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Managing Cash Flow in a COVID-19 Environment

August 2020

Why focus on cashflow now?

- Avoid or mitigate cash pinch points that could derail your current trading strategy
- Build headroom to manage through yet further disruption e.g. national lockdown
- Release 'trapped cash' that can be used in targeted investment
- Demonstrate to business financers that cash is being controlled effectively

The 31 October closure of the Job Retention Scheme will have significant cash flow implications for many businesses. It may also indirectly impact those who were not previously beneficiaries of the scheme themselves.

COVID-19 continues to disrupt and complicate trading profiles and as funding support for furloughed workers winds down, businesses will need to adapt their cash management practices accordingly.

At KPMG we are supporting clients to:

- Implement granular cash flow forecasting models as the foundation on which they protect and preserve their cash position
- Respond and adapt to working capital volatility across both customer and supplier lines
- Optimise internal efficiencies within core working capital cycles
- Generate new cash wins from sophisticated data analytics tools that 'mine' balance sheets and commercial operating structures to identify opportunities often 'invisible' to the business itself

> **"As the economy enters an uncertain 'New Reality', getting a strong grip on cash should be a top level business priority"**
>
> Mark Raddan, Global Head of Turnaround, KPMG in the UK

1 Robust, reliable short term cash forecasting

Managing cash and working capital effectively, particularly in volatile or unpredictable trading environments, requires appropriate granular management information with reasonable forward looking visibility.

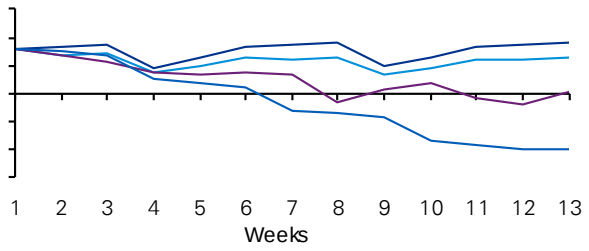
Short-term cash flow (STCF) – fit for purpose

- Detailed **receipt and payments** format
- Rolling **13-week basis**, updated at least weekly and reconciled to 'actuals' e.g. bank balances
- Performed at a business unit level and consolidated as necessary
- Derived from actual trading and operational activity metrics (including non-finance/ledger), not annual budget/forecast
- Variance analysis to actual prior week cash flow activity, and prior forecast iteration, undertaken on an ongoing basis

Sensitising

An important part of the ongoing STCF exercise is to model 'what if?' scenarios – how sensitive the cash position is to upside or downside scenarios.

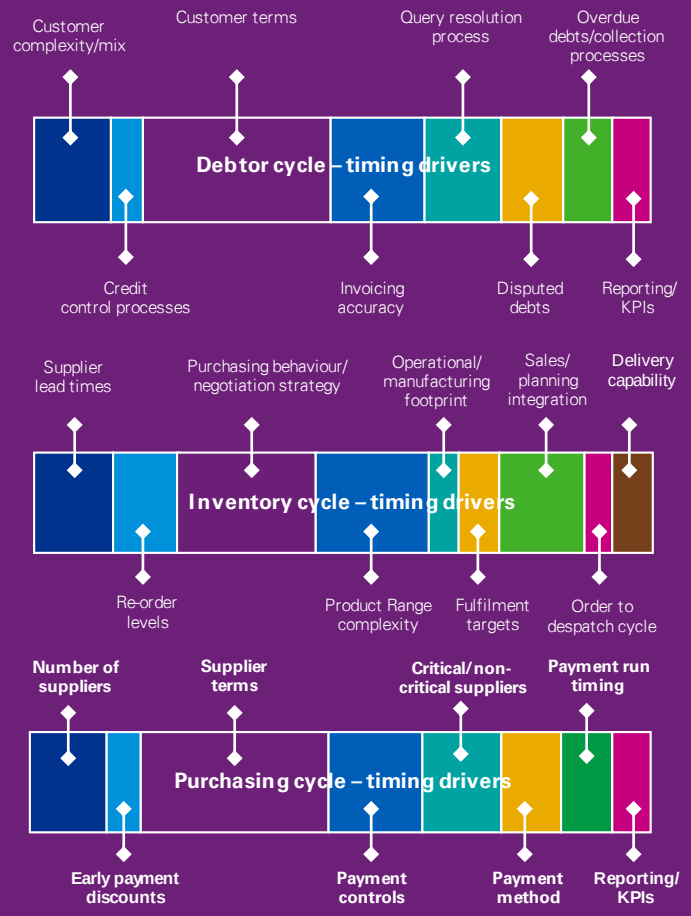
This is critical in understanding the extent of actions required to provide suitable headroom.



2 Optimised working capital

Working capital volatility could be a dominant theme for some time but there is much to be gained from making your internal processes and controls over working capital as efficient as they can be.

Optimising working capital requires a close understanding of the Timing Drivers impacting the speed at which cash flows out of and in to the business.



Things to watch out for

Cash Forecasting

- Produced as a Finance-only exercise
- Derived from annual budget / forecast, taking monthly values and 'dividing by 4'
- No recording of prior week 'actual' cash flows
- No variance analysis and measurement of accuracy

Working Capital

Sales Cycle:

- Increasing volumes of unprocessed invoices
- Overstretched credit control function
- Increasing levels of credit notes

Inventory Cycle:

- SKU proliferation
- Increasing inventory write-offs, obsolete and slow moving stock

Purchasing Cycle:

- Invoices paid on a daily basis
- Early payments not monitored
- Credits, discounts, unallocated cash and claims are recovered on an ad-hoc basis

3 Implementation and sustainability

Improving cash and working capital management in any organisation is dependent upon making process changes 'stick'. This means moving initiatives from a 'Project' to being embedded in the 'DNA' of the business.

The implementation of a governance framework is key to ensuring enhancement wins remain permanent:

Visibility
- Leadership
- Cash flow forecasting
- KPIs and reporting
- Review and meeting agendas

Control
- Entity targets and performance management
- Individual targets and incentives
- Policies and controls
- Business case formats and sign-off

Organisation
- Responsibility and accountabilities
- Competency models

Capability
- Training and skills
- Knowledge management
- Internal benchmarking

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KPMG's Cash & Working Capital Team use a holistic, end-to-end approach to deliver results

Design → **Build** → **Train & Implement**

Identifying opportunities to generate or preserve cash can be straightforward, however implementation can be challenging. This is particularly true when changes will significantly impact working practices or existing operations.

Our team of experts help businesses implement and embed changes:

- Identify and implement key performance indicators to drive best practice
- Drive cultural change across the organisation, so budget holders are accountable/responsible for the changes.
- Help protect stakeholder value, identifying key milestones for longer-term changes

Our Team

KPMG Restructuring comprises over 500 professionals based in 17 offices across the UK.

We're proud of our regional presence, which helps us understand issues affecting local economies and the businesses that contribute towards them.

Leading data analytics

KPMG's leading working capital diagnostic technology draws from standard ERP data outputs and is able to quickly identify working capital enhancement opportunities.

To find out more, visit :
kpmg.com/uk/restructuring

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