



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

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