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CFO Playbook 2023:

Improve Your Cashflow in 6 Easy Steps

On the importance of liquidity for companies of any size

Liquidity is the lifeblood of a company. If it decreases and no corrective measures are taken, this can quickly cause the end of the business. Liquidity ensures that a company can meet its payment obligations, i.e. cover its costs, on time and in the correct amount at all times.

Problems due to too low liquidity

A **company with low liquidity** often has to deal with liquidity bottlenecks, which means that more and more unpaid invoices pile up and payment reminders land in the letterbox, which then cause further costs. This quickly creates **a downward spiral that ends in insolvency**.

But even if a company is not yet in the red, **low liquidity can lead to some disadvantages:**

- **Credit lines are regularly overdrawn**, causing interest on arrears and thus further straining liquidity.
- **VAT is not paid or not paid on time**, threatening trouble with the tax office.
- If a company can no longer pay the salaries of its employees due to a liquidity bottleneck, this can lead to **a wave of dismissals and lawsuits**.
- A liquidity bottleneck can lead to the **need to sell valuable assets**, which drive down values and reduce enterprise value of the company.
- The company **cannot continue to grow** because it lacks the financial resources to pre-finance staff, marketing and goods.

The path to higher liquidity

The good news: liquidity can be managed and optimised. Often, this does not even require many changes in the company. Working out and implementing simple measures to keep liquidity stable in the long term is often enough to get a company back on track.

We talked to **Georgina Wilson**, **the Group CFO of Together Group PLC**. She works for a mid-market collection of like-minded agencies focused on the luxury lifestyle sector, with offices in London, New York, LA, Miami, Beijing, Shanghai, Hong Kong and Dubai.

Georgia Wilson has worked in finance in well-known companies such as Shell, Deloitte and Global Switch. In all her roles to date, she has excelled as a team builder and coach ensuring that silos are broken down and **a partnership model is adopted between finance and the business** leading to more insightful understanding of business results and boosting overall performance. Her knowledge of how to built a best-in-class finance team and how to design and implement new controls and processes including finance tools makes her the perfect expert or us to talk to **about the best tools and measure for liquidity management**.

CFO Georgia Wilson on the challenges of cash flow management

Together Group

What are the dominant reasons for liquidity problems in a company in 2023?

The current macroeconomic climate is defined by **uncharacteristically high inflation and high cost of capital**, both of which can ramp up running costs astronomically and thereby push a company to the brink with little notice to plan ahead.

Both B2B and B2C businesses are currently **facing credit worthiness threats** either through fellow businesses going out of business or families choosing to reduce disposable spending and prioritise keeping a roof over their heads due to spiralling mortgage and rental costs. The combined effect is **rising bad debts and aged debtors** which reduce timely cashflow to the business.

From 2008 until mid-2022, interest rates were at historical lows with **easy access to funding dominating much of the last decade**, this caused some businesses to expand rapidly depleting cash reserves and potentially to make more risky investments which have put pressure on cash if they are not as profitable as first expected given the current high cost of capital, **borrowing to keep the company afloat is a far more expensive undertaking than initially expected**.

How do you ensure that your liquidity is sufficient to meet the company's short, medium and long-term needs?

For short term needs, **I rely on regular cashflow forecasts** and review meetings to avoid any short term surprises. I also optimise working capital needs to balance suppliers payments, debt servicing and tax payments against the timing of expected cash receipts. Credit worthiness of new clients is reviewed ahead of take up and regular review of existing clients credit worthiness as compared to their debtor balance to determine level of services or goods provided to these clients. **Costs are constantly reviewed to determine necessity of spend** and to avoid spending for the sake of it or merely because they were budgeted for.

For medium term needs, **the annual budget is an important tool to guide the strategy for the next year** combining plans to optimise the competitive advantages of the business in order to generate profits and cash with operational demands including labour to support the business performance and reviewing financing sources to ensure current sources are fit for purpose. The two to three year plan also considers costs efficiencies wherever possible.

For long term needs, **as management we define these in the strategic business plan** which is really about the essence of the business and its aims in terms of market, product and price, for example premium versus mass market, expensive versus affordable, accessible/ aspirational versus exclusive, organic growth versus acquisitive.

The required capital commitments to meet its strategic aims are defined with the sources of this capital identified for example fundraises versus cash generated by the business being invested back into the business for growth or indeed versus divestments and disposals as the business interprets its strategic purpose and whether certain business deployments should be spun off. Operationally the business considers **how costs could be lowered through systems implementations, centralising where possible and adoption of useful technologies**. ”

What are your tips for managing cash flow during difficult economic times?

“Without a doubt, **the post Brexit-Covid era is unchartered waters and businesses must be acutely aware of cash flow** with a handy toolkit ready to deploy as necessary.

For the start-ups, bootstrapping the business is key, delaying fixed overheads for as long as possible allows cash to be focussed on revenue generating activity and thereby playing the necessary role of lifeblood of the business.

For more mature businesses, being watchful that the business does not become bloated but retaining as much of the entrepreneurial mindset as possible. **Being able to make a strategic divestment for immediate cashflow relief is one that many businesses resort** to if they have already identified that a particular business arm was no longer a strategic fit for the business long term.

If the business is in a desperate situation, agreeing terms with creditors, rallying senior management around temporary pay cuts, dropping some of the nice to have soft touches without comprising employee morale by introducing non-cash reward schemes such as unpaid sabbaticals, hybrid working and adopting a "can do, we are in this together" mentality, reducing headcount in areas that the business is moving away from and hiring strategically in growth areas.

Other practical tips include:

- Client credit worthiness
- Regular review of the sales pipeline
- Regular review of booked revenue and sales
- Take up, weekly cashflow forecast
- Pick up the phone to key clients to sell
- Pick up the phone to clients to collect cash ahead of time
- Reset prices in line with strategic plans
- Find cheaper suppliers without impacting quality, defer as many payments as possible
- Talk to creditors to extend terms
- Take advantage of areas where the business could generate cash through sales and restructure strategically to limit significant restructuring costs
- Implement debt to equity swaps with investors to reduce interest payments
- Hedging of interest rate and foreign exchange risk where possible

Paying close attention to covenants arising from credit facilities and agreeing terms with loan providers well-in advance of any expected breaches, **maximise the use of group relief for tax purposes and government subsidies and other business allowances** such as R&D credits and empty rooms/premises rates claims, putting significant expenditure on payment terms and leveraging bank relationships for letters of credit where necessary, taking on stock in a use or send back arrangement. ”

How do you measure success in terms of liquidity management?

“Firstly, **management should be fully aligned and up to date on any liquidity risks that the business is facing** with minimised internal conflict of interest across departments. This is about setting the tone from the top and good governance and cascading across the business.

Secondly, **policies should be documented** including on revenue recognition, working capital, procurement, treasury, cash collections and bad debt provisions with compliance monitored across the business regularly and at least monthly.

Thirdly, ensuring there are no breaches with credit providers to demonstrate good stewardship. Signposting as early as possible where issues might arise so credit terms could be varied appropriately to maintain good relationships with stakeholders.

Fourthly, **building a commercially minded workforce** that informs every contract negotiated across the business for both costs and revenue to ensure the pricing is right for sales and equally costs are driven down for procurement. ”

Could you provide an example of how you have used technology to improve financial efficiency?

“The future-looking finance teams fully embrace technology to drive faster and more accurate close and deliver real-time information that is crucial for timely decision-making, taking the business from reactive to proactive mode. With this mind-set, finance is not seen as a cost centre but as a very useful and strategic business partner delivering valuable insight to enhance and protect business performance.

I am a fan of end to end systems but these are often too costly to implement across the business and therefore often an array of packages are adopted that interface and collectively provide the technological support that the business requires to make sound decisions. **Ideally these should be cloud-based to allow for frequent software updates, cheaper maintenance and easy access to data and reports.**

Examples of these include systems for ERP, consolidation, budgeting and forecasting, project management, procurement. Expensify and Webexpenses and their integration into Xero have saved countless hours of time for accounts payable staff. ”

How do you prioritise between short-term needs and long-term goals for your organisation?

“A simple way to look at it is that **the business must stay alive in the short term to be around in the long-term**. However short termism can thwart the long-term needs of the business. Therefore in building the next 100 year company, it requires **a delicate dance between short-term needs and long-term goals** so that one does not get in the way of the other. I reckon breaking down long term goals into workable short term and medium term steps is the ideal way to ensure the short term and long term remain aligned and to deliver intended strategic outcomes. ”

How can organizations best align their financial goals with those of other stakeholders such as investors or customers?

“The CEO's communication of the organisation's financial goals is imperative to focus all stakeholders on the priorities of the business so that everyone is aligned and to avoid disputes. This message differs according to the stage that the company is in, be it in start-up mode versus mature or even turnaround.

Ideally the investors understand the stage and ambitions of the business and trust management to deliver on agreed financial goals. One way of keeping investors up to date is to prepare **regular reporting of business performance as well as regular updates on future plans**. With information at their fingertips, investors can then determine whether they can give management the trust and space to get on with the day job of running the business, keeping clients happy and profitability as high as possible.

The business has other stakeholders to satisfy including government, regulatory, legal, tax, suppliers, community members, the board of directors and employees.

The juxtaposition of multiple goals and stakeholders must be balanced to keep harmony. The better companies are at communicating their focus, the more aligned these stakeholders will be.

What are some of the steps you would suggest for setting up a future-proof finance function?

As discussed above technology for finance efficiencies is key and the business should invest as much resources into this as possible. Too often finance systems are an oversight without realising this is comprising the value that the finance team could be bringing to the business. Proper systems also mean that there could be efficiency with headcount.

Where financially viable, the business should sponsor as much business relevant training as possible as an investment in its people to boost retention and reduce the impact of change and recruitment costs.

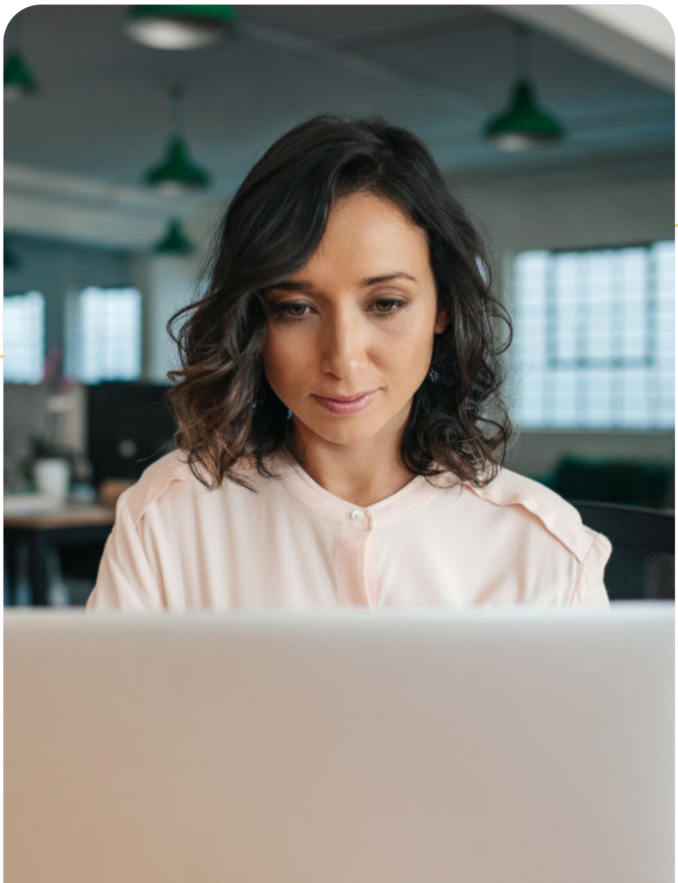
What are some of the challenges finance departments will have to deal with in the coming years?

There is a broader question as to whether interest rates will continue to rise in the foreseeable future and what this means for borrowing costs and growth plans.

For many companies, the continued evolution of how trade agreements are negotiated across different territories may have a significant impact on their commercial challenges.

Artificial intelligence billed as both an opportunity and a threat but should fully explored and harnessed to avoid the downfall of the business. This could pose threats such as employee discontent if certain job roles are no longer required causing distrust and general reluctance to embrace changes.
Wage inflation and what that means for the bottom line if the current inflation levels continue to be sticky

Evolving work-life balance priorities in the finance team and across the business as a post-covid fall out.



6 Best Practices and Tools for Cash Flow Optimisation

You have many options for optimising your liquidity. In today's world, digital tools are particularly useful, as they take a lot of the manual work out of your hands and ensure that nothing is overlooked. In this section, we present six important ways to get your liquidity under control in the long term and how tools can support you in doing so.

Establish a structured credit control system

Open customer receivables correlate directly with your liquidity: If your customers do not pay their invoices on time, this tears a hole in your liquidity. **The more outstanding receivables you have, the lower your liquidity**, which in the worst case can lead to a liquidity bottleneck.

If you simply leave open accounts receivable as such, a negative downward trend in payment morale can develop, because some customers then simply think that you don't take it too seriously anyway and don't care that the invoices are paid on time.

To prevent such situations from developing in your customer base, it is very important to establish a credit control system. In such a software you define all reminder steps with the corresponding deadlines and the tool then automatically sends either a payment reminder or later a reminder after the payment deadline has passed.

It is very important in the credit control process that you do not automate the entire credit control process up to collection, but that you integrate a personal touch point. In many cases, there is no malicious intent behind it, but the customers have simply forgotten to pay the invoice.

In such cases (when the non-payment occurs for the first time), a friendly phone call in which the payment reminder is delivered personally helps greatly to maintain a good customer relationship. If you send a reminder immediately, customers **may resent you and switch to your competitors**.

Introduce factoring

Especially if you have to deal with many customers whose payment behaviour leaves a lot to be desired, introducing factoring is a good way to get your liquidity back on track. With factoring, **the receivables (i.e. the invoices) are sold to a factoring service provider** (also called factor), a company that offers a tool for credit control, payment processing and factoring.

The factor then pays you the outstanding invoice immediately for a fee or interest and gets its money when the customer pays. If you wish, some factoring companies will also take care of recovering the debt from your customers themselves.

The big advantage of factoring for you is that you get the open account settled immediately and do not have to wait until the payment deadline for the invoice has passed. For your liquidity, this means that a bottleneck cannot arise in the first place. It also allows you to offer a longer payment term, which in turn makes your offer more attractive.

You do have to pay a fee or interest to the factoring service provider, but in return you remain liquid at all times so that you can always meet your liabilities. **Liquidity has priority over profitability**.

Factoring is recommended as a first step when you are faced with a bottleneck. As soon as you are in good financial shape again, you can consider taking other measures instead of factoring to encourage your customers to pay their invoices on time.

When choosing a factoring provider, don't just look at the amount of the fee, but **look at how easy the process is**, because you want to spend as little time as possible.

Establish direct debits

Another way to **optimise cash flow in your direction is to introduce direct debit**. This way, you don't put the control of your cash flow in the hands of your customers, as is the case when paying by invoice.

If you let your customers pay by direct debit instead, the money is automatically debited from their accounts. They have to agree to the direct debit procedure once by issuing a direct debit mandate. The advantage for your customers is that they no longer have to remember to pay an invoice, which ultimately saves them time.

If the acceptance of direct debit is low among your customers, you can offer them a discount.

For example, you can grant a percentage discount on the total amount for the first order and payment by direct debit, or you can give your customers a voucher for a certain amount for the next order.

GoCardless is a simple and secure direct bank payments specialist. Merchants can collect instant, one-off payments and automated recurring payments through their API, an online dashboard, or by connecting GoCardless to a partner integration.

Learn more here

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Raise debt capital

Sometimes, despite all efforts to maintain liquidity through one's own efforts, one cannot avoid borrowing. This can be the case if a major investment is planned or if an acute liquidity bottleneck is looming that cannot be dealt with on one's own.

Nowadays there are many ways to raise outside capital. The best known of these is the classic bank loan. However, very young companies in particular are usually considered risky by banks, so that either the repayment interest for the loan is very high or the company is not granted a loan at all. In addition, companies are often exposed to the house bank and its conditions as well as its limited product selection.

In addition to the classic bank loan, there are other alternatives for raising capital that fit the purpose and the specific situation of the company. In order to maintain an overview and additionally benefit from nationwide conditions, online financing platforms can be used.

Financing platforms act as intermediaries between financial institutions and companies. The focus is on individual advice for suitable financing products, even far beyond the familiar loan.

This is because there are above all many niche providers for certain service areas, which can be identified with the help of professional financial advice.

Many companies also have hidden liquidity in machinery or in their vehicle fleet, while other companies can conserve their capital through purchase or warehouse financing.

Get control of your business spending

Very many costs in a company get lost in the shuffle due to **a lack of overview on who spends how much on what**. Limits on expenditure are not set and tracking receipts for expenses becomes a nightmare for the finance teams. A combination of petty cash, shared company cards and manual expense reports make things even more difficult. **Unchecked company spending can become a big drain on liquidity.**

Luckily, company card providers like Pleo exist to enable their customers to monitor and validate employee expenses in real-time, as well as set budgets and **spending limits**. Pleo integrates directly with other finance and accounting tools to give you a clear view of your outgoings, so if you spend smart, **a company card can act as a great cash flow** lever that makes it easier to maintain liquidity.

PLEO

Monitor and forecast your cash flow

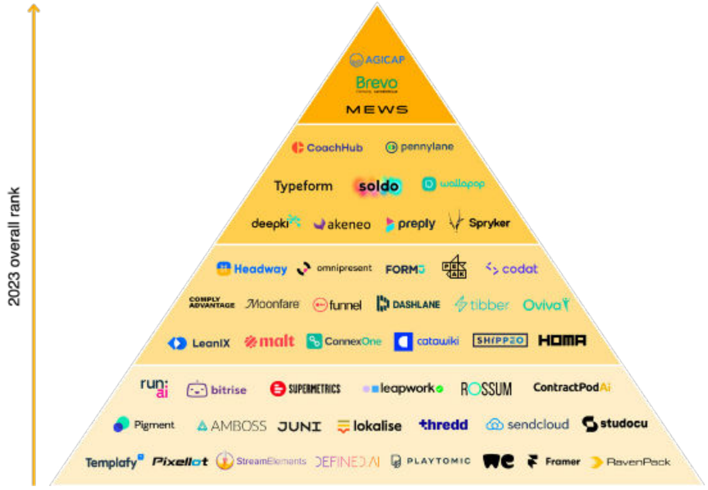
Liquidity planning drastically reduces the risk of business insolvency, which is why it is advisable to take planning seriously and carry it out carefully.

You can get digital support for liquidity planning, for example with Agicap. This liquidity management software makes Excel spreadsheets obsolete and performs many routine activities automatically. For example, the software automatically connects to the bank servers where your business accounts are located, retrieves all transactions from there and prepares the income and expenditure graphically for you. **This way you can see exactly how much liquidity you have every day, down to the cent**.

Using the categorisation function, you can divide your income and expenses and see, for example, how high the general operating costs, personnel costs or costs for software licences are in your company.

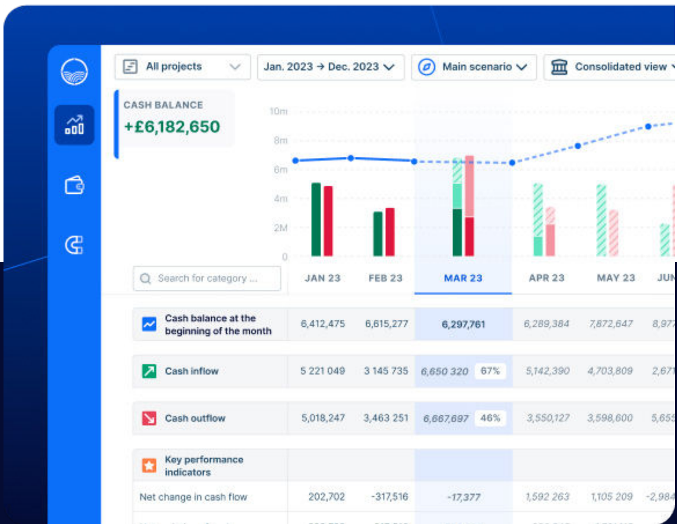
This is the basis for a cost analysis and helps to identify high cost items. Agicap also helps you with planning. By parameter, you can generate as many different liquidity scenarios as you like and look at how your liquidity will develop in the coming months if a certain event occurs, for example if customer demand drops or you have to pay an unscheduled high invoice.

With detailed planning, **you can control the cash flows within your company even more finely** and can more easily define measures to save costs or estimate when it is favourable to make an investment.



No list of innovative FinTechs would be complete without mention of Agicap. In fact, quite recently the cash flow management tool **was named 2023's most promising startup and next billion-dollar company** in the «Titans of Tech 2023» report.

Agicap is the software that **allows you to control and manage your corporate liquidity thanks to reliable forecasts and real-time monitoring.** We achieve this by synchronising your bank accounts and software solutions and merging important data. **This saves you time and resources by eliminating manual processes**. You can focus specifically on analysis, optimisation and decision-making. While we centralise your financial structures, **you do all your cash flow management with a single click** and can even look at multiple entities in detail.



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