

## BUSINESS SURVIVAL CHECKLIST – COVID 19

The COVID-19 epidemic has had an extremely devastating effect on the economy over the last 6 months. More so, with the recent forced closure and limited trading rules of some businesses.

We value our clients and your businesses and are here to try and help you all through this crisis so that you can come out the other side.

With this in mind, we have put together the following checklist for ways in which to help your cash flow and hopefully avoid losing your business that you have all worked so hard to build up.

### INVENTORY

Your business needs to determine the optimal amount of inventory to have on hand, without risking losing sales. While it might seem straightforward to hold a high amount of inventory to ensure that all sales demands are met, there are costs involved.

These include the costs of funds invested in inventory, holding the stock along with potential deterioration or obsolescence. Similarly know what inventory to have on hand, so as not to have an excess of some items and stock-outs on another.

If you are a business struggling with cash flow that purchases inventory either to on sell or use in the course of producing your end product, we suggest that you eliminate holdings of inventory or reduce them to minimal levels.

Only purchase inventory when it is actually needed. Even though certain items may be less expensive when purchased in bulk, however in these uncertain times it would be more expensive to hold inventory that may not be used for some time or even perish before it can be.

### DEBTORS/CUSTOMERS

The fastest way to boost your cash flow is to accelerate the collection of your customer's debts. There are a number of ways that this can be done:

- Follow up outstanding debts – for those customers who had an outstanding debt, consider contacting them for payment as soon as possible. If they are struggling to pay, perhaps offer them a discount as an incentive or arrange a payment plan.
- For customers that have not paid old debts, do not continue providing goods/services to them until they are paid.
- For new sales – reduce your payment time for new invoices, or as an even more extreme measure only offer sales as cash, meaning you are paid immediately.
- Factoring of accounts receivable – a more extreme way of collection of your debtors is to sell your debtors ledger to a factoring company, however at a significant discount. What this does is transfer the risk of non-payment to the factoring company.

Understandably, your business most likely has customers which have also now been negatively affected by this crisis and after all of this you still wish to retain these customers. Talk to your customers and let them know you understand and try to come up with a mutual arrangement.

## CREDITORS/SUPPLIERS

In times of poor cash flow, paying your creditors/suppliers can be difficult. Your business will most likely wish to extend the payment terms of your creditors/suppliers but without damaging your credit rating or future supply from that creditor.

Some techniques for managing your accounts payable are:

- Making payments only when due
- Prioritising suppliers – some suppliers are more critical to the ongoing operations of an organisation, and so it is important that good trading relations are established and maintained
- Negotiating for extended credit terms – it may be possible to negotiate a longer than standard time to pay an account, particularly when a supplier is keen to get or retain the customer.
- Ongoing discussions with the creditor – if the supplier is made aware of your difficulty to pay according to the terms, it may be more willing to an extension of credit.
- Seek alternative supply arrangements – the use of consignment inventory (where the supplier is not paid for the products until after they are sold or used, thereby delaying payment) may be an alternative method for purchasing inventory, but this is dependent on the ability of the supplier to support such arrangements.

## DETERMINE YOUR COSTS

All businesses have costs, which will comprise fixed costs and variable costs.

**Fixed Costs** – these are those costs which do not change with the level of sales/production and remain the same even if no goods or services are produced and therefore cannot be avoided. The most common examples of these costs are lease and rent payments, the fixed portion of electricity and gas, insurance, interest and loan payments (subject to bank relief), registrations, licences and fees, subscriptions, council rates, advertising, body corporate fees, certain salaries and superannuation.

**Variable Costs** – these costs increase and/or decrease with the level of goods/services provided and can be avoided. These costs include casual wages, electricity and gas, telephone and internet, merchant fees, motor vehicle fuel, commissions and cost of materials used to produce that good or service.

### What can you do?

During this time, businesses which have been forced to close or have experienced a large downturn, need to establish a way in which to maintain your costs and determine those fixed costs which you may be able to avoid or reduce:

- Renegotiate your telephone/internet – consider contacting your telephone provider to determine a more affordable plan or bundle your services to reduce your monthly costs.
- Cancel any non-essential subscriptions or services such as lawn mowing, house cleaning, Pay TV, streaming services, magazines, etc.

- Consult with your landlord to see any breaks available on rent payments if you can no longer trade from your premises. We believe that the Federal Government may be making an announcement regarding commercial rent in the future.
- Most likely you will have already stood down any non-essential casual staff. You should determine your most valuable employees and try to maintain them during this crisis, to enable your business to continue on the other side. This may mean reducing their hours for now, asking they take their annual leave entitlements, or leave without pay. You should consult a HR Specialist to determine how to do this within the letter of the law and which way is best.
- Contact other suppliers to see if you can arrange less expensive products or long payment terms.
- Advertising is a difficult one, as with all businesses you want customers to come to you first. Consider cancelling printed advertising such as in the yellow pages and move to an internet based form of advertising to attract a larger audience.
- Consider bartering – given that many businesses are struggling, consider offering your services to another business in exchange for theirs. No cash changes hands, but you are both receiving a service that you otherwise would have paid for. It is important to note though, that this is still considered a taxable supply and forms part of your income and expenses.

## DETERMINE YOUR INCOME

If your business is still able to trade, now more than ever is the time to try and catch as much of your market as possible. Considering your price to customers in order to obtain market share is difficult. You need to ensure that you remain competitive but also are charging enough to cover your costs.

Reducing your sales price now may make it difficult to maintain a profitable business after this crisis is over. However, if your customers know that the reduced price is temporary, then customer retention will be more likely.

Consider entering into long term contracts with reputable customers to ensure some income is guaranteed.

## CAN YOU DIVERSIFY?

Can you use your experience or skills to diversify your business? If you are a business which has been forced to close, such as a café or restaurant, can you offer a takeaway or home delivery service? Do you have trade or professional qualifications you could outsource?

Diversification could enable your business to still remain active during this crisis and could capture a market you haven't previously.

## GOVERNMENT INCENTIVES

As you would have seen in our recent summaries sent out regarding the Federal and State Government Stimulus, there are various measures small businesses can take to try and keep your business in business during this crisis.

These included:

- **Boosting cash flow for employees:** for those businesses which employ staff, there is a minimum \$20,000 incentive which is credited to your ATO integrated client account for those businesses which retain staff between now and September 2020.

- **Supporting Apprentices & Trainees:** for those business who had active apprentices and trainees as at 1 March 2020, incentives are available for a wage subsidy of up to 50% of their salaries paid during the period of 1 January 2020 to 30 September 2020.
- **Instant Asset Write Off:** For those businesses which have not been negatively affected and still have a profitable business, the Government increased the Instant Asset Write Off from \$30,000 to \$150,000 and introduced an accelerated deduction for depreciable assets over \$150,000.
- **ATO Administrative Relief:** The ATO have offered relief for those businesses that are struggling. You will need to contact the ATO on 1800 806 218 to request this relief which includes:
  - o Deferrals of payment on your activity statement, income tax and FBT payment for 4 months.
  - o Changing your GST cycle from quarterly to monthly if your business receives GST credits
  - o Varying your PAYG instalments for the March 2020 quarterly and potentially receive a refund for instalments lodged in September 2019 & December 2019 quarters.
  - o Remitting interest and penalties on tax liabilities incurred after 23 January 2020.
  - o Low interest payment plans to help you pay your existing and ongoing tax liabilities.
- **Centrelink Payments** – for those businesses who are now unable to trade or have suffered significantly you can now apply for JobSeeker payments and the Coronavirus Supplement, subject to income testing.
- **Superannuation Access** – early access to super of \$10,000 in 2019-20 and \$10,000 in 2020-21 depending on your circumstances which will be tax free.
- **Qld Government Low Interest Loans** – Loans of up to \$250,000 are available, interest free for 12 months for businesses to retain staff.
- **Payroll Tax Relief** – for those businesses who pay staff between \$1.3m and \$6.5m per year, payroll tax relief is available.
- **Diversification Grants** – Grants between \$2,500 and \$50,000 can be applied for to help businesses conduct studies, visit new markets or purchase equipment in order to diversify.
- **Support for Tourism Operators & Holiday Providers** – certain fees and charges will be waived
- **Changes to Demand from Creditors** – increased thresholds and timeframes for creditors to place demands for payments on companies and individuals.
- **Coronavirus SME Guarantee Scheme** – Loans of up to \$250,000 are available to gain access to working capital and help get through the situation. These loans are through a banking institution and will be guaranteed by 50% by the Government. Conditions and eligibility apply.
- **Small Business Loans** – Australian Banking Association offered a relief package to allow financial institutions to offer deferred loan repayments for small businesses for a 6 month period.

## CONTACT US

Remember, we are here to help you get through this unprecedented time. Under current guidelines, our office remains operational, but we are closed to the public. Please contact us on 07 4038 8888 or alternatively email your accountant at:

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