



## Addressing the financial impact of COVID-19

### Working capital solutions for companies with urgent cash needs

Public policy measures put in place to contain the spread of COVID-19 are resulting in a significant operational disruption for many companies. Staff under quarantine, failing supply chains, stock shortages and sudden reductions in demand from customers are creating serious issues for companies, across a far wider range of sectors, than initially anticipated.

These days a number of companies face weeks, if not months, of exceptionally poor trading conditions. For many, the revenue lost in this period represents a permanent loss rather than a timing difference, and this is putting sudden, unanticipated pressure on liquidity.

Many companies across a multitude of sectors are finding that they need to approach their suppliers, customers and financiers to arrange short-term solutions to support their cash flows. The scale and urgency of short-term working capital requirements have taken many company management teams by surprise, emphasising the need to act decisively.

#### Reasons why companies may have issues

Collapsing demand and supply chain shutdowns are straining companies' cash and working capital:

- Suppliers are unable to deliver critical components to manufacturers, delaying or halting the manufacturing process, resulting in a significant increase in work in progress;
- A downturn in consumer demand leads to increased levels of inventory, which are more and more difficult to reduce;
- Collecting receivables in a timely fashion from cash strapped customers;
- Difficulties in paying suppliers, due to short-term cash flow restrictions;
- Challenges to deliver products to customers.

#### Cash flow forecasting

Prerequisite to a robust cash management is a disciplined cash flow forecasting, which enables visibility and a cash focus across the business:

- Daily monitoring of cash balances;
- Implement a strict 13 week cash flow forecasting process, supported by adequate tools;
- Optimise internal cash transfers;
- Implement a cash centric culture across the business, focusing on cash, not P&L metrics.

#### Levers to release pressure from working capital



##### Receivables

- Communicate and collaborate with all your business customers to understand their pain, financial health and demand forecast
- Raise invoices in a timely manner
- Consider offering shorter payment terms in return for discounted payments
- Review customer payment terms and identify arbitrage opportunities across customers
- Monitor cash collections daily by prioritising customers with large obligations
- Engage with customers and be proactive to minimise the risk of disputes and late collections
- Monitor dispute resolution cycle time and address root causes
- Enforce credit controls and credit hold
- Consider financing solutions such as debtor factoring or asset based lending



##### Inventory

- Utilise freed up capacity to increase production frequency and minimise batch sizes
- Plan for factory shut downs and delay unwanted supplier deliveries where possible
- Daily review market demand and update forecast and order bank
- Identify disruption in the supply chain and plan for cash impact
- Avoid early production and prioritise MTO and orders likely to bring in immediate cash
- Plan for parts disruption to avoid building non-sellable WIP
- Run promotions and enhance customer incentives even if profit is impacted
- Dispose of slow moving and obsolete stock by offering discounts or leveraging e-auctions
- Explore asset based lending



##### Payables

- Communicate and collaborate with all your suppliers in this critical period
- Eliminate early payments where necessary, striking the balance with early settlement discounts affordability
- Map your business critical and struggling suppliers to determine priority of payment
- Make sure that payment is performed through the agreed payment method
- Calculate payment terms from invoice receipt date rather than from invoice date
- Enable visibility to identify payment term arbitrage opportunities across your supply base
- Explore Supply Chain Finance and Dynamic Discounting

#### Your local Contacts



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