As the economic challenges and social restrictions brought on by Covid-19 continue, privately held companies struggle to keep their staff intact and continue to serve their customers. Early economic support from the government came at a time when many expected the downturn and social-distancing measures to be short-lived. Although adverse conditions have persisted, the support has not.

This situation has tested the adaptability of organizational and overhead structures. For many, remote work has become a new normal and spending has tightened. Of course, businesses are at pains to make cuts to staff and overhead while continuing to serve their customers.

Now, with little hope of further governmental support, businesses are tasked with creating budgets amid uncertain demand. Some partially reopened regions have been forced to reverse course, and it's unknown how quickly Americans will return to their previous consumption habits in an environment of high unemployment and lingering fears about the virus.

At the same time, firms are positioning themselves for a post-pandemic economy. Privately held businesses in particular must ensure that they are sufficiently diversified to survive the pandemic and emerge poised to thrive.

To learn how these businesses have changed their thinking about human resources, budgeting and succession planning, Crain's Content Studio turned to two experts in the field:

• **Abby Parsonnet**, regional president for the New York metropolitan area at Webster Bank.

• **Anthony D’Agostino**, consulting principal at Grassi.

**Crain's: We are now many months into the COVID-19 pandemic and the resulting economic downturn. What are the key challenges for privately held companies as these conditions linger?**

Anthony D’Agostino: After the initial influx of Paycheck Protection Program (PPP) funds and other emergency aid, many privately held companies are back to struggling to keep their employees paid as the pandemic and economic downturn persist far longer than anyone anticipated.

Even as certain industries remobilize, such as hospitality, food services, travel and fitness, continued social distancing requirements and changing consumer habits and attitudes will affect their recovery. Fixed operating costs are continuing, while demand is not rebounding quickly enough to enable a positive cash flow.

Privately held companies are also challenged with the reality that working parents need to accommodate virtual or hybrid school schedules that limit their ability to be in the workplace five days a week. The transition and workarounds will have a profound impact on workplace schedules, and businesses need to evolve their policies and procedures to be more employee-centric.

**Abby Parsonnet:** Uncertainty of demand is the key challenge for...
HOW PRIVATELY HELD COMPANIES ARE WEATHERING THE PANDEMIC

many privately held companies. Because of the lingering pandemic and subsequent shutdowns and limitations on conducting business as usual, it is more challenging to confidently predict sales. Thus uncertainty has an impact on the entire supply chain. With no end to the pandemic or effective use of mitigation techniques in sight, business leaders must find ways to be nimble in all aspects of their business model, which may include figuring out how to deliver goods and services virtually or how to be flexible in their remote work to keep both employees and customers safe while maintaining productivity, corporate culture and profitability.

Crahn's: For privately owned businesses, what would you say are the key "lessons learned" from the pandemic?

Parsonnet: Possessing a flexible overhead structure has been one of the key lessons learned. Good information and good preparation allow for quick action. The ability to quickly pivot, scale down and then scale back as the situation changed has been invaluable. Survive the disruption to the supply chain early in the pandemic and the demand shocks triggered by the lockdowns and re-engagement is for businesses to realize how important it is to have an excellent financial system in place. Having a good grasp of actual revenue streams, outstanding receivables and payables, and the terms of all debt and other fixed obligations, for example, allows for timely decision making not only on critical issues but also on the ability to seize potential opportunities. Finally, and perhaps most importantly, during a time of crisis, access to capital is absolutely critical. Developing and maintaining honest, transparent relationships with your banks will make it easier for them to properly support your financing requirements in difficult times.

D'Agostino: Many companies spent the relief funding they received on keeping their workforce and operations intact. Thinking the recovery was only weeks away. I think many business owners are now realizing that crises of this magnitude require quick, decisive action and not a "wait-and-see" approach. Those that made tough but crucial decisions early on are largely weathering the crisis better than those who underestimated its severity or length.

Business owners are realizing the importance of risk management and business continuity plans. Oftentimes, the cost and resources involved in developing the emergency plans and policies deter owners from pursuing or updating them. AICPA did prove that the unexpected can — and will — come in many different forms and it's essential to have up-to-date plans and policies to guide your steps in any situation.

Crahn's: What are some of the most effective ways privately held companies are bringing products or services to market to overcome the barriers caused by social-distancing requirements?

D'Agostino: While this may seem like a closed-door conversation among the owners, it is actually essential to have key managers involved in the decision process — and in the solution. Owners should be open with them about the problem and why reducing staff is necessary to the company's survival. This decision will greatly impact the managers ability to perform, and the insight they bring to the table will be invaluable.

Owners should be careful not to neglect the rest of their staff as they make these difficult decisions. These are the employees who will likely be asked to take on more responsibility in the proverbial barn. As much as possible, leaders should try to be transparent about how furloughed or laid-off employees' roles will be covered and communicate the potential and timeline to bring furloughed staff back.

Crahn's: How can companies determine how much office space they will need upon lease renewal in this new world? Will they still need individual offices and work areas, or space to accommodate teams? How can they ensure employees feel safe?

D'Agostino: I believe that working remotely is here to stay and companies that do administrative work will not need the same level of office space that they did before. Consulting with a workforce planning specialist can help a business owner objectively assess the level of staffing needed and the efficiency of jobs being performed remotely versus in person.

Shared spaces can be kept safe by having users of that space wear masks and clean surfaces before they leave the space. Owners should implement more rigorous cleaning schedules and employ a rotating staffing schedule to minimize interaction and maintain social-distancing measures.

Crahn's: How are PPP loan funds affecting borrowers’ entendering costs and financial reporting?

D'Agostino: The IRS has stated it will not allow the "double benefit" of deducting expenses that were paid for with forgiven PPP loan funds. This means that when a PPP borrower uses the forgiven funds on eligible expenses, those expenses cannot also be deducted on that year’s tax return. Congress would need to legislate an exception, and we have not seen any indication of that in any of the proposed relief packages, despite calls to do so by legislators, the American Institute of Certified Public Accountants and other authorities.

Given the unprecedented nature of PPP funds — namely, the potential for full loan forgiveness — borrowers will also face the challenge of how to report and account for the relief on their financial statements. Fortunately, the AICPA has released guidelines that clearly set forth the recommended accounting methods, but this does add an extra level of complexity to closing the books this year.
A CASH-FLOW ANALYSIS IS CRITICAL TO THE BUDGETING PROCESS EVERY YEAR, BUT ESPECIALLY AMIDST THE UNCERTAINTIES OF 2020.

• ANTHONY D’AGOSTINO

asset that provides critical liquidity, are often overlooked and unprotected from credit loss.

Finally, the uptick in cyberattacks that preyed on the uncertainty caused by the pandemic and took advantage of less rigorously protected home networks revealed the importance of cyber insurance for businesses of all sizes.

D’Agostino: Business plans are often static and assume a certain level of operation. When COVID-19 hit, companies were forced to cut back production and services beyond any normal operating range, forcing owners to get in closer touch with their fixed costs and open commitments. But it is not easy to turn off the spigot without a plan in place.

While the pandemic is an anomaly outside of normal business planning parameters, it teaches us the need to have contingency plans. This planning is not only from a personnel viewpoint, but also strategic changes that can be made to minimize the impact of COVID-19 on their succession plans.

Assuming an owner has at least one to two years before the planned exit, they should make investments that will yield a significant return and minimize the loss in value caused by the crisis. Some of the most dramatic results come from upgrades in technology. Digitizing processes increases efficiency, which in turn increases cost-effectiveness and profitability.

Business owners should also consider having an organizational review performed. An objective, third-party assessment of the efficiency of the operations, people and systems can yield many opportunities to improve the bottom line and position the company for a higher sale price.

Parsonnet: It may be the right time to review estate planning, depending on your goals. And you can take advantage of a lower business valuation as a result of the pandemic to transfer more out of your estate to future generations, at a potentially lower tax basis.

However, if your business is under distress at this point, or if your business succession involves a sale transaction, you could be leaving money on the table in the near term. An earnout based on future profits could capture the value in a post-pandemic recovery.

Finally, difficult financial times create investment opportunities for those with capital, strong management teams and the ability to quickly integrate distressed acquisitions. Having both the proper team in place to facilitate diligence and access to capital positions a buyer to move quickly and acquire assets that may be strongly accretive in the long term or reposition the company for the future.

Crain’s: What gaps in business planning have the COVID-19 pandemic and mandatory shutdowns revealed for privately held companies? What steps can they take now to fill those gaps?

Parsonnet: The pandemic certainly exposed a few gaps in planning. As I’ve stated earlier, the ability to remain flexible, outreach weaknesses and focus on core competencies allowed some companies to fare better than others throughout the pandemic. The mandated shutdowns and social distancing requirements also revealed how important cloud-based technology solutions were for helping businesses quickly pivot to a new normal and continue business, even if it was on a modified basis.

In addition, the pandemic and ensuing retail apoclypse exposed the need for credit insurance or factoring. I often say, you wouldn’t think of not insuring your inventory or building. But accounts receivable, a major business

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Prepare and position. At your pace.

Nobody saw this year coming. But there are steps you can take to prepare your privately held company for everything ahead. Our team of experts is ready to help you move forward, at your pace — get in touch and we can get you started.

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