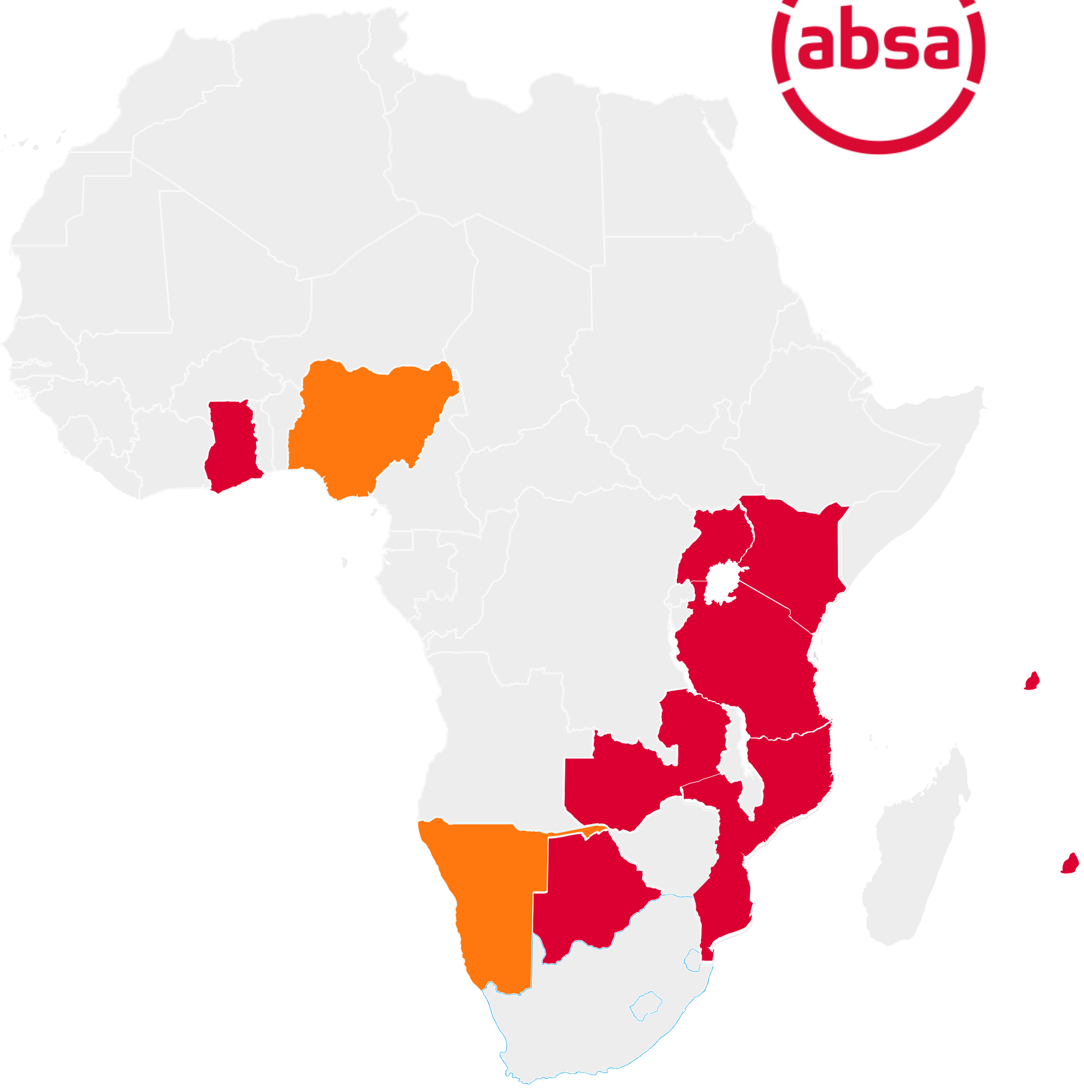
Cash Flow Management



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Agenda

1. Objectives and Introduction.

2. Background to cash flow management.

3. Managing business cash requirements during crisis.

4. A Case study.

5. Conclusions.

Introduction and Objectives

1. Cash flow refers to the flow or movement of money both in and out of the business. It is not about sales or revenue, it is about the actual cash that is made available (or unavailable) to the business.
2. Companies have a host of cash inflows and outflows that must be prudently managed in order to meet payment obligations, plan for future payments and maintain adequate business stability.
3. This involves making sure that the company has sufficient funds in the required currency, location and quantity to meet all payments due, both today and in the future.
4. According to Forbes, study shows 69% of small business owners are kept up at night with concerns about cash flow.

Key objective and learnings

1. Comprehensive introduction to working capital and cash flow management.
2. How to manage business cash requirements during the period of crisis..
3. case studies on how some companies overcame cash flow challenges during the past global financial recession.
4. Immediate critical cash flow steps to stay in business.

The Cash Flow Cycle

Cash management routines should be carried out on a daily basis At the start of each day. This can help to determine the amount of funds which should be invested or borrowed before the end of the day.

1 The Daily Routine

1. Obtain opening bank balance information from the bank.
2. Update the short-term cash flow forecast to reflect this opening balance
3. Review and update the cash flow forecast for current day and subsequent days in the 3–5-day time frame.

2 Update of Cash Flow Forecast

1. Update the short-term cash flow forecast to reflect this opening balance
2. The cash manager should already have cash flow forecasts for up to 3 months, including daily information for the next 3–5 days.
3. This forecast should be updated by replacing the forecast opening cash balance for today with the actual figure and amending forecast balances for subsequent days accordingly.

3 Review of Cash Flow Forecast

1. Review and update the cash flow forecast for today and subsequent days in the 3–5 days time frame.
2. Forecast receipts and payments for today and the following 3–5 days should then be reviewed and updated according to any new information obtained.

Sourcing Information

Sources of information that should be accessed include:

1. The cash flow forecast finalized yesterday.
2. Data from the bank on transactions which are due to clear today and transactions that cleared yesterday. Funds that have cleared are available for use.
3. Data from the Treasury Management Systems(TMS) or Enterprise Resource Planning (ERP) systems on scheduled receipts and payments.
4. Data from operating units to ensure that the forecast accurately reflects planned receipts and payments.

In addition there should be a review of yesterday's forecast against actual receipts and payments to understand any differences and identify any additional adjustments needed to the current forecast.

Cash Flow Forecast Illustration

GHS	Day 1	Day 2	Day 3	Day 4	Day 5
Opening Balance	**85**	**-10**	**50**	**15**	**10**
Receipts					
Cash sales	10	10	10	10	10
Payment from Clients	50	88	110	95	80
Interest receipts	-	-	5	5	-
Total Receipts	**60**	**98**	**125**	**110**	**90**
Payments					
Suppliers	-	-36	-	-58	-94
Wages & Salaries	-	-	-250	-	-
Taxation	-150	-	-	-	-
Total Payments	**-150**	**-36**	**-250**	**-58**	**-94**
Net Cash flow	-90	62	-125	52	-4
Closing Balance	**-5**	**52**	**-75**	**67**	**6**

- Firstly, obtain the opening balance and yesterday's transaction data on the business account from the bank. This may be obtained by logging into the company's account with the bank or by telephone.
- Secondly, review yesterday's forecast to identify what any unexpected receipts or payments relates to and whether this affects today's forecast.
- Thirdly, check with other departments to identify any additional items that may take place within the forecast horizon.

Financing a forecast

The key objective of short-term cash flow forecasts is to reduce liquidity risk by providing an opportunity to address any imminent liquidity issues and plan for the investment of surplus funds in the most effective manner.

Financing a forecast shortfall- The main choices for financing a forecast shortfall are:

1. Delay planned payments. ***This can raise ethical and relationship issues, however, if the payments aren't made in accordance with supplier terms.***
2. Allow the account to go overdrawn if permitted.
3. Borrow funds overnight on the money markets (that is, from a bank for repayment with interest tomorrow)
4. Draw down funds against a pre-agreed bank facility such as a Revolving Credit Facility (RCF)
5. Transfer funds into the bank from other company bank accounts where possible.

Investing surplus funds

1. Higher returns are generally available if funds are deposited for longer.

A cash flow forecast provides information on how long surplus cash is likely to be available. This enables the cash manager to obtain higher returns on these funds.

Cash flow Challenges and Solutions

Managing Receivables

Challenge

1. Outstanding payments are one of the biggest challenges businesses face when it come to cash flow. 60% of invoices are paid late. Research says, small businesses wait an average of 72 days before their invoices are paid. That can be destructible!
2. Many businesses have a limited grasp on understanding receivables –the money owed to them by customers and an even poorer systems for managing collections. Sometimes it's due to a lack of time to manage the tedious process of debt collections.

Solutions

1. Get paid up front, or taking deposits can be very helpful.
2. Send invoices through as soon as possible.
3. Implement automated payment reminders on your invoices.
4. Offer instant payment options e.g. mobile money channels.
5. Offer discounts for early payments and payment made in full. If possible apply charges for late payments.
6. Run credit checks on your customers first if possible.
7. Provide multiple payment options.

Managing Payments

Challenge

1. Sometimes you need to spend money to make money. Examples, embarking on extravagant marketing campaign, securing new office space, hiring more employees, supplier payments etc.

Solutions

1. Automation of repetitive task.
2. Map out a clear business plan and financial milestones before your make any investment.
3. Monitor ongoing expenses and categorize them. See which ones are a priority and tackle them first.
4. Renegotiate payment terms if possible.

Cash flow Challenges and Solutions

Expensive Debt

Challenge

1. Excessively high debt or loan repayments often cause cash flow problems.

Solutions

1. If the cost of debt is too high and takes most of the business revenue, consider a refinancing option.
2. Use debt consolidation if the business have multiple loans and replace them with a new single loan with more affordable payments.

Employee Theft

Challenge

1. This is a serious problem that affects cash flow. Examples include redirection of payments, alter invoices and pocket the difference, steal money through payroll and stealing products.

Solutions

1. Solid screening procedures for new employees.
2. Checks and balances for employees who work in sensitive areas i.e. automated tracking systems.
3. Regular audit if the activities.
4. Outsourcing of cash collections.

Business Impact of COVID-19

COVID-19 is a disease which has taken the world by complete surprise, this newly identified coronavirus was first seen in Wuhan, the capital of Hubei province in central China, on December 31, 2019. As of early April 2020, the virus has infected over 1.6million people, and led to more than 100,000 deaths. More importantly, more than 75 countries are now reporting positive cases of COVID-19 as the virus spreads globally, impacting communities, ecosystems, and supply chains far beyond China. The focus of most businesses is now on protecting employees, understanding the risks to their business, and managing the supply chain disruptions caused by the efforts to contain the spread of COVID-19

1. A survey jointly conducted by Tsinghua University and Peking University estimates that 85 percent of small and medium sized enterprises (SMEs) in China will run out of cash within three months and two thirds will run out of money in two months, if the crisis does not abate.
2. The People's Bank of China has announced it will provide US$42 billion in low-cost loans for banks to lend to businesses affected by the virus. Several municipal and provincial governments have also announced measures to help SMEs, with total support estimated in the US$70 billion range. However, the impact on businesses will extended far beyond China, and will only get worse if the virus continues to spread.
3. Businesses that are currently struggling for profitability (those with low cash reserves or unstable cash flows) are particularly vulnerable. Businesses that appear to be in good financial shape may not be immune, depending on how the situation progresses, and how long it takes for demand and supply chains to return to normal.
4. Sectors such as tourism, hospitality, entertainment and air transportation have been particularly hard-hit in the short term. Businesses in consumer goods and retail may also be at higher than-normal financial risk, especially those with a global dependencies

Given the importance of cash flow in times like these, companies should immediately develop a treasury plan for cash management as part of their overall business risk and continuity plans.

Strategies to stay cash healthy during COVID-19

1. Develop and maintain a robust financial forecast

- Ability to look around the corner and forecast how events will impact business strategy is very vital.
- Rationalize and reconcile different forecasts across various time horizon(i.e. short, medium and long term) and functional areas of the business.
- Strategically understand the cash needs of the company for enhanced decision making, efficiency and control.

2. Identify key forecast risk and develop appropriate responses

- Understand both general and specific risk that may influence performance of the business.
- Make certain potential to the business forecast earnings and cash flows is well anchored.
- Take proactive steps to address identified risk to the business.

3. Ensure you have a robust framework for managing supply chain risk.

- Supply chain management is a complex challenge, and finance-related problems only add to the risk.
- Ensuring you understand the financial risks of your key trading partners, customers, and suppliers is a critical consideration in times like these.
- Depending on letter of credit helps mitigate such as it requires a prime bank that proves that buyer can pay.

4. Ensure your own financing remains viable – adequate sources of liquidity

- In these circumstances, don’t assume the financing options you previously had available to you will continue to be available.
- Undertake scenario planning to better understand how much cash you’ll need and for how long.
- Use this opportunity to actively engage with your financing partners to ensure your available lines of credit remain available, and to explore new or additional options should you require them.

Strategies to stay cash healthy during COVID-19

5. **Extend payables, intelligently**
    - One way to preserve working capital is to take longer to pay your suppliers. Some companies may unilaterally decide to delay their payments and force the extension on their suppliers, especially when stuck with inventory they can't deliver into impacted margins.

6. **Revisit capital investment plans**
    - With cash flow forecasts in mind, consider what's really necessary for the near term.
    - 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?

7. **Consider alternate supply chain financing options**
    - Depending on what your cash flow scenario planning reveals, you may also need to consider tactics to generate faster cash flow from your receivables.
    - Also consider working with your customers to offer dynamic discounting solutions for those that are able to pay more quickly (e.g., discount terms can be defined in advance, and the customer calculates the appropriate discount based on a defined payment schedule).

Ways to shore up business liquidity during crisis

Comprehensive solutions	
Liquidity Management	Offering include s overnight and term deposits, money market funds and flexible interest bearing current accounts.
Cash Management	Friendly internet front-end, wide variety of collections and payments capabilities, SWIFT capability, one of the largest branch network in Africa.
Trade and working Capital	Proposition includes working capital financing, distributor & supplier financing, asset financing, bonds, guarantees and indemnities, as well as import / export financing.
Risk Management	Full FX and interest rate capabilities, well-rated risk management bank as well as full hedging product capabilities to the extent possible in each country.
Card Issuing and Acquiring	Comprehensive card offering in South Africa with MI integration capabilities, selective card proposition in rest of African markets, full end to end payment processing solutions available.
Investment Banking	Full capabilities delivered from South Africa across the region including advisory (i.e. M&A, ECM), financing solutions (LCM, DCM, Lev Fin, Project Finance) and Sales, Trading & Research.

Investing business surplus liquidity during crisis - STB

What is a STB?

- The Short Term Borrowing product is a well thought through liability product aimed at providing Corporates, SMEs, Pension fund managers and Insurance companies and other high net-worth individuals with an alternative investment option, at relatively higher yields. The proposition refers to money market funds with tenor up to 1-year.

Characteristics /Features:

- The product is short-dated with maximum tenor of 1-year and a minimum tenor.
- Absa Bank Ghana will pay interest together with deposit amount upon maturity.
- A certificate will be issued to cover investments.
- The product is listed on the Central Securities Depository (CSD) platform allowing for Non-Absa customers to participate.

Requirements

- Individuals or retail customers fill application and corporates issues Absa with instructions on company's letterhead.
- The Short Term Borrowings will be available to resident Ghanaians only.

Price

- Pricing for this product will be benchmarked against the respective government treasuries plus a premium/margin.
- Price on product reviewed periodically.

Benefits

- Interest on STB will be higher than the interest on government instruments of equivalent tenors. STB holders will thus earn higher yields on their investments.
- STB, unlike the traditional Fixed Deposit product, allows investors to perfectly match funds to their maturing obligations.
- BBG stands as surety to buy back borrowing note upon request.

General Motors and 2008 Financial Crisis

- General Motors (GM) was one of the most unexpected casualties in the 2008 financial crisis. This was because of the fact that GM had nothing to do with the mortgage business. It was one of America's and the world's oldest motor companies. However, the crisis had many casualties which were not related to the financial services business. Perhaps, the biggest of such casualties was the GM fall.

- The reason behind this fall was that in 2008, the outbreak of the crisis had caused a financial catastrophe in the United States. Most people were foreclosing their homes due to unavailability of funds. A lot of people were out of work. As a result, the automobile sales in the United States had faced a nosedive. On year on year basis, the sales of GM had fallen by 30%. As a result, GM found itself out of cash.

- To top it up, the usual source of funding for GM i.e. the banks were also out of cash. The crisis had absorbed all the liquidity out of the market, and the banks had nothing left to lend to GM.

- It is for these reasons that the company was not left with any option. The company was in a complete financial mess. Its operations were perfectly solvent. However, the firm was highly leveraged, and as a result, a seasonal fluctuation in sales had caused the fall of this United States behemoth.

- The government was basically of the view that if the auto industry were allowed to collapse, several thousand people would be unemployed and as a result, the US Treasury will have to pay a lot for unemployment benefits. It is for this reason that the government decided to bail out GM as well as Chrysler Corporation.

General Motors and 2008 Financial Crisis

- Consequently the company received total of $19.4billion from government with the aim saving the company.

- In 2009 the company filed for bankruptcy because the injected cash could not aid in turning the fortunes of the company around. It was during the bankruptcy proceedings that General Motors (GM) received the biggest bailout of $30 billion.

The Aftermath: General Motors

- **A New Company:** GM turned the curve after filing for bankruptcy, leading to the birthing of a new age General Motors (GM) Corporation which was relatively financially smaller i.e. it had shorter turnaround. Another interesting point to note is that the company had a smaller United States presence. However, its overseas presence was still noteworthy. The new GM decided to focus its strategy on emerging markets like India and China instead of saturated markets like the United States.

- **Brands:** The new entity had to do some serious introspection leading to major decisions in the company's operations. Some of the divisions which were not performing well were sold off whereas others were simply shut off. The company wanted to focus all its attention towards the cash cows. It is this lack of cash that had caused the bankruptcy in the first place, and GM had learnt its lesson, it now wanted to be a cash rich company.

- **Operations:** The new GM had significantly ramped down its operations. The number of workers working in GM took a drastic hit after the financial crisis. Globally GM relieved off close to 40,000 workers whereas in the United States close to 16,000 jobs were cut. In the process of this sudden and forced cost cutting, GM had to shut down 13 out of its 47 plants. This also caused major damage to the local economies where these plants were situated.

Conclusion

1. Cash flow management needs to be an integral element of a company's daily activities and overall risk assessment and action planning from the onset. ***Cash flow is the life blood of all growing businesses.***

2. Crisis like COVID-19 seeks businesses to actively evaluate their cash flow requirements, develop appropriate actions under various scenarios, and assess potential risks in and to their customer base and supplier network.

3. Business cash flow management is critical for every company as it's unlock value for the company and increase reward to owners.

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