Cash management in challenging times

With the acceleration of certain global trends within the automotive industry post Covid-19, dealer finance has an important part to play in the new car market in the coming years. Cash is the lifeblood of any business. During periods of difficult trading, the ability to manage cash flow on a daily basis can be the difference between success and failure, writes Michael Neary, Corporate Finance Partner, Grant Thornton.

The key message when it comes to bolstering your cash flow is to ensure you are aware of, and actively managing, the controllable factors.

While July brought a surge in new registrations of 202 vehicles, the figures are approximately 14% below the same period in 2019. The implications of continued demand softness, and uncertainty in how long it may last, points to a heightened need to manage cash flow carefully to be able to weather the storm.

Components of cash flow

When thinking about the operations of a business it may seem intuitive to equate 'cash flow' with 'profits.' While operating profits are a fundamental element of total cash generated, it is important to understand the other components of a cash flow statement in order to determine where the cash levers are in your business (See Table 1).

Cash flow source	Notes
1. Operating activity	Operating profit (excluding non-cash items e.g. depreciation, amortisation).
2. Working capital	Investments in inventory, payments to suppliers, receipts from customers, tax payable balances, etc.
3. Financing activity	Funds raised (or repaid) including loan drawdowns, equity issuance, or shareholders' loan.
4. Investment activity	Investments in long-term fixed assets such as showroom improvements, office equipment, vehicles (not for resale), etc.

Table 1.

Applying this framework to your business can provide a helpful perspective for identifying controllable areas to improve your cash flow cycle. In this article, we discuss each of these areas and the potential levers you have at your disposal to manage your organisations' cash flow.

1. **Cash flows from operations**

   Naturally operating profits are a focal point for managers. Central as it may be however, profitability tends to have fewer levers to pull to improve cash generation – at least in the short-term.

   Revenues

   In challenging times revenues are under pressure from reduced customer demand, whether from lower disposable incomes or delaying major purchases due to trepidation about the future. As this is linked to macro trends it is typically more difficult to affect sales to boost profitability.

   Variable and fixed overheads

   Managers should instead look to influence costs within their control. This may include negotiating with insurers, utility providers, and landlords to seek concessions on recurring expenses, and curtailing discretionary spend where possible. Careful consideration should be given before making any permanent changes to the cost base, especially reductions in headcount, as such changes may impact the business' ability to 'bounce back' once demand picks up.

   Businesses should also be aware of the government initiatives to support employment, notably the Employment Wage Subsidy Scheme, which can help to offset your wages and salaries expense.

Working Capital Element	Potential options
Inventory	▪Ensure economic ordering patterns
	▪ Return excess stock to supplier
	▪ Offer discounts to increase inventory turnover
Trade Debtors	▪ Request prompt payment/cash on delivery
	▪ Offer discounts for early payment
	▪ Ensure fast invoicing process
	▪ Incentivise cash payments
Trade Creditors	▪ Request credit extensions
	▪ Stop automatic payments for non-critical suppliers
Tax payable balances	▪ File VAT and P30 returns but defer payment, and accelerate refunds (in line with Revenue guidance)
	▪ Tax liability warehousing (VAT, PAYE and PRSI)
Other creditors	▪ Defer non-critical payments e.g. pension
	▪ Change annual payments to monthly direct debits e.g. insurance

Table 2.

2. **Working capital**
For many businesses, working capital management presents a significant opportunity to improve cash flow. Much of a business' cash flows stem from month-to-month movements in working capital balances such as inventory, trade debtors, trade creditors, and tax payable balances (see Table 2).
If businesses are maintaining margins and managing their working capital efficiently, then this will translate through to healthier cash flows.

3. **Financing**
In the current macroeconomic situation there is an enhanced range of external financing options available to businesses through government supports, especially those businesses impacted by Covid-19.

Government supports
Key financing supports include:
- Credit Guarantee Scheme to assist in securing bank funding (80% collateral coverage for facilities up to €1m)
- Covid-19 Working Capital Scheme (via the SBCI) which can provide funds of up to €1.5m at 4% for eligible businesses.
- Restart Grant (up to €25k) is available to assist with business re-opening after Covid-19-related closures.

Further information on the various supports can be found at the website of the Department of Business, Enterprise and Innovation.

Traditional financiers
It is always important to maintain relationships with banking and leasing partners as, particularly in difficult times, there are opportunities to positively affect cash flow including:
- seeking repayment moratoriums and/or interest-only periods;
- requesting increased facility limits;
- exploring sale and leaseback options; and,
- levering unencumbered assets to raise new facilities.

4. **Investment/divestment activities**
Revisit capital spending plans
Depending on the business model, continued investments in fixed assets may be required to increase the level of cash generated in the long-term. However, in challenging times, it may be more important to see to immediate cash requirements. A practical step may be to finance the project with an external facility, such as leasing, rather than from cash reserves. If suitable financing cannot be arranged, it may be worth considering postponing any non-crucial capital spend.

Dispose non-core assets
Undertake a review to assess what your cash-generating assets are. If you can identify obsolete or non-performing assets, consider if the business can realise more value from disposing of the asset rather than holding on to it, and, accordingly, free up some cash.

Keeping tabs on cash flows

It is important to assess cash flow requirements before they arise, and to plan to meet these in the most cost-effective manner possible. Consider the following to help in your cash planning:
- implement weekly cash flow reports;
- maintain a short-term cash flow forecast – a rolling 13-week forecast is suggested;
- set up a longer-term cash flow projections model to assess seasonal impacts and likely cash shortfalls.

It is worth noting that a Business Financial Planning Grant is available from Enterprise Ireland (worth €5,000) to assist companies adversely impacted by Covid-19 with implementing a cash flow forecast in order to secure funding.

Control the controllables

While much of what affects your business is uncontrollable, it is important to control the controllable financial aspects of your business. There are many potential options for improving cash flow. Taking the time to consider each major area of cash flow can reveal opportunities to release cash or reduce expenses. In summary, the points to consider are:
1) Profitability: Control the operating cost base including negotiating with suppliers and availing of government wage supports;
2) Working capital: Tighten up the cycle to bring in customer payments faster while delaying payments to creditors;
3) Financing: Explore available financing options including government supports and potential modifications to existing facilities;
4) Capital Investments: Consider alternate ways of funding capital projects or divesting non-core assets to free up cash.