

An aerial view of a city skyline at dusk. The sky is filled with soft, colorful clouds in shades of blue, orange, and yellow. In the foreground, a multi-lane highway with light trails from traffic runs across the frame. The middle ground shows a dense urban area with various buildings, some with lights on. In the background, the most prominent feature is the Petronas Twin Towers, which are illuminated and stand out against the twilight sky. A red rectangular box is overlaid on the right side of the image, containing white text.

MANAGING BUSINESS IN CRISIS

BY PEMANDU ASSOCIATES

Covid-19 is not just a health crisis. It is also a societal, economic and business crises all around the world

6,185,523

Global Infections
(31 May 2020)

372,377

Worldwide Deaths
(31 May 2020)



**U.N. Sec Gen
Antonio Guterres**

“Covid-19 Worst Crisis since World War II”



**Head of IMF
Kristalina Georgieva**

“The Great Lockdown: Worst Economic Downturn Since the Great Depression”

USD **2.4** trillion

World’s GDP
Contraction
(IMF)

200 mil

Estimated
number of job
losses (UN
Labour Body)



**DG of WHO
Dr Tedros Ghebreyesus**

“Coronavirus may never go away”

Experts from Imperial College & WHO predict the outbreak may last at least 18 months



That is the quickest time frame when an effective medicine or vaccine can be found and brought to market. That said, there is **no absolute certainty** that an effective medicine or vaccine can be found



Without a medicine or vaccine, the world will have to resort to **non-pharmaceutical interventions e.g. lockdown or movement controls**. While these measures can help to suppress or “flatten the curve”, **once lifted or relaxed, the virus infection may continue to spread, or worse still, mutate.**



Gates’s estimated 18-month time frame assumes that vaccine development efforts his foundation is funding will move at “**full speed, ... taking a little bit of risk on the side effects**”, and the manufacturing capacities for all of the most promising ones under development immediately even though few of the candidates will prove to be effective.

Many CEOs are well equipped to deal with business during good times, some have very little experience in dealing with serious business crisis

What do you do if you are the CEO of:



A retail business with a few shops: no customers?



A hotel business: no customers?



A manufacturing business: no workers allowed to work in your factory?



A construction company: no construction work?



A travel and tour agency: no customers?



A gym and fitness centre: no customers?



An architect firm: no one is building house now?



A chain of pubs, cafes and entertainment centres: no customers?

Principles that you know:

- Crisis leadership
- Quick decision making
- Ruthless prioritisation
- Agile implementation
- Authentic communication

Key is how to implement?

Declare a Crisis



Actions

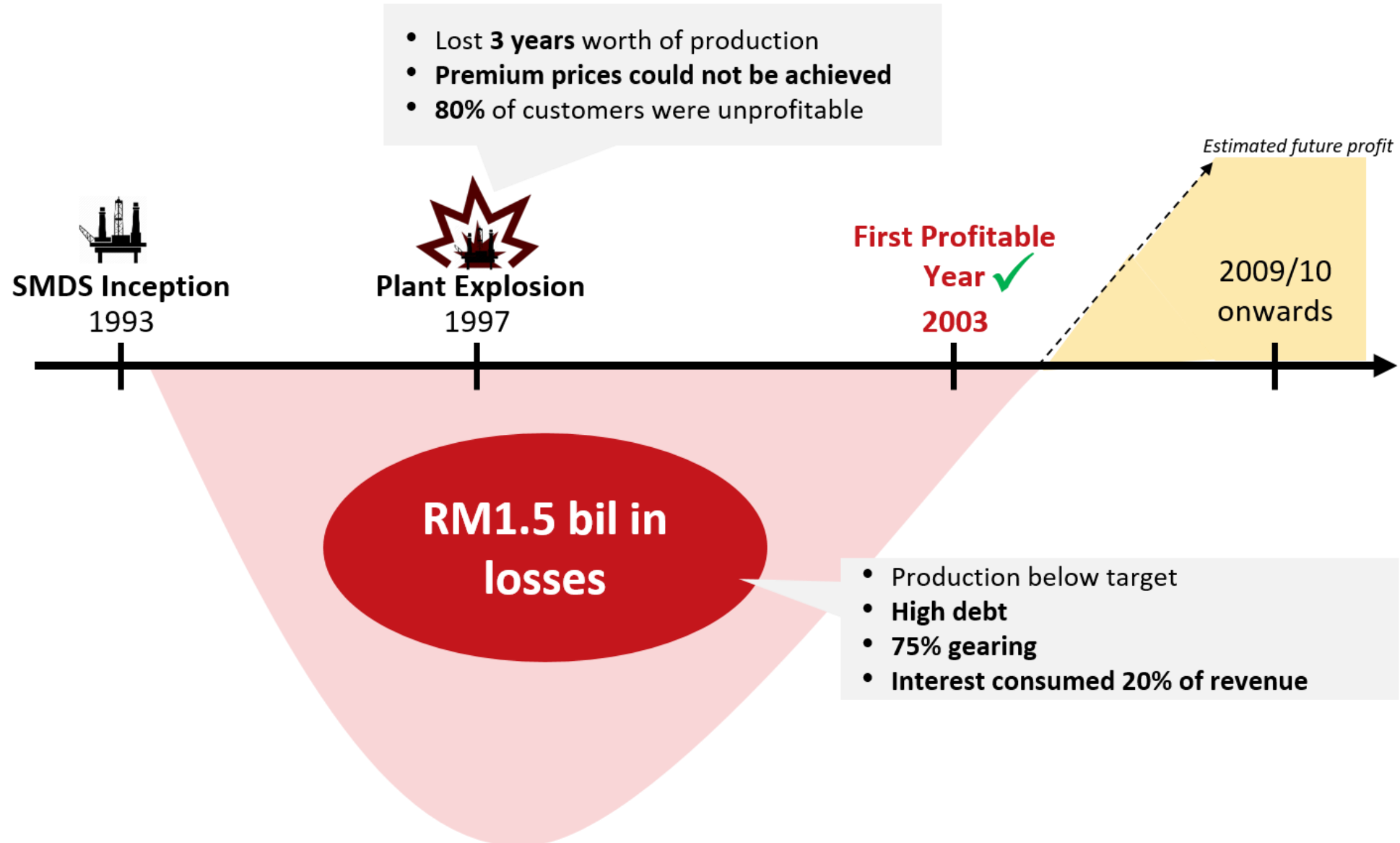
- Declare a crisis
- Announce a Crisis Coordination (“nerve”) Centre (CCC) led by the CEO
- Outline practical steps to deal with crisis
- Send a circular to all staff announcing the business crisis and way forward



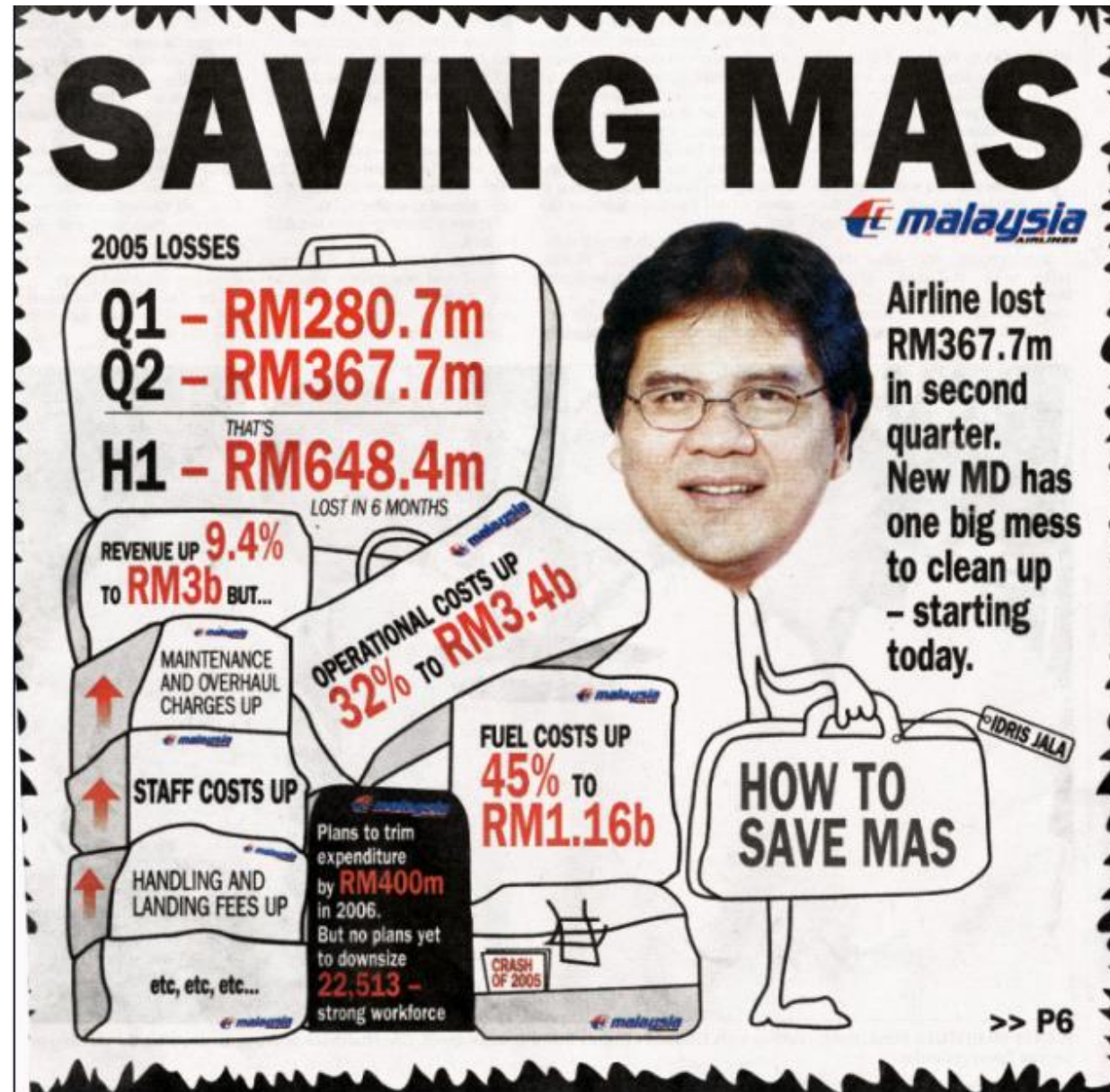
Crisis Management Principles

- Directive and action-oriented leadership
- Decisive leadership
- Timely communication

When I was appointed MD of Shell MDS in June 2003, on first day, I declared the Company was in Crisis

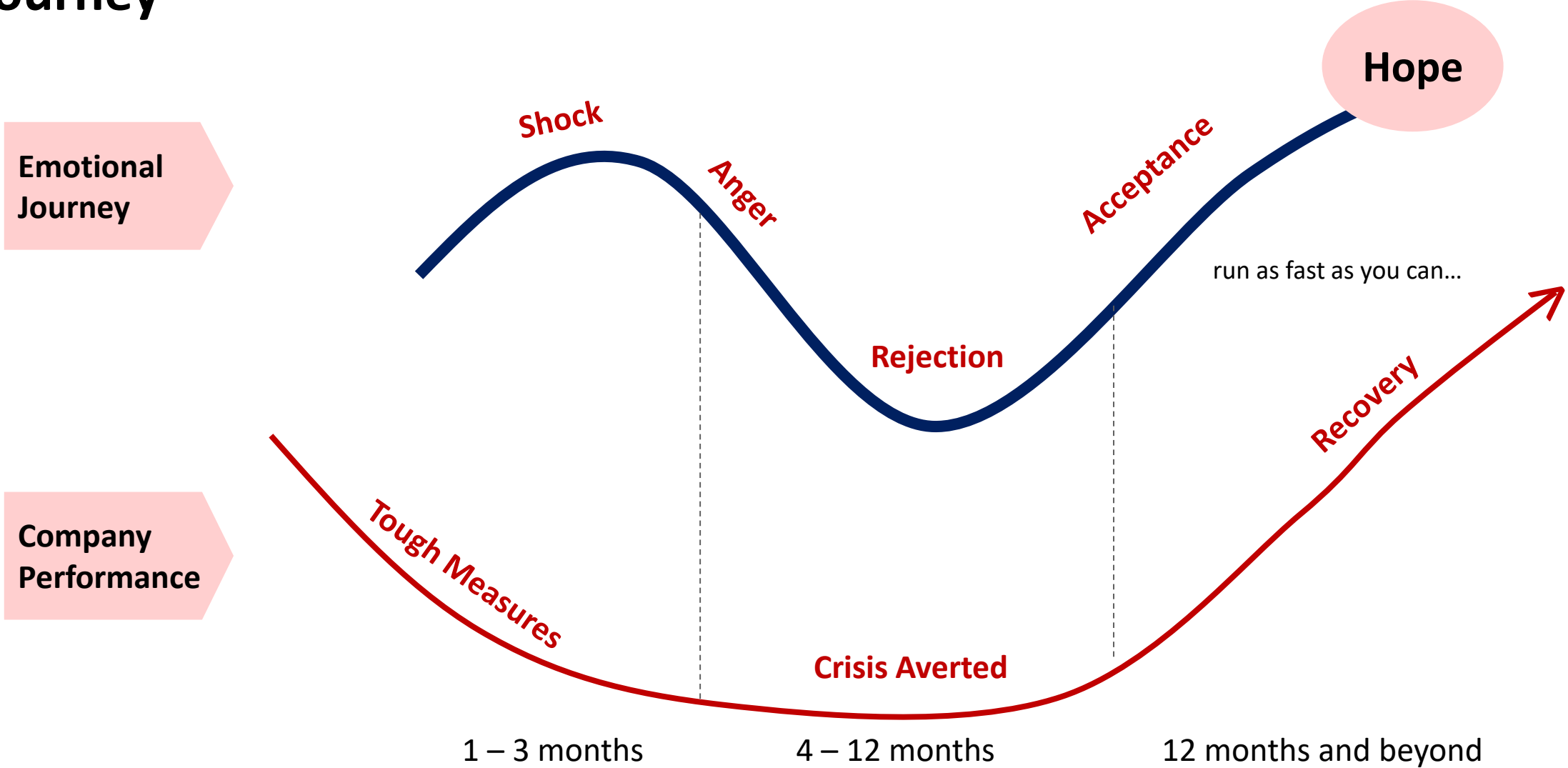


When I was appointed CEO of MAS, on first day I declared a business crisis



New Straits Times
(1st Dec 2005)

When you declare business crisis, acknowledge the emotional SARAH journey



Develop Scenarios and Financial Simulations in order to derive the crisis strategies



Actions

- CCC to answer 2 critical questions:
 - How much cash does the company have now?
 - How long will the cash last?
- CCC develops various business scenarios and financial simulations with appropriate responses
- 3 scenarios i.e. optimistic, pessimistic and realistic scenarios
- Scenarios to inform the strategies that need to be taken:
 - Which part of the business should be fixed, sold or close?
 - For the parts of the business that need to be fixed, what are the levers to increase revenue and reduce cost?



Crisis Management Principles

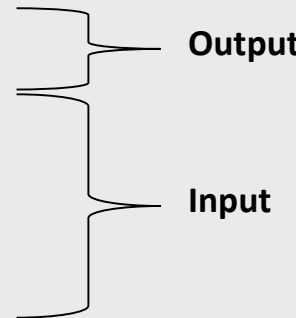
- Business scenarios and financial simulations are a must for companies in crisis
- Strategies to manage crisis should be developed based on business scenarios and financial simulation
- Crisis and Recovery Plans should be developed based on these scenarios
- For a company in serious crisis, the first thing to do is to manage cash
- Expect the worst but plan for the best

A financial simulation based on optimistic, pessimistic and realistic scenarios: NAOMI model

Naomi Model - A tool to develop cashflow forecast scenarios and management

PEMANDU A S S O C I A T E S		Cash Tower Dashboard	
Cash Tower Dashboard		Baseline	Revised Plan
No. of Days of Cash for 2020		85	248
Will Extend Beyond 2020?		NO	YES
Projected Profit / Loss for the Year (RM)		- 4,330,000.00	- 3,080,000.00

- The Naomi model is a tool to produce different cashflow forecast scenario and its subsequent monitoring
- The model allows for companies to identify whether they will have enough cash to last them in 2020 and the breakdown of its component
- The model consist of the following sheets:
 - Cash tower dashboard
 - Cashflow scenarios
 - Baseline
 - Optimistic
 - Pessimistic
 - Revised Plan
 - Actual



It consists of developing a cashflow management plan based on 3 scenarios; Baseline, Pessimistic and Optimistic

Cashflow Scenarios

PEMANDU										
Baseline Scenario										
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Cash In Hand	1,000,000	730,000	460,000	190,000	-80,000	-350,000	-620,000	-890,000	-1,160,000	
Cash Injection	0	0	0	0	0	0	0	0	0	
Receivables	0	0	0	0	0	0	0	0	0	
Payables	-270,000	-270,000	-270,000	-270,000	-270,000	-270,000	-270,000	-270,000	-270,000	
Cash at Month End	730,000	460,000	190,000	-80,000	-350,000	-620,000	-890,000	-1,160,000	-1,430,000	
Cash Burn Rate	-9,000	-8,710	-9,000	-8,710	-8,710	-9,000	-8,710	-9,000	-8,710	
No. of Days	3	31	30	21	0	0	0	0	0	
Optimistic Scenario										
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Cash In Hand	1,000,000	2,764,000	3,528,000	4,282,000	3,996,000	3,780,000	3,564,000	3,228,000	2,982,000	
Cash Injection	0	0	0	0	0	0	0	0	0	
Receivables	1,950,000	950,000	950,000	0	0	0	0	0	0	
Payables	-186,000	-186,000	-196,000	-286,000	-216,000	-216,000	-336,000	-246,000	-226,000	
Cash at Month End	2,764,000	3,528,000	4,282,000	3,996,000	3,780,000	3,564,000	3,228,000	2,982,000	2,756,000	
Cash Burn Rate	-6,200	-6,000	-6,533	-9,226	-6,968	-7,200	-10,839	-8,200	-7,290	
No. of Days	3	31	30	31	31	30	31	30	31	
Pessimistic Scenario										
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Cash In Hand	1,000,000	853,333	656,667	410,000	163,333	-83,333	-330,000	-576,667	-823,333	
Cash Injection	0	0	0	0	0	0	0	0	0	
Receivables	100,000	50,000	0	0	0	0	0	0	0	
Payables	-246,667	-246,667	-246,667	-246,667	-246,667	-246,667	-246,667	-246,667	-246,667	
Cash at Month End	853,333	656,667	410,000	163,333	-83,333	-330,000	-576,667	-823,333	-1,070,000	
Cash Burn Rate	-8,222	-7,957	-8,222	-7,957	-7,957	-8,222	-7,957	-8,222	-7,957	
No. of Days	3	31	30	31	20	0	0	0	0	
Final Decisions										
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Cash In Hand	1,000,000	1,380,000	1,360,000	1,640,000	1,420,000	1,200,000	980,000	760,000	540,000	
Cash Injection	500,000	0	0	0	0	0	0	0	0	
Receivables (Invoiced)	100,000	200,000	500,000	0	0	0	0	0	0	
4 Future Receivables	0	0	0	0	0	0	0	0	0	
5 New Work	0	0	0	0	0	0	0	0	0	
Salaries & Redundancies	-200,000	-200,000	-200,000	-200,000	-200,000	-200,000	-200,000	-200,000	-200,000	
Other Payables	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	
Cash at Month End	1,380,000	1,360,000	1,640,000	1,420,000	1,200,000	980,000	760,000	540,000	320,000	
Cash Inflows (1+2)	1,280,000	1,160,000	1,140,000	1,420,000	1,200,000	980,000	760,000	540,000	320,000	
Cash Inflows (1+2+3)	1,380,000	1,360,000	1,640,000	1,420,000	1,200,000	980,000	760,000	540,000	320,000	
Cash Inflows (1+2+3+4)	1,380,000	1,360,000	1,640,000	1,420,000	1,200,000	980,000	760,000	540,000	320,000	
Cash Inflows (1+2+3+4+5)	1,380,000	1,360,000	1,640,000	1,420,000	1,200,000	980,000	760,000	540,000	320,000	
Cash Burn Rate	-7,333	-7,097	-7,333	-7,097	-7,097	-7,333	-7,097	-7,333	-7,097	
No. of Days	3	31	30	31	31	30	31	30	31	
Actual Realised Scenario										
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Cash In Hand	1,000,000	1,700,000	1,400,000	1,100,000	800,000	500,000	200,000	-100,000	-400,000	
Cash Injection	0	0	0	0	0	0	0	0	0	
Receivables	1,000,000	0	0	0	0	0	0	0	0	
Payables	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000	
Cash at Month End	1,700,000	1,400,000	1,100,000	800,000	500,000	200,000	-100,000	-400,000	-700,000	
Cash Burn Rate	-10,000	-9,677	-10,000	-9,677	-9,677	-10,000	-9,677	-10,000	-9,677	
No. of Days	3	31	30	31	31	30	20	0	0	

1 Types of forecast scenarios

- **Baseline**
 - Based on current company cashflow
- **Optimistic**
 - Cash flow forecast based on optimistic assumptions
- **Pessimistic**
 - Cash flow forecast based on worst case assumptions

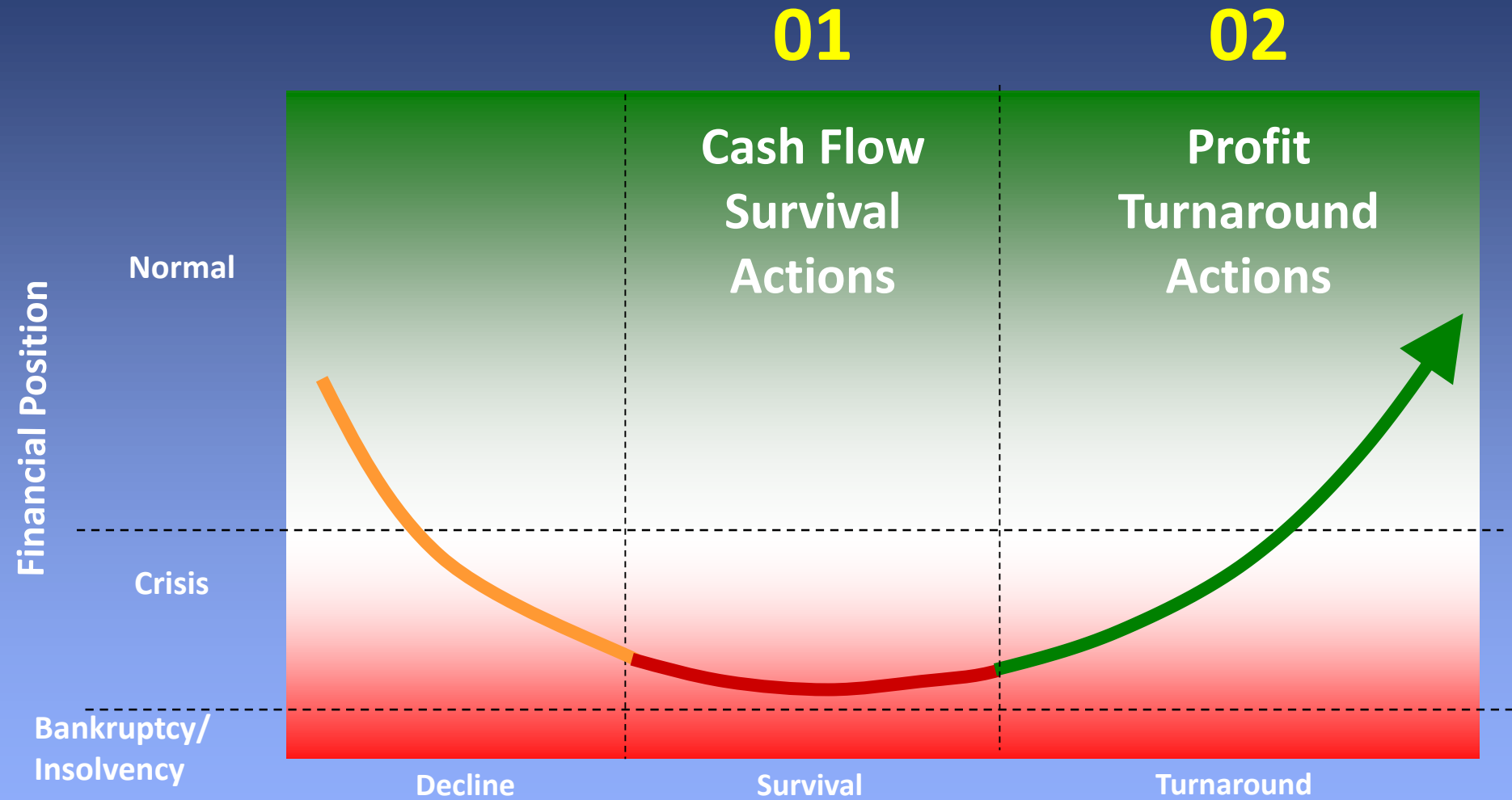
2 CCC Decision and Monitoring

- **Revised Plan**
 - Showcase CCC decisions once taking after taking into considerations the three scenarios in **1**
- **Actual**
 - Monitors actual company cashflow to determine and track deviation from revised plan

Business as Usual Scenario



Business Crisis and Turnaround Scenario



MAS: Anchoring on Profitability

52 routes were profitable **180** routes losing money



110,000 flight P&L statements

Decide the Crisis Strategies



Actions

- Present scenarios and strategic responses to CEO and Management Team in the Management Meeting
- Discussion must be robust and frank
- Tough decisions to be made on fixing, selling or closing down whole or parts of the business
- CEO and Management to make a collective decision on the way forward
- Assign teams to operationalize the way forward



Crisis Management Principles

- Discussions about strategic choices in crisis is a painful process, especially when it comes down to “fixing, selling, or closing” the business
- Strategy is about making choices; no matter how tough, the CEO and the management must make the call
- Making tough decision requires leadership
- CEO and Management buy-in and alignment on the chosen crisis strategy is critical
- Way forward must be based on facts and figures, and not just opinions and feelings

MAS Crisis and Turnaround Strategies

1. **Cash conservation – see assets, defer all CAPEX projects, etc – immediately**
2. **Cut all unprofitably routes/flights in first 2 months**
3. **Reduce staff by 3,000 in the first 2 months**
4. **Cut other OPEX by 10-20%**
5. **Implement dynamic pricing to increase revenue by RM600 mil - RM1.5 bil per annum**
6. **Improve customer service – 5 Star and win international awards**

Develop the Operational Plans based on the Crisis Strategies



Actions

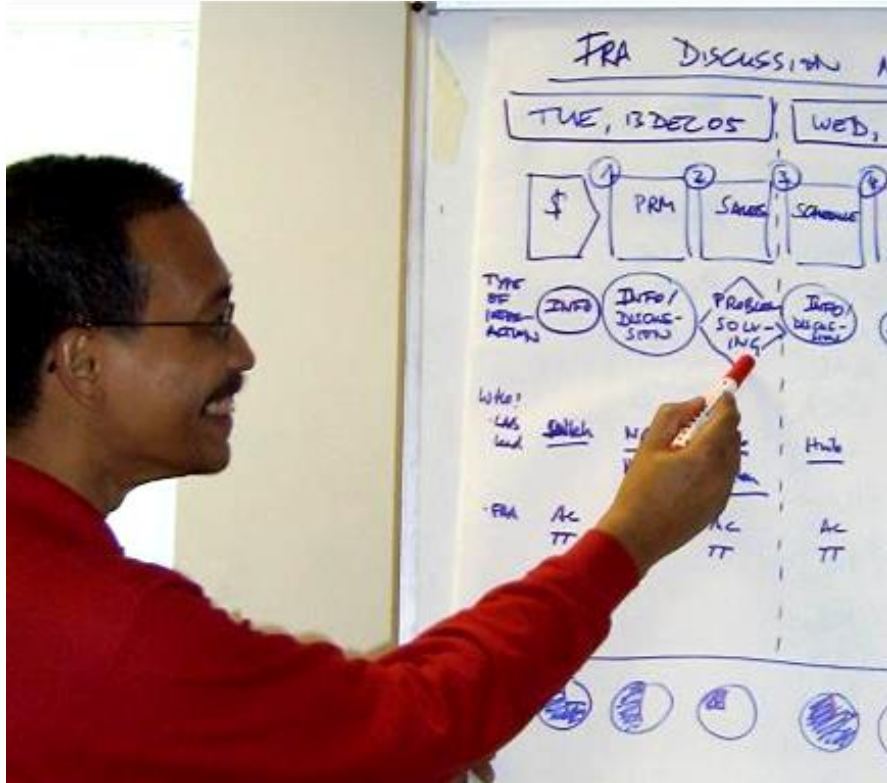
- CCC must work with Management to assemble Action Teams to work FULL TIME on the detail operational plans with activities, KPIs, action parties, resources, budgets and timeline
- There should be 6 Action Teams (working virtually in Covid-19 context):
 1. Cash Team (how to preserve cash)
 2. Revenue Team (how to increase revenue)
 3. Cost Team (how to cut cost)
 4. Customer Team (how to manage customers during the crisis)
 5. People Team (how to manage staff)
 6. Communications Team (how best to communicate)



Crisis Management Principles

- Strategic plans are of little value unless they are translated into details
- Most strategies fail because they are too high level
- Detailed operational plans must be developed to be action-oriented to achieve the cash and profitability of the business
- The operational plans must be holistic and integrated in order to achieve the true north of the crisis and recovery strategy/plan
- The Action teams are made up of the best talents in the company. They should focus only on this work and be time-boxed

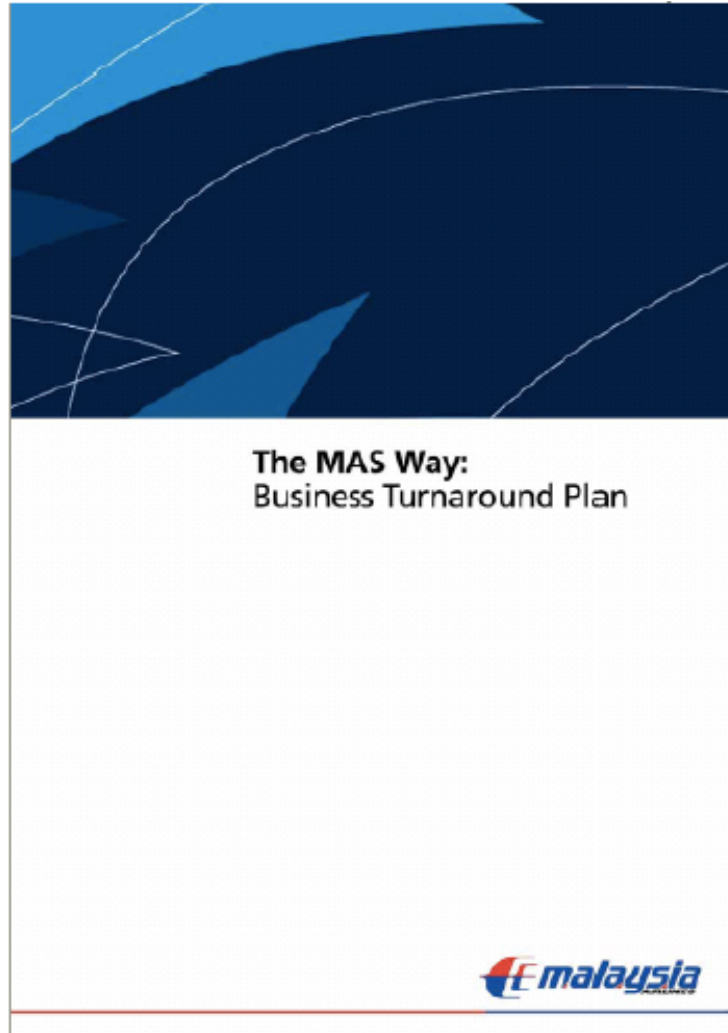
Virtual Lab is tool we use to develop detailed operational plans



Labs are working sessions attended by key stakeholders to establish implementation programmes to detail out what needs to be done – we call them **“3-foot plans”**

Business Turnaround Plan

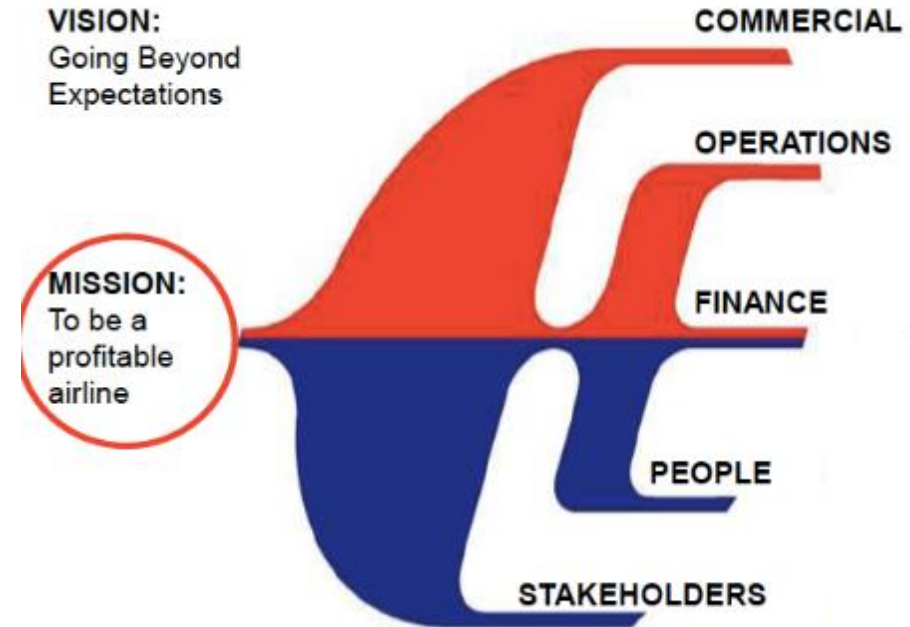
“The MAS Way”



VISION:
Going Beyond
Expectations

MISSION:
To be a
profitable
airline

STRATEGY:
BUSINESS TURNAROUND
To achieve sustained profitability by going
beyond expectations on 5 thrusts



Secure Management Approval for the Operational Plan



Actions

- The 6 Action teams present their operational plans to the CEO and the management team



Crisis Management Principles

- CEO and Management approval and buy-in of the Operational Plan is critical

Prepare to Communicate



Actions

- CCC and Action teams prepare materials, including fact sheets and FAQs for the Board meeting and Townhall session with staff, these sessions can be done virtually



Crisis Management Principles

- Effective communication required preparation
- “To fail to prepare is to prepare to fail”
- Communication must be tailored to its target audience; materials for the board is different from those for employees

Communicate to the Board and Staff



Actions

- CEO briefs the Board and also conducts a Townhall briefing for staff
- The best practice is for the detailed Operational Plan to be exhibited in the Townhall for the staff to view during a “gallery walk” (this can be done virtually in the context of Covid-19)



Crisis Management Principles

- In communicating to the Board and staff, the CEO should not only speak with facts and figures, but engage their “hearts and minds”
- Tell the truth, speak with authenticity and plainly
- Answer questions directly; if you do not have the answers, say so

Virtual Townhall



Zoom

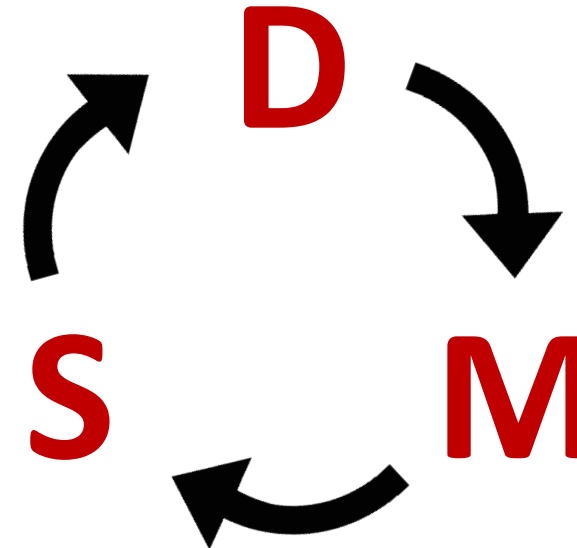


Microsoft Teams



Implement the Crisis and Recovery Plan

- The 6 Action teams together with the management team own the operational plans
- The CCC's role is to act as the architect on the change process, assisting the implementors to **exercise discipline of action**



- **Do** it relentlessly
- **Monitor** it constantly
- **Solve Problems** Recursively

Monthly Review and Corrective Action



Actions

- On a monthly basis, the CCC should organize a strategic review session
 - Review the external business environment and make adjustments in the Crisis Plan
 - Review performance of the business and the 6 Action teams
 - Make decisions and take correction action for those activities that did not work
 - Reward teams that delivered on promises and implement consequence management
 - Communicate to staff on a monthly basis, the outcome of the Crisis and Recovery Plan



Crisis Management Principles

- A learning organization learns from its mistakes and the best practices of others
- An agile organization is quick to take correction actions
- Wisdom is a function of experience and reflection
- Success breeds success the more you reward and communicate success, the more people will work to deliver results

Effective Communication During Crisis



Actions

- The leadership has to engage its employees, customer and stakeholders
- At the start of the journey, effective communication is critical to secure buy-on and alignment
- During the journey, regular updates will ensure there is continued commitment to deliver
- External communication is key to keep the brand alive in the hearts and minds of its existing or prospective customers/clients



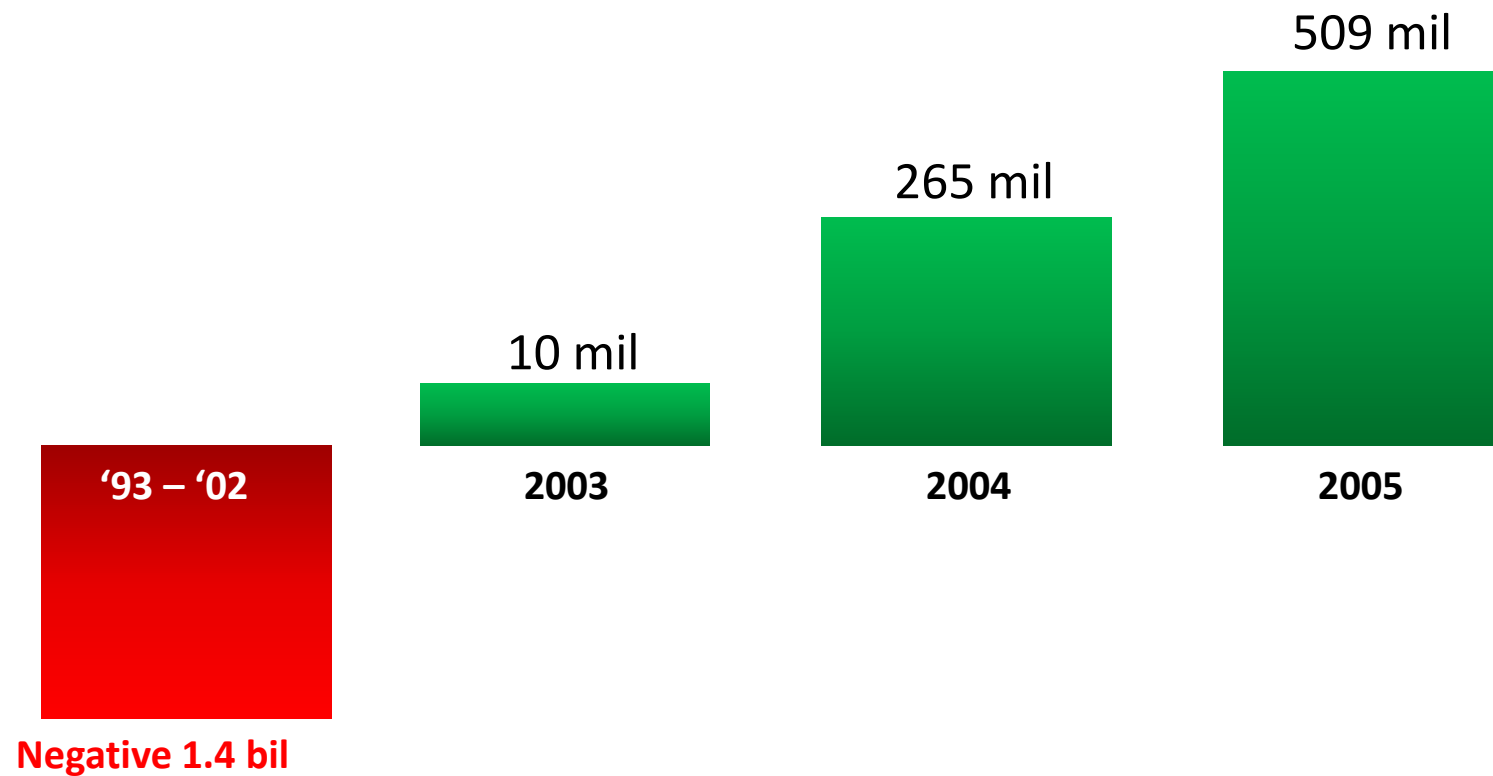
Crisis Management Principles

- Communication is an integral part of leadership
- Communication routines must be exercised with discipline
- In communication, proactivity is more effective than reactivity
- Timely communication is critical

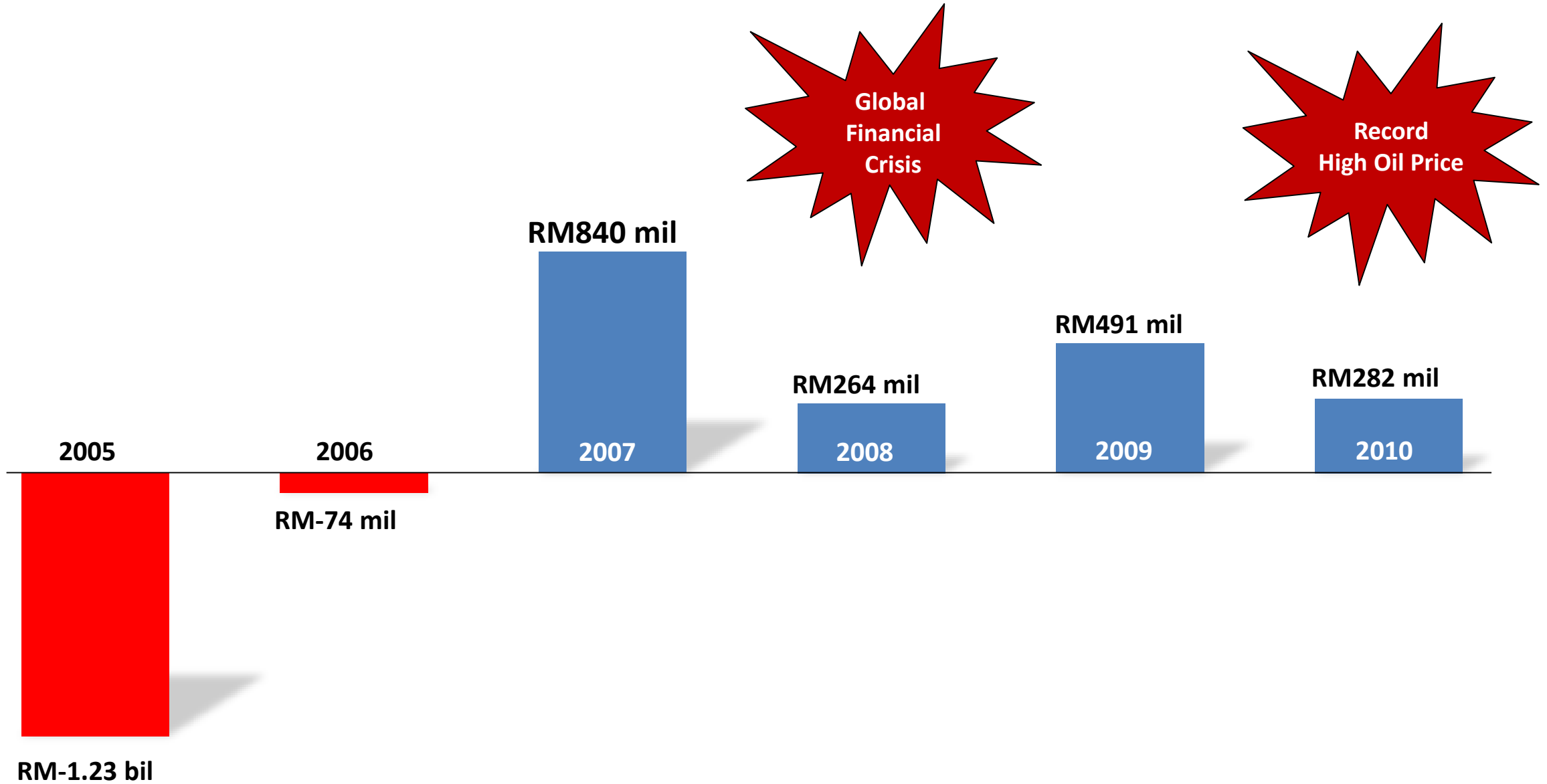
The Shell MDS Story of Business Turnaround



Profit and Loss (RM)



MAS: 1 year turnaround to record profit



Soaring F*** Price Jan-Mar08 Performance



Source : Bloomberg (Jan – March 2008)

MAS received many awards & recognitions

CAPA Airline Turnaround of the Year 2006 Award



1) 5-Star Airline Award 2005, 2006, 2007

2) Best Cabin Staff Award 2006 (Top 3) & 2007 (No. 1)

3) Global Winner for 'Economy Class Onboard Service Excellence 2006'

4) Best Airline 2006 (Top 10)



Best Airline to Asia



Reader's Digest Trusted Brand Platinum Award 2008



Best New Business Class Seat



**Air Transport World (ATW)
Phoenix Award 2007**



Conclusion: Key Principles for Managing Business in Crisis

- Decisive Leadership: no time for procrastination
- Action oriented way forward
- Agility in implementation
- Engagement of people
- Effective communication

After the Q&A session, if you have other comments, questions and need help, please contact me via email at:

idris.jala@pemandu.org

PEMANDU Associates' Crisis Recovery Tool

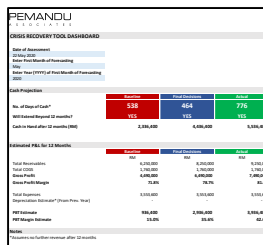
A holistic, self-learning solution to help businesses manage strategic decisions and take action quickly in a time of crisis

<https://bit.ly/PAcrisisrecovery>



What do you get?

- Video tutorial on Crisis Recovery Playbook
- Presentation on New-Normal Action-Oriented Management Insights (NAOMI Model)
- Downloadable NAOMI excel tool for financial modeling i.e. P&L and Cashflow
- Crisis Recovery Checklist



Category	Current	Target	Variance
Key Metrics			
No. of Days of Cash*	538	454	776
EBITDA Margin (%)	15.5	15.5	15.5
Operational Metrics for Q3 2020			
Total Revenue	4,000,000	4,000,000	0
Total Costs	3,500,000	3,500,000	0
EBITDA	500,000	500,000	0
EBITDA Margin	12.5%	12.5%	0%
EBITDA Margin (Target)	15.5%	15.5%	0%