COMMERCIAL BANKING

Managing working capital during Covid-19

71%

of UK businesses currently trading believe their cash resources will last less than six months or are uncertain how long their cash will last.

Despite the fact that 31% have secured either **government backed loan schemes** or **grant funding.**

(Source: Office for National Statistics survey results released 4 June 2020)

Lloyds Bank have been providing support to companies running short of cash during Covid-19.

So far*, Lloyds Bank have lent more than

£7bn

to over **188,500** businesses.

* As at 11 June 2020

Managing working capital will be critical to avoid any cash flow challenges when you restart your business. As businesses enter the next phase of the Covid-19 crisis, Lloyds Bank has highlighted crucial steps to consider, split across three main themes.

- Focus on cash and costs
- Manage uncertain demand
- Address supply chain disruptions and delays

Click here for a 6 minute read

By the side of business

LLOYDS BANK

Managing working capital during Covid-19

Key highlights:

- **UK companies face cash flow dangers** and the potential risk of overtrading as we start to reopen business and recommence trading;
- **Cash and cost control will be critical** during the initial phase as businesses are faced with liquidity challenges and a different cash and working capital profile;
- **Managing deferred creditors and liabilities** will be important as businesses look to rebuild trust as trade commences;
- **Whilst changes to customer demand** will make business forecasting and planning more difficult, it is key to purchasing and inventory management;
- **Addressing supplier risk** and possible points of failure will help to minimise the risk of further disruption whatever the shape of the recovery phase.

Maintain focus on cash and cost control

UK companies face cash flow dangers as we move into recovery.

Safer workplaces as employees return, mean new and incremental costs, at a time when cash flow is already constrained. Supply and demand has been disrupted, and some customers may not be able to pay or are taking longer to settle outstanding invoices. Assessing customers' ability to pay and applying stricter credit limits will be key when looking to reduce the impact of slow payments, and potential bad debts.

Lloyds Bank believes businesses should adopt the following four key approaches to enhance control of your cash:

- **Control who can spend cash**: Continue to control discretionary spend, as well as changes to delegated authorities, in order to minimise cash outflows. Defer non-essential capital projects and consider how financing could be used to change the profile of payments;
- **Leadership set the tone and emphasis on cash**: A strong control environment, and timely and regular reporting on cash and working capital will help companies to manage risks;
- **Forecast your cash flow regularly**: Regular preparation of short term cash flow forecasts will be critical throughout the period. Whilst this may be a time consuming activity initially, it is fundamental to the control of cash;
- **Manage your creditor backlog**: Managing creditor stretch or backlog as a result of deferral periods and payment holidays is critical to ensuring that suppliers continue to trade with you. Paying arrears will help to rebuild trust, improve service levels and support suppliers with their own working capital pressures as they start to recommence trading. Careful management of your liquidity may mean trading ambitions and raw material purchases have to be reduced initially to enable deferred liabilities to be paid off.

> “Companies already struggle with late and overdue payments. When you overlay the challenges of Covid-19, managing working capital and liquidity will be fundamental.”

Ed Thurman
Managing Director, Head of Global Transaction Banking,
Lloyds Bank Commercial Banking

Overtrading

When a business expands too quickly without having the cash flow to support its growth

Warnings signs:	Avoiding dangers:
Late payments from customers	More detailed cash forecasting
This could mean you begin to pay your suppliers late	Effective credit control to support healthy cash flow
Increasing levels of inventory to meet forecast demand	Be realistic around your growth ambitions

Avoid the risk of overtrading when focus is on rapid revenue growth

Overtrading is a risk when commercial teams focus on revenue growth during a period of recovery. Educating sales and procurement teams on the use and impact of longer credit terms in winning more business or using shorter payment terms as a tool to negotiating lower raw material prices will help to manage working capital. Control of payment terms during negotiations with suppliers and buyers - as well as involving sales teams in credit control activities will improve team focus on cash.

Fine tune business forecasting during uncertain levels of demand

Uncertainty makes business forecasting harder. Forecasting is still a critical activity to undertake in order to understand a firm's cash profile and whether there is sufficient liquidity to cover the activity planned across the period.

Assessing customer demand is more challenging in an environment where spending habits have changed. Working capital requirements are driven by the time between raw material purchases, inventory, and when cash is received from the customer. Sales teams need to be very clear about customer demand, talking with buyers to clearly understand plans and the profile of their orders.

Ministry of Furniture specialises in creating workspaces for schools, local authorities and offices. Its sister company, Ministry Graphics, provides interior and exterior signage and vehicle graphics. Amid the coronavirus outbreak, the businesses have been exploring how they can use their existing capabilities to support efforts against Covid-19.

Cashflow support through an invoice finance facility from Lloyds Bank has enabled the businesses to develop and launch a new 'Protekt' range of acrylic screens as well as free face shields for frontline workers. The line includes semi-permanent screens that can be fixed to tables or desks to create barriers between workstations, free-standing protection screens and clip-on screens that can be added to existing desk partitions.

Graham Hirst, managing director, Ministry of Furniture, said: "Protection will be a major consideration when the people start returning to the workplace, and our new range aims to provide a simple solution to help keep workers and members of the public safe. Right from the start we have been looking at how we can use the skills and resources we have in our businesses to produce things that are of use in these difficult times. The support from the team at Lloyds Bank meant we could be in a position to invest in this new product line. We now have our eyes firmly set on the future."

Forecasting demand needs to be a regular part of business planning to enable the business to adapt quickly to changing sales volumes. Customer lead times and payment terms must be updated to reflect the current trading conditions in order to model the working capital requirement of the business.

Changing workspaces – in order to make them safer for employees, has already lead to a reduction in production capacity. This, in turn, has impacted decisions regarding the product mix offered to customers. Forecasting of demand should support revisions of product offering in order to optimise production capacity.

As consumer demand kick starts the whole supply chain process, understanding and reading the signals correctly will help manage production and inventory.

Crown Foods, which primarily distributes frozen foods in the UK market, used invoice finance when the business won a substantial contract, which required an increase in production.

Lloyds Bank were able to support the business, improving cash flow and helping to bridge varying payment terms.

Lloyds Bank provided Crown Foods with further training from the Credit Management team – something which proved essential in an environment where continuous and reliable cash flow is a significant contributor to a business' health and continuity.

Crown Foods have also enjoyed improved efficiency from our investment in digitising client journeys. Faster data uploads and immediate balance error alerts have allowed them to focus more time on their customers and business.

Key steps to improving the cash profile of contracts

For service providers or those that manage longer term contracts where profit margins are tight, it is critical to address typically longer payment terms and understand short term cash profiles.

Every contract should have a positive cash flow. Companies are developing project and contract cash flow forecasts to better understand the profile of costs and receipts before agreeing to work. It's important to understand the size and ageing of work-in-progress and unbilled revenue to determine when staged payments or invoicing milestones should be set.

Contract assessment requires set parameters for the amount of work-in-progress before invoicing is required. Larger contracts, where the risk of work-in-progress is significant, require greater scrutiny and revised approval processes.

Clear invoicing milestones, understood by both finance and operational teams, will reduce invoicing delays. Standardise the information required to support invoice approval processes and understand the customer's invoice approval process in order to reduce payment delays. Carefully control and agree contract scope changes and variations before commencing work. Separate Invoicing of new or additional work from that approved initially can help to reduce payment delays.

Covid-19 underscores the impact of supply disruptions and delays.

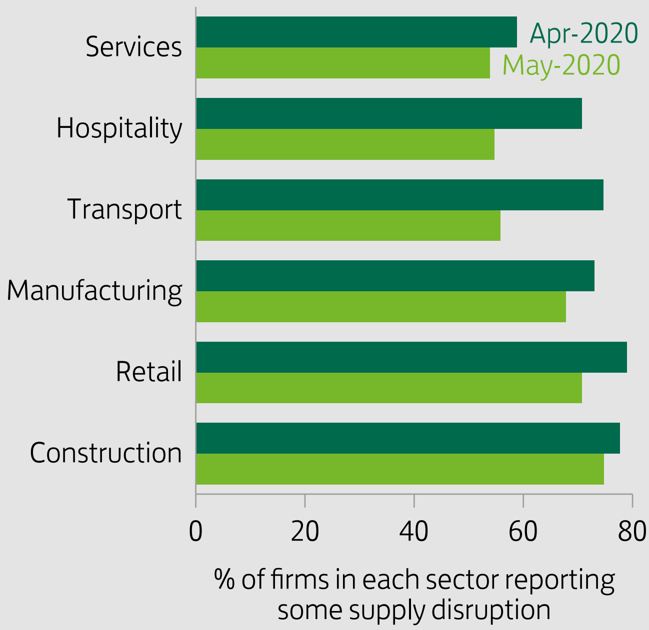
Disruptions and delays have been significant, and we can expect continued supply-side uncertainty as rates of recovery will be different across the world. Stockpiling in preparation for Brexit has been depleted due to Covid-19 and many companies do not have the working capital required to rebuild their stockpiles.

Covid-19 has highlighted the risk of 'just in time' inventory practices and companies are rethinking inventory strategies for the future. There is a strong temptation to hold greater stock to help manage through supply interruptions and minimise damage to output.

Regular communication with suppliers will help to build trust. Initially this will focus on operational issues and realistic lead times (i.e. what can be delivered and by when). The sharing of your business forecast with business partners will enable better inventory management. This will ensure that sub-optimal buying decisions and excess cash tied up in inventory are minimised.

Supply chain disruptions remain significant

Source: Lloyds Bank Business Barometer(May 2020), BVA BDRC



International trade typically has a greater impact on the working capital cycle due to more supply chain variables, extended transit times, and managing the clearance of documents and goods through Customs. In the current environment, supply side pressure has increased, with suppliers looking to be paid in shorter time periods, before goods are received.

> Supply disruptions have contributed to a rethinking of strategy, evaluating 'just in time' vs 'just in case' inventory management. This, combined with demand uncertainty and Covid-19 related costs are impacting profit margins as well as historic trade patterns.

Gwynne Master
Managing Director, Head of Trade,
Lloyds Bank Commercial Banking

Whether you are dealing with existing overseas buyers or suppliers in new territories, Lloyds Bank can help you mitigate the risk of international trade and improve your working capital. As Covid-19 has meant further manufacturing costs and overheads, managing the associated cash flows in these uncertain times will be important.

UK buyers prefer buying under credit terms. This is not always easy to obtain. Lloyds Bank has built expertise in analysing trade cycles to minimise risk, including foreign currency, and identify and manage these funding gaps. Understanding the rights and responsibilities of buyers and sellers is key to minimise business and compliance costs associated with international trade.

Enhance visibility of supply chains to manage risk and build resilience

A number of businesses have limited visibility of their supply chains. Highlighted by Covid-19, visibility across supply chains is crucial in order to build resilience and mitigate disruptions.

Reliable and flexible logistics has enabled longer and geographically diverse supply chains to develop. As a result, companies have been able to lower the levels of inventory held. Single sourcing strategies and geographic concentrations of suppliers have compounded supply disruptions. The short term impact has been longer lead times as businesses try to manage supply issues, and changes to buying decisions.

In the longer term, this may lead to a change in business models regarding the length of the supply chain and geographic footprint. Covid-19 and the consequent supply and transport disruptions, will lead to a diversification of supply chains.

> “Increasing resilience and visibility across your supply chain will help you to manage the impact of further supplier disruptions to your business.”
>
> **Andrea Melville**
> Managing Director, Head of Commercialisation & Propositions, Lloyds Bank Commercial Banking

Case Study

Due to stockpiling following the outbreak of Covid-19, our client, an integrated tea, coffee and commodities business, was faced with a rapid increase in demand as their key customers had a severe shortfall of stock.

In order to meet the rapid increase in demand, our client needed to negotiate with its supply base to secure the increases in volumes to enable the import of goods in a very short timescale.

Lloyds Bank worked closely with the client to understand the additional impact of cash and working capital from the increased purchases and forecast levels of sales.

Our understanding of their working capital position enabled us to support the business with additional working capital. Utilising traditional trade instruments, in a highly compressed timescale, allows the deliveries to be expedited to their customers within the desired time frames.

Mapping the supply chain is the first step to improving visibility. Focusing on larger suppliers is not enough; it is important to capture all key risks. For example, a small supplier may be the only supplier of a certain component, requiring diversification.

Whilst mapping the complete end-to-end supply chain can be very time consuming, complex and expensive, it is a very valuable exercise. Once companies have this information, the risk assessment is more complete as is the impact on cash, facilities and product offering should there be further supplier disruptions.

To develop a prioritised view of the end-to-end supply chain, companies should undertake analysis of revenue by product, and focus on their key products and the components they contain, in order to start to assess the risk of disruption. Talking to suppliers about where components are manufactured and stored as well as identifying those companies that supply them will help to develop an action plan.

Developing alternative sourcing options, providing financial support, developing different bills of material for products and working with suppliers to ensure they consider manufacturing and storing inventory in multiple locations to minimise geographic concentrations and single points of failure will all build resilience in the supply chain.

Conclusion

The UK economy is in uncharted territory and the shape of the recovery phase and the longer-term impacts are unclear. In uncertain times, it is critical that all businesses make the management of cash and working capital a daily obsession.

Managing working capital will be challenging during this time given the potential for greater fluctuations. Lloyds Bank is already aware that clients are under pressure to pay in advance or on shorter terms which causes additional working capital challenges as they recommence trading.

It will be crucial that businesses know and understand all the options available to them to manage cash and working capital. Businesses that are quick to adopt them, will be better able to manage the uncertainty and be more resilient.

In uncertain times, controlling risks associated with working capital and supply chains is fundamental. Lloyds Bank is here to support you improve management of both your working capital and your supply chains.

We have set out here some key actions that you can take within your business:

- focus on cash and cost control, including regular cash flow forecasting;
- forecast demand regularly to manage material and inventory requirements;
- collaborate more closely with buyers and suppliers to build confidence and enable all parties to optimise working capital;
- manage the additional pressure on working capital from international trade;
- reduce reliance on single suppliers or geographies and to potentially shorten supply chains;
- increase visibility through supply chain to minimise the impact of risk and disruption.

Our working capital solutions

Our teams across Lloyds Bank Commercial Banking can provide the following support:

Invoice Finance can be used to release working capital to support your investment and purchasing needs.

Our **Trade** solutions can help you to access funding and mitigate risks of non-payment or non-receipt of goods using Letter of Credit, Bills of Exchange as well as Bonds and Guarantees.

Asset Finance can protect and release working capital by using Hire Purchase to both fund new assets and refinance of recent asset purchases.

Our **Payments solutions** can help digitise your payments with access to digital signatures and increased transactions limits alongside the ability to process cheques via your mobile.

We can help you receive card payments, including use of card holder not present and online payment methods to support e-commerce, through our card acquiring business, **Cardnet**.

Liquidity solutions are available to help optimise returns and retain ready access to cash reserves.

We can also help you access funding through the **government backed schemes** including **CBILS, CLBILS and Bounce Back loans** (lending is subject to status).

Details of our solutions can be found here and both your Relationship Manager and our specialist teams will be happy to speak to you to help you access the support you need.

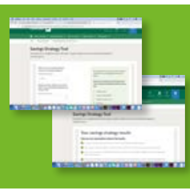
Support is also available through our Online Tools:

International Trade Portal

A key information resource for businesses at all stage of their trade journey. The ITP is now free and unlimited to all UK businesses.

Savings Strategy Tool

Make your money work harder by matching your cash forecasts against Lloyds Bank deposit products.



Our service promise

If you experience a problem, we will always try to resolve it as quickly as possible. Please bring it to the attention of any member of staff. Our complaints procedures for businesses with an annual turnover of up to £25m are published at **lloydsbank.com/business/contactus** and for businesses with an annual turnover of £25m or more they can found at **commercialbanking.lloydsbanking.com/contact-us/**

Go to:
lloydsbank.com/help-guidance/coronavirus

If you would like to know more, please speak to your Relationship Manager

Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

Important information

Cardnet® is a registered trademark of Lloyds Bank plc

Lloyds Bank plc Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Telephone: 0207 626 1500. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under Registration Number 119278.

Factoring and Invoice Discounting facilities may be provided by one or more of Lloyds Bank Commercial Finance Limited, Lloyds Bank plc and Bank of Scotland plc. Lloyds Bank Commercial Finance Limited. Registered in England & Wales no. 733011. Registered office: No.1, Brookhill Way, Banbury OX16 3EL. Lloyds Bank plc. Registered in England and Wales no. 2065. Registered Office: 25 Gresham Street, London EC2V 7HN. Lloyds Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 119278. Bank of Scotland plc. Registered in Scotland No.SC327000. Registered Office: The Mound, Edinburgh EH1 1YZ. Bank of Scotland plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration no. 169628.

The provision of credit or leasing services is subject to you meeting our Credit approval. Please ensure that you only apply for credit or leasing services that you can comfortably afford.

Eligible deposits with us are protected by the Financial Services Compensation Scheme (FSCS). We are covered by the Financial Ombudsman Service (FOS). Please note that due to FSCS and FOS eligibility criteria not all business customers will be covered.

Lloyds Banking Group is a financial services group that incorporates a number of brands including Lloyds Bank. More information on Lloyds Banking Group can be found at lloydsbankinggroup.com

LLOYDS BANK

(06/20)