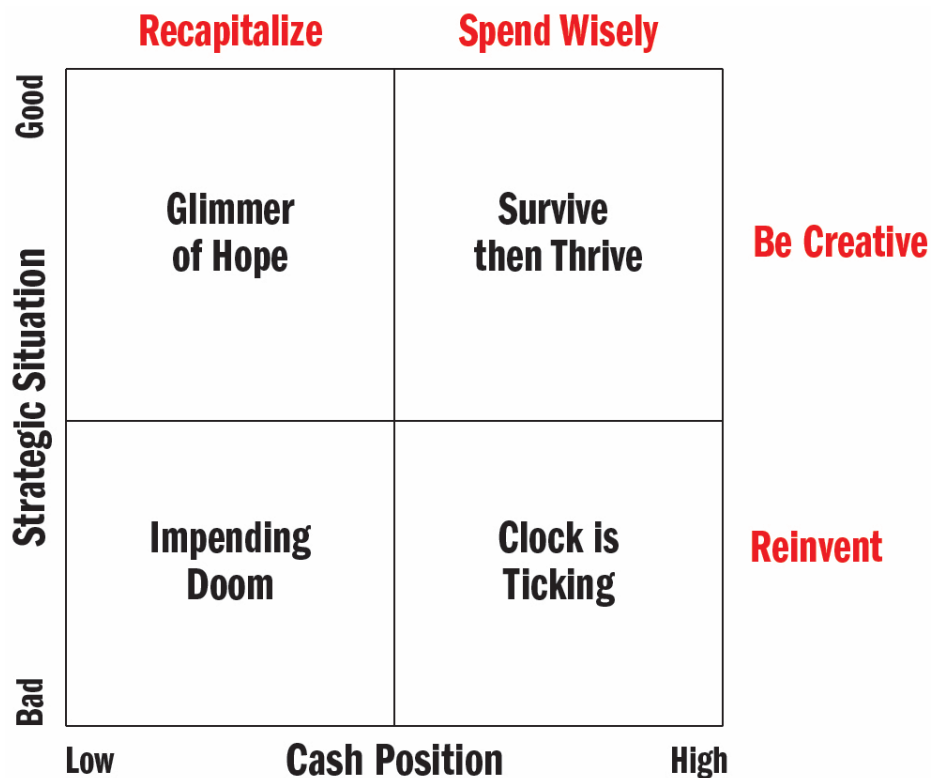


COVID-19 Strategic Filter
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I have a real-time view into the financial and strategic situation of about 50 companies in Canada and the US. This has been a tumultuous time for nearly all of them. Over the past two months of intense discussions, planning and adjusting, some common strategic themes have emerged. I'm calling this the COVID-19 Strategic Filter and offer it as a guide to quickly assess where a company is and what it needs to do in the short and longer term.



Assess

See where your business is on the matrix according to the following criteria:

Strategic Situation

Good

- Strong fundamentals
- Annuity or recurring revenue stream
- Solid demand from existing customers and potential future demand from new ones
- Successful disruptive business model
- Low susceptibility to disruption
- Good industry for these times: food, healthcare, insurance

Bad

- Experiencing disruption (for example retail, distribution)
- Questionable business model
- Lack of traction in marketplace
- Too small, lack of scale
- Growth stagnant, poor profitability before crisis

Cash Position

Low = less than 60 days net burn rate

High = six months net burn rate or more

Respond

In nearly all cases, companies today need to:

- Manage cash (outflow, collections, accelerate the cash cycle)
- Deliver clear value to customers/clients
- Be responsive to customer/client needs
- Focus on performing essential activities
- Identify and apply for available government support programs
- Work with lenders/banks and other financing providers to ensure sufficient working capital is in place

The Four Actions

In addition to the above short-term responses, companies in each quadrant may be guided by two of the four following types of activity:

Recapitalize – Operating cash flow likely won't be enough to get through the next few months, let alone the long term.

Spend Wisely – Even if you have a cash cushion and customers are paying, conserving cash and being ready for whatever may come is crucial. Get clear about the most critical activities your business performs and fund those fully.

Reinvent – It's likely your business was in or approaching an existential situation before the current crisis; now you must find a viable business model or it's game over.

Be Creative – Companies that are focused on the future and capitalize on changes in how they do business will not only get through this situation but be stronger and better because of it. Bring intense focus on how you add value. Deepen relationships with customers. Come up with new ways to solve new problems.

Applying the Model

Impending Doom – Companies in the lower left-hand quadrant must face the brutal facts that unless they recapitalize and reinvent themselves immediately, they will not survive. Even a herculean effort may not be enough. It may be wiser to pause operations altogether or seek restructuring or an orderly closure, if possible.

Clock is Ticking – Companies in the lower right-hand quadrant are in a similar situation to those facing impending doom, but they have more time. Reinvention is key – the company must drastically change so that it is focused on solving customer problems profitably. All effort must be on engineering a change in business model, because the company is only a few months away from Impending Doom.

Glimmer of Hope – Companies in the upper left-hand quadrant are in a perilous situation, which may not look and feel much different from Impending Doom. But there is one critical difference. These businesses are on to something. They may be start-ups or existing businesses that are already going down the reinvention path. Focus on finding the funding needed to get through this crisis. The sources likely will be insiders and their affiliates, whether private lenders or equity investors. Creativity in accelerating the implementation of their novel solutions will be critical, especially if they are aimed at sectors currently hit hard by the pandemic.

Survive then Thrive – Companies in the upper right-hand quadrant are the only ones on fairly firm ground right now, though it might not feel like it to many of these businesses. Job 1 is getting through the next six months and being ready for what comes next. These companies will be the ones that pull through the crisis in a stronger position than when they entered, if they take advantage of the many opportunities for operational improvement, focus on value-adding activities and aggressively pursue new ways of doing things.

Share the strategic filter with your management team to spur discussion about where you are and how to align everyone on the most critical actions.