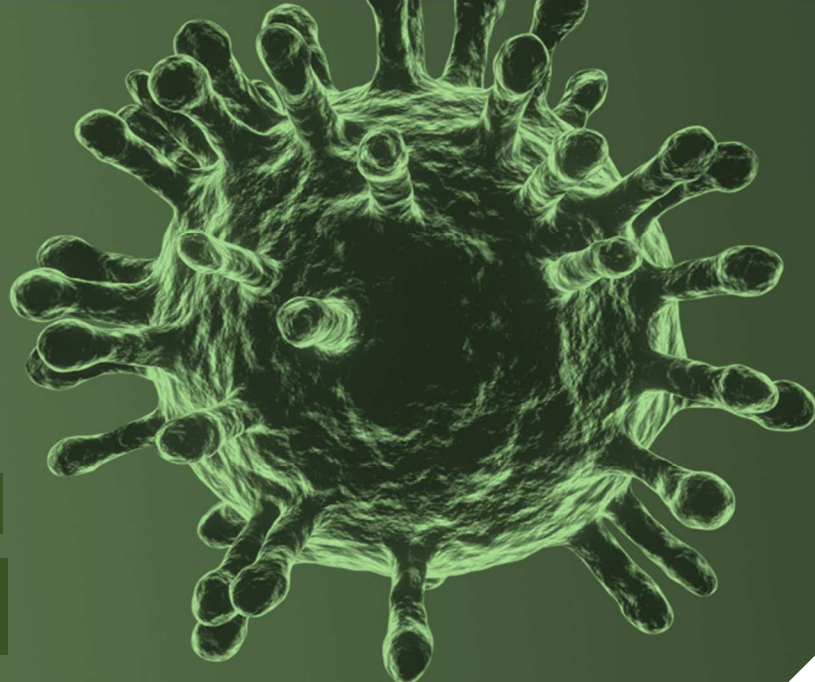




International
Labour
Organization



**Building resilience during and
after the COVID-19 pandemic**



COVID-19 guide & action checklist



**For medium-sized factories &
managers**

Managing your cash flow

For manufacturers navigating the COVID-19 pandemic, this guide helps factory managers keep track of their cash flow to better navigate during this time of crisis.

Getting started



Includes:
Spreadsheet
template,
action
checklist

In this guide:

- ▶ Why managing cash flow is essential during the pandemic
- ▶ How to prepare a cash flow statement and cash flow forecast
- ▶ Recommendations on how to improve your cash flow immediately as well as over time



1. Why keeping track of your cash position is essential during the pandemic

Keeping track of your factory's cash flow is always important as it enables you to track costs, avoid or reduce losses and helps ensure that your factory is staying financially liquid, which in turn will help you to increase your profitability. Your cash flow is what determines the amount of money you have available to spend at a given time.

A good understanding of your cash flow can help your factory survive COVID-19.



During the COVID-19 crisis, it is especially important for factories to consider their cash flow. Many factories that go out of business often fail because they do not have enough cash on hand to pay for their on-going operating expenses. Having a good understanding of your current and future cash flow can help your factory survive the COVID-19 pandemic and will also make it easier to eventually ramp up operations.

Understanding your cash flow is the starting point for responsibly managing your factory's finances during the COVID-19 crisis as well as in the longer term. It can give you a warning in advance about future cash shortages and it helps you to take time measures to act in advance before you face a situation where you run out of cash to fund on-going operations.



2. Understanding cash flow

Cash flow is the amount of cash that is being transferred into and out of your factory. If more money is coming in than what is going out, your factory has a 'positive cash flow'. To the contrary, if your factory spends more money than it has coming in, your factory will have a 'negative cash flow'.

You need to have a positive cash flow to be able to pay for your factory's expenses. That said, at times a profitable factory will have a negative cash flow, for example if it spends a lot of money buying materials or inventory. Because materials can be worth a lot of money, unless they generate money quickly, profits can be tied up and the factory might have a negative cash flow until the inventory is used, the product is shipped/ delivered, and/ or payment is received. In order to minimize the risk of being unable to access your cash during these uncertain times, you should seek ways to shorten your working capital cycle. This means you should aim to reduce the length

of time it takes to generate revenue (receiving payment) on the expenses acquired to produce your product (buying materials).



To calculate your cash flow, you need to summarize your factory's:

- ▶ **Cash flow-in:** All the money generated by your factory, including from sales, bank loans and other sources of income (e.g. sub-contracting orders or parts thereof (if allowed), sales of excess materials, sale of second grade products) and bank loans.
- ▶ **Cash flow-out:** All the money that your factory spends on fixed and variable costs, such as materials, wages, utilities and other expenses.

Managing your cash flow involves analysing your factory's cash history to observe any patterns and to better understand your cash flow-in and your cash flow-out. A **cash flow statement** allows you to summarize your past cash flow for this purpose. In order to estimate your future cash flow, you can prepare a **cash flow forecast**. This involves estimating your future expenses, including labour, material and overhead costs, to see how much cash you need to pay your bills. In addition, you need to estimate your cash flow-in during the same period. By comparing the numbers, you will know if you have enough cash to cover your bills in the coming months, or if you need to try to find alternative sources of income, subsidies or other short to medium term borrowings.



3. Getting ready for action

Now that you have a better understanding of what cash flow management is and why it is critical for your garment factory, the next section will provide some concrete steps on how to manage your cash flow in a responsible manner.



Building resilience during and after the COVID-19 pandemic



4 steps for factories to improve their cash flow management

01

Prepare your factory's cash flow statement

Understand how much money is available to you.

02

Prepare your factory's cash flow forecast

Plan for the financial impact of COVID-19 and other crises.

03

Make informed decisions and exercise control

Use information available to you.

04

Improve your cash flow immediately and over time

Consider your current situation as well as the future.





Putting the measures in action: Factory checklist

1. Prepare your factory's cash flow statement

First, prepare your cash flow statement. This will help you analyse how much cash your factory has generated in the past and how much it has spent. It will help you understand how much money is available to you and will serve as a starting point for making future forecasts of your cash flow.



Factory_Cash_Flow_
Template.xlsx

Useful tip: Use the attached template (Excel sheet) to prepare your cash flow statement.

Action	Ease of implementation	Timeline	Check ✓
Review your factory's records of sales and expenses. Ensure you have up-to-date figures available to you.	✓✓✓	»»» Short-term	☐
Fill in all your cash flow-in for this month, if any, as well as previous months if possible. Make sure you include the cash that is available to be spent (in cash and in the bank) at the beginning of each month.	✓✓✓	»»» Short-term	☐
Fill in all your cash flow-out for this month, including both variable and fixed costs, as well as for previous months if possible.	✓✓✓	»»» Short-term	☐
Check your cash flow statement for this month, and previous months if you filled this information too, to understand if you have a positive or negative cash flow. (Due to COVID-19, it is likely that your factory currently has a negative cash flow.)	✓✓	»»» Short-term	☐
If you have a negative cash flow this month, you need to look at your current cash position and determine how to best deal with this. Consider: ▶ How much cash is needed to pay your bills on time this month? ▶ What bills can be deferred? ▶ Can you find alternative sources of income to fund your bills somehow?	✓✓	»»» Short-term	☐

2. Prepare your factory's cash flow forecast

The best way to prepare for the impact of COVID-19 and other crises is to make sure you properly understand your factory's finances and how they would be impacted by such threats. For this purpose, you can use cash flow forecasts. In this step, you will prepare a cash flow forecast for the coming six months.

Useful tip: Use the attached template (Excel sheet) to prepare your cash flow forecast.

Action	Ease of implementation	Timeline	Check ✓
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Review your cash flow statement to analyse your past spending and earnings. Ask yourself: ▶ How much cash has our factory earned on average over the past 3 months? ▶ How much cash has our factory spent on average over the past 3 months? Useful tip: The more months you include, the more representative the cash flow statement will be of your business average.	✓✓	»» Short-term	☐
Try to estimate how much COVID-19 will impact your factory's finances in the coming months. For this purpose, you can: ▶ Review how your cash position has changed due to shifts in sales, payments, collections and operations since the outbreak began. ▶ Find information online and through your industry association about what is happening in the industry. ▶ Consult with your buyers, suppliers and workers to better estimate how much you will produce and sell in the coming months.	✓	»» Short-term	☐
Estimate your cash flow-in for the coming six months. Remember, the more information you collect in beforehand, the easier to make accurate predictions for the future.	✓✓	»» Short-term	☐
Now it is time to revise your cash flow forecast. Are you estimating that your factory will have a positive or negative cash flow during the coming six months? Ask yourself: ▶ Can our factory survive a negative cash flow for six months (or for as long as you have predicted)? ▶ How much money do we have available to cover for our factory's monthly fixed costs? ▶ What are other sources of cash-in that could help us make up for our negative cash flow?	✓✓	»» Short-term	☐
Make sure to review and update your cash flow forecast regularly as you receive new information and in light of actual results. This will help you plan better and make more accurate predictions in the future.	✓✓	»»» Mid-term	☐

3. Make informed decisions and exercise control

Your cash flow statement and your cash flow forecast are valuable tools to help you manage your factory. Use the information at hand to make more informed financial decisions. In this step, you will calculate some key numbers for your factory to get a better understanding of your financial situation in the longer-term.

Useful tip: Use the attached cash flow template (Excel sheet) to calculate these numbers for your factory.

Action	Ease of implementation	Timeline	Check ✓
Calculate your cash flow margin. The cash flow margin is an important profitability measure that shows you how well your factory converts sales to cash. Your cash flow margin is the ratio between cash flows from total operating activities over sales. The higher the percentage, the more cash you have available from sales. You should record your cash flow for at least six months before calculating this figure.	✓✓	»»»»» Mid-term / Long-term	☐
Calculate your burn rate. Your burn rate shows you how high your monthly negative cash flow is. The burn rate shows how much money per month you would need on hand to survive without making money.	✓✓	»»»»» Mid-term / Long-term	☐

4. Try to improve your cash flow immediately and over time

With the information you now have at hand, you should make an effort to improve your cash flow over time.

Action	Ease of implementation	Timeline	Check ✓
Try to find alternative sources of income. For example, your government may have introduced financial support programmes and tax refunds for factories like yours. Get in touch with your local industry associations or other factories to find out more. Useful tip: Check out the 'Finding alternative sources of income' guide as part of this series to find ways to increase cash-in for your factory.	✓✓	»» Short-term	☐
If you can ensure a safe workplace for your workers, actively look for sales opportunities. Get in touch with old as well as new potential buyers.	✓✓	»» »» Short-term / Medium-term	☐
Collect accounts receivable and ensure that your buyers pay on time. Slow accounts receivable collection can cause a major drain on your factory's cash flow.	✓	»» »» Short-term / Medium-term	☐
If your collections are getting delayed, consider offering small discounts to your buyers, working with letters of credit (LCs) or using a financial agency to increase the payment rate of your account receivables.	✓	»» »» Short-term / Medium-term	☐
Contact your bank to discuss further short- to medium-term loans to improve your liquidity. You can use parts of your factory (e.g. machines) or personal assets as a collateral.	✓✓	»» »» Short-term / Medium-term	☐
Discuss with your bank and suppliers how to restructure your debt in the short- to medium term. Smaller / deferred repayments, and reduced interest rates will help decrease your monthly outflow.	✓	»» »» Short-term / Medium-term	☐
Go over your finances and try to identify ways to improve your factory's profit margins. You can increase your profit margins by making your factory systems and practices more efficient and by training your workforce.	✓✓	»» »» Short-term / Medium-term	☐
Try to reduce your cash flow-out as much as possible and ask your suppliers for more time to pay your bills. Useful tip: Check out the 'Reducing costs' guide as part of this series to find ways to cut costs for your factory.	✓✓	»» »» Short-term / Medium-term	☐
Minimize your inventory to avoid cash being held up in your warehouse for too long.	✓	»» »» »» Mid-term / Long-term	☐



This guide was developed by the ILO Enterprises department for the **Decent Work in the Garment Sector Supply Chains in Asia** project, funded by the Government of Sweden.

For more guides and resources to help you navigate the global COVID-19 pandemic, visit:

▶ ilo.org/covid19

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DECENT WORK

A better world starts here.