

# Smarter Spending - Cash Management

An Auditel guide to urgently improving cashflow

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**During these uncertain times you may need to ensure debtors, creditors and inventory are maximised as a source of cash. If you are struggling with cashflow then please consider the following. We are here to help you should you have any questions or simply want to sense check your decision making.**

## CASH FLOW CONTROL

Cash is king and you will need to centralise the control of cash in situ or remotely so that cash can be managed on a daily basis. This means first of all having excellent communication and exchange of information with the bank. Then re-working business plans, reducing costs and maximising cash from debtors, creditors and inventory. Where relevant foreign exchange use and transactions cost should be reviewed.

There must be robust and structured forecasting and scenario modelling, and the careful assessment of risks and the impact on cash. Many businesses are using 13 week forecast models to address the crisis.

Important in action planning must be the obligations to staff, and whilst businesses need to be at the front of the queue for lenders, securing additional internal cash sources and government support should be the first call. If under distress it may also be necessary to review the structure of debt and equity.

Teams need to engage early, communicate and work together, safeguard business continuity, build resilience and prepare for recovery.

## DEBTORS

Customers are why we are all in business and building sustainable credit management, invoicing and debtors is essential. First step is to make sure invoices are prepared in an accurate and timely manner. Customer names and addresses must be correct and credit checked.

Then collections approach should be reviewed by customer group and category. This means examining methods, processes and contracts. The outcome of which should be managed term extensions, process changes, and better collections strategy and debt path.

Bad and doubtful debts should be reduced as credit control, dispute resolution and escalation are improved whilst maintaining contractual lead times and service expectations.

Key will be to ensure invoice processing frequency, timeliness and quality, and monitoring unbilled revenue and work in process.

Businesses are also making more astute use of credit assessing, debt collection and invoices review services and some are using payment collection machines when remote working.



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### CREDITORS

Suppliers need to be managed proactively and considerations are to standardise payment terms, map and streamline payment processes, investigate supplier enquiries as a means of building relationships, and allow payment discount opportunities to be seized more readily.

Close attention here will improve supplier relationships, allow invoice payment triggers to be moved, and help process and payment schedule compliance.

Getting a proper grip on payables will also help with making electronic payment more wide spread, facilitate the steps to greater automation, and enable more time to be spent on strategic sourcing, category management, and discipline in procurement. It may also be vital to conduct an immediate assessment of risks in supply chain of direct cost of sales particularly where imported product is involved.

In some cases it may be helpful to use invoice review services who can mine payables for errors and refunds. For smaller suppliers use of payment cards should be considered to ease administration.

Once done wider opportunities in supply chain management, smart contracts and even blockchain can also be addressed as part of the recovery plan.

### INVENTORIES

Orders must be met and available inventory is key to customer service, thus businesses need to aim for inventory optimisation by managing the process from forecasting the stock needed to taking delivery of it. Inventories will include finished product, but also components and spares.

Both ordering and delivery factors need to be understood so that inventory drivers can be modelled and the cash impact understood in lead times, delivery cycle and safety stocks. Breakages and other quality problems need to be assessed and refunds obtained.

### KEY QUESTIONS

In reading the above and getting through the crisis and its implications for cash, the key questions are whether you have:

- Got sales invoices out that are correct and timely,
- Full view of all drivers of and priorities for working capital,
- Sufficient business feedback to create a 13-week cash flow forecast,
- Excellent working relationship with the bank and other lenders
- Built a dynamic financial model that can underpin critical decisions, and
- Ensured actions required to deliver substantial changes fully understood and agreed

For more information please contact:

