

AGENCIES: MANAGING YOUR CASH FLOW IN UNCERTAIN TIMES



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Never before has the mantra “cash is king” been so important. In these uncharted waters it is vital to manage your agency’s cash flow closely to ensure your business comes out the other side in good health.

At Moore Kingston Smith our team includes directors who have worked in marketing agencies and have hands-on experience of difficult times as well as those who have worked on turnaround projects.

We know that right now you are juggling looking after your teams, trying to predict which income streams will survive and generally keeping your business going. Difficult decisions and trade-offs will need to be made. Below are our top tips to help you ensure that cash flow is managed well, so you can survive the impacts of the pandemic and return to thrive once the worst of this is over.

If you would like help with any of the suggestions, please contact your Moore Kingston Smith partner who will arrange for one of our corporate finance specialists to get in touch.

Ten top tips for cash flow management:

1) COMMUNICATE WITH YOUR STAFF

As most of you will be working remotely, communication is vital. Your staff will be just as concerned as you are. Communicating transparently should mean they are more responsive to a variety of voluntary alternatives. These might be temporarily reduced hours, accelerated holiday schemes or salary cuts and deferrals which may avoid or reduce the need for redundancies.

When one of our directors worked in an agency, he experienced first-hand the willingness of colleagues to temporarily move to part-time to help the business. With schools closed for non-key workers, being able to spend more time with the family might be just what some of your people currently desire.

Temporary part-time working will not be for everyone, but taking the time to find out what each team member is prepared to do will help the business. You will be able to examine every option and staff will feel consulted and part of the solution.

The government job retention scheme may also help you retain jobs for those where there is currently no work available. Deciding who to furlough under this scheme will not necessarily be easy. In small teams, individuals may have unique skills you can’t lose. However, given the generous support the government has offered, real thought should be given to how the business could furlough under-utilised employees.

Remember, staff are still protected by employment and contractual rights so ensure that legal advice is sought before acting. Please also remember that while an employee is on furlough, they are not permitted to do anything for the business at all or you jeopardise your ability to claim the grant.

2) CREATE A 13-WEEK CASH FLOW FORECAST

All agencies need an accurate rolling 13-week cash flow forecast. This should be kept up to date with the latest

available information and will show all your expected receipts and payments over the next three months. You can then understand your liquidity position and the levers you can pull to help it improve.

3) CREDIT CONTROL IS KEY

You should get in touch with clients to agree firm payment dates for your invoices so you know when your cash will be coming in. This will inform your 13-week cash flow forecast. You should use this to ensure clients are paying you as promised. This is key so that your cash flow forecast is based on accurate and timely information, rather than just assumptions. Remember to allow time for funds to clear your bank account from when clients say they will pay you.

Some blue-chip clients have early payment schemes that you can access for accelerated payments. These often come with a charge or the requirement to offer a discount, but they are worth investigating.

Make sure that invoicing is still happening as quickly as possible. Have you got a plan in place in case your normal billing process is interrupted by illness? Key to getting the money in, is getting the invoices out, with the correct purchase order details.

Another issue you could face is that clients may not be on top of their invoice approval processes whilst they work from home. Their accounts payable team should be able to flag any issues with you. They should work with your account managers and your client contacts to ensure that all approvals are in place so that you are getting paid promptly.

4) IDENTIFY YOUR CRUNCH POINTS

Once your bank receipts are accurately forecast add in your expected payments. Start with the regular ones – salaries, PAYE, rent, rates, VAT, loan repayments, corporation tax payments, credit cards and direct debits. Then pull in your desired accounts payable schedule from your accounting system. This will start to give you a picture of your forecast

cash flow. You will see crunch points around large outflows such as rent, VAT, loan repayment, PAYE and salaries. Once you know where your crunch points are, you can start to manage your payments to navigate them.

5) REVIEW YOUR NON-ESSENTIAL EXPENDITURE AND BUDGETS

All agencies incur both essential and non-essential expenditure. Reducing or stopping any non-essential expenditure is sensible. This could include expenditure on freelancers, marketing, training and development, capital expenditure, internal projects, new and replacement staff.

While many businesses will only have signed off their 2020 budgets a few months ago, it makes sense to produce a reforecast which takes all the above into account.

6) USE THE HELP OFFERED BY THE GOVERNMENT

The Chancellor has already announced measures that will help manage your crunch points. Probably the easiest of these to access will be the automatic deferral of your next VAT payment (that falls before the 30 June 2020) until 5 April 2021. Don't forget to cancel your direct debit if you plan to use this.

Many clients are also having success with asking HMRC for deferral of payment of two or three months' worth of PAYE and NIC liabilities. You must call HMRC to agree this. HMRC is also agreeing to payment by instalments of corporation tax liabilities.

The government's Coronavirus job retention scheme has also been launched. This is a grant for 80% of the salary of retained, furloughed workers up to a maximum of £2,500 a month per worker. For the purposes of your cash flow forecast, you need to pay the employees first and then claim the grant. Assume this cash will probably be forthcoming from the government late May or early June.

Following the job retention scheme, measures have also been announced for support for the self-employed, capped at £2,500 a month. Broadly speaking, this is only available to those earning less than £50,000 a year. Income tax payments due on 31 July 2020 for the self-employed and those in a partnership or LLP are also automatically deferred until 31 January 2021.

7) SPEAK TO YOUR BANK

If the current crisis is affecting your agency, do not avoid the issue. Raise your concerns as soon as you can with your bank relationship manager. Being proactive with your bank almost always leads to a better outcome. You may find they are able to help by offering repayment holidays on business loans, relaxed banking covenants and providing short-term financial help.

Sharing your reforecast with them is also sensible. We know agencies that have had banking covenants waived and others where a short-term loan has been granted to help during the current time so these conversations are very worthwhile.

If your cash flow forecast shows you require further liquidity, there is the Coronavirus business interruption loan scheme, which can be accessed through your bank. As well as providing partial guarantees to the lender, the government will cover the first 12 months of interest payments as well as arrangement fees, so businesses will benefit from lower initial repayments.

You may also be able to defer capital repayments for up to one year. The maximum amount that can be borrowed is £5 million but this is limited to 25% of turnover in 2019 or double the annual wage bill.

You must be able to demonstrate why you require the loan and that it is linked to the effects of Coronavirus. We can help clients to prepare what is required to access these loans.

8) SPEAK TO YOUR CLIENTS

Not all of your client base will be affected in the same way. For example, those agencies acting for supermarkets may find them receptive to early payment of invoices.

You need to get an early handle on what work will continue to come in to enable you to plan how you will deliver it while staff work from home and possibly while a proportion are ill. Managing clients' expectations during this time needs better than ever communication and client management. You will also want to reassure clients that your agency is still able to support them.

Any confirmed plans for future work can be fed into your 13-week cash flow forecast.

If some of your clients are in real trouble, you should consider asking them to pay your outstanding invoices before undertaking further work for them, especially if that work is going to require bought in costs. For other clients in a stronger financial position, you may be able to agree upfront payment for work.

9) SPEAK TO YOUR LANDLORD

Landlords are willing to talk and may offer you help in terms of agreeing a period of arrears or a rent holiday. Your landlord will want to maintain their tenants' business health in the long term. You are far more likely to receive a sympathetic ear if you proactively discuss the position with them instead of waiting for them to chase you for late payments. Some clients have been successful in agreeing a rent reduction for the period during which they are unable to use their premises.

While the current government support on business rates doesn't extend to the media industry, some clients have had success with agreeing a rates holiday for the next couple of months and instead will settle those months at the back end of the fiscal year.

10) SPEAK TO YOUR KEY SUPPLIERS

We recommend proactively speaking to suppliers to negotiate extended credit terms, instead of hiding from them. Key suppliers, especially, may be willing to grant you longer terms to pay their invoices. All suppliers would rather you agree a payment date with them rather than simply defaulting on your obligations. As many agencies are in a similar position, it may be that those who communicate best with their suppliers receive the most flexibility. If you are suffering from delayed payments from your clients, you might also want to explain that to your suppliers and agree you will pay them when you have received your outstanding payments.

Coronavirus has been treated as a notifiable event for insurance purposes. Insurance companies are likely to say they won't pay but you should pursue this in case your policy does cover it.

HOW WE CAN HELP

In addition to the services outlined below, the team at Moore Kingston Smith can help support you through this difficult time providing handholding, advice and support in implementing these ten top tips.

We also have a full multi-disciplinary team of experienced professionals, including HR consultants, who can help support your agency with all your needs during this very difficult time.

Please ask your Moore Kingston Smith partner if you require any help with:

- Consultancy, advice and assistance with cash flow management
- Cash flow reviews and reporting
- Cash flow modelling
- Outsourced credit control
- Outsourced bookkeeping
- Business planning
- Bank fundraising support
- HR consultancy
- Legal advice
- Directors duties advice
- Recovery services

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