

Cash Control during the Corona crisis

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The corona virus is spreading quickly around the world. Your company's first priority is the health and wellbeing of your employees and their families. Your second priority is to keep calm and to control your cash flows and cash position. Nobody can predict the future, but you can take measures to optimize your cash – and to protect the continuity of your company.

Suggestion 1: Prevent large revenue decreases

The impact of Covid-19 differs strongly per industry. There are companies that benefit – such as supermarkets, web shops, streaming entertainment services, manufacturers of health products – but most companies are confronted with declining demand that is sometimes significant – such as airlines, hotels, cinemas and restaurants.

In these times it is crucial to minimize declining sales as much as possible and to stay close to your customer. Your clients are dealing with the same problems and will appreciate your help and flexibility. Here are a few strategies to consider: providing goods and services today, but invoicing for it in the future, or offering price discounts to maintain demand levels as well as employee retention. Also, there are companies that offer their services online, such as health clubs with online workouts or physiotherapy via online consults.

Employees of professional services companies can do a lot for their clients from home. Many professionals are used to this and have the tools and technology such as Skype or MS Teams to work effectively remote. Distributed working enables you to continue business operations and develop customer relationships.

Suggestion 2: Make a cash flow forecast

A cash flow forecast – preferably rolling and on a weekly basis – is imperative and gives insight regarding your cash position on the short and medium long term. Revenues are hard to predict. Let quantitative scenarios help you understand your cash position such as: what happens at 10, 25 or 50% less sales? How much can we still pay from our bank accounts?

You should assume an increase in days sales outstanding (DSO). Clients will delay payments of your invoices so adjust the DSO in your scenarios regarding cash-in flows, rather than normal payment terms. Use your order book, sales pipeline and production/resource planning to verify sales plans. Include VAT and payroll tax and pay attention to automatic payments to ensure that your bank balance stays within the allowed credit margins.

Cash flow forecasting is not a 'finance only party'. You should involve commercial and operational managers because they are in direct contact with the business, your customers and suppliers. Finance must put a clear forecasting process in place. Their role as 'cash manager' is to manage the process and to challenge the forecasts from sales and operations. Look at what is actually happening in the marketplace and try to estimate cash-in and cash-out flows on a weekly basis. It is

about best estimates and getting the ‘total picture’ and not about ‘accounting perfection’ or exact numbers.

Suggestion 3: Ensure a decisive crisis team, with short communication line

In the time of a crisis, meeting structures and communication channels need to be adapted to the situation at hand. Decisions need to be made in a timely manner and it is the responsibility of management to lead in these circumstances.

Management should centralize direction setting to ensure that the situation and measures taken are clear and employees keep confidence.

Establish frequent communications with your employees and have a 30-minute management team meeting every day. It is crucial that all managers share their concerns and ideas and know what is going on.

Keep your employees informed and call everybody once a week. A personal phone call – preferable by a member from the management team – is much appreciated. Middle managers should also be involved as they know what is operationally possible and where the largest risks will appear. Ask them to come up with specific suggestions and proposals that the MT can quickly review and approve.

Suggestion 4: Salaries, wages and holiday pay

Salaries are a primary employment condition that may not be changed unilaterally without the consent of employees. You may of course ask your employees if they are willing to voluntarily lower their salaries (temporarily) or postpone (a part of) their net salary payment. If your company is part of a mandatory collective labor agreement, then a salary reduction might not be an option. Salaries and other employment conditions are defined in

collective labor agreements and cannot be changed. In some cases – for example a natural disaster, crisis or emergency situation – you may receive compensation for personnel cost from the government. Refer to Suggestion 5 regarding the Government measures in place.

In addition, there are other items that need to be reevaluated such as holiday pay, bonuses, and worker agreements (e.g. overtime pay). A proactive approach to manage these expenses begins with a conversation with your employees, Works Council and labor unions. These conversations will reveal your potential options and create a baseline.

Suggestion 5: Make use of the (tax) measures from the government

Governments are taking a number of measures to support companies during the Corona crisis. We have seen examples as in supporting temporary shortening of working hours, direct support for salary costs, This enables companies to pay their employees with a fixed or flexible employment contract. The arrangements differ per country, please reach out to your tax advisor or local government for the applicable details.

In addition, companies may request a payment deferral regarding payroll tax, VAT and corporate income tax. The website of your government will give you directions.

Suggestion 6: Cost reduction

Reducing cost is usually the first measure that should be taken. Think about a hiring freeze, external trainings, marketing, or operational expenses such as subscriptions, the water cooler or flowers. These are often small amounts but combined they could make a difference.

The lack of visibility on committed obligations hinders a company’s ability to assess their cost

reduction options. For example, think about monthly rent, cleaning or security cost: can these be renegotiated? Company lease cars are standing still or are driving less kilometer than normal, so you may want to ask for a change in fuel prepayments. Maybe the cost of vehicles that are standing still can be stopped by a temporary suspension via the leasing company.

Suggestion 7: Working Capital Management

Working capital can be split in short term receivables, payables, and inventory. In short, your receivables and inventory levels should be as low as possible and your payables as high as possible, to increase your cash position.

More frequent invoicing – e.g. weekly instead of monthly – leads to faster payment receipts. Ensure strong receivables management but do not damage the relationship with your client. Solve delivery problems, respond quickly with credit notes and give discounts if needed. Your clients are also confronted with Covid-19 problems and will appreciate the gesture.

You can probably delay payments to suppliers but consider the relationship. Some large companies are cash-rich and have adequate credit facilities. This allows them to help their smaller suppliers to ensure that the supply of goods and services does not come to a halt. What are the critical suppliers in your supply chain? Can they still deliver if you delay payments of their invoices?

Contact your clients and suppliers and discuss the situation and options. A temporary retardment of payments admittedly creates ‘cash space’ for one party, but at the same time ‘cash tightness’ for another party.

Review your Order-to-Cash and Purchase-to-Pay process. Do you have sufficient ‘cash control points’? Who can order goods and services? Your

company may make undesired commitments that you may not be able to undo. For example, buyers are sometimes inclined to create high stock levels due to purchase bonuses or volume discounts. Do you need all that stock given the lower sales forecasts? On the other hand, inventory levels should not be too low as this increases the risk that production processes or client deliveries come to a standstill.

Suggestion 8: Investments and divestments

If possible, consider putting investment projects on hold and ensure that the project is sufficiently documented. This enables management to restart projects in an efficient manner especially if the project team will be different in the future.

Moreover, the sale of assets or business units – and the restructuring of the company – may be necessary to generate cash that is needed for other business units. This is a strategic decision and not a quick win, but could be an emergency solution to ensure the continuity of your company.

Suggestion 9: Financing by Banks

Some banks are giving their financially distressed clients a pause of six months regarding the interest and loan repayment. The details are yet to be defined, but many banks are investigating different options to support their clients. At the same time, many companies will probably move to the Special Credits department of their bank.

Contact your bank to discuss the situation and your options – better sooner than later. Discuss the possibilities in your current financing package and the possibility for temporary extra credit. Cash pooling – a centralized cash management strategy to balance the accounts of a group's subsidiaries – may be an important tool for

businesses with multiple entities to ensure that all subsidiaries maintain operations.

Suggestion 10: Financing by Private Investors

There are two ways to manage your finances with your investors. You may decide to delay or cancel dividend payments. You should discuss the availability and willingness of extra temporary cash e.g. via the issue of shares or a shareholder loan.

Private equity investors have deep pockets and a lot of 'dry powder'. Extra funding is a must for startups, but investment companies will look thoroughly at the continuity risks of their portfolio companies. Many Private Equity deals are based on financial leverage and growth scenarios that may not be resistant to the crisis that we are currently experiencing.

On the other side, family businesses are usually financed conservatively with a no or low debt and

may have wealthy owners who are able and willing to provide additional funding.

The impact and speed of Covid-19 on the economy and industries is difficult to foresee, but the old saying "Hope for the best but prepare for the worst" is definitely applicable for many companies. Cash control must be a key priority!

Practical advice or hands-on support on cash forecasting or taking measures?

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