KPMG

Communication

COVID-19 • CASH MANAGEMENT

CAPSULE # 4 – March 30, 2020

Building a resilient cash management strategy in a period of uncertainty

For a vast majority of companies in the current economic context, in addition to the uncertain moment of the possible recovery, effective cash management is essential. It may sound complex, involving huge spending on things such as information technology – but it doesn't have to be this way. It is an effective strategy, to be implemented quickly.

It is based on four fundamental steps aimed at quickly structuring a robust cash management strategy and safeguarding the future of any business, regardless of the industry it operates in or its size:

GAIN VISIBILITY AND CONTROL OVER CASH FLOWS

— **13-week rolling cash flow forecasts** prepared on an expected receipts and payments basis, by business line and jurisdiction.

— **Weekly variance analysis** of cash flows, explanations for variation, whether due to timing or permanent.

— **Cash Committees,** to meet weekly, with participation by all function heads and having aligned KPIs.

— **Engage early with financiers** to address any forecasted deficiencies and take appropriate steps to retain control of the situation.

PROACTIVELY MANAGE WORKING CAPITAL NEEDS

Working capital needs in the context of overall business requirements for the weeks, months and years ahead. Consider your working capital strategy holistically. Most businesses are able to drive improvement and unlock cash from at least one, if not two areas of the working capital cycle.

1. **Trade receivables:**
   - Appropriate processes are in place to invoice in a timely manner, in accordance with contract terms, and robust credit controls are in place;
   - Use analytics to understand customers' payment behaviors and take proactive measures to align behaviors with contractual terms;
   - Consider receivables factoring programs to unlock cash and deploy more rigor in the cash collection process.

2. **Inventory:**
   - Address slow-moving, obsolete stock;
   - Critically examine forecast production requirements, need for buffer stocks and SKU assortment;
   - Avoiding tying up cash in unproductive inventory.

3. **Trade payables:**
   - Paid only in accordance with contract terms;
   - Avoid daily payment or ad-hoc payment runs. Consolidate these on a weekly or fortnightly basis;
   - Leverage your market and seek a mutual extension of payment terms to suppliers;
   - At the same time, remain aware of the risk of supply chain disruption at your supplier level caused by their own financial health;
   - Make use of supplier finance programs to release cash earlier to suppliers and ensure continuity of supply and service levels.

GO BEYOND WORKING CAPITAL

— Review trapped and illiquid cash within the group structure.
— Review the capex strategy and consider leasehold / rental as an alternative, deferring significant capex outlays or releasing cash through sale and leaseback.
— Review the tax efficiency of operations, making use of any opportunities to defer or reduce payment of tax. Ensure any potential refunds are pursued.
— Review all other non-trading contracts / commitments that have a cash requirement over the months ahead and reconsider their necessity.

THINK STRATEGICALLY

— Make cash management a boardroom priority.

- Ensure that your business model fully considers cash requirements. To preserve cash, many businesses are looking to rationalize their product assortment and the markets in which they operate.
- Develop clear metrics for cash and working capital.
- Make use of funding and liquidity products provided by financial institutions and government programs.

Better understand inefficiencies through use of data and analytics

Without the right information, your perception of cash management performance could be very different from the reality. In turn, performance may be very different than it would be if you collected and paid cash in accordance with agreed contractual terms.

Businesses are increasingly making use of data and analytics to identify cash management inefficiencies, understand root causes and develop a plan for improvement.

The root causes of inefficiencies can be attributed to four areas:

1. Weak policies, controls and processes that are not aligned to overall strategy and, or no longer fit for purpose.
2. Systems that are unable to produce timely, accurate and insightful management information.
3. Culture: a strategy and KPIs that drive the wrong behaviors around cash management. For example, sales teams that are incentivized by revenue targets but not cash collections.
4. People: a lack of awareness around the importance of cash management and a limited understanding of what is required

Without understanding the root causes of problems and fixing them well, issues are likely to manifest themselves again and again, especially once focus is directed elsewhere.

TALK TO US

We are here to listen. To start the conversation, contact your KPMG team of professionals, write us at continuite@kpmg.ca and/or visit our KPMG COVID-19 Resource Centre.

Do not hesitate to contact Dev Coossa and Maxime Codère, Partners, Deal Advisory, Restructuring & Turnaround, Renaud Beauchesne, Managing Partner, Quebec City Office, as well as Jean-Philippe Parent, Managing Director & Partner, KPMG Corporate Finance Inc.

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