# Controlling and Optimising **Cash** During **Disruption**

First and foremost, the spread of Coronavirus is a public health emergency. It is inevitable that all businesses, regardless of industry, will be impacted, but to what extent is still unknown.

The Coronavirus has triggered the need for organisations across all industries to re-evaluate the strength and durability of its traditional supply chains as well as potential operational and financial performance.

In light of the challenging disruptions, be it environmental, technological or economic - on either a local or global scale - now more than ever, organisations need to build the capacity for disruption into 'business-as-usual' operations.

At Vendigital, we are actively supporting businesses, providing immediate advice and insights to help manage their key priorities.

## Cash Control

Businesses are at risk of running out of cash immediately following the crisis, with the top line revenue nosediving alongside businesses taking time to stem the flow of outgoings. Below are the steps that can be explored to reduce the cash risk across three key stages – Crisis Response, Crisis Management and Crisis Recovery:

### Crisis Response | Immediate actions taken to safeguard revenues and remove unnecessary cost

**1 Stem the flow**

Detailed cash profile models need to be rapidly developed to identify what actions need to be taken to control cost spend based on the top line revenue impact. Clear decisive actions need to be taken to put control on all areas of business spend.

**2 Government backed loan**

Government backed loans are there to support businesses. Applications need to demonstrate the business is viable with clear, detailed business case indicating the businesses health and the ability to re-pay post crisis.

### Crisis Management | Maintaining steady state, maximising revenue and optimising operational efficiency

**3 Cash preservation**

Continued control of spend within businesses is essential at this stage. However, there is greater confidence in the cash profile now the impact is properly understood. Spending controls need to be reviewed ensuring they don't impact revenue.

**4 Cost savings**

Through new operating models and supplier negotiations, further cost saving opportunities can be realised. This will strengthen the cash position and allowing the business to function more effectively.

### Crisis Recovery | Enablement of proactive recovery to boost revenue and re-base cost, optimising profit

**5 Recovery rate**

As businesses start to recover, spend control needs to be relaxed to enable the supply chain and operations to effectively ramp up. Care needs to be taken to ensure effective ramp up whilst maintaining a healthy cash flow.

**6 Financial recovery**

Careful consideration needs to be taken as to the rate of financial recovery. Is it better to capitalise on the market and continue to invest, or be more conservative and look to pay back debt? Decisions here could effect the business for many years to come.

VENDIGITAL®

## Working Capital Optimisation

Implementing strong cash management processes and financial discipline to move towards a leaner cost structure and better cashflows, focusing on unlocking cash trapped on balance sheets, tied up in inventory or left uncollected.

**Cash In:** Receivables → **Internal:** Cash Management → **Internal:** Inventory Management → **Cash Out:** Payables

### 1. Cash In: Receivables

**Customer review** – Ensure robust credit check policies are in place and strict credit limits are implemented.

**Invoicing** – Provide receivables department with up-to-date payment terms. Review invoicing processes and set up regular reports to limit errors and confirm completion of invoicing.

**Collection** – Set up regular reporting of overdue receivables and negotiate payment plans for outstanding items. Take a collaborative approach between finance and the business to drive consistent collection.

### 2. Internal: Cash Management

**Finance function –** Implement best practice P2P and O2C processes reducing error rates, processing times and collection inefficiencies. Perform industry vendor benchmarks to negotiate cash savings.

**Cash flow strategy** – Define and communicate key cash metrics with a clear understanding of capital requirements. Balance short-term needs with long-term investment goals to enable future growth.

**Technology** – Implement vendor portal or electronic billing to speed up payments. Ensure strict master data management and data output to enhance cash visibility and improve forecasting.

### 3. Internal: Inventory Management

**Internal controls –** Conduct a bottom up review of supplier performance. Establish minimum inventory requirements to reduce surpluses, as well as strict inventory controls to eliminate double counting and reconcile variances.

**Supply chain** – Consolidate and simplify vendor list. Optimise distribution centres and inventory location strategy and explore moving towards just-in-time deliveries. Switch to secured supply through local vendors and sustainable suppliers.

### 4. Cash Out: Payables

**Select the right vendor –** Establish strict rules and prevent out of policy buying. Leverage commercial stability for better prices and investigate opportunities for barter.

**Contractual review** – Avoid duplicate payments and penalty clauses. Take advantage of early exit clauses.

**Procurement process** – Maintain rigorous PO process and consider preferential terms for pre-approved vendors. Forecast liquidity requirements and explore early payment discounts if required.

**Invoicing** – Ensure standardised approach and identify any inaccurate invoices. Review invoice aging and manage vendors where needed.

## Want to learn more?

Find out how Vendigital can help.

**Ben Bird**
Partner
e: ben.bird@vendigital.com