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# POST-COVID BUSINESS IMMUNITY ESSENTIAL STEPS FOR YOUR BUSINESS TO TAKE

# HOW TO NAVIGATE THE POST-LOCKDOWN NEW NORMAL?



**Natasha Spalding**  
Director - Avant Advisory

As we move into the uncertain times ahead in 2020 and 2021 (remember Brexit?), many small business owners are asking, *'What can I do to maximise my chances of coming out the other side?'*

## THE PICTURE OF THE LAST RECESSION IS QUITE STARK:

- **Over 1,300 companies per month in England and Wales went into liquidation between Autumn 2008 and Summer 2012 according to the Insolvency Service**
- **The UK economy took 5 years to recover (source: Office for National Statistics)**
- **But on a positive note, 40% of survivor businesses said that they came out stronger and thriving (Source: Open University small business survey)**

Covid 19 shuts down a quarter of UK businesses. More than half a million companies reported to be in 'significant distress' according to Financial Times.

So why do some businesses fail, yet others go on to further success? What do they do differently?

It seems the ability to understand what is going on then acting quickly and decisively on it, is key.

But how will you do that - by pure gut instinct based on years of being in business? Or a bit more than that?

To answer all these questions, in Part 1 of this paper we look at 5 reasons for how a small business may fail after an external shock such as Covid-19. The more we can learn from these lessons, the more we can protect our business from failing.

Then in Part 2 we share how some small businesses came out thriving after the last financial crisis. There are 5 important factors to run through together with tips on what they did.

Turbulent waters are ahead and it can be scary to race down them. An old saying comes to mind 'it takes a lot of preparation to be spontaneous'.

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**IF YOU TAKE ESSENTIAL STEPS TO DEVELOP YOUR COVID IMMUNITY, YOUR BUSINESS WILL SURVIVE AND THRIVE.**

NATASHA SPALDING - AVANT ADVISORY

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# 01 WHY DO SMALL BUSINESSES GO UNDER?

If we can understand the reasons why a business fails, then we can better plan to avoid our own business failing.

The individual reasons are many and varied. But two Professors at Liege University crunched through a batch of insolvency data and came up with the five distinctive failure patterns shown in the diagram above.

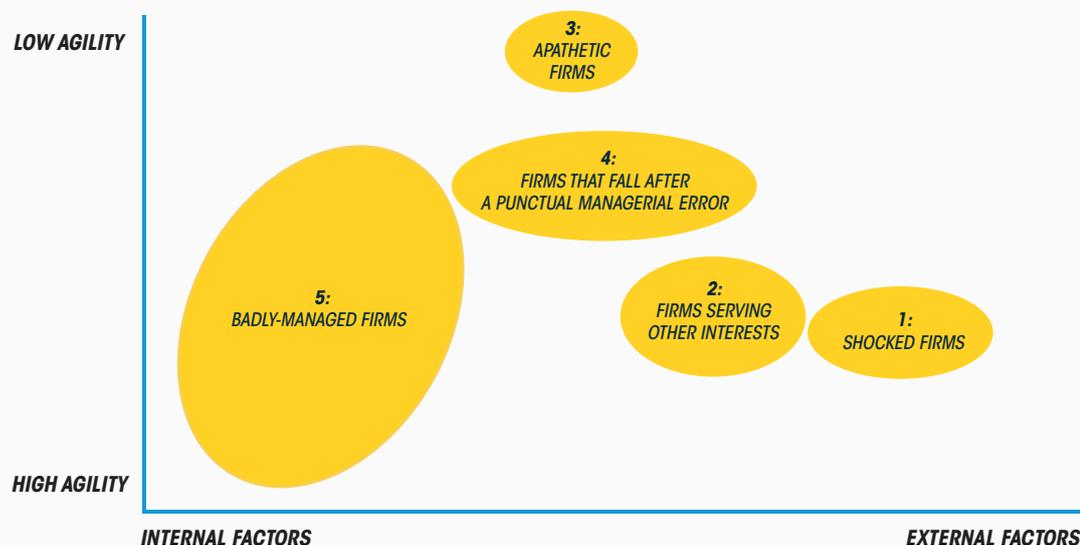
They looked at internal vs external factors and a company's agility in adapting to change.

Internal factors are the things that you control, such as your operations, your employees, finances and business direction.

External factors are things that you cannot directly control, such as politics or social changes and trends, or a competitor entering your market.

Let's take a look at what each pattern means and how it adds to bringing a business down :

## FIVE DISTINCTIVE FAILURE PATTERNS



## 1: SHOCKED FIRMS

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At first, the firm is shocked with a sudden change in conditions, such as Covid-19. The situation becomes unpredictable and the business reality is not the same any more.

Repeated shocks can come from the government changing its position, or a key customer or supplier of yours going out of business.

***Especially for those businesses who did not maintain a rainy day fund in the bank, the repeated shocks leave them feeling unsteady on their feet.***

## 2: FIRMS SERVING OTHER INTERESTS

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The small business is unable to adapt quickly due to serving outside interests. This often means that the owners have become used to a certain level of dividends and salary.

These cannot be quickly reduced, due to factors such as mortgage payments, school fees and upcoming personal tax bills.

If you took the postponement of the 31 July 2020 personal tax payment, get ready for a catch up in January 2021 (July payment, balancing tax payment for 2019/20 and the 1st payment on account for 2020/21).

If your firm year-end is in April, you can add the corporation tax payment to cash outflow in January.

You can apply to HMRC for a reduction in payments if your income has fallen, and also for 'Time to Pay'. But do you know how much to ask for and at the same time convince HMRC that you are good for the instalments that you promise?

## 3: APATHETIC FIRMS

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The company's inability to anticipate and forecast for events, turns it into a nonreactive business. This usually happens because of lack of up to date financial and operational information. They cannot adapt to ongoing changes as a result.

For example, an owner feels a shortage of cash. But they may not entirely know by how much or why it is happening. Has a product or service or contract become unprofitable? Or customer demand dropped? Or customers are delaying payments?

***This lack of 'breaking news' exact information hinders your decision making for what you can do about it.***





#### **4: FIRMS THAT FALL AFTER A PUNCTUAL MANAGERIAL ERROR**

Managerial errors comes out of the previous pattern. You know that you must act and act quickly. You do so based on your knowledge and experience of the industry and your running of the business to date – an educated gut feel if you like. But you do not have real-time information to hand to know where your business is heading.

What if you make a wrong call? Or you have misread customer sentiment? Or maybe you have made a good call, but you don't have as much time as you think to do it?

The 'new normal' will take some time to bed in. The best thing is to have credible reports at your fingertips to keep an eye out for what is changing fast. Then to model your decisions into some 'what if' forecast scenarios - see whether they are enough to send the cashflow numbers positive again and before your bank manager comes knocking.

#### **5: BADLY-MANAGED FIRMS**

This last pattern, the Liege team rather harshly describe as badly-managed firms. As academics, they perhaps show a lack of empathy here with small businesses.

I prefer to think of it that small business owners are required to **wear many different business hats** in their daily lives: Business development and marketing, Finance, Operations, as well as for general Business Administration and Compliance.

***It is difficult for one person to be a master of all trades, or to have the time to perform them all if they are.***

I interpret this instead as not having the right business partners around to support you, to help you plan and warn straight away if things are not going to that plan. To allow you to focus on the areas that you do best.



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**ASK YOURSELF FURTHER : HOW CAN I MOVE FROM SUPPORTING MY TEAM TO WORK BETTER FROM HOME TO HOW CAN I SUPPORT MY CUSTOMERS TO BETTER BUY FROM ME FROM HOME.**

*NATASHA SPALDING - AVANT ADVISORY*

# 02 HOW DO THE SURVIVORS SURVIVE?

How important do you consider each of the following factors if a business is to survive a serious external event?

% respondents answering 'Extremely' or 'Considerably'

*THE CHART SHOWS THE FACTORS THAT SMALL BUSINESSES TOLD THE OPEN UNIVERSITY IN 2013, WERE THE MOST IMPORTANT IN THEIR SURVIVAL OF THE LAST FINANCIAL CRISIS.*

*LET'S RUN THROUGH THESE FACTORS, TOGETHER WITH SOME OF THE THINGS THAT THE SAME GROUP OF BUSINESS OWNERS SAID THEY DID TO SURVIVE.*

## FIVE DISTINCTIVE SURVIVOR PATTERNS



[Source: Open University Resilience and Recovery survey, December 2013]

## **PEOPLE WITH THE SKILLS, INITIATIVE & AUTHORITY TO RESPOND RAPIDLY**

This is you. Your biggest advantage as a small business is the ability to quickly make decisions and get them done.

Your team should bring both bad and good news to you immediately. The key is to have the correct data to spot trends and changes in your business and then act on it quickly.

### **WHAT THEY DID**

**37% of businesses said that thanks to their people, they were able to diversify into a new product or solution or market sector, to take advantage of the new trading conditions.**

## **IDENTIFY POTENTIAL RISKS IN ADVANCE**

What can put your business at risk? It can be your supply chain, customers going out of business or taking longer to pay, cost creep, a cash gap etc.

Set an early warning system of key financial and operational indicators. It will help you keep an eye on them and take measures promptly when early symptoms show up.

### **WHAT THEY DID**

**24% conducted a profitability analysis and reduced the range of products or services they were offering; or exited from certain market sectors or business activities altogether.**

## **MAINTAIN LOW FIXED COSTS**

Fixed costs are expenses (rent, wages, taxes) that have to be paid by your firm regardless of sales going up or down. They can be a killer to your business.

Question any of your fixed costs and monitor them via your monthly/weekly management accounts. Watch out for what % of your sales they make up. Keeping your cost base down gives vital protection to your cash.

### **WHAT THEY DID**

**28% reduced the number of their permanent staff But half of those hired agency or subcontractor staff instead, or outsourced functions such as finance.**





## **PREPARE CONTINGENCY PLANS**

In uncertain times your business can go different ways. If you ask yourself 'what if...?', then you are making scenarios for best / base / worst cases : cash in the bank, costs, sales, profit.

Plot cash flow projection and profit forecast. It is better to know and get prepared rather than wait and hope 'for the best'.

You can use a simple spreadsheet or an app to put figures to your scenarios. Then you can build up plans for what can happen, how you can prevent it and how to act.

### **WHAT THEY DID**

***15% used their baseline forecasts and management information to refinance their business with banks and other providers such as invoice discounters.***

## **IT APPLICATIONS AND SYSTEMS**

I am willing to bet that an equivalent survivors survey in 2023 will show a far higher proportion than the 59% in 2013 who felt that being digital was important.

Businesses are already now reviewing their applications and asking questions:

- ***What worked during lockdown and what didn't?***
- ***How many apps were fully cloud-based and team-based, accessible from anywhere?***
- ***How paperless were we?***
- ***How many cybersecurity / GDPR short cuts did we take?***



## WHAT NEXT?

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The message comes across loud and clear from both studies that having real-time accurate information together with the business agility to act on it, is absolutely key to business survival after an external shock.

It may seem counter-intuitive to review your systems now and invest in new ways of doing business. But as we have seen, it will give you the benefits of higher confidence in surviving the recession, and a higher chance of coming out of it stronger and more profitable.

## WHAT YOU CAN DO IN THE POST-LOCKDOWN PERIOD

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- *Start building up a rainy day fund if you can. It is your safety cushion. You'll be glad you have it when it comes to the next shock*
- *Review your systems and app stack to get the best efficiency for your business processes and team*
- *Build a financial plan for your business with what-if futures in mind*
- *Review your pricing structure and/or charge out rates for profitability*
- *Use real-time management information to monitor the financial position of your business. Track actuals vs your forecast. Set up alerts to get an early warning*
- *Support and stay connected with your team. Look after them and they will look after your business*
- *Outsource functions that eat up your time, and stop you from growing your business. Work on your business, not in it*
- *Find a business partner who will support you through these challenging times ahead*



**PIVOT YOUR BUSINESS IF YOU SEE THAT REVENUE STREAMS HAVE STOPPED WORKING FOR YOU.**

NATASHA SPALDING - AVANT ADVISORY



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Get ahead with Avant, forward-looking digital accountants and business advisers.

**AVANTADVISORY.CO.UK**

Kemp House  
152 - 160 City Road  
London  
England  
EC1V 2NX

t: 020 8123 2252

e: [contact@avantadvisory.co.uk](mailto:contact@avantadvisory.co.uk)