesses and opens the door to accusations of *'profiteering'* during times of national adversity and personal hardship. If you can increase prices, bear in mind that good customer service reduces resistance to price; so, try to over-serve your premium customers if possible.

11. **Improve Operational Efficiencies.** Downtime represents a great opportunity to consider ways to improve gross margin contribution by reducing direct costs; for example, improved utilization of physical assets (including people); better purchasing; improving efficiency and efficacy of systems and processes; reducing wastage (both time and materials) and changing sales mix by a greater emphasis on serving premium customers and higher margin products and services. Challenge your temporarily under-employed employees to think of ways that they can continue to add-value and keep themselves fully productive and occupied whilst some of their day-to-day responsibilities are mothballed. There are always important projects and tasks that have been side-lined that can be resurrected; for example, updating customer databases and contact details (i.e. data cleansing) or amending systems and processes that are no longer relevant. Often, these tasks offer real opportunity for long-term business improvement.
12. **Tighten the Belt.** Reducing fixed costs, or overheads, is the obvious course of action for any business seeking to ride out the Covid-19 storm; and this will be the advice that most businesses will be receiving from the accountants. Fair enough but be careful. Remember that the business is primarily reducing costs to buy time in anticipation of an upturn in trading conditions i.e. when the sunshine returns. Beware making knee-jerk decisions that effectively remove the operational or productive backbone of the business that will be required when market conditions improve. This is particularly important for small and medium-sized businesses that rarely have high levels of excessive and unnecessary overheads; and, also, bear in mind that good employees and productive assets that are too-readily sacrificed are often difficult and expensive to replace.
13. **Cash is King** (always). Nothing will frustrate best intentions and sound plans more than liquidity problems. All-too-often, businesses go under because they run out of cash, not because they are unprofitable. In this respect, protect your cash balances by minimizing inventory and managing your trade debtors tightly. In terms of trade debtors, not only monitor aged receivables in the conventional manner but look out for individual customers arbitrarily varying their usual payment procedures. Often, this is a sign of payment stress on their part and is it important to pick up on this early. If necessary, arrange additional external funding in advance of need as it is always easier to negotiate credit arrangements from a position of relative strength.
14. **Gather Information.** Commercial intelligence is vital during these times. Keep your lines of communication open with customers, suppliers and other stakeholders. One snippet of new information may prove to be critical in terms of business survival. Instruct your sales team to undertake continuous informal market research by asking your customers the following questions: (i). How are you doing; (ii) What's going on in your industry or neighborhood; (iii). How are we doing, how easy is it to do business with us during these difficult times, and how could we do better? Establish a mechanism for capturing, collating and reviewing feedback and incorporate information received into your decision-making. Ask similar questions of trade suppliers as they are an additional source of vital information. In addition, regularly ask your own staff three questions: (i). What do you think should we start doing; (ii).What do you think we should stop doing; and (iii) What do you think we should do more? Your staff are in daily contact with customers and suppliers and to quote Colin Powell again: *"The soldier in the field is always right and the rear echelon is wrong, unless proved otherwise."* Ignore feedback from your own front-line at your peril.
15. **Share Information.** It is human nature to be phased by uncertainty and the fear of the unknown, especially during unprecedented times. Now is the time to share knowledge and insight with staff, suppliers and perhaps even competitors with impunity. In respect of competitors, remember that price-fixing is illegal; but there are many other opportunities to share commercial intel that protects both parties [For example, to identify common customers that represent payment risk or who might be supplier shopping to extend payment periods without authority]. A few may take advantage of shared information in the short-term, but most will appreciate the honesty and come to the party with new intel that can only help with your own deliberations.
16. **Respect your Supply Chains.** Conversely, look after your own trade suppliers. *Trading OPM* or on other people's money, however tempting, is never a sound business strategy. It will progressively build creditor

strain hidden in your Balance Sheet and come back to haunt you at the worst possible moment. Fundamentally, successful and sustainable business practice is founded on a trinity of employees, customers and suppliers; all of which are equally important and need to be protected. Damage to any one of these pillars of success can be terminal.

17. **Be compassionate.** Compassion and empathy for the plight and well-being of individual employees, their families and others are highly laudable traits; the essence of 'Level 5' Leadership and the basis for civil society. It is important to be firm and fair; but, also, be pragmatic and understand that management's fundamental responsibility during this crisis is business survival and ensuring that as many jobs as possible remain when near normality returns. Many politicians and other commentators refer to the current crisis as a war on two fronts: economic and health. Casualties are an inevitability of war and the overriding responsibility of leaders is to protect the whole, whilst minimizing the casualty rate in so far as possible.
18. **Accept Help and Advice.** Take advantage of all advice and financial incentives, wage subsidies and any other concessions that are on offer if they do not carry unreasonable downstream penalties. Remember that the business has, most likely, paid taxes, fees, interest etc. for many years and there are credits in hand. Now is not the time for pride; there are no tested rules or guidelines to follow.

In no way is this list meant to be definitive. Einstein famously said *"It is the sign on an intelligent mind to entertain a thought without necessarily accepting it"*. The reflections and tips listed above are based on personal experience and anecdotal wisdom received from many trusted business colleagues. They are offered as thought provokers intended to stimulate healthy discussion and debate amongst owner-managers and within management teams. Leaders and managers will, undoubtedly, have many more and better ideas relevant to their individual circumstances to add to the list. Unexpected challenges often bring out the best in entrepreneurial individuals, who have the capacity to thrive uncertainty; but don't be too harsh on yourself if you make mistakes. Don't forget that to err is human, but to forgive is divine. Under the current circumstances, there are only two possible outcomes to bold and decisive decision-making: success or new learning. Both are better than inaction.

Returning to the Vikings; they were much maligned. The perception that they were violent, piratical heathens is misplaced. Viking society and culture was highly sophisticated for its time in history. They had evolved social structures underpinned by a values-based legal system that gave unprecedented equality to women. In addition, they were well groomed and exercised personal hygiene; great farmers, good cooks and established very sophisticated trading networks; perhaps a little vain as the men were inclined to use potash to dye their hair blonde to improve their appearance! Pertinent to the current Covid-19 hiatus, they were early adopters of the Stockdale Paradox even though they pre-date it's author Admiral Stockdale by over 1,000 years. Life taught them that tough experiences ultimately prove to be formative by building new knowledge, and lead to better decision-making and positive outcomes moving forward.



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