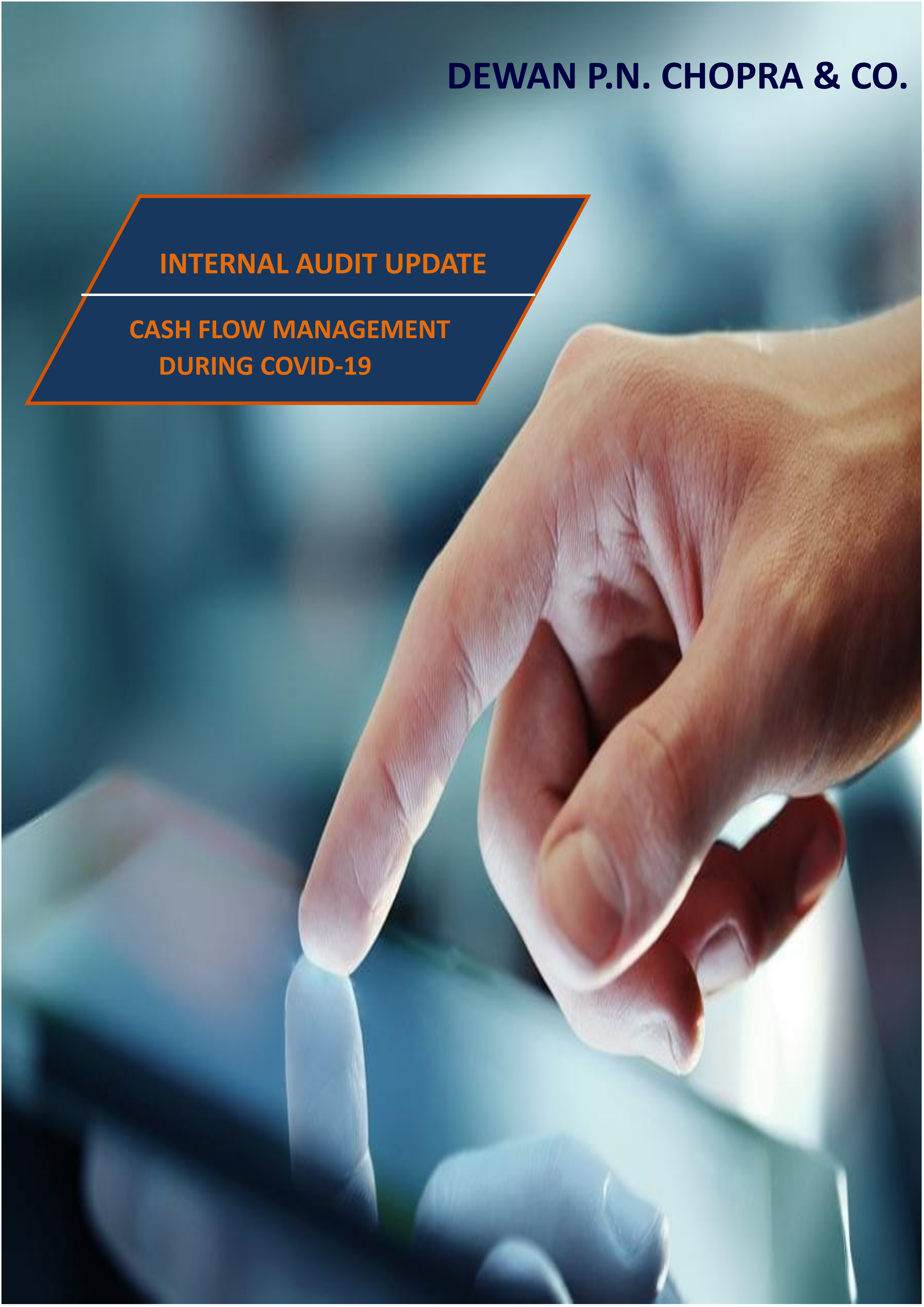
DEWAN P.N. CHOPRA & CO.

INTERNAL AUDIT UPDATE

CASH FLOW MANAGEMENT DURING COVID-19



Cash Flow Management During COVID-19

The pandemic has put almost every business in a difficult cash flow situation, starting from long delayed payments from debtors to bearing fixed cost even with no revenue in hand, statutory payments, recurring financing cost, daily follow-up by the creditors' which are due for payment, monthly salary cost of employees etc.

A pandemic outbreak is something we haven't witnessed before. However, if history has taught us anything, it is that after every market downturn, recovery happens. To survive in the post-COVID-19 world, businesses will be required to chart out their cash flow, increase orders, and operationalize quickly. Cash flow can be improved through various ways. Some of them are:

1. **Monetization of receivables:-** It is a fact that debtors form a very big part of current assets. Since there is a steep fall in the revenue it is even more important to review the strategies to recover from the debtors. Covid-19 has drained cash from every organization therefore it is required that more rigorous procedure needs to be adopted for collection process. There should be focus on customer-specific payment performance. Factoring service may also be taken to fasten the process of recovery from the customers.

2. **Timely and accurate Invoicing:-** Any errors in your billing process can lead to costly delays in receiving payment. It is important to send the invoices immediately. Include clear instructions regarding payment types accepted. Charging late payment fees, should be clearly specified if there is a Policy around it.

3. **Lag Payments wherever Possible:-** Negotiating terms of payment with the suppliers to delay the payments to the suppliers. Negotiation should be in such a way that it is a win-win situation for the company and the supplier as well. This should be kept in mind that this situation should not lead to delay in delivery from the supplier or quality issues.

4. **Cautious actions for Inventory Management:-** Strategies related to inventory management needs to be reviewed. On one hand it is necessary to keep the inventory levels low so that least cash is blocked in the inventories. On the other hand, due to disrupted supply chain, companies would want to increase the buffer stock level and also keep the emergency items in the stock too, so that production is not hampered due to non-availability of inventory. Balancing the requirement of both the scenarios is not easy. Techniques such as Just-in-time may prove beneficial in such times.

5. **Providing discounts to expedite recovery or financing from the customers:-** Customers who can be lured from the discounts, should be given appropriate discounts to expedite the recovery. In other way it is a short term financing arrangement from the customer. For ex- giving 2% pm cash discount for early payment is another way to obtain finance. This can be a good alternative in case loans could not be taken from the banks.

6. **Conduct Customer Credit worthiness check:-** If a customer doesn't want to pay you in cash, then be sure to conduct a credit check—especially before you sign them up. If the customer has poor credit, you can safely assume that you won't be receiving payments on time. As badly as you might want to make the sale, the late payments will hurt your business's cash flow. So as much as it is important to sell the product, it equally important to check the credit worthiness of the customer so as to ensure recovery.

7. **Reducing the variable cost:-** Non-Essential variable cost could be restricted and thereby reduction in the cost of goods sold. There can be various alternatives in which variable cost can be reduced. Many organization have resorted to reduction in cost by putting employees on unpaid leaves, cost cut by curbing the cost on training, entertainment, travel, reducing contractual labours etc. Various techniques / measure such as expanding use of practices such as contract manufacturing, and third party warehousing, sale and lease back transactions, transportation fleet leasing etc could be used to reduce the costs. This is not likely a quick-hit measure for most companies, but may be important to longer-term cash flow management, depending on how long demand and supply chains are disrupted by COVID-19.

8. **Giving a halt to capital intensive investments:-** With cash flow forecasts in mind, consider what's really necessary for the near term. It needs to be decided-What capital investments can be postponed until the situation improves, what capital investments should be reconsidered, what capital investments are required to position for the rebound and for creating competitive advantage.

9. **Increase in pricing of the products and generate alternate revenue streams:-** If the condition continue to deteriorate and all the possibility of generating cash flows have been tried and no countable results could be obtained then the company could also try to increase the price of the product to sustain the slowdown. Alternative revenue streams can be identified. For example, if the primary markets are international, new stream of income can be generated from domestic markets as well. If there is land in the balance sheet and it could be used to generate alternate income. Not only this could

reduce some of your top line pressures, it could also mean not having to reduce your cost lines as significantly.

10. **Various alternatives to reduce the cashflow:-** Certain measures that can be considered includes, contract manufacturing, and third party warehousing, sale and lease back transactions, transportation fleet leasing. This is not likely a quick-hit measure for most companies, but may be important to longer-term cash flow management, depending on how long demand and supply chains are disrupted by COVID-19.

11. **Lease, Don't Buy:-** Since leasing supplies, equipment, and real estate usually ends up being more expensive than buying, doing so may seem unjustifiable to someone who is only paying attention to the bottom line. But unless the company is flush with cash, it would be very difficult to mere run the operations in the company. By leasing, you pay in small increments, which helps improve cash flow. An added bonus is that lease payments are a business expense, and thereby can be written off on your taxes**.**

12. **Form a Buying Cooperative:-** Think power in numbers, and find other like-minded companies willing to pool their cash in order to bid lower prices with suppliers, who usually give big discounts to large firms who buy in bulk

Healthy cash flow is the result of operations that run efficiently and smoothly. While implementing some or all of the above steps should help you increase your business's cash flow, it is equally important to make sure to take the right decisions regarding your marketing, customer service, product or service development, and new customer acquisition. That's why it's critical to review and update your business plan on a regular basis to ensure you anticipate trends and challenges before they impact the profitability.

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