

# Develop a robust cash management strategy

## Leading successfully in turbulent times

In the current market, cash is key to the survival and growth of any business. As the global economy continues to face challenges, effective cash management to maintain a steady stream of working capital is an increasingly vital practice.

Regardless of the industry they operate in, businesses can demystify cash management by taking proactive steps to gain control over the situation. These include gaining visibility over cash flows, managing working capital needs, conducting thorough reviews to release illiquid cash, and ensuring the business model fully considers cash requirements.

Inefficiencies with regards to policies, processes and systems, as well as with an organization's culture and its people, can hinder cash management performance. A thorough understanding of an organization's cash position is also crucial in terms of allowing management visibility and control in times of crisis.

## Things to do now

### Gain visibility and control over cash flows

To achieve working capital performance goals and understand how cash flows around a business, cash flow forecasting needs to be accurate. Improving forecasts will require the business to establish clear reporting through a 13-week rolling cash flow forecast, that is prepared on an expected receipts and payment basis, by business line and jurisdiction. It means reviewing and challenging assumptions on a regular basis, with participation by all function heads and having aligned key performance indicators (KPIs). Cash flow management is not just the

responsibility of the finance function. It is important to engage with financiers earlier to address any forecast deficiencies and take appropriate steps to regain control of the situation.

### Proactively manage working capital

Having a clear understanding of the working capital cycle is a key factor. It is important that you consider your working capital strategy holistically. For instance, changing your payment terms with your suppliers may have a consequential impact on the quality of service, impacting inventory levels and thus the quality of service that you can provide to your clients. For trade receivables, ensure appropriate processes are in place to ensure clients are invoiced in a timely manner, in accordance with contract terms, and that there are robust credit controls in place.

There are also best practices that companies can adopt from an inventory perspective. For example, addressing slow moving, obsolete stock and periodically analyzing SKU profitability can help avoid tying up cash in unproductive inventory.

In times of economic disruption, cash management can be even more important, so every dollar counts. Avoid daily or ad-hoc payment runs and consolidate these on a weekly or bi-weekly basis. Make use of supplier finance programs to release cash earlier to suppliers and ensure continuity of supply and service levels.

## Think beyond working capital

Expenditure programs that assumed continued market growth in the past may need to be re-evaluated in light of the changing economic conditions and heightened associated risks. Reassess your trapped and illiquid cash within the group structure, your capex strategy and consider leasehold/rental as alternative. These actions may help to defer significant capex outlays or to release cash through sale and leaseback. Effective tax planning and making use of any opportunities to defer or reduce payment of tax through pursuing any potential refunds can also help alleviate some of the burden.

## Think strategically

For leading global businesses, cash management should consistently be a boardroom priority. To ensure that your business model fully meets cash requirements, it is important to review the markets you operate in, the products and services you sell, as well as the channels these products and services are distributed through. Furthermore, businesses should consider developing a cash management strategy with clear metrics for cash and working capital.

In tough economic times, it is critical that companies have sustainable cash and working capital practices – a discipline they can draw upon to improve their competitive position when there is tremendous amount of turmoil in the market.

For more information click the links below:

[Pandemic planning as a part of an overall resilience strategy](#)

[Business continuity in a COVID-19 world](#)

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## Key considerations

- **Is the organization struggling to meet short-term funding requirements or making unexpected requests for additional funding?**
- **Is the organization receiving requests from clients to extend credit terms when cash is already tight?**
- **Are your forecasts accurate and robust?**
- **Have you entered into a payment plan with trade creditors?**
- **Does management have a clear understanding of how the current business model drives cost into the business and understand what level of cost can be extracted?**