



Improving Cash & Working Capital Management



Developing a cash management strategy

The global economy is being impacted by number of events curtailing the ability to conduct business as usual. Now is the time for effective cash management – a practice vital when the economic horizon darkens.

Cash management can sound laborious and complex, involving huge spending on things such as information technology, but it doesn't have to be this way.

There are four fundamental steps to building a robust cash management strategy, safeguarding the future of any business, regardless of the industry it operates within or its size.

1 Gain visibility and control over cash flows

- i. Make use of 13 - week rolling cash flow forecasts, that are prepared on an expected receipts and payments basis, by business line, and jurisdiction.
- ii. Conduct weekly variance analysis of cash flows, understanding the reasons for variation, whether due to timing or permanent.
- iii. Form Cash Committees, to meet weekly, with participation by all function heads and having aligned KPIs. Cash flow management is not just the responsibility of the finance function.
- iv. Engage early with financiers to address any forecast deficiency and take appropriate steps to retain control of the situation.

2 Proactively manage working capital needs

- i. Consider overall working capital needs in context of overall business requirements in weeks, months and years ahead. Consider your working strategy holistically. For example, a decision to change your payment terms with your suppliers may have consequential impact on quality of service, impacting inventory levels and thus quality of service to customers. That said, in our experience, most businesses will be able to drive improvement and unlock cash from at least one area of the working capital cycle, if not two areas ie one of trade receivables, inventory and trade payables.
- ii. For trade receivables, ensure appropriate processes are in place to ensure clients are invoiced in a timely manner, in accordance with contract terms, and there are robust credit controls in place. Use analytics to understand payment behaviours of customers and take pro-active measures to align behaviors with contractual terms. Consider receivables factoring programmes to unlock cash and deploy more rigour in the cash collection process.
- iii. Address slow-moving, obsolete stock. Critically examine forecast production requirements, the need for buffer stocks and SKU assortment, and avoid tying up cash in unproductive inventory.
- iv. Every dollar counts. Ensure that trade payables are paid only in accordance with contract terms. Avoid daily payment or ad-hoc payment runs. Consolidate these on a weekly or fortnightly basis. Consider your market leverage, and seek extension of payment terms to suppliers. At the same time, remain aware of risk of supply chain disruption at your supplier level caused by their own financial health. Make use of supplier finance programmes to release cash earlier to suppliers and ensure continuity of supply and service levels.

3 Go beyond working capital

- i. Review trapped and illiquid cash within the group structure. Make use of treasury pooling structures, to make more effective use of available cash that may be lying idly within the group structure.
- ii. Review of capex strategy and consider leasehold / rental as alternative, deferring significant capex outlays or releasing cash through sale and leaseback.
- iii. Review tax efficiency of operations, making use of any opportunities to defer or reduce payment of tax. Ensure any potential refunds are pursued.
- iv. Review all other non-trading contracts / commitments that have a cash requirement over months ahead and reconsider their necessity.

4 Think strategically

- i. Make cash management a boardroom priority. For leading global businesses, effective cash management is a top priority.
- ii. Ensure that your business model considers fully the cash requirements; for example, the markets you operate in, the products and services you sell, and the channels these products and services are distributed through. To preserve cash, many businesses are looking to rationalise their product assortment and the markets they operate in.
- iii. In developing your cash management strategy, develop clear metrics for cash and working capital. Understand that corporates within same industries may have very different cash management strategies depending on matters such as stakeholder requirements, brand positioning and ethical considerations, amongst others. For example, one corporate may pay their suppliers on 120-day terms, because it drives significant cash flow upside, whereas another corporate may choose to pay 30-days, because they believe it is ethically important to pay suppliers in a timely manner.
- iv. Make use of funding and liquidity products provided by financial institutions and fintechs. These can help accelerate the achievement of strategic goals.

The importance of cash

Cash is key to the survival and growth of business. Gaining visibility & control of cash flow and optimising working capital can help a business:

- Provide a buffer against unexpected market shocks
- Release cash to deal with rising costs
- Fund growth without raising new funds
- Increase valuation of business
- Fund capex and/or acquisitions
- Debt repayment and lower the cost of borrowing
- Release cash for shareholder distribution
- Realise post-deal cash synergies

Understand reasons for inefficiencies through use of Data and Analytics

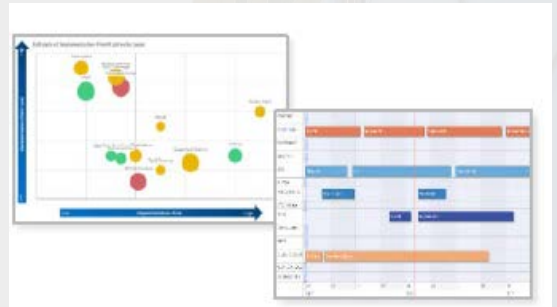
Identification of cash management inefficiencies can be likened to finding a needles in a haystack. Making sense of them when found is harder. Very often, without the right management information, your perception of cash management performance will be very different from the reality. The performance reality, in turn, could be very different from it would be if you collected and paid cash in accordance with agreed contractual terms.

Corporates are increasingly making use of data and analytics to identify cash management inefficiencies, understand root causes and develop a plan for improvement. The root causes can be attributed to four areas:-

1. **Weak policies, controls and processes** that are not aligned to overall strategy and, or no longer fit for purpose.
2. **Systems** - unable to produce timely, accurate and insightful management information.
3. **Culture** - A strategy and KPIs that drive the wrong behaviours around cash management; for example sales teams incentivised by revenue targets but not cash collections.
4. **People** - lack of awareness around the importance of cash management and limited understanding of the required.

Without understanding the root cause of the problem, fixing it, and fixing it well, the issue is likely to manifest itself again and again, once focus is directed elsewhere.

Illustrations of screenshots of visualization tools being used to identify inefficiencies



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