COVID-19 and the CFO

Cash management challenges

April 2020

CFOs have multiple levers for freeing up cash—but will have to act quickly

COVID-19 has reinforced the importance of cash. Many organizations have seen demand slow as social distancing and government mandates have had significant impact on their industries. Others have sent nonessential employees home and no longer have people in place to process receivables or payables. Although commercial banks are honoring credit commitments, central banks are injecting liquidity into the financial markets, and governments are backstopping individuals and businesses, many organizations are dealing with cash flow disruption.

The good news is that tools for responding to this cash challenge are much better than they were a decade ago. Businesses have access to more and better data, as well as improved data analytics and forecasting tools. Communication is faster and easier between different parts of the organization and with suppliers, customers, and banks. Updated enterprise resource planning systems provide better visibility into procure-to-pay and order-to-cash processes, and cloud-based AI capabilities exist to digitize and analyze documents and manage cash at an individual transaction level.

Still, it will take smart, decisive action on the part of CFOs and their partners in the business to ensure their organizations can manage their cash needs during COVID-19. The key first steps are to improve visibility into the sources and uses of cash, put cash at the heart of operational and strategic decisions, and take steps to unlock cash from working capital.

Boost visibility

CFOs must quickly determine whether their organizations have adequate visibility into their cash positions, determine their cash needs, and address any shortfalls. High-level visibility alone won't be sufficient. Managers deep in the corporate hierarchy need real-time insight into their parts of the business so they're avoiding mistakes rather than correcting them after the fact. To understand the full dimensions of the challenges facing them, CFOs and their teams also need to assess how customers are being impacted by COVID-19, leverage revenue forecasts to develop cash flow models that will support near-term activity levels, review capital expenditure plans to test for alignment with near-, medium- and long-term growth forecasts, and factor insurance and potential government assistance benefits into their cash planning.

Put cash at the heart of decision-making

For front-line leaders accustomed to managing toward fiscal-year budget and P&L targets, it is easy to overlook the near-term cash implications of their actions. For example, many have devised supply chains and procurement programs to buy at the lowest possible unit price, often driving large-quantity purchases. Today it might make sense to pay more per unit but buy smaller quantities to manage cash. If customer demand is down, business leaders should seek to reduce inventory levels and postpone operational or capital expenditures that aren't critical to near-term continuity. Across the enterprise, discretionary spending must be postponed or eliminated. Companies may want to designate "cash champions" to infuse this kind of thinking into everyday business decisions, or create a cash desk through which all requests for cash expenditures must be vetted. Employing an 80/20 rule will be helpful—companies should focus on the biggest consumers of cash rather than micromanaging small costs whose overall impact on cash flow is minimal.

Free cash from working capital

Even the best-run organizations have opportunities to free some cash from working capital. For others, the opportunities may be immense. Recent research by the American Productivity & Quality Center shows that companies that do a better job of managing cash tend to have more available to tide them through difficult times or take advantage of opportunities. Top performers on average maintain more than 100 days of cash on hand, versus 70 days for low performers.

On the payables front, working capital improvements should focus on matching policies to needs. Paying invoices on the same schedule (in, say, 45 days), even when some vendors may offer 60- or 90-day terms, makes little sense when cash must be conserved. Even accepting late-payment penalties may make sense until the business climate begins to recover—balanced, of course, against the potential harm it may cause to vendor relations. For organizations that have automated the A/P process, making these changes may require updating configuration rules in ERP systems.

Companies also can seek to selectively renegotiate payment terms and conditions, or, where it makes sense, optimize use of early payment discounts and net discounts. Large organizations that have cash balances in different accounts may decide to pool cash, shifting money from flush accounts to those in need.

On the receivables front, companies must stay close to customers. In addition to analyzing how demand patterns might be impacted in this new economic environment, both by customer and by end market, they should stay in regular communication with customers about anticipated revisions to their payment schedules—and make sure sales teams are kept apprised of any new developments. Companies also can look for opportunities to enforce escalation in case of delayed payments and may want to consider factoring some receivables, making use of asset-based securitization and obtaining credit default insurance.

As noted earlier, many companies will need to prudently minimize inventory levels. Depending upon the business in which they're engaged, options may include discounting slow sellers and remainders of stock, trimming safety stock levels, reducing both the range of inventory held and the vertical range of manufacturing operations, and optimizing batch sizes during production activities.

Key questions for CFOs to ask

- Are our cash KPIs capable of providing the information we need?
- Is our cash reporting capable of providing the insight we need at the right level of detail and speed?
- What are our short-, medium-, and long-term cash needs (and opportunities)?
- Have we designated cash champions to infuse cash thinking into every spending decision?
- What projects, purchases, or activities should be shut down to preserve cash?
- How quickly can we begin to employ robotic process automation and cloud-based analytics to improve and accelerate our cash management capabilities?

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Conclusion

Amid the economic disruption created by COVID-19, ensuring management of cash sources and uses in the most optimal manner is becoming a critical issue for some businesses. CFOs must act quickly to improve cash visibility across every layer of the enterprise and ensure their organizations have optimal cash management processes in place to ride out events whose time horizon cannot be predicted with certainty.

KPMG LLP has the experience, skills, and resources to assist in these efforts now.

Contact us

If you would like more information on how KPMG can assist your organization, please contact:

Ron Walker
U.S. Leader, Finance Transformation
E: rwalker@kpmg.com | M: 760-703-2076

Sanjay Sehgal
Consulting Line of Business Leader
Commercial Markets
E: sanjaysehgal@kpmg.com | M: 330-283-6187

Ralph Canter
Advisory Managing Director,
Finance Transformation
E: rcanter@kpmg.com | M: 314-409-5275

Brian Yeager
Advisory Managing Director,
Finance Transformation
E: byeager@kpmg.com | M: 440-554-3396

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