

COVID-19 Cash Flow Survival Guide for Professional Service Firms



better business
cash flow

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THREE KEY THEMES TO GUIDE YOUR ACTIONS

Theme One Cash needs to keep moving

For the economy to function cash needs to keep moving. If clients choose to NOT pay their creditors that is NOT good cash flow management. Imagine if no-one pays them!

Your client (and you), need to keep paying bills.

Keep cash moving – Be part of the solution, not the problem.

Theme Two Time is your best friend

Larger bills may need to be spread out. In financial services, reducing historic low interest rates is a lever but NOT the major lever to focus on.

For example, assuming a 6 month loan, with say, a 6% interest rate;

If you drop the interest rate to 0% you can only reduce the repayment amount by 6%;

But if you increase the term to 12 months, you can reduce the loan repayment amount by around 50%.

Time is your best friend – flatten the payment curve.

Theme Three Confront the brutal facts of your current reality

It's possible that not every client's business (or professional service firm) will survive COVID-19. Tough decisions will need to be made. Remember though, if you focus entirely on cutting costs you risk losing your staff and your clients, and the ability to bounce back. You may need to triage clients and treat them differently to best manage your own resources.

Make balanced (tough) decisions - so you can bounce back.



Be Smart; Tips for Triaging Clients & Debtors

Remember your smartAR Fee Funding facility carries constraints with maximum loan sizes and aggregate exposure limits. You need to be smart about how (and to whom) you offer fee funding.

The best way for you to maximize your firms aggregate limit is to do more smaller short-term loans. Smaller loans also reduce the “shock” of any large reversions.

On the other hand, the best way for your clients to minimize outwards cash flow is to use a longer-term loan.

Balancing those two contradictions will require a strategy.



Existing Debtors; Old Invoices

Call the client as soon as the invoice is overdue (download our [smartAR Telephone Script](#))

Consider triaging your clients as follows:

1. **Clients with businesses that are strong and will definitely survive**

If spreading the lump sum payment is needed or requested, offer to fund their fees over a shorter period (say 3 or 6 months). Perhaps even consider using the smartAR “Interest Free” fee funding option, where your firm carries the interest burden.

2. **Clients with businesses that will likely survive but are struggling right now**

Offer to fund their fees over a longer term (say 6, 9 or 12 months) to minimise their current outward cash flow.

3. **Clients with businesses that might not survive**

Treat each on its merits. You can still offer fee funding to clients with businesses that might not survive BUT be very cautious about the reversion shock risk to your own business.



More Top Tips

- Many debtors consider bill payments in a binary manner: Pay OR Not Pay. You should explain to your clients **Theme One** (Cash needs to keep moving) and **Theme Two** (Time is your best friend) and propose options. Your script for a pro-active conversation about payment options might go like this:

“Some of our clients are doing it tough right now. In these circumstances what we are doing is offering our clients the option to either:

a) Pay in full now (maybe with a discount?) OR

b) If you prefer, we can spread your fees out over either three or six months

Which of these would help you better manage your cash flow?”

NOTE: smartAR is seeing many firms offering the 3 month option via the smartAR Interest Free solution (your firm pays interest @ circa 3%) and the six month option uses standard fee funding (where your debtor pays the interest (rate circa 6% flat).

- Consider using longer terms (9 - 18 months) as the funding option for smaller debts or your best clients. That will mean you will rarely have a large reversion that adversely impacts your own cash flow.



Billing for new work (Post Lock down)

In normal circumstances your Professional Service Firm would only do work for clients that you reasonably believe will be able to pay you.

In the current COVID-19 emergency you will be doing a lot of “free work”. We suggest you limit free work to generic advice with leveraged distribution (One:Many) E.g Via webinar/newsletter/etc.

These communications will contain extraordinarily valuable content. They not only include specific COVID-19 assistance but also support your firms brand, thought leadership and trusted advisor status.

BUT refer to **Theme Three Confront the Brutal Facts of Your Current Reality**

Your services will be in high demand during and after this emergency. If you try to provide unlimited 1:1 advice without charging, your business will suffer financially. There is too much advice needed and resources are limited. It’s very akin to the challenge our health service faces as a result of COVID-19. You too must protect the resilience of the advisor network.



Client Resilience

To manage your own cash flow risks you should consider grading your clients new work by two criteria:

Client Resilience (1-5) AND Project Size (\$)

This will allow you to create a Four Quadrant Chart to determine how best to meet their needs and which payment options to offer. Here is an example:

Reality test!

Would you bill in arrears for a large project now for a client who's business is highly unlikely to survive the COVID-19 shutdown? Probably not - unless there is some form of external payment and or guarantee.

Fee Size \$	High	Avoid (unless G'teed)	Premium Bespoke Engagements (Fee Fund)
	Low	Generic Advice Delivered with Leverage 1: Many	Desired 1:1 Fixed Fee or Value Based (Fee Fund)
		Low	High

Client Resilience



Suggestions for using smartAR Fee Funding:

Small Engagements (expected invoice <\$5k)

Use a 4 month smartAR Payment Plan or standard fee funding over 3 – 6 months

Mid-sized Engagement (\$5k-\$20k)

Use a 4 month smartAR Payment Plan or standard fee funding with medium terms (6 – 12 months)

Larger Engagements (>\$20k)

Obtain partial payment in advance using smartAR Fee Funding 3 month and then top up using smartAR Flexi-Loan to completion of project with residual funding over 12 months.



**For additional practical cash flow tips, download the
our 2017 White Paper
7 Steps to help Professional Service Firms improve cash flow**

Contact your smartAR
Account Manager to discuss your options

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