

# Working Capital Management FOR NI Tourism Businesses Webinar



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17<sup>th</sup> November 2020

**TED**

Tourism  
Enterprise Development  
Programme



tourism  
northernireland

# Presentation Context

- Webinar is being delivered as part of Tourism NI's new Tourism Enterprise Development (TED) Programme. Slides will be an Aide Memoire.
- In the unprecedented trading and economic crisis currently being faced by businesses operating in the NI Tourism Sector as a result of the evolving Covid-19 crisis, the life support system for most businesses will be their ability to generate cash. Working capital plays the pivotal role in a business, similar to the role the heart plays in the human body.
- The dynamic disruption to markets and sustained uncertainty has resulted in increasing pressure on Tourism businesses and their liquidity and cash flows. Businesses with low cash reserves or unstable cash flows are especially vulnerable in the short term.

# Presentation Context

- When cash is king, working capital is queen. Businesses with strong working capital management have proven to be less impacted and more resilient during challenging economic times. Cash preservation is now critical and the focus should be on cash conservation and the cash flow cycle to unlock cash from existing working capital.
- Designed to help businesses operating within the NI tourism industry, this webinar will provide practical advice and tips on how to successfully manage working capital and cash flow.
- Acknowledged that one to one mentoring may be available to enhance knowledge and understanding of specific elements of Working Capital and Cashflow Management.

# Covid-19 & Working Capital Management

- The evolving Coronavirus pandemic, means that we are currently living and working in unprecedented and extraordinary times. For businesses, operating in the NI tourism sector, most of whom have experienced a cessation or significant reduction in revenue through phases of non-trading, trading and again non-trading due to Government restriction and Public Health guidelines, there is no simple blueprint or road map to weather the current storm, however it is particularly important for them to adjust operational behaviours and processes for working capital at pace.
- Covid-19 will end, but the reality from a business perspective is, that we must plan for living with and post Covid-19. Given the current Covid-19 times, the way in which a business manages its working capital, will determine whether it merely survives the crisis, or emerges from it as winner, with a proven sustainable business model. Businesses must now put cash at the heart of operational and strategic decisions.
- There is a rapid shift in working capital requirements, driven by both disruption of supply and demand. The impact of Covid-19 is affecting and disrupting revenues / demands, supply chains, staff availability and the day to day operations of the businesses, and therefore a business' demand for cash can come at unprecedented speeds in challenging times.
- Thus, in order to be resilient, a business must address key questions to understand its cash needs.

# Covid-19 & Working Capital Management

- With the mixture of the Out of State visitors market likely to take some time to come back to prior Covid-19 levels, reduction in leisure travel, multiple corporate travel bans, and a large volume of events including weddings, conferences, staff Christmas parties etc., being cancelled or curtailed, it will be important to enhance operational performance, by identifying any potential quick cash flow wins. In addition, the home market and staycations must be given top priority for marketing strategies with an emphasis on the island of Ireland.
- A new business landscape is evolving with expected changes in market and consumer behaviour and attitudes. We will all have to learn to do business in different ways. As a result we must focus relentlessly on the key drivers of cash and the key risks across the business.
- As highlighted in an earlier webinar, finance providers will also have adjusted their criteria to reflect the new economic challenges created by Covid-19. For example, they are likely to pay particular attention to the ability of the business to fund working capital requirements and may wish to review a tourism business' policy and risks re advance deposits and vouchers.
- Re advance deposits and vouchers, they may wish to know does your business ring fence these in a separate bank account and reflect as deferred income in accounts. Assess risk that these may have to be repaid back and the ability of business' to do this, and be reassured that the business is implementing the "matching principle" and is not using deposits or vouchers to fund working capital.
- Covid-19 supports and unsecured loan assistance.

# Webinar outputs

Understanding of:

- Working Capital & Cash Flow Management
- Cash conservation and need for High Level Review of Working Capital
- 3 Core elements of the Working Capital Cycle
- The Cash Flow Cycle
- Covid-19 Supports & Unsecured Loan Assistance
- Cash Flow Forecasting
- Practical Tips for Working Capital Management

# Overview

- **Working capital** is the capital of a business, which is used in its day to day trading operations, calculated as the current assets minus the current liabilities.
- **Working Capital Management** refers to businesses managerial accounting strategy designed to monitor and utilise the two components of working capital, current assets and current liabilities to ensure the most financially efficient operation of the business.
- **Goals:** Adequate cash flow for operations and most productive use of resources.
- **Resilient:** Improving the way you manage your working capital, will make your business more resilient to economic uncertainty, and is a practical and cost effective way to fund growth and the business's profitability.
- **Practical strategies** to improve working capital, including managing your customers/clients, stock and work in progress, suppliers and overheads.
- **Options** such as sales credit insurance, fee finance, invoice discounting, leasing, asset backed finance, effective tax and VAT planning may also have a role to play in smart working capital management, depending on your business circumstances.

# Working Capital

- **Current Assets:**

- Assets held for a short period of time
- Assets that will be converted to cash within one year

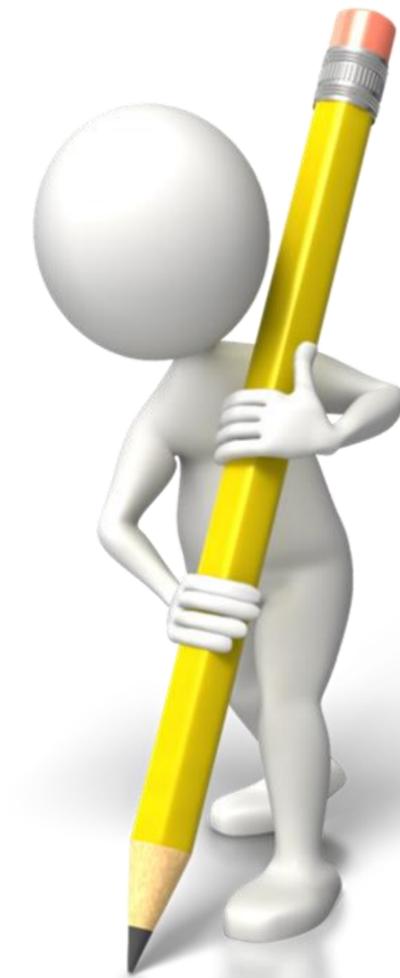
- **Current Liabilities:**

- Short Term Obligations
- Debts to Outside Parties Due Within One Year



# Examples of current Assets

- Trade debtors: amounts owed by customers
- Prepaid expenses: expenses paid in advance e.g. insurance, rent, rates
- Stocks: products held for sale or to be used in the manufacturing process
- Work in Progress
- Bank and Cash Balances



# Examples of current Liabilities

- Trade Creditors: money owed to suppliers generally will be paid in accordance with credit terms
- Taxes: PAYE / NIC, VAT and Corporation Tax
- Bank Overdraft
- Bank Loans
- Lease / HP Creditors



# Why is Working Capital Management Essential?

**Covid-19 has caused significant disruption to cashflow**

- Decline in current and future sales
- Issues with debtor collection
- Impact in suppliers credit
- Increase in costs for certain materials due to supply issues
- Increase in costs to facilitate meeting social distancing requirements
- Focused attention on accounting for advance deposits and vouchers
- Delays in receiving grants/supports
- Stock holding
- Forex rates volatility

# 3 Key Questions to Understanding Working Capital Needs

Do you have the required **Insight**?

- Is your current cash reporting capable of providing the working capital and cash insight you need at the right level of detail and speed?

What is the **Impact**?

- What areas of your supply chain or revenue generation streams are most impacted?

What are your **Cash Needs**?

- What are your short term, medium and long term cash needs?

# Cash Conservation & Working Capital Management

- In a Tourism sector trading crisis, such as that created by Covid-19, businesses must move with pace and recognise that the ability to generate cash is the **LIFE SUPPORT SYSTEM** for businesses operating in the NI Tourism Industry. Thus **URGENT** priority must be directed to:

Aggressive Cash  
Conservation Strategies

Implementation of High  
Level Review of strong  
Liquidity and Working  
Capital Management  
Processes

# Aggressive Cash Conservation Strategies

Adopting a pro-active hands-on approach to cash management, e.g. short term cash flow reporting and forecasting using realistic assumptions re consumer confidence for business recovery and actual bookings

Aggressively seek whatever support is available from government via Covid-19 Supports and Unsecured Loan Assistance and also HMRC re tax payments

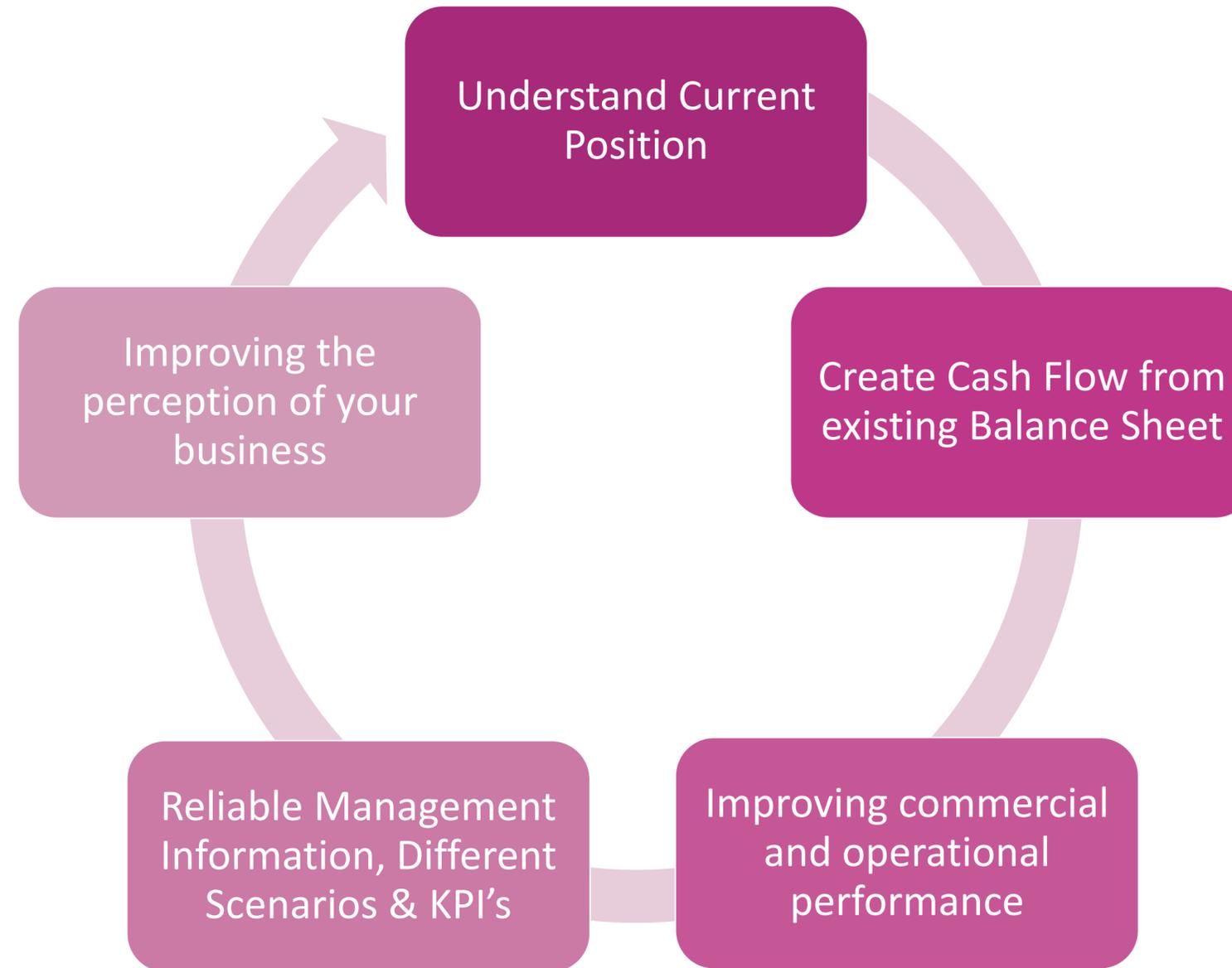
Negotiate with suppliers to extend credit or defer payments, assess the adequacy of stock levels and measures to ensure that customers pay promptly

Urgent review of discretionary and non-discretionary expenditure and assessment of what the business really needs

Enhancing controls over purchases and order processes (core and non core) by lowering authorising limits

Reviewing the adequacy and appropriateness of banking and other financing arrangements in the light of changing circumstances

# Implementation of High Level Review of Strong Liquidity and Working Capital Management Process



- Be prepared to take tough decisions – you may face challenging options now to preserve longer term value

# Understanding Current Position

- There is a need to rapidly understand your current position, because the impact on your business is happening now, and cash consequences need to be minimised.
- Update your short and medium term cash projections, using realistic forecasts, that are based on your actual bookings / Covid-19 assumptions, rather than prior year comparisons.
- Review and understand your funding position – lenders / shareholders and other options.



# creating cash Flow

- Release cash from balance sheet re improved management of receivables, payables, stock and work-in-progress (the cheapest form of finance).
- Creating capacity in tough markets
- Creating investment capacity to meet evolving consumer behaviours, new markets, technology, online activity, marketing, social media, innovation and other transformation and acquisitions.
- De-leveraging the business or improving equity yield.



# Improving Commercial and Operational Performance

1.

- Building proximity to customers and suppliers

2.

- Improving commercial thinking across functions

3.

- Driving more effective processes

4.

- Identifying and managing risks quicker

# Reliable Management Information, Different Scenarios & KPI's

- Reliable management information and communication is key
- Plan for different scenarios, since the impact of Covid-19 could be prolonged
- Have a crisis management team to ensure there is a consistent approach across your organisation
- Clearly defined KPIs are essential



# Improving Perception of your Business



Strong liquidity and working capital management improves the perception of your business

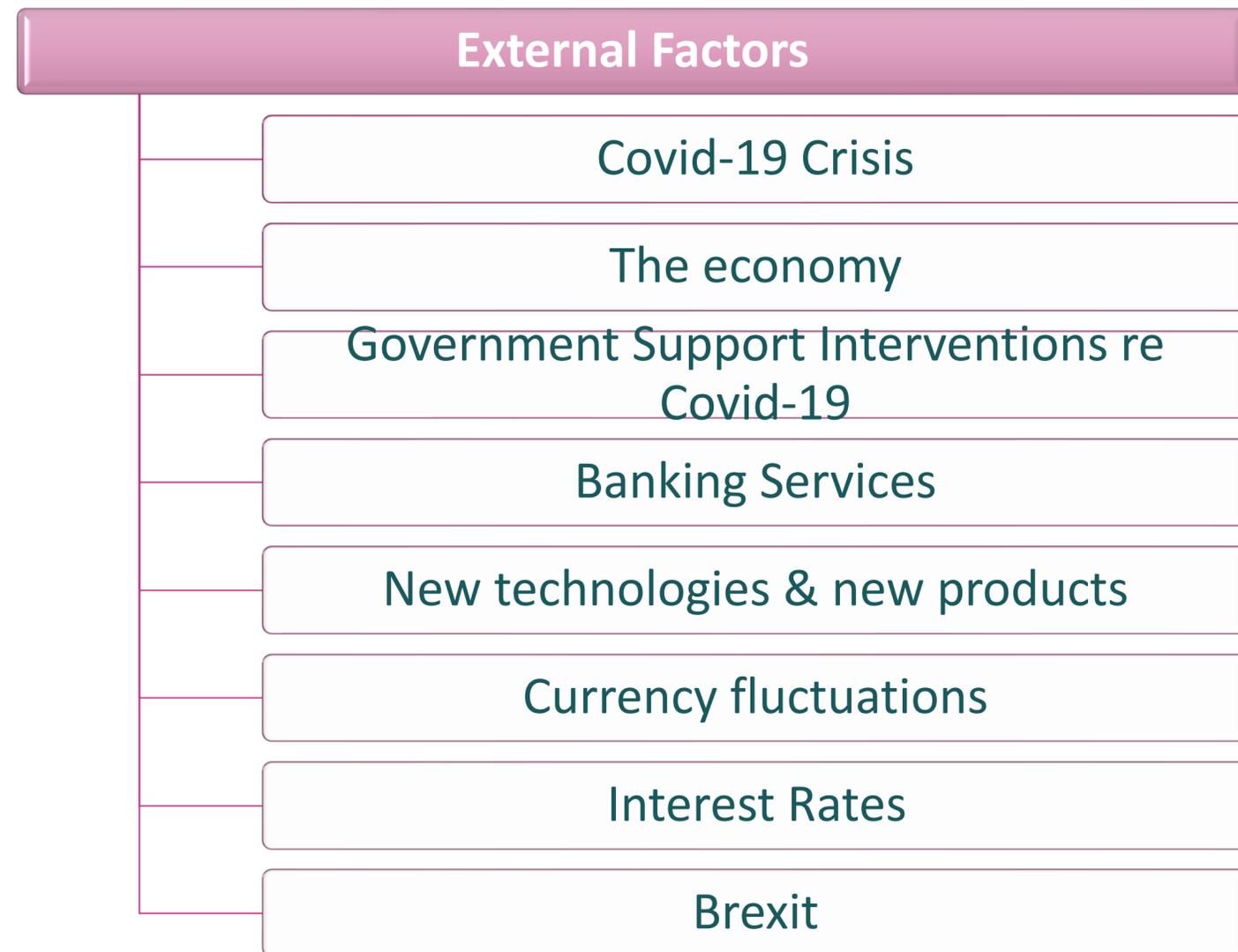
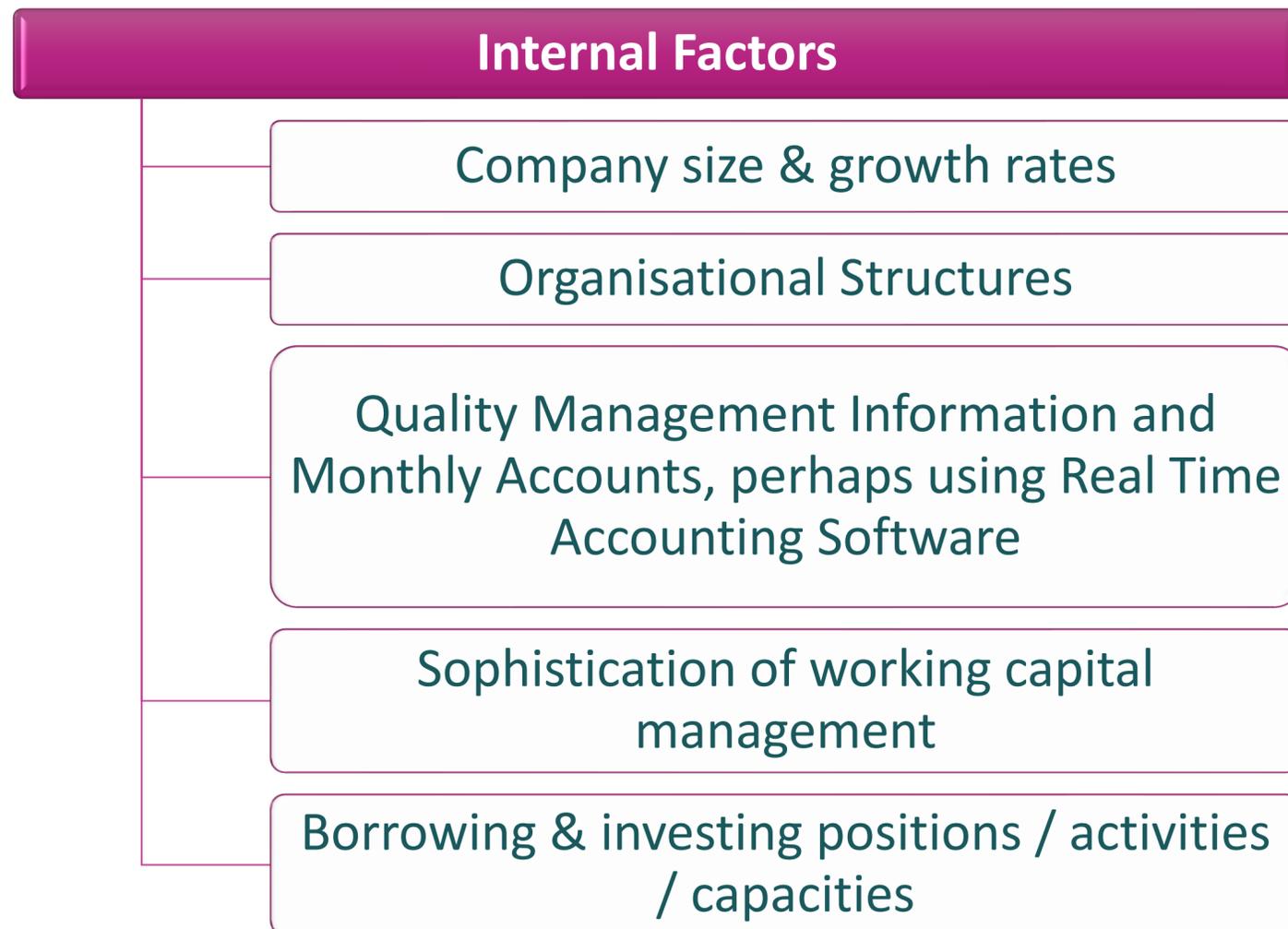


Demonstrating effective management



Proving the quality of earnings

# Internal & External Factors that Effect Working Capital Needs



- Bottom line: there are many influences on a business's need for working capital

# Why is CashFlow Management Essential?

## Cash Flow Management helps to Navigate the Way Forward

- Helps chart the way forward for the next 6-12 months
- Helps to ensure the business is protected and able to recover quickly post the pandemic
- Ensures that you only borrow what you require and able to service
- Helps honour commitments to suppliers and employees
- Assists in planning the right combination of various Government backed lending and supports to avail.
- Useful to plan various scenarios including extended disruption period

# Cash is NOT Profit

- **Profit** is the difference between the total amount your business earns and all of its costs, usually assessed over a year or other trading period
- **Cash** is the amount you have on hand to pay debts
- You can be showing a good profit on the books and still be strapped for cash to cover immediate debt
- Working capital management will impact cashflow
- Risk of over trading – i.e. when the business expands too quickly without having the financial resources to support such a quick expansion. If suitable sources of finance are not obtained, overtrading a problem of rapid growth, can lead to business failure



# Freeing up Profits

Business A		
	P&L (£)	Paid (£)
Sales	100,000	40,000
CoS	80,000	30,000
Profit	20,000	
Net Assets	20,000	
Business B		
	P&L (£)	Paid (£)
Sales	100,000	20,000
CoS	80,000	50,000
Profit	20,000	
Net Assets	20,000	

*From a cash flow perspective:*

*Company A: Trade Debtors £60,000, Trade Creditors £50,000, positive cashflow £10,000 (Bank £10,000)*

*Company B: Trade Debtors £80,000, Trade Creditors £30,000, negative cashflow of £30,000 (Bank overdraft (£30,000))*

*Note Net Profit and Net Assets are the same for Company A & Company B*

# Cash Management

- Cash is the life blood of any business.
- Quality internal management information and Cash Flow forecasts are essential.
- Try and move from focusing on what credit the banks will provide business, to generating cash within your business.
- Businesses should endeavour to be self sufficient from a working capital / day to day operations perspective).
- Robust, rigorous and regular reporting (4 R's) on cash flow – daily bank reconciliations, weekly and monthly forecasts.
- Self discipline and good management will yield positive results by improving profitability and reducing risks.



# Working Capital/Cash Management

3 Core elements of Working Capital Cycle which will absorb cash requirements:



# What is Cashflow?

- The three components of cash flow:
  - Cash on hand at the beginning of any period
  - Monies received and spent during an ensuring period
  - And the cash remaining at the end of that period

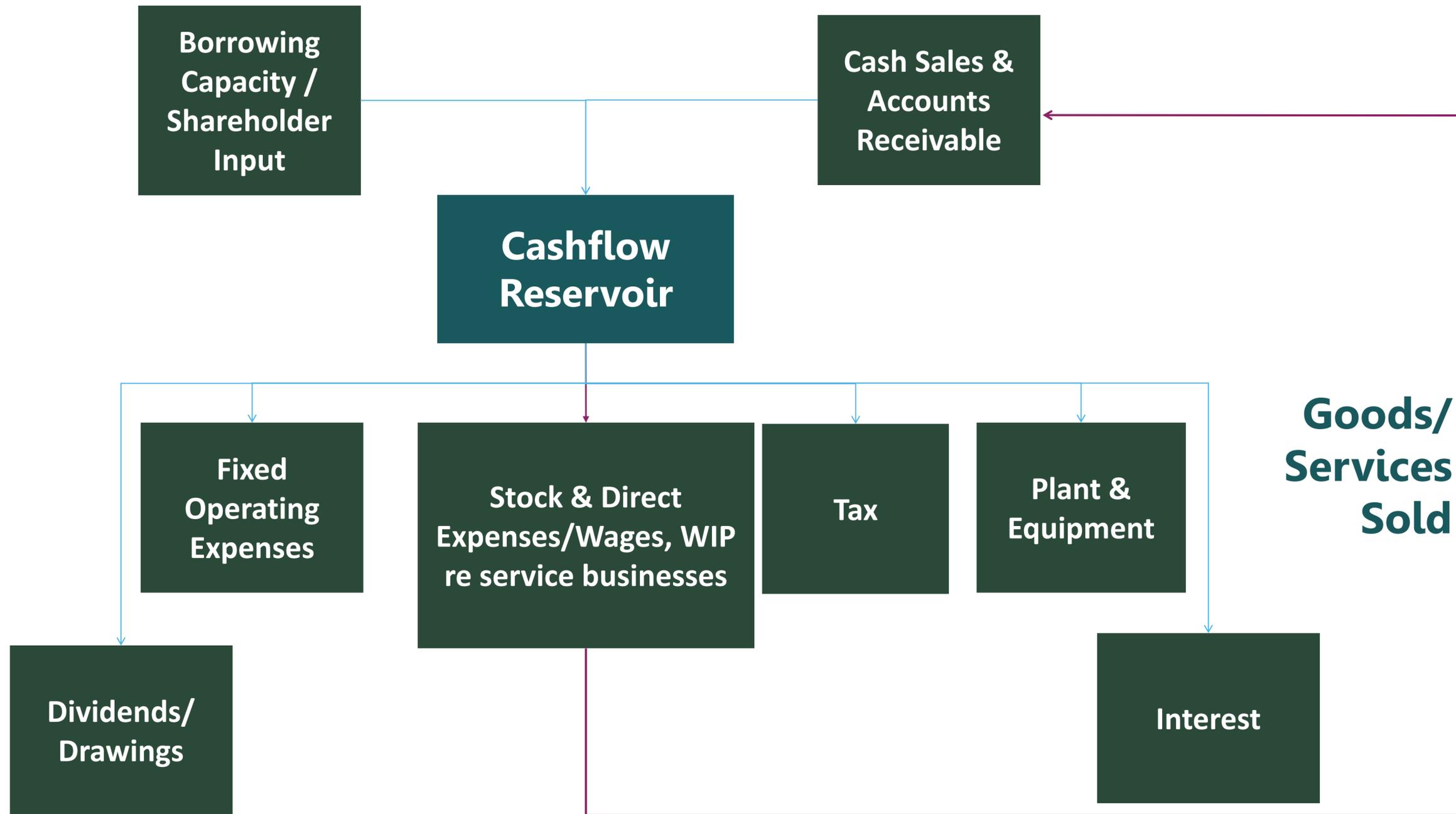


# Cash Inflows and Cash Outflows

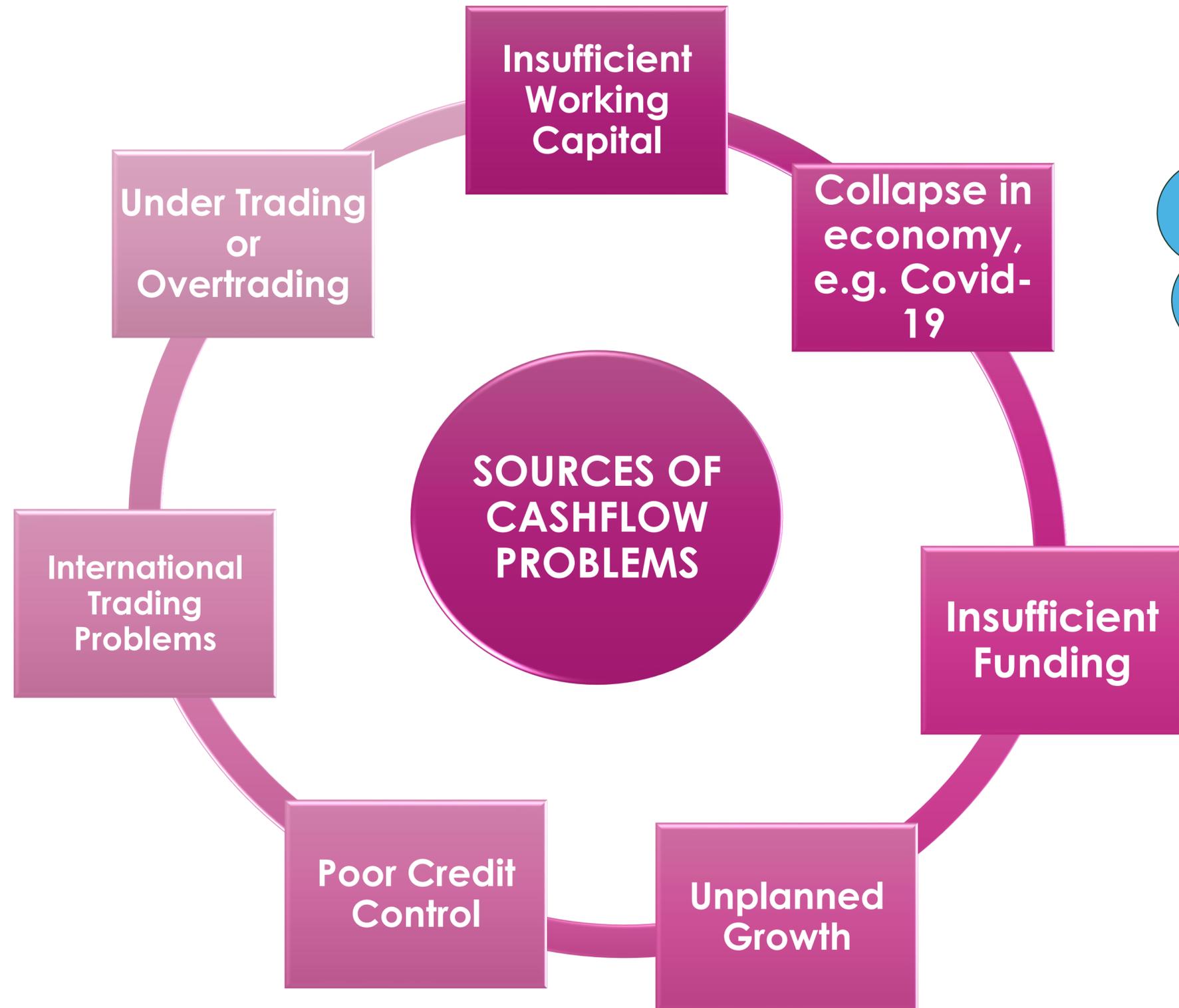
- Cash flow management is basically about speeding up the inflows and slowing down the outflows.
- Income and expenditure cash flows rarely coincide BUT you **must always** be in a position to meet your scheduled payments.
- This means there can be times when you could simply NOT have enough ready cash to meet your commitments.



# The Cash Flow Cycle



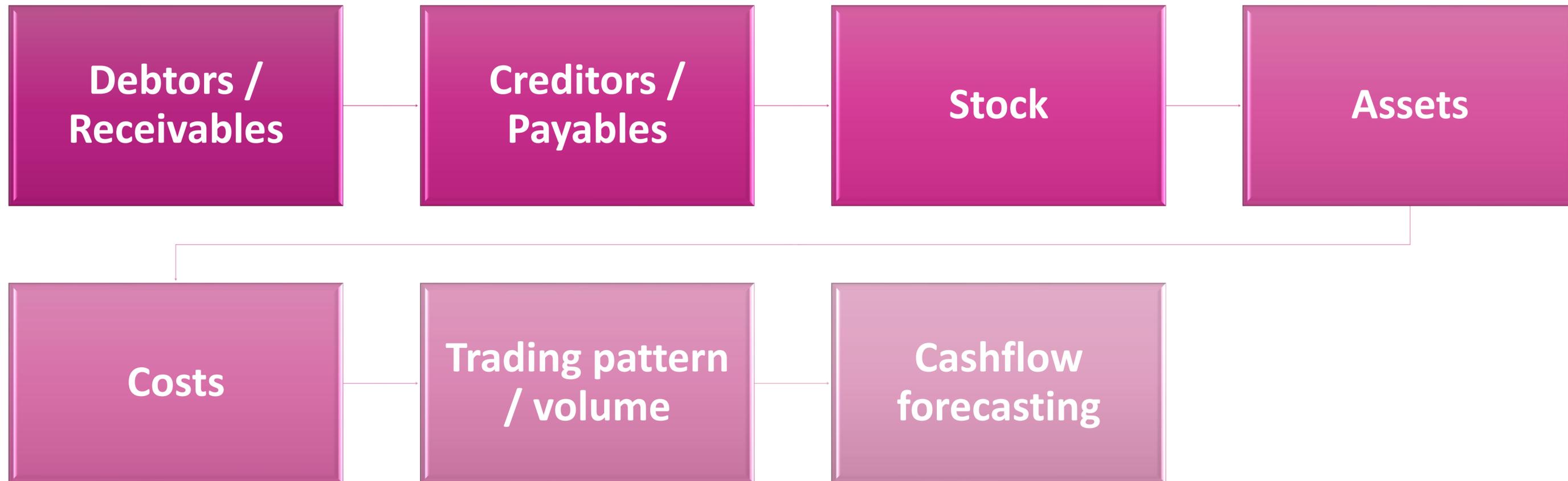
# Sources of Cashflow Problems



Awareness of these issues are key to working capital management

# Improving Cash Flow

- To improve cash flow you need to work on the drivers of cash flow:



# Working Capital / Cash Management

- 3 core elements of Working Capital Cycle which will absorb cash requirements:
  - Debtors
  - Creditors
  - Stock / Work-in-Progress

$$\text{Working capital \%} = \frac{\text{Trade Debtors \& Stock \& WIP} - \text{Trade Creditors}}{\text{Sales}} \times 100$$



# Debtors

- Debtors – money which is owed to your business for products / services provided on credit

$$\text{Debtor days} = \frac{\text{Trade Debtors}}{\text{Sales}} \times 365$$



# Debtors / Receivables Management

## Selling the debtor book

- Offering credit terms to customers is often a necessity in order to generate sales, but can mean it takes several months to receive those funds.
- Invoice discounting or factoring can provide an immediate cashflow benefit to grow the business, rather than waiting for the customer to make a payment.

## Early settlement discounts

- Encourages customers to pay early or on time.
- This can reduce debtor days and improve cashflow to fund future growth.
- Can reduce margins due to discounts offered, so it is important that sales and growth is sufficient to offset the loss of income as a result of discounts offered.

## Sales operations

- Are sales invoices going out in a timely manner >
- Can work be invoiced sooner?
- Are credit checks being carried out to safeguard against bad debt risk?

# Debtors / Receivables Management cont...

## Debtor Management

Companies can accelerate monies due from debtors by following a few simple steps to try and **reduce debtor days**:

- Agree Terms of Business including payment terms in advance.
- Establish credit practices as a matter of company policy.
- Establish limits for each category of customer; never allow exposure to slip beyond these limits.
- Credit checks i.e. credit agencies, company searches, bank references for new customers.
- Visit Customer premises



# Debtor Management Control

- Monitor debt outstanding for customer before deciding to make any further sales.
- Maintain regular contact with customers
- Consider charging interest on overdue accounts.
- Consider all payment options – deposits, multiple stage payments, credit cards, BACS payment.
- Sales Credit Insurance to be considered (Discussed later).
- Reservation of Title Clauses (if applicable) or secure return of goods if possible
- Issue written request for payment
- Quantify costs of pursuing debt
- Pursue legal remedies



# What is Sales Credit Insurance

**Sales Credit Insurance is protection against the non-payment of invoices issued on credit terms due to insolvency or default. It helps your business to:**

- Protect balances due on outstanding invoices
- Minimise the risk of bad debt
- Reduce the administrative burden
- Win favourable bank terms, trade finance
- Give confidence to your suppliers
- Improve cashflow
- Explore new markets, improve competitiveness
- Increase profitability
- Grow and trade with confidence



# Sales Credit Insurance

## – Risk Case Study Scenarios

### Case A

- £50k bad debt
- Uninsured
- 100% loss
- With 10% margin it will take £0.5 million to compensate for the loss
- Cash flow pressure, Risk to business

### Case B

- £50k bad debt
- Sales Credit Insurance Policy in place
- 90% indemnity
- Claim payment of **£45k** within 1 month of receipt of claim
- Positive business continuity

# Debtors Management Control

## Tell-tale signs

- Key contributory factors towards an increase in the average number of debtor days may include:
- Weak credit judgment.
- Poor collection procedures.
- Not enforcing terms.
- Slow issue of invoices or statements.
- Customer dissatisfaction.
- Inability of customer to pay.
- Potential bad debt.



# Debtors Management Control

## Potential Bad Debt Indicators

- Some of the key indicators about a potential bad debt problem include:
- Longer credit terms taken without approval followed by smaller orders.
- The issue of post-dated cheques by debtors who normally settle within terms.
- Evidence of regular switching to different suppliers for the same goods.
- New customers who are reluctant to give credit references.
- Receiving round sum payments from debtors.



# creditors / Payables

- Creditors – money which your business owes to suppliers for products and services purchased on credit

$$\text{Creditors Day} = \frac{\text{Creditors}}{\text{Raw Materials (Direct Costs)}} \times 365$$



# Creditors / Payables Management Control

- Who authorises purchasing? Is it tightly managed or spread among a number of people? Purchasing authority should be tightly controlled.
- Do you shop around for best value for money.
- Do you know the cost to the company of carrying stock?
- Do you have alternative sources of supply?
- If a supplier of goods or services lets you down, can you charge back the cost of the delay?
- Can you arrange to have deliveries of suppliers staggered?
- How many suppliers have a return policy?
- Can you pass on cost increases quickly with price increases to your own customers?
- Maximise credit terms (within reason)
- Make prompt payments, only when worthwhile discounts apply
- Possibility of consignment stock terms.
- Have you undertaken Brexit scenario planning.
- Possibility of Reservation of Title Clauses.

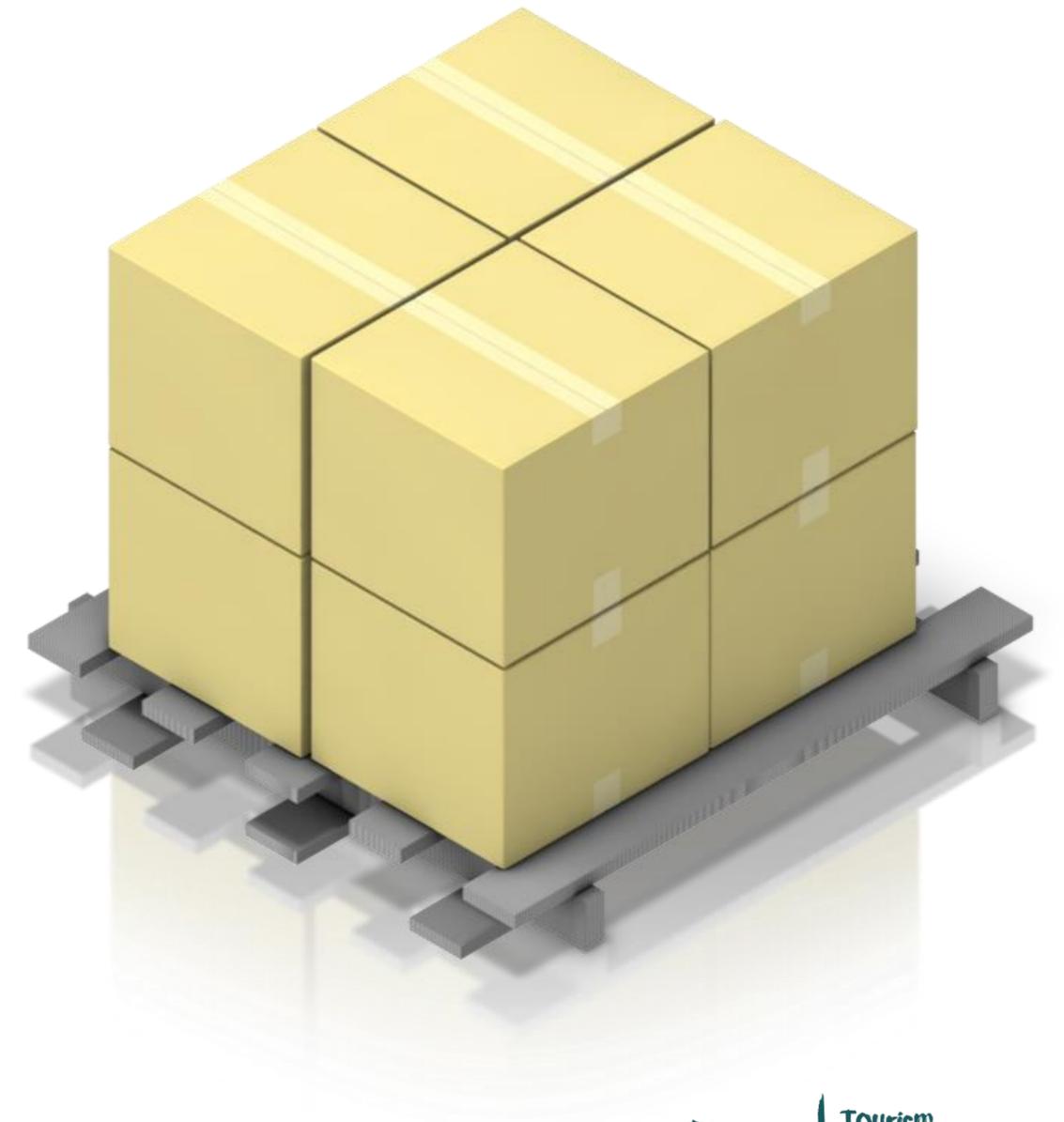


# Stock / Inventory

- Stock – your business' raw materials and finished and unfinished products which have not yet been sold

$$\text{Stock Turnover} = \frac{\text{Direct costs of Materials}}{\text{Average Stock}}$$

$$\text{Stock Days} = \frac{\text{Stock}}{\text{Direct costs}} \times 365$$



# Stock / Inventory Management

- Ensure the right level of stock (WIP) is being held. Too much stock could result in:
  - A higher risk of it becoming obsolete.
  - Theft.
  - Unnecessary storage costs.
  - Insurance premiums being too high.
  - Over staffing.
  - Unnecessary borrowings.

The principal factors that need to be considered in determining the optimum stock level include:

- Projected sales levels.
- Availability of raw materials / stock and lead time required by suppliers.
- Efficiency of distribution.

# Stock Control Procedures

For better stock control measurements try the following:

- Carry out regular physical stock takes.
- Know the number of times each major item of your stock turns in a year.
- Consider selling off outdated or slow moving merchandise, it will only get more difficult to sell if you keep it.



# Stock Control Procedures

- Consider having part of your product out-sourced to some other manufacturer rather than make it yourself.
- Review your security requirements to ensure that no stock is going out the back door.
- Benchmark average stock levels against other businesses.
- Reduce stock to the most necessary items.
- Implement a just-in-time policy.



# Work-in-Progress (WIP) Management

Review existing Work-In-Progress practices to identify any areas of improvement

Endeavour to minimise work-in-progress – faster invoicing procedures

Focus on contract/engagement terms

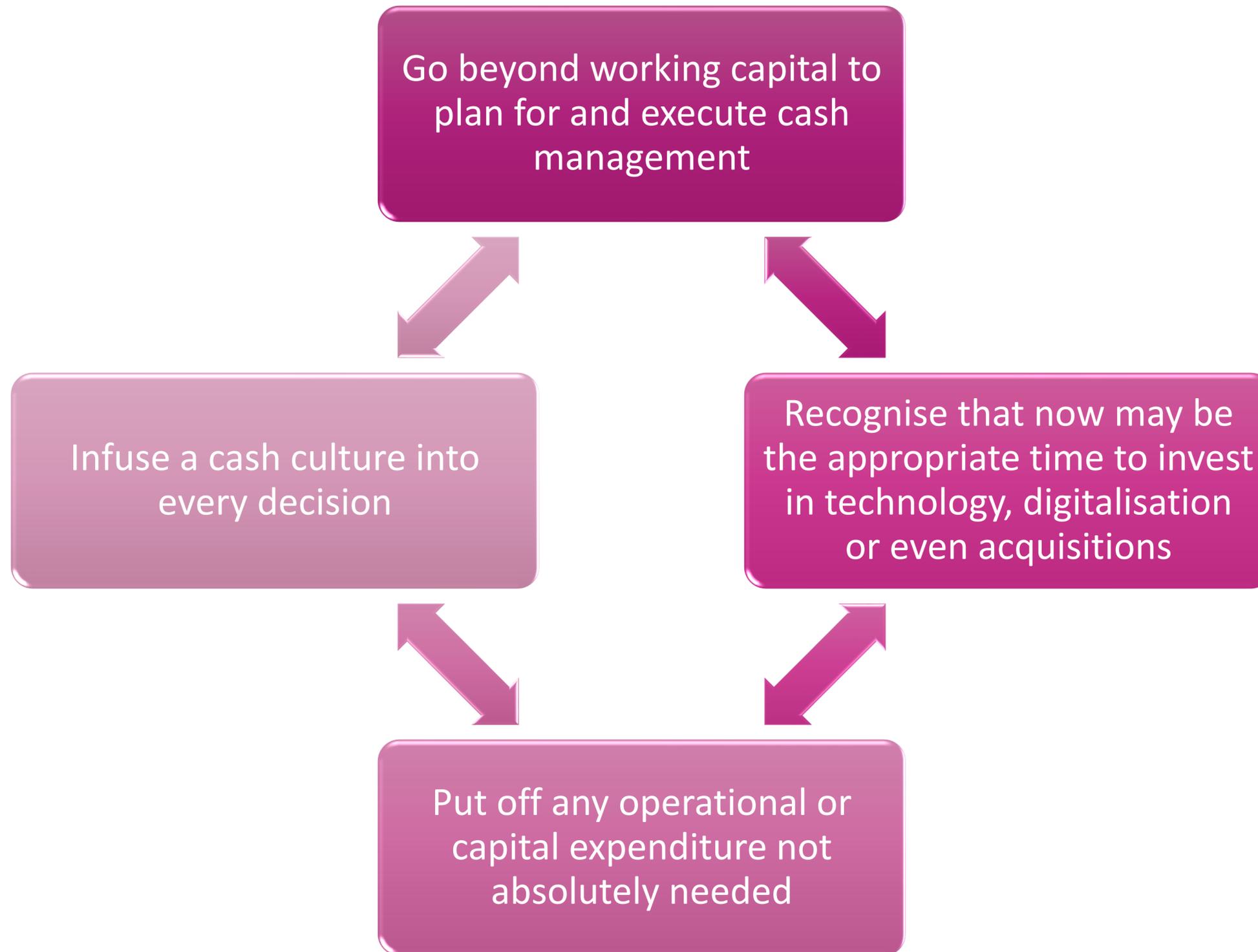
Converting work-in-progress into interim and final invoices and ultimately getting paid for the work done

# LOCK-UP (SERVICE BUSINESSES)

$$\text{Lock Up Days} = \frac{\text{Debtors \& WIP}}{\text{Sales}} \times 365$$



# Assets



# Cost Cutting / Overheads Control

- If cost cutting, make sure the cuts are from the fat and not the muscle of the business. Cost cutting is essential within any working capital strategy, but do not impose arbitrary budget costs, have a well structured plan
- Keep overheads under constant review, have the courage to discontinue some costs, if no longer consistent with the goals of the business



# Currency Management

- Simply allowing currency developments to take their course can seriously affect working capital and may mean, your business is selling at a loss
- Hedging techniques are key and can range from matching receipts and payments to forward buying
- If a lot of customers pay in Euro, Sterling or US Dollars, then consider sourcing suppliers in the same currency



# Covid-19 Supports & Unsecured Loan Assistance

- NI Executive Localised Restrictions Support Scheme (effective from 19<sup>th</sup> October 2020)
- Coronavirus Job Retention Scheme (CJRS) – furlough workers (extended from 31<sup>st</sup> October 2020 to 31<sup>st</sup> March 2021)
- Self Employment Income Support Scheme (SEISS) – extended to April 2021
- Reduction in VAT rates for Hospitality & Tourism Sector (from 20% to 5% for 6 months to 31<sup>st</sup> January 2021)
- Eat Out to Help Out Scheme (3<sup>rd</sup> – 31<sup>st</sup> August 2020)
- Rates Relief
- Deferral of VAT / PAYE / Tax Payments and HMRC Time to Pay arrangements
- Bounce Back Loan Scheme
- Coronavirus Business Interruption Loan Scheme (CBILS)

# Working Capital Management

## - Impact of Implementing a Plan (Reflecting Trading Pattern / Volume)

	BEFORE	AFTER
Sales	1,000,000	1,000,000
Purchases	500,000	500,000
Debtors (Receivables) – Days	80	60
Creditors (Payables) – Days	75	90
Stock & WIP – Days	50	30
Debtors	219,178	164,384
Creditors	102,740	123,288
Stock & WIP	68,493	41,096
Net Current Assets	184,932	82,192
Cash Flow Saving		102,740
Bank Interest Rate 4%		4,110
<b>Based on a Net Profit margin of 5% thus equates to incremental sales of</b>		<b>82,200</b>

# Steps to Effective Cash Flow Management & Forecasting

## STEP 1 – Establish Starting Position

- Opening Balance sheet (if available)
- Bank and loan statements
- Debtor and creditor listings (Statements ideally)

## STEP 2 – Outline Priorities for Future Trading

- Customer and supplier relationships
- Business structures
- Brand
- Cash Flow

## STEP 3 – Investigate the Support Available

- Research all the support available
- Discuss with your accountants & advisors the best combination of support to avail

# Steps to Effective Cash Flow Management

## STEP 4 – Cash Flow Forecasting

- Create forecast with inflows and outflows for each interval
- Cash flows include operating, financing and investing revenues / costs
- Include all the support available

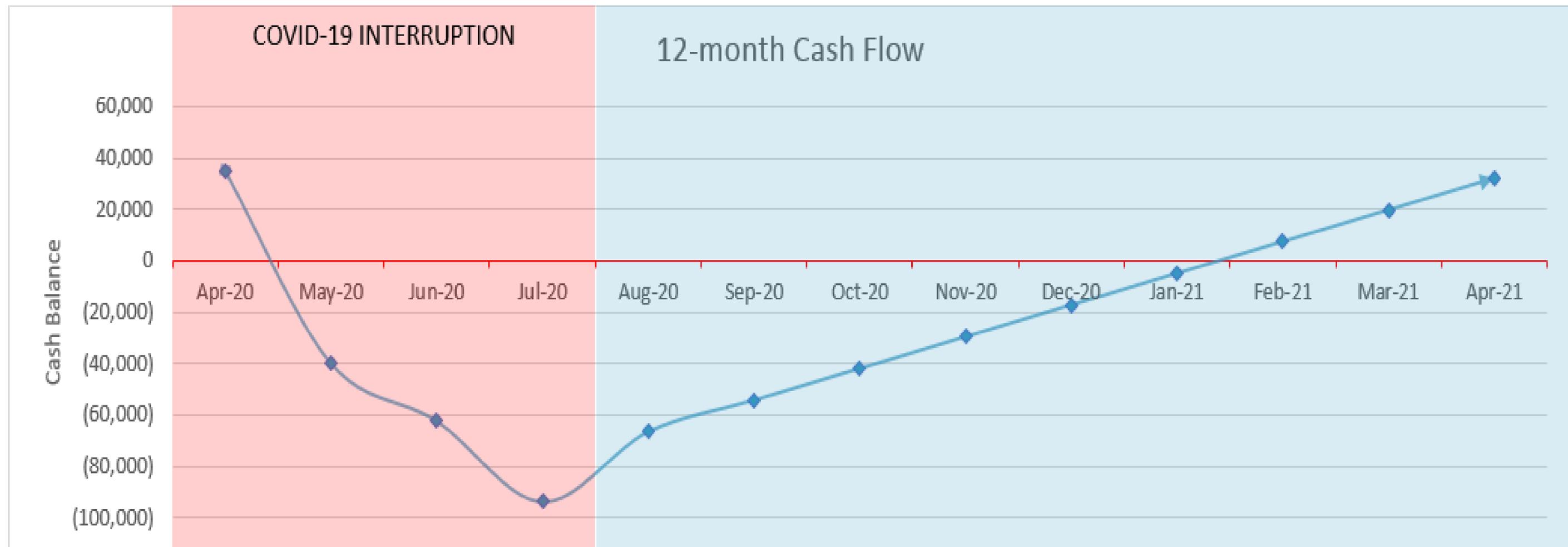
## STEP 5 – Implement and Monitor

- Take steps to access the grant/loan schemes
- Closely monitor assumptions made in the forecast especially debtor collection, sales and profit margins
- Compare actual vs forecasts
- Constantly review and amend cash flow forecasts in regular intervals

# Cash Flow Forecasting Basics

## What is Cash Flow Forecasting

- A cash flow forecast looks at the balance of all money flowing into and out of the business at regular intervals



# Cash Flow Forecasting Basics

## Example

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Opening Bank Balance	35,000	(39,650)	(62,100)	(93,550)	(66,400)	(54,100)	(41,800)	(29,500)	(17,200)	(4,900)	7,400	19,700
<b>Receipts</b>												
Sales	6,000	12,000	6,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Debtors opening balance	-	25,000	35,000	-	-	-	-	-	-	-	-	-
Coronavirus Job Retention Scheme	-	15,600	7,800	-	-	-	-	-	-	-	-	-
<b>Total Receipts</b>	<b>6,000</b>	<b>52,600</b>	<b>48,800</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>
<b>Payments</b>												
Cost of sales	(30,000)	(21,600)	(26,400)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Salary costs	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)
Administration costs	(6,000)	(6,000)	(6,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
Marketing costs	(1,200)	(1,200)	(1,200)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Other costs	(12,000)	(12,000)	(12,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Creditors opening balance	(5,000)	(15,000)	(10,000)	-	-	-	-	-	-	-	-	-
VAT payment/(refund)	0	7,200	4,800	7,100	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)
Deferred VAT payment	-	-	-	-	-	-	-	-	-	-	-	0
Fixed asset purchases	-	-	(3,000)	-	-	-	-	-	-	-	-	-
Loan Repayment	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)
<b>Total Payments</b>	<b>(80,650)</b>	<b>(75,050)</b>	<b>(80,250)</b>	<b>(92,850)</b>	<b>(107,700)</b>							
<b>Closing Balance</b>	<b>(39,650)</b>	<b>(62,100)</b>	<b>(93,550)</b>	<b>(66,400)</b>	<b>(54,100)</b>	<b>(41,800)</b>	<b>(29,500)</b>	<b>(17,200)</b>	<b>(4,900)</b>	<b>7,400</b>	<b>19,700</b>	<b>32,000</b>

# Cash Flow Forecasting Basics

## How to Forecast?

- Decide forecasting interval – weekly or monthly
- Familiarise yourself with forecasting tools like MS Excel
- Link calculations and assumptions so that you can amend them later
- Carefully evaluate every aspect of the business and include all elements of cash flow:
  - Operating – sales, cost of purchase, wages and operating costs
  - Financing – loan repayment, interest commitments, grants and new loans
  - Investing – maintenance capital expenditure

# Cash Flow Forecasting Basics

## How to Forecast?

Divide cost base between fixed, variable and semi-variable

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Carefully consider the mechanics of working capital

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Take professional help

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# Practical Tips

## Before Borrowing

- Before you borrow, consider the following:
  - In short term encourage payment of debtors by offering cash discount
  - Negotiate additional credit from suppliers.
  - Reduce RM/FG level and sell off slow moving stock.
  - Seek additional support from shareholders.
  - Reduce, defer or even consider cancelling drawings, dividends
  - Defer capital expenditure in the short-term.
  - Lease rather than buy equipment
  - Consider external equity funding

# Cashflow Difficulties – Vital Signs

Pick out the “vital signs” that are relevant to your business and plot them over a period. Any sudden changes may require immediate corrective action.

Examples of vital signs would be:

- Falling sales/sales pipeline
- Falling profit margin
- Bad debts (number and amount)
- Debtor profile
- Low stock turnover
- Increase in Lock-Up days



# Vital Signs

- Inability to pay suppliers on time
- Increasing bank fees and charges
- Increasing HMRC (VAT/ PAYE/NIC / Income Tax / Corporation Tax) Liabilities
- Increasing level of Bank Debt
- Difficulties in paying wages, directors salaries
- Increased communication with Banks



# Inability to Honour Commitments

## – Practical Tips

- Speak to creditors, Banks, HMRC/Revenue Commissioners
- Explore options re deferring/restructuring debt
- Involve Business Advisors
- Regular communication with creditors
- Reduce, defer or even consider cancelling drawings, dividends or other payments to shareholders or proprietors
- Defer capital expenditure in the short term, or lease rather than buy equipment
- Early decisive action is key
- Consider insolvency procedures



# LESSONS / Advice

- Research market, consider risk monitoring services and get credit references.
- Prepare terms of business and strictly adhere to these.
- Set credit terms and be prepared not to sell goods/services unless payment is received.
- Ensure reservation of title clause (where applicable) is on all sales invoices and signed in advance.
- Consider payments in advance.
- Consider Sales Credit Insurance.
- Seek legal advice in relation to where contracts can be enforced.



# Practical Tips: What to do with Surplus Cash

1

- Carefully consider using surplus to funding disruption period

2

- Use to reduce financial leverage by reducing borrowings and debt commitments

3

- Take advice on how best to ringfence surplus cash to protect investment to use for future opportunities

4

- Consider risk-free investments opportunities

5

- Talk to your IFA and Tax Advisor

**Note, excess cash reserves, enhance employee and shareholder confidence and the ability to make a strategic move**

# Live Client Case Study

## Fast Growing Professional Services Business

- PKF-FPM recently retained to diagnose working capital issues in order to release cash to fund anticipated business growth – Client gave permission to share Case Study – the same issues would be relevant to service / consultancy business operating in the Tourism, Hospitality & Leisure sector
- Agreed solution was to reduce Lock-Up Days and in particular Debtor Days and WIP lock-up.

	Year Ending 31 March	Turnover £k	Debtor Days
	2016	4,262	115
	2017	5,814	87
	2018	6,634	69
TARGET	2019	7,600	54



# Live Client Case Study (cont..)

## Solution re Debtor Days:

- Changed entire MIS reporting system to analyse debtor balances and to allocate responsibility for invoicing and debtor collection to CRM and Finance Department.
- Greater emphasis on payment terms and flexibility (e.g. Direct Debit, Standing Order, Fee Finance, BACS, Credit Card facility and online payments facility).

## Results – Debtors:

- While turnover grew by £2,372k (55.6%) over a 2 year period, annual debtor days fell by 46 days (40%) i.e. to release of £836k cashflow into business, allowing the business to fund significant growth internally, rather than requiring additional external debt funding. Assuming a cost of capital of 4%, the cashflow saving of £836k, reduced annual costs by £33k.



# Live Client Case Study (cont..)

## Work in Progress:

- Through the introduction of a weekly review of WIP, timesheets and chargeable hours on all assignments and introduction of interim billing, WIP days have reduced from 64 days to 28 days – a potential cashflow saving of £654k.

## Result:

- DRAMATIC change in working capital culture.
- Collective team morale greatly enhanced.
- Significant turnover growth, funding from internal resources.
- A very happy client.



# Inherent culture

- The Working Capital culture and processes for the organisation must be inherent and interwoven throughout the business's entire operations, recognising that working capital problems are not just the domain of the finance department
- Ensure that everyday conversations are used to drive continuous improvement in working capital performance
- Are there KPI's specifically in place to measure and monitor various aspects of working capital in the business
- Are we eating and sleeping this working capital culture within the team? Does everyone know the policies and are they adhering to them? We need to keep asking these questions in-house



# The Power of Sharing and Talking about your Goals

- Share and talk about the organisation's working capital and personal goals with the people you are sitting alongside for two great reasons:
  1. The more you talk about your goals, the more you become committed to them; and
  2. As you verbalise your goal to others, you gain more clarity in your own mind about what you really want.
- With clarity comes certainty and with certainty comes confidence
- The act of talking about your working capital goals is powerful and profound



# Overarching Principles to Consider

Cash is critical but saving the business is more important

Get your priorities right

Shield your core ideas, business structures, relationships, people and brand first

Be agile and adapt quickly to change and technological advancements

Time for decisive and caring leadership

# Riding Out the Storm



- We expect those who will ride out the current economic storm, will have a strong cash management focus and decisiveness, implement a flexible operational model that can react to customer demand and ensure good communications and PR to the external market, around how the ongoing business is reacting to Covid-19.

# Conclusion

- There is no doubt, that the economic implications of Covid-19 for businesses operating in the NI Tourism sector are very challenging, but they pale in comparison to the public health and human costs that we are observing around us.
- It is very difficult to predict the future market dynamics, because we are now faced with triple Covid-19 uncertainty: firstly around the Coronavirus itself; secondly, its economic impact, and thirdly, the ways in which the pandemic has, and will, affect people's behaviour.
- Astute business leadership in terms of working capital and cash flow management, will be key to business sustainability.
- Our present circumstances don't determine, where we can go, they merely determine where we start.
- To weather the current business storm, it is particularly vital, for businesses to adjust operational behaviour and processes, for working capital, at **pace**.

# Conclusion (cont...)

- Sometimes we can **not** control the events around us. **But** we do have the **ability** to **choose** our **response**.
- As sure as night follows day, individuals make **CHOICES** everyday, **individual actions matter and can be a force for change**. Let's try and ensure that our current working capital and cash management strategies, make **every moment count**.
- Times are currently challenging. What we do as business leaders is passed down within our business. It all comes down to **CARING**. I suggest we should lead with the **HEART**, because compassion inspires growth.
- Also, important to appreciate, that every crisis, does present opportunities – we need to exploit and take advantage of these, when the time is right.
- If today's webinar has raised an issue or question that you would like to discuss in private, you can get in touch via email to: [industry.development@tourismni.com](mailto:industry.development@tourismni.com) and Tourism NI will organise that you get a call from a finance expert.
- Looking forward to participating in the Q&A session now.
- Thank you.

# Questions & Answers

Thank  
you

