Digital Dialogues @ toolbox INDIA Foundation

Financial Management- During and After the Lockdown

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Purpose: COVID 19 has led to unexpected challenges compelling organizations to revisit the financial planning and management function, identify risks involved and introduction of cost cutting initiatives for improved cash and fund flow management.

Key takeaways:

1. Context on the economic uncertainty

- A general slowdown in economic activities has been witnessed prior to the outbreak of the pandemic which has accelerated the slowdown to near nil with the enforcement of the lockdown.
- With Q1 being highly impacted, predictions suggest economic activities will grow in a limited manner during Q2.
- Q3 could see the resumption of economic activities where sanitation, health concerns and social distancing will be given importance to.
- The new work scenario will include lesser travel, entertainment, congregation, events and more of virtual interactions.
- The International Monetary Fund predicts the GDP growth of India will reduce to 1.9% from 4.5% with the assumption that economic activities will operate normally in Q3.

2. Cost cutting measures / initiatives:

- Delay/Defer significant expenses like rent which results in a huge outflow. The following ways can be looked at:
    a. Secure relief in several ways such as deferment and abatement of rent in the form of discounts and maintenance charges relief etc. by negotiating with landlords
    b. Shrinking of office premises by either surrendering part of it or by subletting the space after seeking permission.

c. If invoking Force Majeure clause (documented in the agreement) ensure that it does not lead to any complications (clause for natural calamity or act of god which Corona is classified under)
d. Negotiate longer payment terms with vendors and turn lump sum payments to smaller and staggered payments across three months.

- Q1 being the worst affected calls for temporary adjustment measures and the following can be looked at:
    a. Fixed costs like rent and annual maintenance contract can be negotiated.
    b. For variable cost, if pay cuts are adopted ensure that the basic salary is not slashed. Cutting allowances are sufficient to address the temporary measures taken.
    c. If employee health benefits and policies are offered it is important to reconsider the decision of temporary discontinuation as reinstating them in future could cost more.
    d. Discretionary costs such as staff welfare and travel allowances can be aggressively slashed for three months.
- Medium to long adjustment measures can be adopted from Q2 onwards if normal levels of operations are not achieved.
    a. It is important to re-examine the health scheme and office space. Staff increment and incentives can be deferred to the second half of the year.
    b. It is advisable to retain costs that can give longer term benefit. Any cost associated with leveraging the digital world is an investment that must be protected or secured like online models and IT.
    c. Discretionary costs can be cut and the Zero based budgeting on all these costs will help distinguish between costs and expenses that are on priority and those that can be delayed.

3. Step to improve planning:

- Drawing a cash flow allows better monitoring of the financial situation and estimation of the magnitude and timing of the cash flow. It projects the various expenses and costs that will be incurred during this period.
- Cash flow expenses can be tracked weekly for the current quarter and monthly from Q2 until next year. Ensure to immediately take action and address any unexpected expenses that may come.
- Every key stakeholder should be appraised of all decisions, actions and situations. They should be informed of any deviance in cash flow as per the plan.
- In case of layoff requirements, it is necessary to ensure the program is not impacted.
- Performance-based approach can be adopted to reduce the employee strength. A structural review will give clarity of surplus in manpower.

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