



## Addressing the financial impact of COVID-19 Working capital solutions for businesses with urgent cash needs

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

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

Many businesses 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. In certain cases, the scale and urgency of the short-term working capital requirements have taken management teams by surprise, emphasizing the need to act decisively.

### Why companies may be having issues

Collapsing demand and supply chain shutdowns are straining businesses' cash and working capital.

- Suppliers unable to deliver critical components to manufacturers, delaying or halting the manufacturing process, resulting in mounting WIP balances;
- A downturn in consumer demand leading to increased inventories that are more and more difficult to clear;
- Challenges in collecting receivables in a timely fashion from cash strapped customers;
- Difficulties in paying suppliers due to short term cash-flow restrictions.

### Cash flow forecasting

A prerequisite for robust cash management is disciplined cash-flow forecasting, facilitating visibility and a cash focus across the group.

- Daily monitoring of cash balances;
- Implement a strict 13 week cash flow forecasting process, supported by adequate tools;
- Optimize 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

- Raise invoices ASAP and in a timely manner;
- Consider offering shorter payment terms in return for discounted payment;
- Review customer payment terms and identify arbitrage opportunities across customers;
- Monitor cash collections daily by prioritizing customers with large debtor balances first;
- Engage with customers, and be proactive to minimize the risk of disputes and late collections;
- Monitor dispute resolution cycle times and address root causes;
- Consider financing solutions such as debtor factoring.

### Inventory

- Minimize order quantities and batch sizes, increase order and production frequency;
- Challenge existing safety stock parameters driven by elements such as forecast accuracy, lead time, variability in supply and service level;
- Review distribution/shipping and balance between full truckloads and inventory;
- Explore opportunities in consignment stock;
- Monitor compliance to inbound deliveries to ensure no early deliveries;
- Keep material master data up-to-date;
- Review your constraints at bottlenecks and streamline production to minimize WIP;
- Dispose of slow moving and obsolete stock by offering discounts or leveraging e-auctions.

### Payables

- Ensure supplier payment terms are in line with both the businesses' policy and industry standards;
- Implement a robust payment run policy to avoid early payments;
- Map your business-critical suppliers to determine priority of payment;
- Make sure that payment is performed through the agreed payment method (e.g., CHAPS v BACS);
- 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.

Even for businesses which have not yet been adversely affected, we recommend they seek to improve cash flow by optimizing working capital and identifying “quick win” self-help measures to deliver rapid, tangible cash flow benefits.

## For more information on how to respond, recover and thrive:

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