BOSS MAGAZINE

5 Tips for Talking to Your Banker and Investors During a Looming Recession

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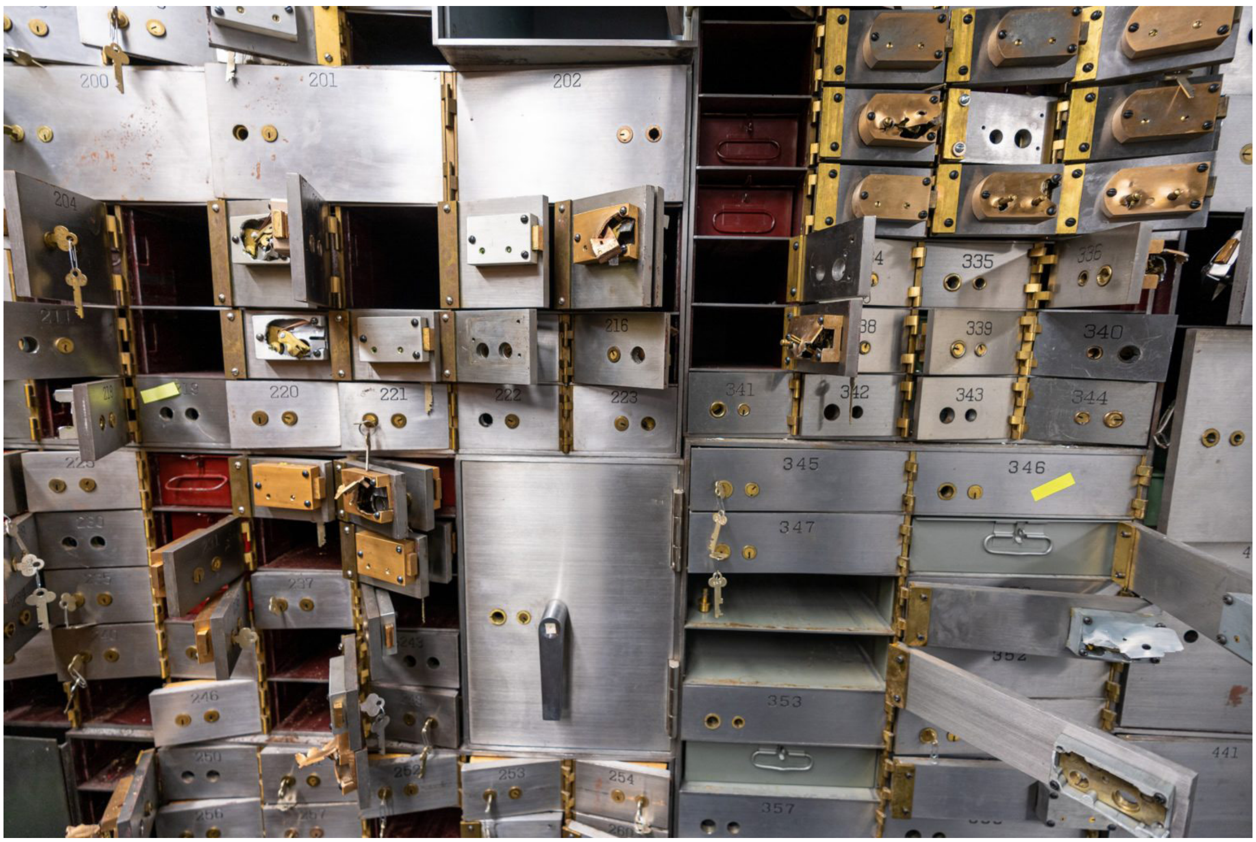

Your capital providers understand that times are tough and your business has taken a hit because of the coronavirus and market volatility. It's your responsibility to ensure them that you have the situation under control so they will confidently support you moving forward.

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Recessions are a natural part of a business's life cycle. Each one is different in its cause and impact on the economy, but it still follows a similar pattern as the last — warning signs, a sudden crisis, a false sense of security, and then long-term fallout.

Consider the Great Recession, when we saw mortgage defaults rise for nearly a year before disaster struck in September 2008. News was quiet for months, then businesses across the world struggled to grow again for years to follow.

One of a business leader's most important — and often most overlooked — tasks is demonstrating their capabilities and expertise to their bankers and investors.

Of course, the health and safety of your employees, families and overall communities is your greatest priority. But once the appropriate security measures have been taken, it's important to take steps to protect liquidity and preserve your organization's financial stability, which means ensuring your capital providers know that you have a handle on the situation.

Here are five tips for communicating with your banker and investors during times of crisis:

1. Create a decision-making process to carry you through the recession.

If the coronavirus pandemic has taught us anything, it's that new, business-altering information can become available every day. That said, it's important to establish a decision-making process instead of a hard-and-fast plan. Plans require certain factors to be true before they can be put into action, but decision-making processes can be implemented regardless of future outcomes.

Start by regularly gathering all members of the senior management team to discuss the various matters the company is facing and possible solutions for each. Be sure to consider every facet of the organization — from executives to suppliers to janitors. Get a handle on the most important issues, and set a direction for the company to move in. As conditions change, the company's direction will, too, so it's important to recognize the drivers that will indicate the need for change so you can monitor them and alter your plan accordingly. Your "plan" should be fluid and

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built on the previously determined decision-making process, which will remain consistent even as the plan changes due to outside factors.

2. Engage in scenario thinking.

Scenario thinking is the process of brainstorming various plausible scenarios and their causes, then testing your company's resilience against each. Given our current, unprecedented circumstances, this practice will prove especially beneficial in coming out on the other side unscathed. Think about all the possible outcomes of the coronavirus on your company: Are you adequately staffed? How will the virus affect your supply chain? How much money could you lose? How long can you stay in business at this rate?

Once you've listed all logical outcomes, quantify each one to better understand its potential impact on your organization. This also allows you to determine your resilience against each scenario and come up with specific steps to resolve the issue if it becomes a reality. Be careful not to get tunnel vision by focusing on the one outcome you think is most likely. The purpose of this exercise is to prepare to navigate all plausible scenarios instead of planning for a particular one.

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3. Speak credibly and demonstrate control.

There's enough chaos happening all around us without you adding fuel to the fire. When speaking with your capital partners, instill confidence with a calm, humble tone, and fact-based information. Now is not the time to show excess emotion and appear out of control or out of touch with the situation. Speak to what your executive team is already doing to mitigate risk, and be sure to detail the problem, your well-considered solutions and a timeline for resolving the issue. By communicating that you have control over the situation, your capital providers will see that you deserve their support, and they may defer payments or go interest-only if they think you're creditworthy. Finally, be careful not to sugar-coat the issues your organization might be facing. Bring any problems to your banker and investors' attention now so they don't continue to grow under the surface and become bigger issues later on.

4. Consider your capital partners' thoughts and opinions.

As an executive, you certainly know more about your organization than most people, but you may be blinded to certain issues because of your proximity to the company or simply your lack of experience in other markets. Your banker, investors, and board of directors have worked with more companies and CEOs than you have alone, so utilize their expertise as much as possible. Understand that bankers commonly deal with highly regulated companies and investors are familiar with managing risks. Their thoughts and opinions are extremely valuable when deciding a plan of action. But also keep in mind that their own businesses are also constantly shifting, so the "right" partner today may not be a good fit in a few years, and that's OK. Respectfully break ties with any partners who are not right for helping you maneuver through the challenging situation at hand.

5. Tell them when you're ready to grow again.

Once you have a handle on all your company's issues, don't hesitate to start looking for new growth opportunities, both organic and acquisitive. Keep in mind that some opportunities may only be available for a limited time. As companies begin to evaluate their liquidity needs as a result of the pandemic, a merger or

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acquisition may be more profitable than other options, such as recapitalization or operating changes. It's important to act fast to benefit from these opportunities (once your organization is secure enough to do so) — just as a moving bike is easier to balance on, a growing business is more stable.

Your capital providers understand that times are tough and business has taken a hit as a result. It's your responsibility to ensure them that you have the situation under control so they will confidently support you moving forward.

Frank Williamson is the founder of Oaklyn Consulting, a consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capital-raising, investor relations, succession and other strategic corporate finance decisions. Oaklyn Consulting does not work as a broker but as an extension of clients' boards and management teams, charging time-based fees for investment banking advice.