



A CASH MANAGEMENT SURVIVAL GUIDE

By Jochen Schönfelder, Tobias Wens, and Jeff Gordon

FOR MOST COMPANIES, CASH is like oxygen. You don't think about it when you have enough, but when you start running low, it's *all* you think about. The COVID-19 crisis has brought a cataclysmic upheaval to the global economy, and it could push companies to insolvency in industries like automotive, retail, and travel and tourism, among others. Given the scope of supply chain disruptions and revenue shortfalls, leaders need to take immediate, dramatic action to manage their cash. In fact, cash management—ordinarily a subcomponent of finance—is so important right now that it should become a standalone function until companies are out of danger.

Moreover, regardless of how the recovery unfolds (whether on a V-, U-, or L-shaped curve), many economists forecast more stressful times in the next 12 to 18 months. We believe that a cash management office is therefore a priority not only for the coming weeks but for the coming months—and potentially years—as well. Specifically, we recommend that companies facing the

most dire liquidity challenges take three steps: set up a cash management office, come up with liquidity plans for various scenarios, and launch preservation measures, such as adjusting personnel costs and rethinking payables and receivables.

Establish a Cash Management Office

Companies need to establish a dedicated office, akin to a war room, that is explicitly responsible for managing short-term liquidity. The office serves as a single source of consistent and accurate information about the company's cash situation. It should have a direct line to the CFO and access to the full senior leadership team. The cash management office can establish warnings and alerts for specific contingencies, and identify and prioritize potential mitigation measures. Above all, the office rigorously governs all cash releases throughout the entire finance function. Interestingly, we have found that many companies don't have a clear idea of where cash flows out of (or into) the organization and, conse-

quently, which drains need to be blocked. Cash management can be a natural function for companies that have been under tight liquidity circumstances in the past. But even high-performing companies often need to adjust to new challenges.

Create Rolling Liquidity Plans

The cash management office should begin to generate rolling cash and liquidity scenarios for the coming week, month, and quarter. These plans should be created from the bottom up, drawing on data from individual business units and geographic markets and aggregated into a single comprehensive plan. Ideally, they should pull from enterprise data on an automatic basis and be sufficiently accessible to permit collaboration by multiple stakeholders. In addition, since this will not be a one-time exercise, generating liquidity plans requires standardized tools. For example, week-by-week deviation analyses are needed in order to maintain the right level of accuracy over time. Most important, liquidity plans form an important basis for the next step: the launch of cash preservation measures.

Launch Cash Preservation Measures

With the cash management office established, leaders can begin to develop and apply measures to free up internal funds, prioritized by their relative impact and speed of implementation. Because of timing constraints, some traditional cash management measures are now less relevant. These include top-line measures such as tactical pricing initiatives and promotions, changes in the procurement portfolio, and financing measures such as optimizing taxes or restructuring debt.

Instead, the measures should be limited to those that can generate results in weeks—or even days. These include the following:

- **Personnel Costs:** leveraging all government support programs, stopping all new hires, reducing overtime, adjusting capacity, and freezing (or reducing) wages

- **Inventory:** launching fire sales, halting all new orders, accelerating the return of inventory back to manufacturers and distributors
- **Receivables:** collecting past-due debt more proactively, adjusting terms and conditions, factoring accounts
- **Payables:** extending terms for payables, halting any in-process payments
- **Investments:** stopping or scaling back any planned investments, selling non-core assets (potentially through sale and lease-back programs)

A specific owner should be assigned to each measure, with full authority to take the required actions and full accountability for results. Because these measures touch many core business functions, the overall cash management team should include members with all the relevant expertise.

Proactive Integration with the Finance Function

At all points in the process, the cash management office must coordinate with the CFO and senior leadership team. In the early stages of a cash crisis, a company's liquidity situation changes rapidly, and the office must factor in the results from immediate-term measures (such as those discussed above) and then prioritize options that take longer to implement. These include managing capital investments and securing financial support from the private sector and potentially from government. Throughout, the cash management office can make an objective determination as to what is working and what is falling short of expectations—and adjust accordingly.

THE ECONOMIC FALLOUT from the COVID-19 crisis is unprecedented and has resulted in an existential crisis for many companies. Management teams that merely try to muddle through and hope for the best will likely face liquidity issues severe enough to put many companies into bankruptcy. Conversely, those that take ex-

PLICIT, structured actions to manage their cash situation—through the three measures discussed above—can put their com-

pany on a solid footing until the worst of the crisis has passed.

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