

Focusing on the Essentials

Cash Flows & Liquidity

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Intro

- The COVID-19 pandemic generated an unprecedented level of uncertainty for individuals and businesses
- Entrepreneurs are used to operate in uncertain conditions
- How do you get more comfortable with uncertainty?
 - Focusing on the Essentials
 - Managing Cash Flows and Liquidity

Housekeeping

- **First 25/30 mins**, ideas around **Essentials and Cashflow Management**
 - Because of the variety of sectors/industries represented today, I will stick to ideas and principles, rather than hard prescriptions that might work well in some sectors and be unsuitable for others
 - These ideas hopefully will work as prompts for you and stimulate the discussion
 - I'll stop every 5 minutes or so to respond to questions or comments
- **Second 25/30 mins**, traditional **Q&A** session
 - I invite you to bring forward your own current business challenges
 - The goal is to generate ideas and solutions that you can implement in your business

Focusing on the Essentials

From 30,000 ft

- Is the pandemic triggering a **permanent change** in consumer behavior?
 - Contact-less customer engagement
 - Work from home
 - Social distancing
- Will the pandemic permanently raise customer expectations in terms of **buying experience**?
 - Is your business going to be compared to your current competitors or to Amazon?
- How viable is your business in this new environment?
- What changes can you introduce to make it viable?

Focusing on the Essentials

From 30,000 ft

- The present time provides an opportunity to step back and reconsider some of the business decisions you have made over the course of the past months or years
- Focusing on the essentials is an exercise of self-awareness on part of a business, directed at understanding how to optimize operations in a new environment, possibly at a smaller/more agile/more digital scale
 - What was essential when you started?
 - What is essential today and what will be essential in the post-pandemic environment?

Focusing on the Essentials

Strategic perspective

- From a **strategic** perspective, focusing on the essentials might mean:
 1. Focus on the products and services you do best. Keep innovating them, even if at a slower pace.
 2. Do not sacrifice quality. Stay unique.
 3. Keep investing in communication. Your customers need to be constantly informed about why your product is better, what you are working on, etc.
 4. Keep investing in your key personnel.

Focusing on the Essentials

Tactical perspective

- From a **tactical** perspective, focusing on the essentials might mean:
 1. Variable cost optimization
 - Cost efficiencies
 - Flexible forms of collaboration
 2. Customer retention and nurturing (if customer base cannot currently be expanded)
 - Communication about products - Current and upcoming offering
 - Customer education - Stories about product, company, employees
 - Customer feedback - Satisfaction about product / feedback
 3. Cash preservation and optimization

Cash Flows / Cash at Hand / Liquidity

Definitions

- Cash: currency, currency equivalents that can be accessed immediately or near-immediately and used to purchase goods or services.
- Cash at Hand (t) = Cash at Hand (t-1) + Cash Inflows - Cash Outflows
- Types of Cash Flows:
 - Operating Cash Flows: generated by the production and sale of goods and services
 - Investing Cash Flows: generated by purchase or sale of assets
 - Financing Cash Flows: generated by external financing (loans, investors)

Why are Cash Flows important?

- Your ability to consistently generate positive cash flows determines your ability to fulfill your financial obligations and to make investments
- Companies often default / go bankrupt due to unbalances between their Cash Inflows and their Cash Outflows
- When applying for a loan or for other forms of financial support, banks will evaluate your business also based on your past and future ability to generate cash flows
- In many countries, payment information is stored by Credit Bureaus and used by financial institutions to evaluate your business

Assessing your Cashflow Position

Week	Cash at Hand (start)	Cash Inflows	Cash Outflows	Difference	Cash at Hand (end)
1	100	15	10	5	105
2	105	12	15	-3	102
3	102	20	10	10	112
4	112	8	25	-17	95
5	95	10	10	0	95
6	95	15	12	3	98
7	98	5	15	-10	88

Cash Flow & Liquidity Metrics

- **Acid Test / Quick Ratio:** how do I cover my short-term financial obligations?
 - $(\text{Cash at Hand} + \text{Liquid Securities} + \text{Receivables}) / \text{Debt Obligations within 12 months}$
- If your business allows Cash and Credit Sales:
 - **Days Sales Outstanding (DSO):** how much time does it take for my business to convert a credit sale into cash?
 - $[(\text{Average outstanding credits toward customers}) / (\text{Total annual credit sales})] \times 365$
 - **Days Payables Outstanding (DPO):** how much time does it take for my business to pay suppliers?
 - $[(\text{Average outstanding debts toward suppliers}) / (\text{Total annual cost of goods sold})] \times 365$

Cash Flow Management

- Optimize receivable management:
 - Ask for a deposit upfront
 - Bill more frequently
 - Contact and collect on past due invoices
- Evaluate financial solutions for cash flow management:
 - Factoring: sell invoices to an external company at a discount
 - Invoice Discounting: borrow funds using invoices as a guarantee

Takeaways

- The current economic environment might require you to rethink your business on a different scale
- The availability of liquid funds is key to be able to make the necessary strategic and tactical changes
- Know your cash position and your ability to consistently generate cash flows
- Among other factors, business are evaluated based on their past and future ability to generate cash flows
- There are practices and instruments to manage cash flows