

Business Survival and Advancement Tips

Stress Tests for Your Business

March 20, 2020

In our goal to help provide the business community with timely and helpful information in a time of need, we are providing our **Survive and Advance** tips so businesses can think about survival in the next 90-days while also working to advance out the other end of this economic crisis.

One extremely important activity is to have you as a business – and with your CPA if necessary - prepare a financial “stress test”. This means making some assumptions about the next 30 days, 90 days, and 180 days. The idea is you need to define:

1. Demand changes (assume decreases) as best you can in your business
2. What ability there is to cut costs (or not)
3. Measure the effects on cash flow as cash flow is “king” - so measure timing of loss of revenues and cost reductions

Also, realize the new Federal law on sick leave time does effect employers less than 500 employees to front sick leave payroll before getting a credit the next quarter. We are hopeful and will keep you informed on any Government relief for small business.

At Smith Brothers, we did a stress test for three 90-day rolling periods by diving into our client base and how they may be affected and how it may then affect our revenues. In addition, we looked at fixed and variable expenses to see how these were affected – or not - by revenue reduction assumptions. We are fortunate to be in a business that is less volatile, and we have significant revenue diversity; however, it was a great exercise to have our leadership team understand. Doing this stress test allows you to plan and be ready to make quick decisions if needed and your leadership team be in sync.

Tips for Stress Tests

Various scenario plans will be needed to help our small business clients weather the severe market disruptions over the next year. The first thing we are focusing on with clients is short-term liquidity. We are looking at the following sources of potential liquidity.

- Current cash reserves available in the business
- Drawing down on existing credit lines
- Taking a long-term low interest SBA loan
- Owner capacity to finance reduced expenses in the absence of any other liquidity source
- Methodologies for preserving liquidity
- Following government stimulus plans
- Looking at contracts, leases, and purchase orders for possible relief

We will be looking to help clients maximize their liquidity and minimize their expenses so they can remain viable until we return to more normal functioning markets. We will be assisting clients in cutting non-essential expenses and to reduce waste from their systems to prolong any liquidity they receive. Priorities are:

- Short term liquidity
- Reducing non-essential expenses and waste in their business
- Forecasting market demand for the next six months
- Stress testing forecasts of market demand
- Positioning the company for growth once normal market demand returns

It is important to finalize this with making sure you look at **opportunities** in your business. Being **offensive**, not only defensive. Be **creative, solve problems** for clients, be **fiscally disciplined**, and where can you **invest** for the future. Can you recruit high talent that have been laid off or at least keep them in your hiring pipeline for when hiring picks back up. **Creativity** and looking at the turmoil through a **positive** lens will allow you to **advance** at the other end of this current crisis.

Be Well.

Your Smith Brothers Team