



How to recover from a shock to the (cash flow) system

If cash flow is the engine of a business, SMEs have just had one hell of a breakdown. Now it's up to you, the business leader, to guide your business through recovery. Fortunately, there are plenty of choices that you can make, tools you can use, and resources available to set your business on the path to success. In this guide, we've gathered expert advice and actions that you can take to help your business get back on track.



What's the situation?



It just ticks along in the background, unnoticed until something goes wrong. Well, that head gasket has blown. Business certainly wasn't easy before the coronavirus, but it wasn't this hard. Many small businesses are facing some hard choices: debt, downsizing, furlough, redundancies, all the while directing energy toward survival. In short, it's a tough time to be an SME leader.

Depending on your sector, demand for your products and services has likely suffered a wobble or dropped away completely. While fixed costs remain, new expenses have appeared. This means that the margin for error has gone from small to minuscule, and even a few missed payments or unexpected costs could land your business deep in the red.

As you focus on finances, we're revisiting some core cash flow skills, in the company of two expert perspectives. It's never too late to take a fresh look at a core survival skill.



Who's helping?



Elena Meskhi

CEO of Elena Meskhi & Co.

Elena Meskhi is a certified accountant and tax adviser and founder of accountancy firm Elena Meskhi & Co. Elena opened the company in 2010 and has more than 15 years' experience in different industries. She started her journey within public practice where she qualified, then moved into industry before ultimately deciding to open her own practice.



Todd Davison

MD, Purbeck Insurance Services

Todd Davison qualified as a chartered accountant with the Institute of Chartered Accountants England and Wales (ICAEW) in 2013. His training contract was with Deloitte. He founded Purbeck Insurance in May 2016 to provide an insurance solution for director guarantors.

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How to recover from a shock to the (cash flow) system



Chapter 1:

Knowing your numbers



Ensuring that your business maintains a positive cash flow requires an eagle-eyed focus on the numbers – especially in uncertain times. Properly accounting for all of the money that enters and leaves the business is an absolute must for financial success, and with the margin for error significantly slimmer due to coronavirus, nothing can be left to chance. The more effectively you understand your cash flow, the more accurate your forecasts will be.

KPIs to focus on

If you're worried about the viability of your business in the year ahead, watching the KPIs is a great way to spot issues early. Keep an eye on:

- Debtor days
- Liquidity (or cash ratio)
- Profitability ratio
- Staff turnover rate
- Conversion rate
- Sales growth

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How should I keep track of cash flow?

If you prefer to manually keep tabs on your finances, now might be the time to consider digital tools to minimise business disruption and free up time to focus on other necessities. Many accounting apps offer automatic cash flow tracking, as well as free online videos and guides to get you up to speed and ensure you're using them effectively. As Elena puts it: "A good business owner knows exactly how their business is doing at any point in time, and that determines what the next step should be."

What should I look out for in my cash flow?

By observing trends in cash flow week by week and month by month, you can get a better idea of your business's health. Now that the immediate chaos of the lockdown has abated and businesses are gradually starting to reopen, your business should be breaking even or hopefully making a profit once again. If it isn't, it's time to break down the numbers

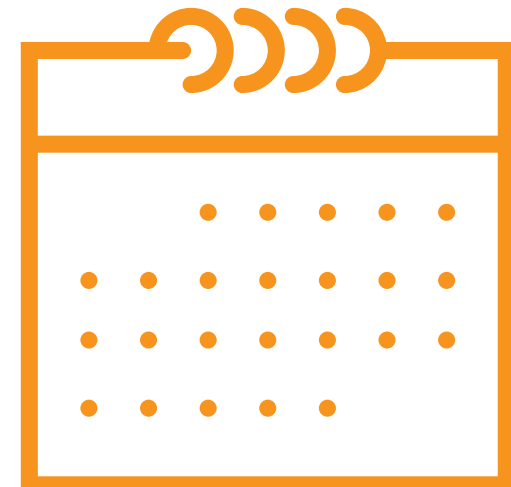
and diagnose the issue. Similarly, cash flow should look more consistent than it did at the height of the crisis. If cash flow is continuing to move unpredictably, you need to look at options for stabilising it like taking out a loan or renegotiating with suppliers and clients.

What about the relationship between cash flow and stock?

For businesses dealing in physical goods, cash flow and stock are two sides of the same coin. Elena offers three steps for businesses looking to manage stock, and by extension, cash flow: "First, implement a stock management system, then appoint a dedicated person in your team to continuously monitor stock levels, and finally establish reliable and consistent contact with your suppliers. Keep in touch with them regularly so you know your order lead times."




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Chapter 2:

Continuity and cash flow in a crisis



In times of crisis, payments from customers may suddenly become erratic, emergency expenses may sneak up on you, and revenue can fluctuate at random. Despite these added challenges, it's still up to you as an SME leader to steadfastly monitor your numbers, especially as a few missed payments can put a business on the rocks. Here are some tips for taming an unruly cash flow and making revenue stretch a little further.

Get paid on time, every time

Missed payments can do real damage to an SME, especially now. Reducing as many hurdles to paying your business as possible ensures that there's no excuse for late payments.



Invoice early

There are plenty of apps out there that can automatically generate and send out simple, user-friendly invoices.



Follow up

Check out these [free email templates](#) to chase late payers.



Know your contacts and avoid red tape

If you're invoicing a larger organisation, consider checking whether it is being sent to the right individual or department.



Take full advantage of government support

The government has launched [several schemes](#) to support SMEs as the impact of coronavirus is dealt with. For instance, SMEs are eligible for the government's [Coronavirus Business Interruption Loan Scheme](#) (CBILS), which offers government-backed, interest-free credit for one year. There's also the government's [Bounce Back loans Scheme](#), which provides credit of up to £50,000.



Identify and get rid of non-critical expenses

A top-notch cash flow breakdown should classify all outgoing expenses as critical and non-critical – and the pandemic means you need to ditch the non-critical expenses. Todd advises SMEs, analyse the cost base and assess what spend is necessary. However, Todd also reminds SME leaders to be cautious about contracts with “onerous provisions or clauses” and “be aware of the notice period”. Make sure you're not incurring cancellation fees while you're trying to cut costs.



Delay your payments

If you're in dire need, you can always reach out to see if anybody you need to pay can offer you a short extension – we're all in this together. The sooner you can reach out, the more likely you are to get them to push the payment deadline. Avoid asking freelancers and business that you know are in trouble for an extension, but give it a try with larger, more stable businesses. This works both ways: if you can afford a little flexibility in payments, you should let small businesses you work with know.

Chapter 3: Financial forecasting in uncertain times



Forecasting in a time like this may feel impossible, but it's not. The trick is to see the forecast as a set of guidelines rather than a prophecy, and to continually adjust it as new information becomes available.

How do I forecast?

If you've never forecasted before or only occasionally create forecasts, this is the time to get started. As a chartered accountant, Todd has plenty of experience with forecasting. Here's his advice, "Look at the monthly EBITDA (this is the free cash flow the business will generate) based on best estimates. Next, look at individual cost bases and general ledger codes to see whether the business is incurring any non-essential spend which could be streamlined. This could help preserve and enhance cash flow."

Elena, also a certified accountant, says: "The forecast is a dynamic process. Your forecast before the pandemic was completely

different from the forecast needed now. The forecast gives the opportunity to look at your business and brainstorm on the possible plan of actions. It's like a map. The map is required for any business no matter what the circumstances."

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Elena continues: “The flexibility of the business owner and the adaptability of the forecast is essential for the success of the business.” Her practical advice is:



Use historical data, but be flexible about moving onto the new norm



Use technology to forecast for you. For a relatively modest monthly fee, you can have access to the artificial intelligence which will do a forecast for your business



Use specialists who can support you if you can afford it. Software is useful but it can't take on board all the sudden and unexpected changes we have just experienced

Forecasting shortcuts?

Although there's no such thing as a crystal ball, there are plenty of ways to create an accurate forecast. Accountants specialising in SMEs will be able to help you generate a forecast – or at least point you in the direction of someone who can – and there's a range of smart, affordable, user-friendly software that will do the task for you.

Should I be preparing for a second wave of coronavirus or an economic crisis?

While Todd is an accountant, not an epidemiologist, he thinks it is very prudent to plan for the worst. He suggests that SME leaders: Identify key revenue and cost drivers and work your financial model and assume a 10, 25, and 50 per cent adverse change in these drivers and assess what impacts this has to your business. Once you've identified the drivers, look proactively at how you can mitigate or reduce these risks.”

Next, you can prepare a risk register – a document noting the various material risks that the business faces. Todd notes that it should include operational, market, legal, regulatory, governance, credit and counterparty perspectives, and assess each based on the likelihood and severity of these risks occurring. If you prepare mitigations, accountability and ownership nothing will take you by surprise.

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Chapter 4:

What does the funding landscape look like?



While a lot of funding dried up in the uncertainty as coronavirus first hit, it is gradually reappearing. Most of the traditional funding options are still available to SMEs, but increased demand and limited supply mean that getting funding is more competitive than ever. Although many private fundraising routes remain closed off at the moment, the government has stepped in to fill the vacuum with a range of grants and schemes.

Elena advises SMEs not to expect “back to normal” conditions. When it comes to funding, she believes it is important to understand why you require funding: support at the time of hardship, growth, expansion, innovation. “The purpose of funding will dictate the strategy of spending and repayment. It will save you time and stress to have a plan for it beforehand.”

Private investors are likely to return as the economy recovers, keen to beat their competitors to exciting investments. If you can demonstrate to them that your business was profitable and on a good trajectory before coronavirus hit, you can illustrate that it’s the pandemic, not mismanagement or any other issues, that is the sole cause of the funding shortage. Many investors are contactable via social media or publicly-posted email

addresses – it can’t hurt to get in touch. Even if they aren’t willing to hand out any cash at the moment, it’s still worth making the connection and asking them to reach out when they feel safer.

Funding is still available for SMEs.

Make sure you:

- Have a rock-solid business plan
- Know your numbers, inside and out
- Present realistic forecasts

Next

Think about alternative funding methods





Chapter 5:

Where should I look for funding?



Finding the right source of funding depends on the specific needs of your business, but we've put together a broad outline of places you can consider:

Banks

Bank loans are often the first port of call for businesses looking for funding, but these institutions famously risk-averse. However, a business that has existed for several years and is in good standing with its bank should still be able to get a loan, albeit at slightly less desirable terms and rates than pre-coronavirus. Filing for a bank loan can be tedious, but banks are beginning to offer same-day approval and integration with finance apps.

Short-term loans

Businesses that are temporarily low on cash can take out a short-term loan. While these are useful in cash flow emergencies, they should be treated as a last resort, as they often involve high interest rates.

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Angel investors and venture capitalists

Angels and VCs are both terms for wealthy individuals and groups that invest money in your business in return for equity. To earn their cash, however, you need to convince them that an investment in your business will offer a safe and significant return on investment, which may be a challenge at the moment. You can use this time to build a bulletproof case for your business so that you're ready as soon as private investors return.



Crowdfunding

Businesses taking this route need to be particularly cautious since many sites require a minimum threshold of funding to be met before they will release funds. There are several types of crowdfunding: equity, debt-based or donation-based, amongst others. The type that's appropriate for you will depend on the nature of your business.

Government-supported options

The government also offers several programmes through the British Business Bank that are designed to encourage lenders to work with SMEs. Two of the largest options for SMEs are the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS), both of which offer tax advantages. Small and medium businesses are also eligible for the coronavirus Bounce Back Loan Scheme (BBLs).

There are 175 government schemes of varying sizes and requirements, all listed on the [finance support page](#), so it's worth checking to see if you qualify for any.

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Taking the first steps toward recovery

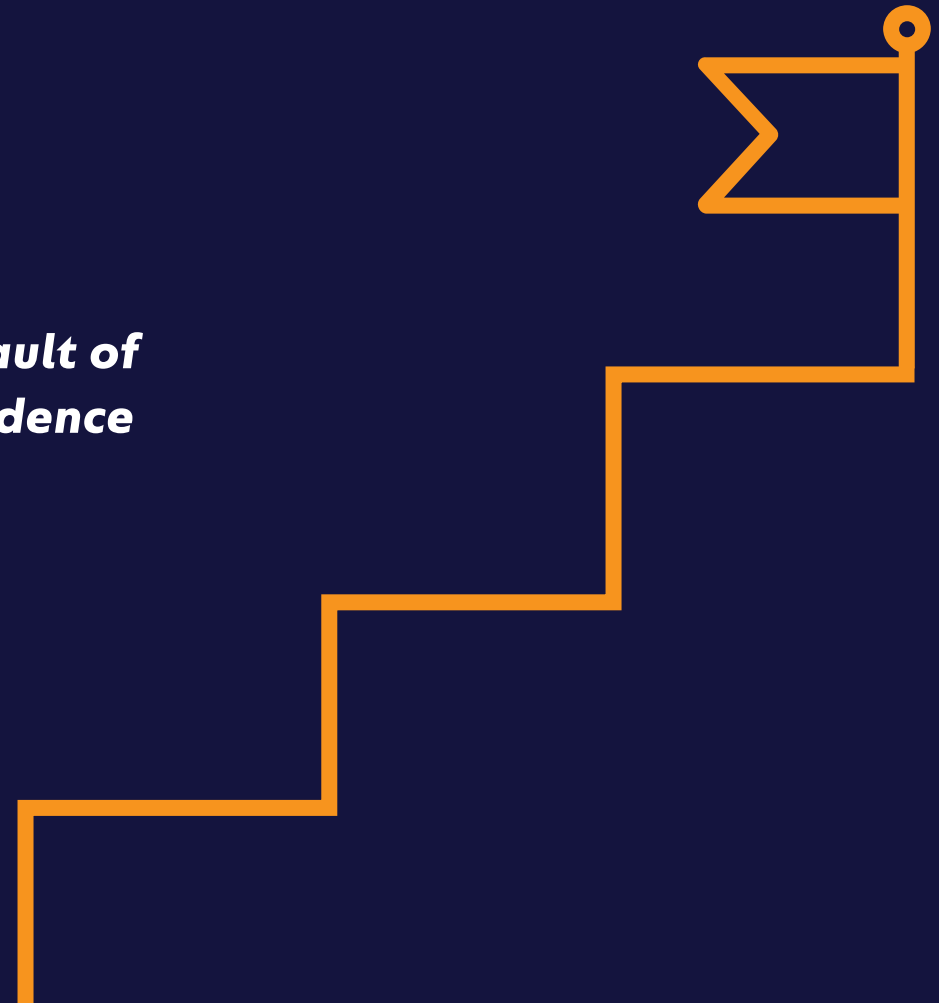


Although the situation may seem challenging, the country's SMEs can make it through with careful cash flow management and strategic borrowing. A lot of businesses are struggling through no fault of their own, so don't let the crisis dent your confidence: you are in the best position to manage your company's finances and put it back on the path to success.

For more information, resources and tools, [visit our website](#).

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About Be the Business



Be the Business is a small, not-for-profit organisation dedicated to boosting productivity among UK businesses.

We're doing it by helping leaders of small to mid-sized firms do what you do best: improve, innovate and inspire.

In response to the coronavirus outbreak, we created Rebuild. It provides free expert advice on recovery tactics, stories from your peers and access to like-minded people to bounce your ideas off.

Business leaders told us they need practical support in six priority areas – so that's what we've done. In each topic section on Rebuild you'll get a range of articles, videos, guides (like the one you've just read) and other accessible support. Start with the topic that meets your company's challenges and remember, it's the small steady steps that are going to count.

Subscribe to our fortnightly Rebuild newsletter and you'll be sure to get all our content first, including more guides like this one.

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