

# Improve cashflow through working capital optimization

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The COVID-19 pandemic has led to uncertainties and challenges in both demand and supply for businesses across all sectors. Over the past 12 months, issues such as delayed customer payments, shortage of supply of key materials or even production closures have become common occurrences. All of these have impacted the level of working capital and cash flow required to manage day to day operations and CFOs have had their work cut out to ensure they strike the right balance.

Whilst working capital management is not a new concept, recent events have highlighted the importance of pro-actively managing working capital and cash flow to ensure you are not left with bad debts or stock write offs, lost sales, or damaged supplier relationships when payments can't be met.

We outline below the core components of working capital management, and five tips that best-in-class organizations are adopting.

## The three working capital cycles:



## Five tips for effective working capital management:

- 1 Gain visibility of your working capital and cash flow requirements**  
Develop and embed a robust forecast of cash flow and working capital for the business. We recommend a 13-week forecast as well as a 12-month forecast.
- 2 Take a proactive approach to invoicing and collections**  
Make sure customers are invoiced in a timely manner and pay in line with contracted terms, with actions taken immediately where payments become overdue.
- 3 Examine forecasted inventory requirements**  
Critically assess forecasted stock requirements to identify any unnecessary buffer inventories, and highlight inefficiencies in SKU assortment to avoid cash tied up in slow-moving products.
- 4 Consider how frequently you make payments to suppliers**  
Instill fair and transparent payment processes with your suppliers so they know when they will be paid, whilst ensuring that the payments are paid only in accordance with the contract terms.
- 5 Leverage data and analytics tools to monitor working capital**  
Embed operational levels of reporting to ensure you have granular visibility of working capital at a customer, supplier or SKU level to support identification of issues and decision making.

Whether you are still struggling to recover from the recession, experiencing a surge in demand, or launching a new business venture, focusing on effective working capital management will allow you to generate additional cash flow to repay debt, or fund growth and ensure you are best placed to react in times of uncertainty.

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## How we can help

### Data analysis

Data analysis using data which has been signed off by the business. Providing insights and identifying and quantifying opportunities relies on robust data analytics.



### Stakeholder interviews

Stakeholder interviews with responsible and accountable personnel. Assess the maturity of the 'cash culture' across the business, and the level of cross-departmental interaction in relation to cash and working capital.



### Process walkthroughs

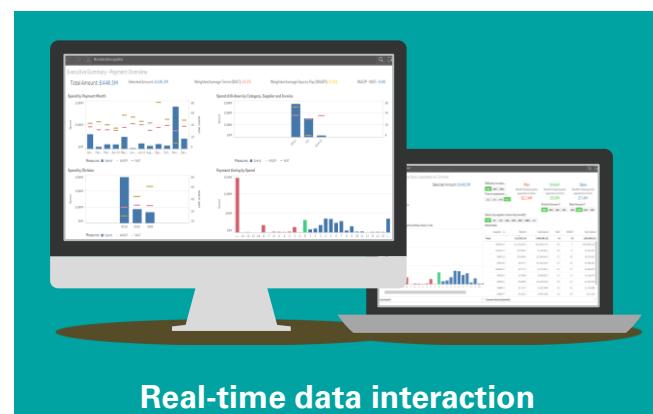
Process walkthroughs with operational personnel. Understanding the current process in detail helps to identify gaps, inefficiencies and bottlenecks in the process.



## Leading data analytics tools

KPMG's leading working capital diagnostic methodology utilizes proprietary cutting-edge data visualization software. Drawing from multiple, standard, ERP data outputs our software is able to quickly analyse and prioritize working capital enhancement opportunities.

This output is dynamic and users have the ability to interact 'live' with their data, adjusting assumptions and performing sensitivity analysis in a real time environment, quickly getting to the root cause of problems. Coupled with our extensive experience of where to look, this is a powerful methodology to enhance working capital performance.



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