Cashflow in Crisis

10 tips to help keep you on course

A whitepaper by Pegasus Software

Introduction

While the economic ramifications of Covid have been felt far and wide, the full extent of the pandemic on businesses is yet to be realised. The last twelve months have, in the main, seen businesses focus on identifying risk, protecting employees and in some cases, spinning up new business models to compensate for lost revenue.

There has been a great deal of noise around visibility and agility as key levers for survival, and cashflow has come under the spotlight as a major lever.

Cashflow: definition

Cashflow, the ability to generate enough cash at the right time to meet liabilities, is one of the most common inhibitors of business growth and a key reason for insolvency, which in times of crisis is something which needs to be fully addressed in order to mitigate risk.

The Covid effect

Revenues that were once predictable are suddenly unpredictable, and organisations are finding that navigating the crisis effectively comes at a cost. The scale of the challenges brought about by the pandemic mean that it is incredibly challenging to pinpoint all potential variables that might affect cash inflows and outflows simultaneously.

Adding to this challenge is the fact that cashflow forecasting remains spreadsheet-reliant in many enterprises, making the processes not only error-prone and inefficient, but impeding the finance department's ability to ascertain cashflow status at any given time. In turn, this impedes the company's ability to take measures to recoup late payments quickly before they build up and become problems.

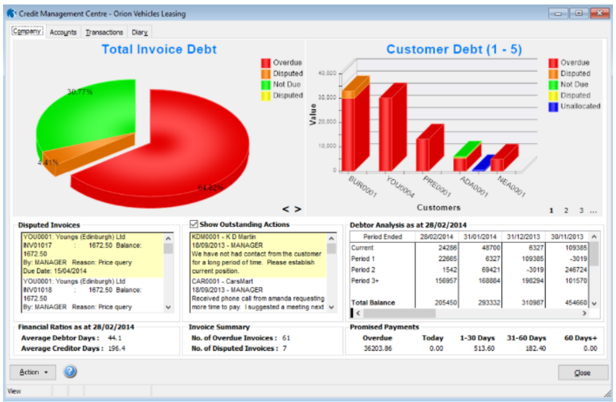
If you look at a typical manufacturer as an example, it is easy to see how setbacks in cashflow can occur. The manufacturer might buy raw materials on credit before manufacturing the goods before they become stock. These goods are then sold on credit which depending on the payment terms, might be anything from fourteen days to three months. During this time, they must pay for overheads and wage bills. If customers pay on time, then this cycle is very efficient. Unfortunately faced with Covid-related cash flow challenges of their own, creditors can be slow to pay and when delays occur, the cycle breaks down.

The eye of the storm

Businesses that are currently in the eye of the storm, including those in sectors such as tourism, hospitality, entertainment and air transportation, which have been particularly hard-hit are of course especially vulnerable to changes in cash flow. But even businesses that appear to be in good financial shape may not be immune as the supply chains around them face huge volatility.

It goes without saying that it's impossible to control if and when customers pay, but through instilling greater rigour, diligence and processes across the order cycle, a huge step change can be achieved in managing a company's cashflow position.

Following such an approach, supported by systems which can generate various levels of debt correspondence to individual customers, can make a huge difference to facilitating prompt payments.



Many modern systems offer the facility to specify and design multiple levels of debt correspondence letters per company, and per individual customer for customised letters for example. It's important to ensure that when a letter is generated, a sales ledger note and credit management diary action is automatically recorded against the relevant customer, to facilitate visibility of the customer's history and payment habits.

By harnessing this level of understanding, cash flow issues may be pre-empted. Armed with a full picture of a customer, companies can make decisions on whether to reduce credit or suspend accounts to stop the problem escalating.

Cash(flow) is King

The pandemic, combined with global trade tensions, ongoing political elections, continued social unrest in some countries, and other risk drivers, has put tremendous strain on most organisations.

Effective, controlled cashflow management needs to be an integral element of every company's overall Covid-19 risk assessment and planning beyond. Even for companies that have not yet been adversely affected, in an unpredictable economic environment, taking a comprehensive view of cashflow, setting priorities for spending and instilling rigour, is vital, and could mean the difference between surviving the pandemic and falling through the cracks.

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10 tips for improved cashflow

1. Finance options

Where possible, capitalise on financing options such as loans, to help mitigate against the impact of cash flow volatility.

2. Credit check your customers

Run regular credit checks on your customers. Circumstances can change quickly, as the last 12 months has highlighted, so ideally this should take place every six months.

3. Know your history

Ensure you know the history of your largest customers. For example, if directors have a history of bankruptcy, a degree of caution may be necessary.

4. Be bold

If a customer regularly defaults on payment terms, are they worth the resources it takes to service them and chase down payments? Turning away business might seem counter-productive but could positively impact the bottom line.

5. Consider your credit terms

Consider your credit terms and look at introducing 14-day payments or small deposits for the largest customers. Look into offering a small discount for early payment.

6. Invest in a software solution

Invest in a software solution with robust financials, to generate invoices automatically and in a timely manner, provide alerts when payments become overdue, and facilitate immediate action to recover debts.

7. Have a credit control policy

Ensure you have a clear credit control policy in place and create a series of automated letter and e-mail templates to communicate appropriately with customers and recover late payments.

8. Act appropriately

When chasing payment, always act appropriately. Be firm, polite and diplomatic.

9. Monitor cash flow closely

Monitor your cash flow closely and in real time. Dashboard applications will help you prepare for things going wrong by giving you a clear picture in an easy-to-understand format.

10. Review regularly

Review cash flow processes and resources on a regular basis and set realistic targets to ensure continued improvement.

Conclusion

Covid-19 has undoubtedly created significant cashflow difficulties for businesses large and small, albeit some industries have been affected more than others. Revenue streams have become unpredictable and forecasting has been challenging, in fact, almost impossible for particular industries such as travel, entertainment and events. There has never been a more pressing opportunity to take stock of your cashflow; this means staying on top of customer debt, considering your credit terms and regularly reviewing your business processes, among other important steps covered in our ten-step plan.

For more information on how Pegasus Software can help your business with cashflow, contact info@pegasus.co.uk