

COVID-19: Optimizing your business's liquidity



Given the situation brought about by COVID-19, many small and medium-sized businesses are facing additional challenges in their operations. That's why it's important to monitor your accounting and liquidity closely to ensure your finances are managed soundly during the crisis. If you're an entrepreneur, here's some advice and information on calculating and optimizing liquidity.

1. The key? Keep an eye on the state of your cash flow.

For Stéphane Henley, Manager of Business Solutions, sales and Marketing at Operio, liquidity is important for businesses that want to minimize the impact of COVID-19 on their operations.

Mr. Henley believes that special attention must be paid to cash flow in order to ensure that the company's cash is being used optimally. Cash flow refers to the amount of cash your business takes in, minus your expenses. It's influenced by the business's cash inflow as well as the way it makes its payments, its current expenses including salaries, rent and other fixed expenses, purchases, etc. "By estimating your future cash flow, you'll get a good idea of how much you'll have left over or how short you'll be at the end of the month."

Given the current situation, Mr. Henley advises entrepreneurs to keep in mind that certain variables could make a difference in your calculations. "In the calculation above, we assume that all short-term assets are quickly converted into cash. With COVID-19, nothing's a sure thing. Will all your accounts receivable be paid out according to the terms you've proposed? Your clients are in the same situation as you. Will your business be able to convert its sale inventory into cash or receivables? During a crisis, you need to monitor even more closely how you manage your business and your accounting."

2. Determine your liquidity needs according to different scenarios.

In current times, decreased inflow related to collection delays for accounts receivable puts an enormous amount of pressure on liquidity, as monthly obligations continue to come in and must be paid off.

That's why Mr. Henley suggests making cash flow predictions that cover three different scenarios (optimistic, realistic and pessimistic) for a set period. For example, for a three-month period, you could calculate three different projections whereby your business will resume operations at the beginning of May (optimistic), at the beginning of June (realistic), or at the beginning of July (pessimistic). These different projections will give you a clearer idea of when you'll need to apply for different assistance measures for businesses, all of which have been set up by governments and financial institutions.

3. Profitability is important, but liquidity is crucial.

“Your financial statements may show a financial situation that looks sound at first glance, but high levels of receivables and inventory could be masking an issue where you’re lacking liquidity. Without an adequate cash flow or financing, the business may not be able to deal with its responsibilities in terms of purchasing, salaries, rent and other fixed expenses. You’ll want to increase your liquidity right away,” Mr. Henley adds.

4. Take action to increase your liquidity.

According to Mr. Henley, there are many things you can do to try and increase your liquidity. Here are a few suggestions:

- **“Collect from as many accounts receivable as possible.** This is crucial and you need to put in considerable effort to collect your payment. But don’t forget that your clients are in the same situation as you. Consider offering them discounts in certain cases if you think it could accelerate payment.”
- **“Reduce your levels of inventory as much as possible** by trying to monetize it.”
- **“Take a look at all the new relief measures and financial aid programs set up by governments and your financial partners.** Submit applications for the programs you’re eligible for and those that would help provide some relief. They’re listed here.”
- **“As a last resort, use your line of credit if you have one.** This could offer a temporary solution to compensate for delays in collecting your accounts receivable or the benefits from the various assistance programs you qualify for. But don’t forget that this is still credit.”

There are also other ways to optimize your liquidity. You just need to choose well, depending on your situation and type of business.

5. Learn from the current situation.

In conclusion, remember that this economic pause won’t last forever. “The current times offer an opportunity for reflection. It’s time to reflect on your business’s internal processes. Focus on improving and automating your processes, like your accounting for example, perhaps via a cloud-based accounting platform.”

Feel free to contact your advisor to talk about your situation. To stay informed at all times about the latest developments regarding programs and measures for entrepreneurs, visit our Important Business Notices page regularly.

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