Performance Management & Improvement

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LIQUIDITY FORECASTING

Modeling off of real-time operational data is necessary to proactively understand the liquidity impact when business trends are rapidly changing. The ability to efficiently do "what-if" analysis on likely scenarios (e.g., what if my top 5 customers hold payments for 5 extra days, how will debt service change if I draw heavily on the revolver for working capital, etc.) rooted in assumptions applied to current, detailed data will yield much more accurate forecasts than the previous basis for future performance (e.g., budgets).

Our near-term tactical recommendations to implement around quick but effective liquidity forecasting:

1	**Focus on the short-term outlook by applying timing assumptions to known dollar amounts**. In many businesses, a model that applies timing assumptions to detailed AR and AP sub-ledgers provides valuable insights on how to manage a large portion of the operational inflows and outflows in the near-term with a relatively low level of effort.
2	**Model disbursements for payroll**. Payroll tends to be lumpy from a timing perspective and is a non-negotiable cash disbursement. Be sensitive to how volatile payroll amounts are in your business. If the majority of payroll is salaried employees, use a very simple trailing average. If payroll is more variable with revenue performance, a driver-based approach will be needed to account for anticipated changes in business volume.
3	**Don't forget debt service payments**. Interest and principal payments are another lumpy and critical cash flow which may require proactive planning (or proactive communication) to address.

Technology Continuity

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Enabling operations in a time of business uncertainty

As companies address extreme market conditions, seasoned technology leadership focused on enabling remote work models and seamless delivery of mission critical systems will be critical

We recommend the following to prepare and operate your business during these uncertain times:

1	**Enable remote working with an accelerated use of cloud platforms** As companies send portions of the workforce home, ensuring your core business platforms and communications / collaboration solutions are available outside the office are key. Accelerate transitions to the cloud where necessary, provide a clear communications channel to update employees, and ensure access and bandwidth for on premise systems will sustain extended use.
2	**Prioritize IT resources to support mission critical technology including supply chain and financial management aspects of the business** During a time of uncertainty, focus finite IT resources on mission critical technologies supporting key areas including the business supply chain and financial management of the business. Ensure you have active engagement with third party vendors that support your core business systems.
3	**Manage information security risks during the uncertainty** With business focus shifting to continuity and remote working, information security can slip as a priority. Ensure your IT team and security partners are checking access and systems continuously, and communicate to employees and contractors how remote work changes are information security sensitive.
4	**Not all IT capabilities are able to be delivered remotely, ensure IT itself continues to operate while balancing employee risk** Some elements of IT require on-site attention to systems, either supporting in the office or at a data center. Establish continuity plans including cross coverage of job duties and times in the office to maintain systems continue if an employee or group take ill.
5	**Ensure you have alignment with your IT suppliers** Many companies outsource portions of business systems and IT capabilities to third party suppliers. Actively engage with your outsourced IT providers to understand their business continuity plan for your company, your current licensing / support arrangements, and understand how that has 'down-stream' operations impact.

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THREE-STATEMENT FORECASTING

Using dynamic three-statement forecasting model provides a holistic understanding of business performance. Changing business trends often result in management teams primarily focusing on understanding the impact to earnings (i.e., P&L). Ensuring there is equivalent emphasis on forecasting the balance sheet provides crucial foresight on covenant compliance, long-term cash flow, and other meaningful asset (e.g., inventory) positions. Using a well-constructed, three-statement forecast model allows management teams to gain a better understanding for the sensitivity in changing key drivers. This directs management's attention to proactively manage to crucial assumptions (e.g., we need to bring our on-hand inventory down substantially to maintain target liquidity levels over the next 3 months given our sales forecast).

We recommend the following steps to develop a basic three-statement forecasting model:

1. **Start with a P&L forecast focused on segmenting fixed and variable costs**. More sophisticated, driver-based forecasting models can add to accuracy and understanding. However, starting with a model that flexes variable costs appropriately with updated revenue outlooks will provide a solid starting point.

2. **Integrate the P&L forecast with a balance sheet model**. It is likely that the most volatile and meaningful aspect to emphasize is net working capital. Forecasting major NWC components (e.g., AR, inventory, AP) can be forecasted effectively using turnover ratios (e.g., DSO, DIO, DPO) in most businesses where trends are understood, predictable, or can be influenced. Once working capital has been modeled, use specific schedules to forecast the amortization of debt and known CAPEX decisions.

3. **Overlay desired analysis**. By building key analyses (e.g., leverage ratios, fixed charge coverage, cash flow summaries, etc.) to dynamically link to the forecast model, management teams will be able to monitor the most synthesized and important impacts of changing assumptions.

Performance Improvement

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SUPPLY CHAIN PREPAREDNESS INVENTORY

Supply chains across the world are significantly impacted by the recent coronavirus pandemic.

We recommend the following to prepare your supply chain:

1	**Backup sources of supply for your top SKUs.** Identify the key SKUs that represent 75%+ of your sales, and work to segment and adjust inventory levels for optimal cash utilization.
2	**Understand the cash impact of extended product or service shortages, and which customers assess fines and penalties for late or incomplete shipments.** Develop the key customer / SKU combinations and work to build and implement plans with key customers to protect service levels and in-stock. Assess the impact on cash based on sensitivity analysis.
3	**Alter/extend your distribution network to stand up a second facility or new 3PL provider.** Work to select alternative fulfillment 3PL providers and stand-up a new warehouse in 4-6 weeks (systems considerations may extend the timeline).
4	**Understand fulfillment models that recently migrated to smaller and more frequent shipments to key customers.** Create plans, for alignment with customers, to implement a revised order cadence that emphasizes stock availability for key SKUs.
5	**Develop contingency plans for new product introductions planned over the next 3-6 months.** Assess and recommend adjustments to your upcoming product introduction such as timing and range of SKUs, leading to a more successful and impactful launch.