

Volume 4, Issue 6 – July 15, 2020

The Triple Whammy: fighting on multiple fronts through the COVID-19 crisis

As economies reopen, the problems for leaders and boards will actually get harder – it is during this recovery phase when most businesses go bust. In this edition, we explore in more detail the three significant challenges that affect severely disrupted companies at the same time: managing cash and liquidity, re-sizing operations and changing the business model to fit a post-COVID future. Together, these create a ‘triple whammy’ that, if not managed proactively, could spell disaster.

“Each of these challenges requires a distinct kind of restructuring of its own,” says A&M’s [Malcolm McKenzie](#), Managing Director and Chairman of the Corporate Transformation Services practice in Europe. “Cash is the priority in the short term, but boards need to do more than focus on short-term cash management. They need to resize operations to fit new demand levels and get their equity story clear on how they are going to create shareholder value in the new world.”

Liquidity: Restructuring the Balance Sheet

The first priority for businesses is to concentrate on managing cash – they need to pay their immediate bills. In Mr. McKenzie’s view, “Businesses in highly impacted sectors should have already pivoted to cash and brought liquidity tightly under control by this point in the crisis.” Relying on high-level analyses are not enough. Exercises like detailed daily or weekly cash forecasting (“13-Week Cash Flow Forecast”) with frequent variance assessments between predicted and actual cash levels (to assess forecast accuracy) are key.

Companies which have taken on short-term debt will then need to de-lever and decide how to rebuild their balance sheets. “We are currently seeing many businesses planning additional capital raisings and other hybrid structures. Divesting businesses that are no longer core could be another option,” says Mr. McKenzie. “Only the organisations with essentially solid balance sheets are going to win the confidence of investors and secure the backing to rebuild.”

Delivering this restructuring may mean assigning new executive responsibilities. “The Chief Financial Officer (CFO) may not be the right person to manage cash at a granular level,” says Mr. McKenzie. “One solution could be to appoint a ‘Cash Czar’, who can deal with C-suite and board-level relationships while keeping on top of detailed cash flows on a daily basis, and who challenges second and third level managers on why they are actually spending cash.”

Operations: Restructuring to Match New Demand

As well as taking steps to create liquidity, companies must examine whether their operations are set up for very different demand patterns. For Mr. McKenzie, “Even in a best-case economic scenario after lockdown, some manufacturers have seen drops of more than 50 percent in demand levels, while other industries are facing unique challenges specific to their sectors. For example, hotels will not be able to offer guests traditional breakfast buffets. Businesses in all sectors will need to determine the new activity levels which will prevail and recalibrate operations.”



CORPORATE TRANSFORMATION SERVICES

FROM THE INSIDE OUT

In many hard-hit sectors, demand will simply not come back. Lower demand will have ripple effects that reverberate through companies. Rationalising a business's footprint is an obvious response and a big project in itself, but rightsizing physical operations is only one part of the story. Relationships across the supply chain need to be reset, all alongside new pressures to reduce fragility in global supply chains.

The uncomfortable truth for leadership teams is that executing these changes can be expensive. "Whether it is reducing physical footprint or adopting new asset-light business models by buying rather than making, companies will need to spend cash to make this happen," says Mr. McKenzie.

Strategy: Restructuring the Business Model

If disruptions to liquidity and operations weren't enough, organisations face a third great challenge: pivoting the business model itself, while delivering a robust and persuasive long-term value creation plan.

"Companies need to retain the trust of creditors, investors, employees, suppliers and other stakeholders in order to continue operating sustainably," says Mr. McKenzie. "Pulling back from activities and taking cost out of the business may be sensible in the short term, but shareholders need to know how their investment will grow value."

The markets and trends that fuelled growth in the past may not work in the same way. Organisations should latch on to the new patterns emerging to identify future value growth strategies. Additionally, the time may be ripe to think about simplifying the business model. Applying new focus to the most profitable product lines and customer segments, or reassessing international footprint, could result in a leaner and more effective operation on the other side of the crisis.

Mr. McKenzie says, "At A&M, we tell our clients to lead through the disruption. The Chief Executive Officer (CEO) and board must arrive at a plan that does not just shrink the business but results in a growing cash-generative business model that exploits changed customer dynamics."

Managing the Board

The 'triple whammy' presents disruption for boards as well as executive leadership. To Mr. McKenzie, "Boards have certainly been meeting more frequently, albeit virtually, through this crisis. But regular Zoom calls will not be enough without clear structures put in place to ensure proper scrutiny of restructuring activity."

In practice, this means leveraging all the board's experience, including non-executives, to challenge senior management and ensure accountability for strategic decisions. Boards may need to bring in more restructuring expertise – or consider new talent with deep experience in leading through tough situations. "A board restructuring working group may help reduce the biggest risk most companies have today," says Mr. McKenzie.

Boards need to go further than regular 'line of sight' scrutiny and establish candid dialogues with key C-suite positions like the CFO and COO. The CEO-chairman relationship should set the agenda for these interactions,





CORPORATE TRANSFORMATION SERVICES

FROM THE INSIDE OUT

establishing the right level of transparency and trust. Operating at a peacetime cadence does not work when battling on multiple fronts.

The COVID-19 pandemic has resulted in a unique disruption, creating a 'triple whammy' of simultaneous crises in liquidity, operations and the business model. Fighting so many fires at once will be incredibly difficult. It could be a killer blow to some businesses, but it may just be the making of others.

Stay informed about the key issues driving companies to seek meaningful, lasting change in [From the Inside Out](#), our corporate transformation newsletter.

GOT A QUESTION? CONTACT AN INFLUENCER

ANSWERS ARE ONE CLICK AWAY



MALCOLM MCKENZIE
mmckenzie@alvarezandmarsal.com



RON ORSINI
rorsini@alvarezandmarsal.com

For general inquiries, please email us at corptransformationnewsletter@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 4,500 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

To learn more, visit: alvarezandmarsal.com

