



The Talking Law Podcast

Episode 101 – First Rule of the Game, Stay in the Game – your COVID action plan

Transcript

Joanna: Hi, it's Joanna Oakey here, and welcome back to Talking Law, a podcast proudly brought to by our commercial legal practice Aspect Legal. Now, today, we are sitting in the middle of the coronavirus epidemic in an extremely unsettling time. And today's podcast is all about the first rule of the game is staying in the game. And the idea of this podcast is to give you, our listeners, a whole heap of pointers for how you and your businesses right now can be taking proactive steps to ensure that you are staying in the game.

And in order to talk about this topic, I have on the show, Michael McGrath from Oasis M&A. Michael has been in business since the age of 23. Spending more than 25 years starting building, buying and selling a range of private companies, including food manufacturing, recruitment, publishing, retail and distribution. He's now the founder and CEO of Oasis M&A Sydney that advises shareholders and private companies around succession and exit strategies. And today, Michael and I reflect on what is happening in these current times, reflect on the approaches that many of our clients are taking that can lead to different results and take a walk through looking at some of these areas of what owners of businesses should do when they're seriously under pressure and threatened, which of course, is almost every business at the moment.

We look at the practical steps businesses can take. We look at dealing with banks, staff, stakeholders. We talk about understanding your numbers. And in particular, we look at the benefit of proactively creating an action plan for your business and how to do that even when

the future feels uncertain. So buckle in. Here we go. Here's our discussion with Michael McGrath from Oasis M&A.

Joanna: Hi, Mike, welcome to Talking Law.

Michael: Hi, Joanna.

Joanna: Great to have you on board. OK. So I absolutely love the name of our topic today in a very uncertain world that we're sitting in at the moment. First rule of the game is stay in the game. I have to credit you with that title. That's a good one.

Michael: I'm not even sure why I go that one, but I've always used that. It's always very grounding, isn't it? The idea that's survival is the number one goal.

Joanna: Exactly. And we are sitting you know, I'm not sure when it is that you're listening to this podcast.

But Mike and I are here talking right in the middle of the throes of the Corona virus at the moment, right in the middle of uncertainty for businesses all around us who are wondering what do they do now? Mike, you work with a number of businesses and you work with businesses both in exit mode, but not just in exit mode, also working them through the strategy of the business. Is that right? Maybe if you could step the is how you work with businesses.

Michael: So, I mean, we have a transaction business and we do a lot of M&A work and predominantly that's on the sell-side but we do some by side as well. So that translate, you know, that's been a long legacy of ours going along way back. But in the last couple of years, we've been we've always done advisee work probably in Australia for the last ten or twelve years. But that's really grown a lot in the last couple of years where we've begun to work with owners that are looking for strategic input and they're looking for advice, guidance and support from often from a non-exempt point of view, some of them from a slightly removed, you know, improving their governance, improving organisation, reorganization, whatever you call it.

And then there's and then so we've done a fair bit of that. And then there's the kind of business that maybe wants to sell the next five years, but wants to try to optimise what they're doing to make sure that, you know, that the eventual actually goes well. And we've got a number of those sorts of clients. So we've got some good skills in how to run a business. You know, I've been in business now for 35 years or I've started and built and sold a number of my own companies. And so, you know, we've got sort of the skills, particularly around strategy. And you know, where to play and how to win really in a market. And owners are not often able to pull on those sorts of resources in a right-sized cost-effective way. And so we develop this service that allows us to do that. And I've really enjoyed doing it. I work with some fantastic people, you know, small to medium-sized business owners, are the salt of the Earth really and they're hardworking. They know they love their staff. They love what they do. And we just try and make sure we're useful in helping them. You know, maybe professionalise a bit, stiffen up a bit, get a little bit more organised, particularly around planning and forecasting and finance. And that can be done very cost-effectively.

The situation for SMEs amidst the coronavirus outbreak

Joanna: And I share with you an absolute love of the SME market and dealing with founders and owners in the SME market.

And what I'm saying at the moment, I'm seeing, you know, businesses who are running the gamut all the way from businesses who actually have had a boost to their business because they're their online or they are well-positioned for some of these areas that have boomed a bit through the coronavirus, but the majority of businesses are sitting somewhere in either really poorly, you know, badly affected they you know, they've had to stand down all of their staff. They've had complete revenue. You know, one client I was speaking to yesterday is had 90 percent of their revenue fall away. Now that's a massive, massive, massive impact on a business. But, you know, even businesses that aren't directly impacted but have clients who are in areas that are impacted are also therefore impacted themselves. You know, it's just that that's a little bit slower to flow through. And I'm seeing two different camps. I'm seeing business owners that are just really anxious about what's going on at the moment because they feel they have A no control and B no real compass. You know, I don't know how to deal with the situation. They're not sure what to do next. And then the other group of business owners and managers who have just been right off the bat really strongly into setting plans. You know, even when those plans are negotiating with landlords, organising stand-downs, you know, dealing with their costs, trying to find contracts that they can terminate. But, you know, taking steps appears to feed into the maybe the optimism, the general energy and feeling that each of these business owners has not so much the actual financial impact on the business, which I find is really interesting. So maybe if you can give us your insights at the moment, Mike, what are you saying across the board in the different clients that you have onboard?

Managing your emotions

Michael: I think the first thing to say is that there are 50 million people employed in Australia and while the 50 percent, 50 to 53 percent are employed by small to medium-sized enterprise. So to a very large extent. Small businesses are the engine of the economy. And the great bulk of those people are employed in businesses. But 90 percent of their importing business in less than 20 people. And so by our very nature, those of us who are running those kinds of smaller businesses, we don't have the resources and we don't have the balance sheet strength that other large companies have got. So no wonder people are feeling vulnerable. And I think it's okay. I mean, this is unprecedented. I've been in business since I was twenty-three. So this is 35 years now in business and, you know, I was around for that 1980 recession when I left school in the U.K., unemployment was 10 percent. I was around for the 1990 recession where, you know, the recession we had to have any interest rates were 16 or 17 percent. And I was very overexposed at that point with a big overdraft with Barclays Bank in the U.K.. And so, you know, I spent two years trying to recover from that and save the business effectively. And we were on a knife-edge, complete knife-edge for quite a sustained period times. I've been through some stuff, but this is I've never seen the likes of this. I mean, literally, Joanna.

In three weeks, we went from the economy is going full power to the economy's kind of been switched off. And that's unprecedented. So, you know, what we have got in small businesses, we seem to have a government that's really getting this. And there's some stimulus available. And we need to be across that as owners. Make sure we're using the stimulus and we're doing the planning that you referred to earlier. And we're trying to be as logical as we can. We've got to manage our emotions because we've got stakeholders and we've got customers. We've got we've got staff. You know, we've got our families with a whole bunch of people that are stakeholders. And we've got to step up and be resilient and manage our emotions and make sure that we were logical and that we just keep doing the next right thing, whatever that is. No one really knows how this is going to look in the next six to nine months. And all you've got is today effectively. So my view is to be as constructive as you can today and start getting into action because you're not going to think your way through this, but you're going to act your way through it, I think. And sometimes that's just doing the next

right thing, whatever that is.

Joanna: Yeah so let's drill into that. So so what does that mean in a really practical perspective? What are some examples that you're working through with businesses?

How soft will revenues get and why?

Michael: I'm on the board of 10 private barcompanies, and in all 10 of them, I forced to ask the question, right, where are we now? OK. So we get that anyway. We've got monthly meetings. We know where we. Up until the end of February, it was largely business as usual. So March began to see the first impact. Right. So we began to look at March very closely and then we said, OK, what's going to happen in April, May and June for us? So the question is, how soft will it be? Now, different clients are in different sectors and there's a different answer to that question. Got to ask that question. How soft will revenues get and why in the next quarter? And the next question is, let's look at our debtors. Let's do a risk assessment on our debtors, which debtors are going to pay us in the next quarter and which might not be able to pay us. And then you come up with some numbers it's for six months. It's not complicated. You know, people want to overcomplicating, but the revenue less the cost is the profit or the loss. So once you've done that, you say, right, OK. Well, what do we now do? That's giving us a hole in our revenues. And then we look at our cost side and say, OK, what can we cut? And you know, what is an appropriate response to this after we've factored in the stimulus, after we factored in our debtors and what we can do on the creditor side after we've had a look at our ourself, revenues might get then we're left with the call of, okay, what do we cut? And, you know, one of my guys, James, found forty-five thousand dollars worth of savings that we could make almost immediately that don't really impact all this. I mean, some of you will pay for stuff that is closed to us. I mean, cost clings to a business like barnacles cling to a boat.

They just turn up. Right. So it's a bloody good time to get rid of those things.

Joanna: All of these random subscription zero.

Michael: Absolutely.

Joanna: You know, of course, this week we're talking what now might not the week that this is released, hopefully, this will be released next week.

But this week has been saying announcements in relation to commercial tenancies and announcements, obviously in relation to measures like a job seeker measure. And there are all sorts of things, I guess, that you really need to be on top of. Yes. Can you do with your lease? What do you need to do with your workforce? And you need to be making quick early calls on those sorts of things so that you can build as quick a buffer as possible into some of those costs areas, I guess.

Time is your enemy and speed is your asset

Michael: Yes. And so I think acting early is important. Time is your enemy in a crisis. Yeah. Speed is an asset. And so I think what once you've figured out how bad it looks and then you start overlaying the stimulus, you're probably still going to end up with a negative number. Right. And that's the bit where that's that's got to drive your cost-cutting. Right. So when you've done everything you can, what are you left with? Is it negative? What are you going to cut to make that all you're gonna see the bank. Right. And if you've invested in that relationship and you know, the banks can do certain things, there's still the banks, right? They're not equity investors. But there's never been a better time to show up at the bank with

a good logical plant. So the test with the bank is, is it bankable? Right. Would I bank it in normal times? And I say you've got to put a plan together that makes sense to them and is logical. I think, you know, there are various things they can do. They got the cookie jar point moaning about the banks. They got the cookie jar. We need some of it. So get in line and put a good case together that says, look, this is what we've done. This is where we're going. And this is what we need a bit of help with. And I think that they will do what they can. And then I think you once you've done that exercise for Q4, then I think you repeat it. What is 1 and 2 look like? And and you've got to have a crack at this. It's not good enough to say, well, I don't really know. Therefore, I shouldn't do it. No. Let's have a crack at it. What does July, August and September look like for your business? Given what you saw in March and given what you seeing at the moment and given other previous experiences, a recession and, you know, and how can you adjust and change and how can you make your. I've got a client at the moment that's in health, safety and hygiene. And they've already put six code with 19 services together and they've got six new clients who've taken advantage of those straightaway. Right. So they've shown at the ability to pivot quickly and go to work. I've got another client that's in manufacturing and we're currently looking at making part of a ventilator for another business. Right. So because ventilators are in demand, we've got great skills in silicon manufacture. So we look like we might be able to be of service. And so, you know, they might be extreme examples. Maybe you can do anything like that. Yeah, but what can you do? I mean, the question is, what can I do? Right. And what makes sense. So one of the things you can do is look after your customers and double down on the ones you've got who are still buying. There's never been a better time to make sure that they're getting what they need and they know you're around.

Insolvency safe harbour

Joanna: And I just want to add to that, because there's been some changes in relation to insolvency laws in past weeks and also to exposure for directors. And I think that that can be really positive. But I can also be that can create difficulties. And it also if you're letting your debtors get out of control. And so now is a time, in my personal viewpoint is to be really focussed on understanding maybe where the risks are in your client base. And that's not to say to turn off services to those clients, but to be understanding of where those risks are. So you can categorise your debtors into those that might you might need to look at payment plans and work out what the future looks like for that versus those that are going that are continuing to pay because at risk for even a healthy business is spending a lot of the proportion of their time on customers that may have payment difficulties over time. So it's not just invoicing, right? It's collections as well. I think that's a point.

Business risk assessment

Michael: Look, I think you raise a really good point, which is why we've done risk assessments on all the debtors of all the businesses. And by that, we sat down, we went through them. Generally, if you like most businesses, 80 percent, your revenues probably come in from 20 percent, your clients. So really that often this is about the top 10 or 15 or 20. And you go through the mistake. What market today? How are they being impacted? How's that likely to come through? I mean, they might be saying to you today, everything's good, but you've got to go beyond that. You've got to listen to them. But then you've got to interpret and discern what might happen next because they might be telling you everything's good in good faith. But in a month's time, it might not be so. I think you've got to do a risk assessment. We did one recently with a client whereby we had a debtors of about seven million. And we reckon there was about 7 percent of risk. Now we were able to talk to the bank about that. They were reassured that we know that we'd done that work and that we weren't just coming asking for more money for the sake of it. Yeah, that's generally not going to wash. So you're right. You've got to make some calls around your debtors. Now, it might be that you'll get

most of it, but it might take a bit longer. Yeah. And that's where you need to talk to the bank and say, look, you know, these guys are flagging. They're moving their challenge from 30 to 90 day. Yeah. Can you help me with that? We've had a look at the risk and we think they're good for the big companies that got you know, we think they're going to pay. The bank can do that. All you can talk to your creditors. So, look, you know, being open and honest with your creditors is really key. I think Scott Morrison's point on Saturday was good, is that the whole situation with landlords and tenants that came out yesterday is, you know, on the face of it looks like it's going to favour with the tenants. Right. Which is probably the first time in history that's happened. But nevertheless, we as tenants, if we're tenants, we've got to be proportionate and reasonable. We cannot go taken advantage of the situation. And I think we've got to make some calls, but we've got to be proud of the calls we've made. I think taking advantage of the situation is not where it's at. And I think you've got to be intelligently transparent with people and you've got to bring them along this journey. There is a journey between now and Christmas, right, that we're all going on as a community, including the business community.

Joanna: Yes. And I just love you know, I love what you're saying here. You know, the real benefit in that proactive understanding of what it's going to look like, you know, rather than just sitting there waiting to see whether the clients are paying or not, you know, taking that proactive approach and really working it out.

So you can plug some of those gap proactively rather than having to deal with it reactively. And dealing with things in this environment reactively can, in all seriousness, kill businesses. Yes, that's what it's about. You know, survival is about having the insight and the understanding about what's coming up within your business to the extent that you can read it right now.

Michael: Yes. And look, I am concerned, you know, some 2000 businesses in Australia that employ less than 20 people, that I'm concerned that some of them are very vulnerable and they might not make. Right. And, you know, that's a tragedy. My view is that if you can make it, you make it. You mentioned about the way the government softened up some of the liabilities on directors through the safe harbour. You know, the different sets of things. I think that's a good thing. But I think we as directors have also got to be responsible and take a view on where we are and make sure that there is a logic and a pragmatism to our planning. And so that we don't start over trading and taking people with us. And that's not the name of the game. The safe harbour is there now for us to meet the demands of an extraordinary and unique situation, the likes of which most of us have never seen. But it's there for that. Not so that, you know, directors don't pre-empt the gun and close stuff down because of the fear of being sued. Right. Again, you back to proportionality. In all situations, you react to practicing. You know, what a principled approach. Right. You can't throw your ethics out the window. If we get to every man for himself, that's we're not doing that as a community, are we? I mean, it's such a heartening thing to know that we as a community value life much more than we do money.

Keep hold of humanity

Joanna: Yeah, I think you're 100 percent correct. And I'd look just anecdotally. I mean, there's a few things. I've seen a lot of businesses and this is something that we're doing at the moment as well.

Reaching out to all of our clients just to do that, that temperature check. How are you going? You know? And I think that that's I've seen it happen in a number of different ways. And also, I'm seeing people on the street because you know, that no one's in the gym, sadly, for the gyms. And we've got a number of gyms who are part of our client base. So it's a really hard

time for them. But no one's in the gyms at the moment. So they're all that sort of just, you know, so many people walking past us on the street that are waving the day before. So in some ways, whilst we've got of social isolation and massive pressures, I think humanity is shining through as well. And I think your point here is like keep hold of that humanity as well. Right.

Michael: Yes. And look, you know, the economy is resilient. People are resilient. You know, this is the 20th pandemic since AIDS 1, 3, 5, apparently. So, you know, there have been other pandemics and some of them much more severe than this one in terms of loss of life. So, you know, we will get through this one way or another. But we you know, we as a community have got to go to pause here and take a good look at how we come out of this collectively and corporately and say, OK, what are our priorities and what have we learned from this and what can we do better? I mean, isn't that the nature of life? I mean, isn't it the nature of our own personal journeys, our own business journeys? You know, I mean, so I think, you know, there will be opportunities the other side of this to have a good look at the way we do things.

Proactive steps to take

Joanna: Yeah. All right. So let's maybe summarise this into a couple of action steps, Mike, I guess what are we saying to business? Number one, like this first rule of the game, stay in the game. And by that, we mean start making some plans. Yes. Sit down, review your figures and start taking steps. What else?

Michael: Find a way to survive this, even if what you got is a dramatically pruned bush. Right. It's still a bush. Get somebody that you can come back from and, you know, you may have gone back five or ten years. So, you know, if get back to the essence of what your business is about, what it does in terms of its products and services, and try and find a reason, a reason for being post this and then you'll come back and you'll flourish, if you may. If you had to make those dramatic in some of us or some other having to make very dramatic decisions on what's got to go, but better that really than not taking any action and becoming a statistic really if you don't need to. So I think that you need a plan. You need a COVID-19 survival plan. This experience is so pervasive.

Look at Virgin, I mean, I looked at the Bonacci. If you reach a billion dollars in cash and now they're kind of putting a survival plan together as we speak. And they're doing this. We just need a version of that. Yeah. This is hitting everyone.

Joanna: But here is one of the benefits for SMEs, SMEs are at a size where generally they can pivot a lot quicker than large organizations that take a long time to move, you know, to change direction.

So for SMEs, you know, I think it's about being innovative and working out how you can pivot. And I've seen just some incredible examples over the last week of some of our clients who really successfully pivoted and they're taking advantage of new opportunities in areas that hadn't occurred to them beforehand. So, you know, maybe that's a thought process as well for this.

Michael: No, I think you're absolutely right, Joanna. And, you know, I've got a deep, fundamental hope. You know, no matter what gets thrown at us, small business generally seems to find a way to adapt and become useful. And this will be no different. As my argument and my you know, what I'm urging people to do is to make sure they've got a plan and it's rational and logical. You'll feel better if you've done it. It doesn't have to be war and peace. Few slides on a PowerPoint will do as long as you've sort of thought it through and know your numbers and then be able to communicate that to your stakeholders, including the

bank or the staff. Think if you can't do that, then I think you're freed up to get more creative. Yeah, but let's say you're getting creative from a solid base that says right, given all given my survival plan. Right. What can I do now that I've never thought of? What can I reach out to? Where can I go next? And that's where we think we can see some of the things that you're seeing. But perhaps a bit more on a broader scale. And look, my view is that we're doing a bunch of things that work in the next quarter that we never get time to do. Right. All the things that we never get time to do. We started doing this one. We got 20 things underway where there's no excuse not to do some of the project work. We got a whole bunch of systems stuff. We've engaged our marketers to work with them on a website and branding that we've we've been ignoring for a few years and all that stuff. There's no excuse for us in our situation not to get that done. And then, you know that planning for post-COVID19, I don't think there's a minute to waste to really.

Joanna: Be ready for the uptick. That's what your perspective should be. Well, speaking from an optimistic perspective.

Michael: Let's get ready. Let's come out swinging with both hands. Yes. Let's find you know, let's recreate a new future.

Joanna: I love it, Mike. This has been absolutely fabulous. I just want to say, a massive thank you for coming on to Talking Law.

Now, if any of our listeners want to get in touch and get some assistance with that action planning, how can they get in contact with you?

Michael: Sure. Go to our Web site, oasisma.com.au, you can e-mail me, michael@oasisma.com.au, I think you'll provide some link. So we will add you know, we love to hear from anyone that wants to have a chat about what they might be able to do if we can be of service. Great. If not, let's just have a chat.

Joanna: Yeah because you've got some time.

Michael: Yes, more time than we usually do.

Joanna: I love it. Thank you so much, Mike.

Michael: Thanks, Joanna.

Joanna: Well that's it for this episode of Talking Law, focusing on the first rule of the game, which of course, is to stay in the game.

If you'd like more information about this topic or if you're the sort of person who likes to see a transcript of a podcast episode, then just head over to our website at www.talkinglaw.com.au and at that website and in our show notes where you're listening to this podcast. You'll also be able to find details of how to contact Michael McGrath at Oasis M&A. If you would like any assistance with creating an action plan for your own business in the show notes and on our website, you'll also be able to find out how to contact our lawyers at Aspect Legal. If you would like any assistance in your business in dealing with leases or landlords dealing with employment issues that may be appearing at the moment in relation to stand downs, redundancies or leave, or if you'd like any assistance on dealing with contracts, contract termination or debt recovery, we have our team of legal eagles ready and waiting to assist.

And so you can find out on our website at talkinglaw.com.au or over at aspectlegal.com.au,

we have a number of ways that you can make contact with our legal eagles at Aspect Legal all line up a free initial discussion with our team. I just want to say a massive thank you to you for listening in today. And I just want to take this opportunity to send my very best wishes to you, wherever you are, whatever your business is going through right at the moment.

I know it's a really difficult time for so many businesses out there with so much uncertainty, but we're really right behind you and doing all that we can to pave the way for all of our clients eventual rebound and future success post the end of this whole coronavirus debacle.

Well, that's a wrap. Wishing you to stay safe and to stay strong in your business. You've been listening to Joanna Oakey and Talking Law, a podcast proudly brought to by our commercial legal practice Aspect Legal. See you next time.

