NEMRA Manufacturer Representative Financial Playbook
Surviving COVID-19

The arrival of COVID-19 to the US in mid-March has wreaked havoc on the U.S. economy. Over the past few weeks our government, federal and local, have implemented a number of previously unthought of actions that have created economic confusion. While necessary, the concepts of "shelter-at-home / stay home" mandates and wide scale remote working were unexpected. This has been further compounded with state specific initiatives that specifically impact the electrical industry. While deemed an "essential" industry, knowing the impact on the construction market as well as the industrial market differs by local market as well as by manufacturer representative based upon represented lines and business mix.

As NEMRA members navigate this environment, many have essentially triaged their business to adjust to new work environments. Now that phase one is complete, all are considering phase two and asking, "how long will this last" and "what do I need to do so my business survives"?

Unfortunately, the duration of the pandemic is unknown. Estimates of 30-60 days are prevalent, but some believe it could go into summertime.

As to "what to do", that we can do.

NEMRA has asked Sheldon Charapp, President of Financial Problem Solvers and former CFO of a large electrical distributor and advisor to an electrical distributor marketing group, and David Gordon, President of Channel Marketing Group, to develop a Manufacturer Representative Financial Playbook exclusively for NEMRA. This Playbook shares ideas for you to consider as you seek to financially navigate your business during these trying times.

This Playbook is segmented into four key areas:

- Stress Testing Your Business
- Injecting Capital into The Business
- Managing Employee Payroll Expenses
- Cashflow & Expense Management

Stress Testing

The first step is stress testing your business. This is can be a quick process to determine the level of sales decline your company can absorb, given your current revenue projections and expenses, and remain profitable.

Modeling the business enables you to then estimate sales declines to identify what it will do to your bottom line. You can then do "what if" scenario planning by considering what percent down you forecast (for the year or a specific time period) and can adjust the expense categories accordingly.

Quick NEMRA Manufacturer Representative Stress Tester

Change ONLY green cells			% Decrease					
			20%		33%		50%	
SALES	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**
Billings (Manufacturer Billings or Sales)	$13,000,000		$10,400,000		$8,710,000		[illegible]	
Earned Commissions	$650,000	5.0%	$416,000	4.0%	$348,400	[illegible]	[illegible]	4.0%
EXPENSES								
Total Payroll, including projected commission earnings, taxes and healthcare expenses, if applicable	$500,000	3.8%	[illegible]	[illegible]	[illegible]	3.8%	$247,000	3.8%
Total Operating, Marketing, IT, Warehouse & Delivery Expenses	$50,000	[illegible]	[illegible]	[illegible]	$69,680	0.8%	$52,000	0.8%
Total Occupancy (Rent / Mortgage / Insurance) Expense	$25,000	[illegible]	[illegible]	0.2%	$25,000	0.3%	$25,000	0.4%
Total Miscellaneous Expense	$25,000	0.2%	$25,000	0.2%	$25,000	0.3%	$25,000	0.4%
Total Expenses	$600,000	4.6%	$528,400	5.1%	$450,660	5.2%	$349,000	5.4%
Operating Profit	**$50,000**	**0.4%**	**-$112,400**	**-1.1%**	**-$102,260**	**-1.2%**	**-$89,000**	**-1.4%**

A caveat. Revenues and expenses are not "straight line" in nature, hence you need to consider a time period. You may want to gather input from your sales organization regarding revenue projections (and probably discount it a bit) or consider information from a DISC Corp, www.disccorp.com, which provides electrical industry forecasting information.

A full-page example, with instructions on how to use, is in the Appendix. To obtain the Excel spreadsheet, email either David Gordon at dgordon@channelmk.com or Sheldon Charapp at shelly706@aol.com.

Injecting Capital into Your Business

- Apply for the Paycheck Protection Program which has been authorized in the CARES Act and is being administered by the SBA through local banks.
  - This is the core element of the recent $2.2 trillion government package that was recently passed. It applies to companies with less than 500 employees. Practically every NEMRA manufacturer representative should apply for this "loan".
  - Why? Because the "loan" is forgivable by the government based upon meeting ongoing employment criteria. Essentially you could receive 2.5x monthly payroll expenses, with some limitations, inclusive of healthcare costs, payroll taxes and 401K contributions.
    - Note: If you have already laid off or furloughed employees you may not be able to have the loan forgiven. However, you have until June 30th to rehire personnel to qualify for loan forgiveness. It is important to recognize that the loan is not based upon your company's credit worthiness and the interest rate is only 1%. Further, the loan matures in two years and does not have to be repaid until the end of the second year.
  - The application process is relatively easy, typically through your local bank. If you have belief in your business, confidence in your staff but could benefit from a little extra "cushion", this loan should be considered.
  - A timely response to this loan opportunity is required. We recommend applying as soon as it is available from a local bank and by May 1st at the latest.
  - On page 6 Sheldon Charapp of Financial Problem Solvers shares an overview of this important program and in the Appendix is an example of a calculator that is available to NEMRA members by emailing Sheldon at shelly706@aol.com.
- Bank Line
  - Given that "cash is king in times of crisis", if you currently have a line of credit, consider drawing the maximum to have the cash on hand as banks have the ability to reduce credit lines as they deem appropriate.
- For "medium size companies (500-1000 employees) there is a separate loan program.
  - CARES Act does require the Treasury Secretary to ask the Federal Reserve to create a special direct loan program for businesses and nonprofit organizations with between 500 and 10,000 employees. The interest rate on such loans would be capped at 2% per annum, and for the first six (6) months no principal or interest would be due. There are some application guidelines and restrictions.

    - A key element is that the loan is used to bring employment levels back to no less than 90% of a company's workforce as it existed on February 1, 2020, and that it will maintain such levels until September 30, 2020.

- If ownership owns the building, consider delaying / forgiving rent or converting it to a loan.
    - The caveat to this is that rent / mortgage is part of the SBA CARES Act loan criteria. If you are taking the SBA loan, it is recommended not to do this immediately as it could reduce the amount you can borrow. If you do it afterwards, it could impact your loan forgiveness.
    - If you / your agency owns the facility, if appropriate, consider a refinance to provide additional cashflow for the business or incremental capital.
- Ownership injection of cash
    - Given that many manufacturer representatives are Sub S businesses with limited current year retained earnings, an injection of capital may be needed, possibly from last year's dividends or consider gaining access to an incremental personal loan / line of credit.
- Ensure you keep your bank informed
    - Communication is key. Keep the lines of communication open with your bank as to business activity, expense management and, if appropriate, receivables. Banks that are kept informed are much more willing to "work" with you when necessary.

Maintaining liquidity in the business is key to ensuring viability over the next few months. This is why we recommend drawing down the maximum amount of your loan availability. Having a financial cushion enables "correct" business decisions to be made. The next step is managing cashflow, which starts with staffing.

Staffing

The heart of a manufacturer representative agency is people and people management. Employees differentiate a company and how management treats its employees is reflected in how employees treat customers. In times of crisis, managing with empathy and compassion requires communication, honesty, transparency, adaptability and decisiveness.

At the same time, caution should be given to making short-term decisions which is why deciding to lay-off staff versus furloughing versus moving staff to part-time as well as compensation changes are significant decisions.

The following shares some information and ideas to support staffing considerations.

Furlough vs Lay-off

The terms "layoff" and "furlough" are both used to describe situations that involve terminating staff. Usually they apply to job losses where finances—not performance—are the triggering factor. (A single poor performer who is let go, on the other hand, is generally "terminated" or "fired" instead.)

While laid-off workers are sometimes rehired, the term usually refers to an indefinite—often permanent—break in the employment relationship.

A furlough, on the other hand, is typically for a shorter, fixed period of time. Workers are told to stop coming in to work or that their hours will be cut back. While laid-off employees are officially separated from employment, furloughed workers remain on your books as current employees.

What do workers get?	Furlough	Layoff
Pay	x	x
Final Paycheck	√	√
Health Insurance	√	x
Unemployment Benefits	√	√
WARN Notice	Unlikely, but check if conditions are met	If applied to 50 employees at a 100+ employee company

Additionally, furloughing has the benefits of:

- When business improves and the company is ready to add staff, a furloughed employee is familiar with the company, the company's culture as well as with the position, so there is no, or little, time / expense needed to train them for the role.
- Any personnel reduction as well as the difference between furloughing someone versus laying them off, could impact whether your company is eligible for CARES Act SBA loan forgiveness. Timing for personnel actions should be considered.

Managing Employee Payroll Expenses

- Payroll Expenses Management Concepts
    - Executive / senior management forego compensation, or take a "significant" reduction
    - Adjust compensation models, especially for outside sales due to the change in role during this time
    - Eliminate bonus programs
    - Reduce hours and prorate salaries
    - Tiered compensation adjustments
    - Suspend, or reduce, 401K matching as well as profit sharing
- Staffing Ideas
    - Reduce work week for some employees / departments
    - Stagger work hours
    - Reduce hours of operation, which would impact hourly employees. May also have some nominal savings in other areas
    - Convert staff to part-time, whenever feasible, with staggered shifts
    - Job sharing
        - There are 26 states that allow two workers that share a full-time job but work part time to file for unemployment insurance claims.
    - Share information with employees to help them. Share information on delaying mortgage payments as well as local utility deferment programs. Be an information resource to your staff.
    - Furlough staff but pay health insurance.
        - For lower wage earners, they may be able to recoup salary given unemployment benefits under CARES Act.
        - Note, this could jeopardize ability to have SBA loan forgiven if exceed 90% threshold.
    - Lay-offs should be your last resort.

- Note: Layoffs could impact the ability of a CARES Act SBA loan to be forgiven unless FTE's are hired by June 30th.

Cashflow & Expense Management

- Be diligent on DSOs, if appropriate if involved in "buy/sell" relationships
- Line item expense evaluation
    - Suspend non-essential services (i.e. coffee, publication / online subscriptions and similar "niceties")
- Restrict / eliminate customer entertainment expenses
- Restrict / eliminate any agency funded distributor marketing initiatives. Solicit supplier support for distributor activities.
- Verify earned POS compensation.
- Review contracts to ensure if conditions of the contract are being complied with, especially if there are clauses relating to specification credits.
- Rent - Negotiate Delays / Partial Payment
    - Note: Mortgages and rent can be paid for via proceeds from the CARES SBA loan, hence delaying payment until loan proceeds are disbursed could provide incremental cash flow.
    - In cases where the business / ownership owns the building, or pays rent to itself, reducing, delaying, forgiving or converting payment to a loan could reduce operating expenses.
- Negotiate lease delays / partial payments
- Determine if opportunities for direct deposit / ETF with suppliers.
- Deferral of Unemployment Tax
    - CARES Act provides for a refundable payroll tax credit with respect to certain wages paid to employees during periods of a business shutdown or significant decline in gross receipts resulting from the COVID-19 pandemic. The act also permits employers to defer payment of the employer portion of payroll taxes owed on wages paid through December 31, 2020, for up to two years.

      This can help you defer an expense, however, note this is a loan for 1-2 years.

This NEMRA Manufacturer Representative Financial Playbook is offered as suggestions by NEMRA, Channel Marketing Group and Financial Problem Solvers based upon our collective experience in the electrical industry. Each manufacturer representatives' needs will vary, and we recommend you seek the appropriate advice for your business.

Channel Marketing Group and Financial Problem Solvers are recommended resources to NEMRA members.

- Financial Problem Solvers has over 35 years of CFO experience in electrical distribution and Sheldon Charapp is a CPA. He can be reached at shelly706@aol.com or 301-370-1830.
- Channel Marketing Group has over 25 years of strategic business advisory experience within the electrical industry and works with electrical distributors, NEMRA representatives and manufacturers with strategy, sales and marketing initiatives. He can be reached at dgordon@channelmkt.com or 919-488-8635.

Paycheck Protection Program through the CARES Act

Congress, On March 25th, 2020, passed legislation to help with the financial problems caused by the Coronavirus pandemic disease.

The legislation, in excess of $2.2 trillion dollars, is titled the Coronavirus Aid and Relieve Economic Security Act (CARES Act) and has many provisions that will affect how your business will be operated.

The provisions we will concentrate on is the availability of $349 billion dollars to be made available for loans to companies and a provision that forgives a portion of the loan when certain criteria are met.

Eligibility for Unsecured CARE Act Loans

Businesses in existence on February 15, 2020 with no greater than 500 employees qualify for these loans. Corporations, partnerships and sole proprietorships qualify.

To meet the conditions for the loan, businesses need to have paid salaries, payroll taxes and independent contractors during 2019 and 2020.

Loans under this provision have an interest rate of 1%, are unsecured and have no personal liability.

How to Apply for the Loan

The Small Business Association (SBA) will guarantee these loans but companies will have to apply through banks, credit unions and other lenders approved to issue SBA 7(a) loans to start the loan process.

The Treasury Secretary hopes that loan requests can be processed in a matter of weeks, which may be optimistic based upon the number of loans being requested. This means you need enough funds for payroll until then, which is why we recommend pulling down your bank loan to provide flexibility.

The Secretary is planning to issue new regulations that will make almost all FDIC banks eligible to make SBA loans.

All SBA fees for these loans are waived.

We recommend applying as soon as possible but definitely by May 1st.

Determination of Maximum Loan Amount

The maximum loan amount is the product of:

- Average total payroll costs (salary plus paid commissions and bonuses, etc.) incurred in the one-year period before the date of the loan application.
    - Total payroll costs is defined as compensation, taxes, retirement benefits and healthcare premiums.
- Average payroll costs times 2.5 will determine the maximum loan amount

Monthly Average Payroll	
Compensation to an independent contractor (1099), if acting as an employee, should be treated as an employee	
Staff <$100,000 annually	
# People	3
Monthly Salary (salary + commission) of Staff < 100,000	$ 15,000
Staff over $100,000 annually	
# People	3
Eligible Salary	$ 25,000
Company 401K Contributions	$ 2,400
Total Eligible Payroll	
Total Employees	6
Payroll Taxes	$ 4,000
Company Paid Healthcare Premiums	$ 15,000
Total Monthly	**$ 61,400**
Estimated Loan	**$153,500**

A calculator estimator is highlighted in the Appendix. For an Excel spreadsheet, contact Sheldon Charapp at shelly706@aol.com. The calculator is solely for an estimate as there are specific criteria that may increase or decrease specific company amounts.

Loans can be used for:

- payroll costs
- mortgage interest payments
- rent / mortgage
- utilities and
- interest on debt obligations incurred before February 15, 2020.

Loan Forgiveness Provisions

There is a loan forgiveness provision in the bill for businesses that retain or rehire laid off workers. These businesses would be eligible for loan forgiveness for all or a portion of the loan.

If you have already laid off or furloughed employees you may not be able to have the loan forgiven, unless you rehire staff.

Reductions in FTE (full-time employee are employees that work a minimum of 30 hours per week) or salary/wages that occur between Feb. 15, 2020, and 30 days after passage of the CARES Act, will not be used to reduce the potential forgiveness amount if the borrower reverses the reduction by June 30, 2020. The same person does not have to be rehired, but the total number of FTE’s must be retained.

It is important to recognize that the loan is not based upon your company’s credit worthiness and the interest rate of 0.5% is very low. Further, the loan matures in 10 years and does not have to be repaid until the 10th year.

The portion of the loan used for payroll, rent, mortgage obligations and utilities for an 8-week period starting on the loan origination date would be forgiven. The amount of forgiveness will also take into account the number of workers retained or rehired. The amount of any salary over $100,000 is excluded from the payroll cost.

The amount of the forgiveness cannot be more than the amount of the original loan.

The borrower must certify that the loan will be used to meet total payroll costs and other costs as previously mentioned.

All loans are non-recourse and do not require personal guarantees.

A covered loan with a remaining balance has a maximum maturity of ten years from the application date of the loan.

Forgiveness amounts will be reduced in two scenarios:

1. Reduction in # of Employees
    - The amount of the loan forgiveness is reduced by the percentage equal to the difference obtained by multiplying the average number of full-time equivalent (FTE) employees for each pay period within a month. The calculation is (average # of FTE employees employed during the period) / (average # of FTE employees per month employed between 2/15/19 – 6/30/19).
2. Reduction in Compensation
    - Amount of the loan forgiveness is reduced by the amount of any 25%+ compensation reduction in the most recent full quarter for any employee who did not receive, during any single pay period during 2019, wages or salary at an annualized pay rate in an amount exceeding $100,000.

Assistance

It is recommended that NEMRA representatives, if applicable, take advantage of this opportunity. If you have already downsized, you could still apply based upon your current size or the planned rehire of staff / returning to staffing levels. Whether you furloughed or laid off staff, and when, could impact how much you can apply for. It is recommended that members contact their local banker, business financial advisor or accounting firm for specific guidelines appropriate to them.

We've tried to simplify a very complex provision of the CARE Act pertaining to the covered loans. For more information please do not hesitate to contact Sheldon Charapp at shelly706@aol.com.

NEMRA Manufacturer Representative Stress Test

Quick NEMRA Manufacturer Representative Stress Tester								
Change ONLY green cells			% Decrease					
			20%		33%		50%	
SALES	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**
Billings (Manufacturer Billings or Sales)	$13,000,000		$10,400,000		$8,710,000		$6,500,000	
Earned Commissions	$650,000	5.0%	$416,000	4.0%	$348,400	4.0%	$260,000	4.0%
EXPENSES								
Total Payroll, including projected commission earnings, taxes and healthcare expenses, if applicable	$500,000	3.8%	$395,200	3.8%	$330,980	3.8%	$247,000	3.8%
Total Operating, Marketing, IT, Warehouse & Delivery Expenses	$50,000	0.4%	$83,200	0.8%	$69,680	0.8%	$52,000	0.8%
Total Occupancy (Rent / Mortgage / Insurance) Expense	$25,000	0.2%	$25,000	0.2%	$25,000	0.3%	$25,000	0.4%
Total Miscellaneous Expense	$25,000	0.2%	$25,000	0.2%	$25,000	0.3%	$25,000	0.4%
Total Expenses	$600,000	4.6%	$528,400	5.1%	$450,660	5.2%	$349,000	5.4%
Operating Profit	**$50,000**	**0.4%**	**-$112,400**	**-1.1%**	**-$102,260**	**-1.2%**	**-$89,000**	**-1.4%**

How to Use This Stress Tester
The spreadsheet works if based on 2019's actual number, your 2020 forecast or a quarterly / monthly projection.

1. Enter billings for the defined time period.
2. Enter average commission rate.
3. Enter total payroll inclusive of salary, taxes, healthcare, retirement funding and any other payroll-related expenses.
4. Enter total non-payroll operating expenses (deliveries (if applicable), selling, occupancy and administration, etc.)
5. With those numbers entered, the spreadsheet will show the impact of a 20%, 33% and 50% decline over your defined time period.
6. Note that these original numbers assume payroll, occupancy and admin expenses remain unchanged. Adjust the %'s (in green) to adjust the number with a goal of making the net profit your desired goal.
7. Save this result or make a copy. Then you can start doing "what if?" scenarios.
8. Change the green cells in column D and G to see how the numbers would change under different conditions.
9. This sheet assumes occupancy and admin expenses are fixed. If you can adjust them, change them in columns D & F.

To request a copy of the spreadsheet, contact David Gordon at 919-488-8635 or at dgordon@channelmkt.com. To discuss financial ideas / management, contact Sheldon Charapp at shelly706@aol.com.

Paycheck Protection Program CARES Act Loan Estimator

This spreadsheet is offered as a quick estimate of the amount of monies that you may be eligible to receive. Your actual amount may differ based upon your calculations, documentation and bank approvals.

The loan amount is 2.5 times the monthly calculation.

To obtain a copy of the spreadsheet, call David Gordon at 919-488-8635 or email dgordon@channelmkt.com. To discuss specific situations or questions, contact Sheldon Charapp at shelly706@aol.com.

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