COVID-19 - Managing Cash Flow in a Crisis

News Release

The world has suddenly found itself in an unprecedented situation with the arrival of COVID-19 and the economic crisis that comes with it.

People are staying at home; a large number are sadly losing their jobs and many businesses face an uncertain future as people are reluctant or unable to spend.

Business owners are currently experiencing the negative effects caused by the coronavirus and are now faced with the challenge of finding a way to not only survive the crisis but to also find ways to thrive. Which at this point in time, means having cash readily available.

For small businesses, cash flow management in a crisis is absolutely vital. It can mean the difference between stabilising a business or falling behind.

To gain control, an organisation will need to focus on operational activities that release cash. Acknowledging a continued decline in sales and the need to lower expenses is obvious, but the next step is focusing on stabilising and maintaining the operating cash flow.

Short-term solutions that may help improve immediate cash flow

1. Monitor accounts receivable carefully

Accounts Receivable is the list of customers that owe a business money. In an economic downturn, some customers may try to delay paying and some may default. Credit card customers may dispute charges. Now is the time to monitor these things closely and come up with a plan for how the business will deal with issues that may arise.

2. Ask customers to pay earlier

To encourage customers to pay faster, and avoid not being paid at all, a business may have the option to offer prompt payment discounts. If usual payment terms are 30 days, a discount may be offered for immediate payment. Offering a discount may encourage payment ahead of time and quickly generate cash.

3. Delay paying company bills

Similar to customers, a business will most likely have outstanding or upcoming payables or Accounts Payable. The longer an organisation waits to pay its bills, the more cash it will have in the bank.

But business must consider that delaying payment could potentially damage its reputation with its vendors and result in legal consequences.

Any business that choses this option will need to weight the pros and cons of this action because paying too slow can hurt relationships with vendors, but paying too quickly will impact cash flow. A business will need to find the right balance and discuss new payment terms with its vendors.

4. Purchase less inventory

Some businesses tie up cash in the purchase of excess inventory. However, it makes more sense for businesses to carry less inventory and order inventory when absolutely necessary. Although those working on tight 'just in time' models may want to consider the building of 'buffer stocks' to ensure consistency of supply.

There is also the option of liquidating any unnecessary inventory and recoup some of the cash used to purchase it, even if it means selling at a discount. Businesses should also consider the conversion of 'Work in Progress' into end product if there is a viable market.

5. Request discounts from vendors

As a short-term option, vendors may consider granting discounts for the products and services they

sell. Some organisations may negotiate a longer-term agreement in exchange for lower prices, on the basis that this will benefit both companies..

Longer-term solutions to helping solving cash flow problems

1. Access existing lines of credit

If a business already has a line of credit, it may be the right time to draw it down to enable access to cash on hand. A drawdown commonly refers to the gradual accessing of part or all of a line of credit. At the present time, the future is difficult to predict and how long things will take to recover, so it is better to have cash on hand to handle worst-case scenarios. It may also be possible to increase credit limits and reduce or review credit charges.

2. Seek forward sales or charity

Engage larger suppliers and / or customers by offering them advanced services, which they pay for in advance.

3. Apply for a business loan or line of credit

Applying for credit in a crisis may prove to be difficult. If a company owns assets such as real estate or tangible assets, it may be able to use those assets to secure a line of credit. However, for some small businesses, this may mean personally guaranteeing a loan with personal property.

4. Apply for the Coronavirus Business Interruption Loan Scheme

This scheme helps small and medium-sized businesses affected by coronavirus (COVID-19) to access finance of up to £5 million. The Coronavirus Business Interruption Loan Scheme (CBILS) supports small and medium-sized businesses, with an annual turnover of up to £45 million, to access loans, overdrafts, invoice finance and asset finance of up to £5 million for up to 6 years.

There are a number of schemes that have been developed by the UK Government in order to support business through the Coronavirus crisis.

A complete list can be found via the following link:

Financial Support for Business during Coronavirus

How to use cash flow planning to make good strategic decisions that will impact your future

If a business already has a budget and a forecast in place that helps to predict cash flow, now is the right time to think about creating different scenarios to help to understand how changes in sales will impact its cash.

With a forecast in hand, a business can anticipate how far things will fall, and identify how and when to react:

Key to this will be to calculate how quickly the organisation is burning through its cash reserves and how long it has before it runs out of cash?

The following provide areas of opportunity to reduce cash burn:

1. Take a review of current marketing programs as there may be the option to cut or reduce them , especially if customers are in a position to buy (i.e. travel), but consider the long-term picture too when making such decisions.

2. Review all discretionary spending: From office supplies to employee perks and meals, take a close look at every expense and see what you can cut moving forward.

3. Review payroll: For most organisations, payroll is the greatest cost. With a revised forecast, potential changes in payroll could keep the business afloat. The options for consideration comprise:

   - Have a freeze on all new hires - this could be for a set period of time or ongoing until the situation improves.

- Temporary Layoffs or a reduction in hours
- Temporarily reduce salaries by 20%
- Cut leadership salaries

These options of course may not be popular amongst employees. However, if handled sensibly and transparently the vast majority of people would rather a temporary situation than face a permanent job loss.

The benefit of having a plan is that business can quickly adjust their sales forecast, adjust expense budgets, and assess the impact on its future cashflow. A cash flow forecast will highlight any trouble spots in advance so the organisation will have time to react and decide on potential solutions.

If your organisation requires any advice or support in managing the current crisis or positioning for future recovery and resilience, please contact a member of the Linea team who will be happy to help.

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