



## Crisis Survival Guide

**Keith J. Cunningham**  
**March 28, 2020**

Five birds are sitting side by side on a telephone wire. You shoot one of them, it falls off the wire and hits the ground. Now how many birds are left on the wire? The obvious answer is “4”. The correct answer is “none”. When you shot the first bird, the other 4 birds flew off.

All of us are experiencing an infestation of flying birds as a result of the COVID-19 virus and the ensuing economic crisis it has generated.

Although this is obvious, I am saying it anyway: This is not business as usual. In fact, if you haven't already, throw away your 2020 budget. Shred whatever strategic or growth plan you might have dreamed up 4-5 months ago for 2020. That original strategic or growth plan will not help you survive this crisis... and survival and stability are the new objectives.

A great example might be the Titanic. The original plan of every passenger on the Titanic was to get from England to the United States, but that plan radically changed the instant they hit that iceberg. After that iceberg, there wasn't one person on the Titanic who was thinking about what they were going to have for dinner once they got to New York. The change in priorities was dramatic because of the radical change in circumstances.

Here's another example to put things into perspective. Imagine you have been training to run in the Tokyo Olympics marathon. Three months before the starting gun is fired, you get hit by a bus. Assume you are in the emergency room with a collapsed lung, two broken legs, and a real possibility of being paralyzed from the waist down for the rest of your life as a result of the encounter with the bus. The last thing you would be focused on is the dietary and training regimen you originally thought was required to compete in that race. Your priorities would logically shift to accommodate the new reality of your circumstances. You might be disappointed about missing the race, but as you are lying on the bedpan in the hospital unable to wiggle your toes, it would not be your primary concern.

During a crisis, your priorities and focus must shift *from **strategic** to **tactical***. Think about an emergency room in a hospital. There are only two strategic outcomes: Keep the patient alive and stabilize the vital signs. Everything else is tactical. Things like keeping the heart beating, stopping the bleeding, and keeping oxygen flowing tactically support the primary objective of keeping the patient alive. In fact, if you take this analogy one step further, the monitors and machines hooked up to the patient are all intended to measure the things that, if they go wrong, will kill the patient. In an emergency room, they are not measuring your cholesterol or body mass index because those things will not result in imminent death.

If you really look at an emergency room, you will find five recurring themes:

- Extreme focus and a breathtaking level of intensity
- Constant monitoring of vital signs
- Instantaneous and constant communication
- Massive flexibility to respond to any new crisis that could destabilize or kill the patient
- Speed of action and interaction

If your business is experiencing financial turmoil, I would highly recommend you adopt the same protocols used in hospital emergency rooms. Prioritize keeping your business alive and getting it stabilized as quickly as possible. Keeping a business alive requires CASH!

The easiest thing to do right now would be to assume the problem is COVID-19. Or the government's response to COVID-19 or Wall Street's reaction to the government's response to COVID-19. The reality is that none of these are the real problem. Each of these are predicaments...or said another way, a state of the environment. A problem is something that can be solved, and none of us (individually) can solve any of these "predicaments." The real problem, for us as business owners, is how do we save our business? How do we stabilize our business? How do we respond to this environment of the virus and the quarantines and Wall Street seizing up by stabilizing our business in a way that gives us better than even odds that we will live to fight another day once these crises have passed?

**Here it is on a bumper sticker: Focus on the problem you can solve!**

If you had an underlying health condition prior to this virus, your ability to deal with this health crisis is compromised. The same is true with your business. If you have too much debt, or revenues were unstable, or you have been carrying around some excess weight in the form of expenses or personal spending or you were light on dry powder and cash reserves or you have gotten over the tips of your skis with too many fixed expenses or debt payments relative to your cash flow, or if cash flow has been weak or negative prior to this crisis, then your ability to weather this storm financially has been compromised and you are at extreme risk. In other words, if you have only been playing offense for the last couple of years and have no defense, then this is going to be a particularly difficult time for you... and the adjustments you will need to make will be severe.

Years ago, I heard a very smart man say: How you run your business during the good times dictates how well you survive the bad times.

Perhaps Warren Buffett said it best: "A bad economy does not cause businesses to go broke, but it does expose the weak ones."

There is no script or playbook for the current economic and business problems because we have never faced these kinds of issues with this scope and magnitude. While your specific situation might be very different from most (maybe you are in the toilet paper business, in which case none of this will apply to you), here are some guardrails and principles to guide you in your thinking and planning as you navigate and survive this crisis:

- Face reality. Whatever the environment is when you read or hear this, imagine that environment (or worse) for three to six months. (As of today, many cities, states, and even entire nations are in mandatory lockdown mode... I suspect more is still to come and the aftershocks will linger long after the original crisis is resolved.) One of the biggest problems we all face is not knowing how long this will last. Rather than assuming extremes like "forever" or "a couple of days" (neither of which are very realistic), you should be assuming it will be long enough to cause you to make radical changes to your expense structure and cash burn rate.... An example be might three to six months. Maybe we will get lucky and it will be less. Maybe we won't get lucky in which case we will need more expense reductions or additional sources of cash.
- Prepare and start using a [Rolling 13-Week Cash Forecast](#). This one tool is possibly the most important one you can master to maximize the likelihood of survival. If you need more info on a Rolling 13-Week Cash Forecast and how to prepare one, visit my website: [www.KeystotheVault.com/Crisis-Management](http://www.KeystotheVault.com/Crisis-Management). It's available free of charge and can be downloaded immediately from my recent article, "[Business Oxygen](#)".
- Work out a detailed specific plan on expenses considering your current cash balances, cash flow, and realistic anticipated revenue. The goal is to make the decisions to get to cash

neutral as quickly as possible. While there are always a few exceptions to every rule, during a crisis, a business' goal is not wealth creation, but rather loss avoidance. The few businesses that are able to pursue wealth creation strategies in this crisis are businesses that have an abundance of cash and cash flow.

**Here it is on a bumper sticker: Not all progress is measured by ground gained. Sometimes progress is measured by losses avoided.** We are in a "losses avoided" climate and that means breakeven and cash neutral are gold medals.

While I am in favor of worst case scenario ("Armageddon"-type) projections, I have found the most valuable projection is based on a slightly pessimistic version of what you think is probably realistic with triggers and milestones that cause additional adjustments or cuts to expenses, if required. The key is a plan that is flexible and can be ratcheted or scaled to accommodate revenue or cash flow surprises. Knowing what adjustments are required if it turns out revenue or cash flow is off by 20% is critical to a realistic and flexible plan. When bad things happen, the speed, accuracy and clarity of your response is vital.

- Be anticipatory versus relying on your reflexes to react fast enough to dodge all the bullets. Since we don't know what will happen, for some of you, it will pay to think about and plan for phased expense cuts. Sometimes you can afford to carry a loss for a while if you have dry powder and choose to invest your capital now. On the other hand, for many people it will make more sense to get ahead of the curve now and not try to play catch up later. You must use your best judgment about your specific situation, but every day you delay adjusting your burn rate is cash that is vaporized...forever!
- Extreme frugality is the new mantra. Minimize expenses fast. Cut fat, then muscle...be careful about the bone. Shedding a few excess pounds is very different from managing a broken leg. Most businesses are carrying around some excess weight that can easily be whacked. On the other hand, if you break your leg, you know you will be in a cast six to eight weeks. When the cast is removed, the muscles will have atrophied. A month or so later, with a little bit of rehab, your leg is just like new. But if your strategy for weight loss is to amputate your leg, or if you break your leg and the doctor amputates it, you will limp for the rest of your life. And...It does no good to die of starvation with all your bones intact, so be thoughtful.

Here is the critical message: More often than not, the "bones" of a business are probably a few key employees. So here is the critical question: Who in your organization is the "bone"? Who are the people, that if you lost them, would result in your business limping after this crisis is over?

- The hardest expense to deal with is payroll, which for most businesses is the largest single expense on their financial statements. The temptation is to envision what we will need when the crisis abates and the recovery begins, and staff to that mythical level. The other impulse is to fund everyone as long as possible or to enact an across the board 25% reduction in wages. This is usually a mistake when you don't know the length of time you will be in the hospital. In my experience, wages need to get aligned with current revenue. This will involve some hard decisions and serious cuts. When the recovery begins, start hiring again. This is just like rebuilding an atrophied muscle after the cast is removed. If you stop to think about it, the people you furlough are probably the same people you would want to rehire when this storm passes, so be thoughtful about your conversations and generosity if you must push the pause button with some of your team. Given the pervasiveness of this crisis, it is unlikely they will find another job between now and when you start rehiring.

Furthermore, everyone taking an equal percentage haircut in an effort to show solidarity is equally unwise. Find and retain your "A" Players (the "bones" of your business), the ones that are truly critical to keeping the doors open, either now or in the future and protect them. The payroll cuts of 20 or 30% should be reserved for your weak or non-critical players. The question you must keep asking yourself is not how do we maintain a workforce, but rather how do we survive? During bad times, breakeven is a win!

- Once the money is spent, it is gone...forever!
- During a crisis, it is never just the business that needs some serious weight loss. Most business owners have been overeating as well. In fact, it is not uncommon for business owners to eat regardless of whether or not there is enough food for the business. It doesn't take a Harvard MBA to understand that starving your business so you can afford your lifestyle is a prescription for an anemic business. Whack personal expenses as much as possible. Be aggressive with this. Start NOW!
- Money borrowed to stay alive is money that must be repaid out of future earnings. This is not a tough concept, but it was lost on many recent and current college students. They borrowed money to go to school because the money was available and easy to access; it was easier than tightening their belts or getting a part time job. An entire generation has learned the hard way that borrowing money now is mortgaging your financial future. The unhappy result for many of these college students is crushing debt repayment schedules, delayed family planning and zero ability to afford a house. This is not a judgment about college students and their borrowing and spending habits, but rather an example of how any money you borrow or spend today to support a "non-breakeven" business is money that will have to be repaid in the future out of your future earnings...so be very thoughtful

because there is no free lunch. My experience is that while painful in the moment, tightening my belt and skipping a couple of meals today is far less expensive and painful than paying the tab tomorrow for my lack of ability to design a breakeven scenario.

- In a financial crisis, growth will not bail you out. This is not about adding new customers, it is about survival. This is a critical point. The problem we face is:

1. How do we survive?
2. How do we stabilize?
3. How do we breakeven?
4. How can we preserve our oxygen (cash) to be able to make it one extra month or quarter if need be?
5. How do we minimize the mortgaging of our future by being aggressively frugal today?

- Silence erodes trust. Communication with your team, lenders, vendors, landlord (etc.) is key. In a crisis, more is better than less while none at all is permanently damaging. Everyone who touches your business is nervous. They are nervous about their jobs, their accounts receivable from you, your ability to make your next loan payment, or this month's rent. You don't have to have all the answers, but you do need to be honest about the situation. They want (and deserve) the truth, they want to know you are working on it. And they want to know that you care.

Imagine you are a passenger on an airplane. Suddenly the plane drops 200 feet and starts shuddering violently, the oxygen masks drop down from the ceiling and the overhead bins pop open and luggage and handbags are flying around the cabin. As a passenger on this plane, you would like to hear something from the captain in the cockpit that acknowledges the problem, calms you by telling you the plane is descending to a new altitude, and that she knows what to do to reverse this problem and get you to your destination safely.

You can do the same thing. A suggestion for a script with your employees might sound like:

*"We have been working nonstop on figuring out how to stabilize our business, get it to breakeven, and make sure we can survive. We have run numerous financial scenarios and made hundreds of different assumptions about what might happen next. Our best guess is that with this amount of revenue (\$\_\_\_\_\_ or \_\_\_\_\_ number of sales) and the current amount of expenses, we can be cash flow neutral and breakeven. If things get worse, or we miss our targeted revenue, or this drags on much longer than we expect, then we will have to make different decisions and up the dosage on our medications. This is exactly what happens when you get sick and visit the doctor. The doctor prescribes a drug or therapy*



*based on their assessment of the problem. If the patient gets worse, the prescription or dosage will change. We have tightened our belts and made the cuts that we think will get us past this crisis.*

*Our commitment to you is simple: We will keep you informed on how we are doing. We will treat you the way we would want to be treated. We will be as generous as we can given the circumstances we are facing. We do not have a bottomless pit of money and will demand that everyone be frugal. We will manage this business very tightly to ensure survival and a place for you to work long-term if you desire. There is no question that it is bumpy today and frankly, it is likely to be bumpy for the next couple months. We have developed a plan to get us through this and a critical part of this plan is an expectation that you will do your job at a level of excellence and intensity that reflects the severity of this crisis. This crisis will pass, and we intend to be one of the survivors.”*

**Here it is on a Bumper Sticker: Communicate frequently, candidly, and caringly.**

- Be mindful about your debts to a bank where you keep your operating accounts and cash. If you have debt, the bank can arbitrarily sweep your liquid assets to offset your loan/interest/fees. Banks typically don't resort to this unless they sniff a severe problem and chances are you would be aware of the problem before they are. To minimize this unhappy outcome, if your business gets to the point that the problems are harrowing, set up new bank accounts at a separate bank and transfer your cash and operating accounts to the new bank. The banks hate it when you do this, but they will all exercise the sweep (which is essentially the death penalty for your business) if your situation gets bad enough, regardless of how much they tell you they love you beforehand.
- Although everyone is different, the rule of thumb is to be proactive in asking for a temporary moratorium on payments to your bankers or landlords. Start talking with landlords and lenders immediately. If your cash or cash flow situation is underwater, the initial request should be for a temporary suspension of all payments for at least 90 days...principle, interest, penalties, late fees, office rent, equipment leases, etc. All lenders and landlords are aware this conversation is coming. I am sure there will be consequences, (although the government might step in and mandate different terms eventually) but the time to deal with those consequences is after you survive, and we get a better handle on this problem and how deep it will go.
- The single biggest mistake you can make right now is to freeze. If you decide to ride out this hurricane with no forethought, plan, shelter or life jacket, be prepared to die.
- As much as I hate saying this, I strongly suspect that now that this dam of mandatory quarantine and emergency lockdowns has been broken, we will see this remedy again. So, it might be useful to pay close attention to the decisions you made previously that have

impacted how this crisis is currently affecting you. Any time there is a mistake or loss, it is critical to understand what you either did or didn't do that might have exacerbated the pain or ignited the problem. The key is to convert the pain of the loss into the gain of an education. I am highly recommending you start a **Log of Lessons Learned**, which is simply a detailed bullet point list of all the things you now know, that if you had known them before, would have made a material difference in the possible prevention or minimization of the impact of this crisis. It totally changes your way of thinking about what has happened. Besides, if you don't learn the lesson this time, you are doomed to repeat it. You can see a few of my entries in my personal Log of Lessons Learned from losing all my money in the late 1980's by reading Chapter 10 in my most recent book, "***The Road Less Stupid.***"

Here is my conclusion: The businesses that are suffering the worst pain are the ones that had weak balance sheets and cash flow prior to the onset of this crisis. The focus on Wall Street has flipped 180 degrees from an obsession with income statements, revenue, scalability, and profits to an emphasis on cash, cash reserves, cash flow, debt, debt to equity ratios, and free cash flow. Wall Street is paying very close attention to how well positioned a business is to weather a storm and how management has performed on preserving dry powder.

While the scale and scope of this financial crisis might be greater than previous financial tsunamis, one thing remains true: The owners and management teams who were thoughtful and prudent with running their businesses prior to these events have a significant advantage over those that ignored the rules of financial gravity.

**Here it is on a bumper sticker: Championship teams have world class defenses. While offense scores points, defense wins games.**

#### **About Keith J. Cunningham**

American entrepreneur, international speaker and acclaimed author, **Keith J. Cunningham** is regarded as one of the foremost authorities and teachers on business mastery. With more than forty-five years of business and investing experience, Keith has taught critical business skills to thousands of top executives, business owners, and entrepreneurs around the world. He is very adept at helping business owners lead their teams in times of crisis.

In Keith's *Keys to the Vault* Business School, he has created curriculum designed to accelerate the transition from owner to operator and drive sustainable financial performance and business success. Through his Board of Directors program, he serves as Chairman of the Board for businesses in a wide range of industries.

**Additional resources to support you are Keith's books [The Ultimate Blueprint for an Insanely Successful Business](#) and [The Road Less Stupid](#).**

[www.KeystotheVault.com](http://www.KeystotheVault.com)

[www.CFOScoreboard.com](http://www.CFOScoreboard.com)

(512) 231-9944

[info@keystothevault.com](mailto:info@keystothevault.com)