

On-time treasury: now is the time for working capital

As interest rates soar and global supply chains restructure, corporate treasurers face a renewed imperative: working capital efficiency. This time the drivers are more diverse and urgent than ever. Meeting this need will require more than just high-level benchmarking and traditional credit solutions.

Cash is no longer free. After more than a decade of low interest rates, the value of cash is once again at a premium. For treasurers, this means maximizing the use of internal funding sources and currencies, a sharper focus on optimizing the return of surplus cash balances, and a renewed drive for funds from working capital. This is complicated by shifting business models and a renewed drive for profitable growth, which place increasing demands on working capital. Even cash-rich firms that have previously deprioritized working capital initiatives are seeing the business case stack up.

The heightened value of working capital goes beyond interest costs. Well-structured working capital management also strengthens a firm's ability to respond effectively to unforeseen events and maintain business continuity. The resilience provided by effective working capital management is becoming more critical as supply disruptions and delays become commonplace and global supply chains restructure.

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An on-time treasury is built on access to timely data, which is leveraged to manage processes to a higher level of optionality and accuracy. This capability can be applied to managing real-time and batch payments or intraday liquidity management. It can also be extended to the full financial supply chain and the more forensic management of working capital.

A core functional component of working capital management for Treasury is liquidity. This entails gaining full visibility of short-term cash flows and balances while minimizing trapped or restricted cash to ensure the right liquidity in the right currency for on-time utilization. Working capital is a complex, cross-functional enterprise process that is not often managed with an enterprise approach. Therein lies an opportunity for Treasury to go beyond core functionality and lead the management of cash across the enterprise.

Throughout this series, we have addressed the changing environment treasurers face and the importance of meeting a need as and when it is needed. For working capital, we believe that the time is now. An effective approach to working capital management will look beyond "traditional" financial solutions only, such as supply chain finance, to build an operational capability that is founded on a forensic, data-driven approach. This will enable the more active, informed and "always-on" management of working capital levers, and the establishment of a continuous improvement program to drive incremental gains.



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Key takeaways

- Higher interest rates are increasing the value of cash and internal sources of funding, which is renewing the impetus for effective working capital management.
- As treasury oversight expands to the underlying processes that feed cash flow, more treasurers are incorporating comprehensive working capital management into the core treasury activities.
- Effective working capital management moves beyond simple peer benchmarking to a forensic approach to process management based on transaction-level data and applicable metrics.
- Given the breadth of working capital solutions available, a strategic approach that starts with data and process transparency, and is supported by experienced advisors, can help firms weather economic turbulence and build supply chain resilience.

A new home for working capital management

Working capital has primarily centered on short-term cash and liquidity management for Treasury. However, as the times and business environment have changed, the number of treasuries expanding their remit to include comprehensive working capital management has increased.

As Treasury matures and operational capability improves, Treasury is increasingly looking to take the lead and manage the flow of cash along the business cycle. This often includes extending the horizon of cash forecasting out to 12 months and reconciling to capital and budgeting processes. It also coincides with Treasury becoming more involved in supplier payment programs and new digital or eCommerce payment channels that support new business models.

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This expansion of Treasury's responsibilities along the cash conversion cycle is a natural progression, given the working capital levers that drive cash flow. Where treasurers are being asked to extend responsibilities along the supply chain or beyond the traditional three-month forecasting window, it only follows that they have further oversight of the processes that drive these cash flows.

The right level of detail

The best-practice approach to working capital management is also evolving. The management of working capital, using the cash conversion cycle and the singular goal of extending days payable outstanding, is only part of the story. The historical use of peer benchmarking using publicly disclosed financials is limited, being of interest but not much use. Having the capability to reconcile to high-level financial ratios and also drill down to transaction-level drivers is more effective and is becoming more achievable. Oversight is desirable, but insights and analysis leading to informed, timely decisions are much better.

For firms early on in the process, this starts with an understanding of how cash flows through the organization, the bottlenecks in this process, and the key desired outcomes. This initial visibility of daily cash will highlight coverage gaps and potential improvements from applying on-time data. To be effective, Treasury must ensure working capital targets and reporting mechanisms are more applicable than incomparable competitor benchmarks. A detailed and actionable view of working capital can be compiled using trade supplier payment terms and customer receipt patterns that incorporate historical trends and future forecasts. A best-case profile for on-time accounts payable and receivable provides a much better metric than historical or peer days outstanding.

More accurate and appropriate metrics lead to more meaningful questions and the application of resources. For example, analysis should include how closely payments match agreed terms, how standardized and appropriate payment terms are, how accurate payment processes are and, finally, how the credit element of payments can be extended. Conversely, for receipts, having the ability to track and monitor receivables as they occur allows early mitigation of variances and on-time application of cash.



Applying the available tools strategically

Every element of working capital management is about timing, which translates to process accuracy. Financial solutions are often only effective when there is the right level of process visibility and control. This means looking beyond quick fixes and investing in working capital data to fully understand the underlying workflows.

With the right foundation, finance and the growing list of technology solutions can be applied strategically to address the current set of challenges. The opportunities are extensive

and include payables diagnostics, intelligent payment routing, receivables financing, virtual cards and virtual accounts, and supply chain finance.

In the current environment, managing credit and receivables to minimize bad debt is becoming a higher priority. The longer a debt is delayed, the harder it is to recover, so reconciliation and cash application are critical. To improve this process, Bank of America's intelligent receivables system can apply machine learning patterns to multiple transaction data points to achieve improved receivables matching as well as anticipated future delays and trigger early action.

By implementing robust working capital strategies that start with data, treasurers can equip their organizations to weather economic turbulence, strengthen supply chain capabilities, and ultimately thrive in an ever-changing marketplace. Whether your immediate goals are to maximize internal funding, optimize pooling structures, or understand the details and opportunities for improving your cash conversion cycle, Bank of America's working capital experts have the experience, tools and on-time insights to meet your needs when they are needed—which is now.

This series of articles and podcasts will highlight the key misconceptions and opportunities of on-time treasury. We trust you will find this frank approach refreshing. Speak to a Bank of America representative to understand our practical approach to on-time treasury, led by our treasury advisory group.



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