

# Working Capital: A Post-Crisis Framework

Creating financial strength for the recovery and beyond

Treasurers play a vital role in helping businesses bolster working capital during times of economic stress. While treasury “owns” cash and liquidity as part of the core cash management function, it can take a more strategic cross-functional role in optimizing working capital. This means including the key components of the financial supply chain—accounts payable and receivable—within its scope. For example, a key strategy is to [optimize accounts payable](#) with help from your bank.

Treasury should take an enterprise or “holistic” view of working capital, transcending organizational functional boundaries to follow the flow of cash through the business cycle.

Here’s how treasurers can use an enterprise working capital framework to lead efforts to help their businesses during a downturn.

## Build on your framework

Ideally, treasury will already have a working capital framework in place prior to a crisis or downturn, focused on everything from policies to processes and people. Having an established framework makes it easier to manage disruption and volatility and plan a response. However, without an established framework, the diagnostic stage can be the best place to jump in and begin identifying the key factors driving change.

## Working capital framework



Cross-functional collaboration is key to success, along with creating a “culture of cash.” This can make a huge difference in companies that manage working capital locally at the business-unit level. It’s a great opportunity for treasurers to create and oversee a “working capital action group” or “committee,” including participants from accounts payable and receivable, finance and treasury, supply chain, “the business,” sales and other internal stakeholders.

Forming this group helps cement the idea that working capital is created and consumed along the enterprise business model. It provides a team-based platform to break down functional barriers and foster an enterprise-level understanding, establishing the foundation for an internal cash-generation incubator.

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## Assess working capital drivers

While the goal of your working capital framework is to permanently enhance your cash position, it can also be a useful starting point for your action group to explore ways to survive an economic slump. The key is to understand what drives cash in your organization and develop the ability to drill down from the top level to a transactional level.

Using the cash-conversion and liquidity cycles, there are five key drivers that can identify working capital improvement levers.

### Cost reduction

Direct reduction in cost-of-goods-sold and/or assets and liabilities

### Cost efficiency

Increasing productivity and scale, producing the optimum output for a given level of cost input

### Revenue enhancement

Increasing revenue without increasing cost-of-goods-sold on a 1:1 ratio (for example, improving margins, optimizing pricing and channels)

### Cash velocity

Decreasing the cycle of cash required to finance the operating cycle, increasing cash recycling

### Optimal liquidity

Optimizing cash, investments, credit facilities, cost-of-carry to support the business

## Improve these five key areas

In a downturn, the following actions can help enhance your company's viability:

1. On the cost side, perform and review a rolling cash-rate forecast that prioritizes payment flows, determining any that can be delayed. Scrutinize all purchase orders and avoid entering into long-term contracts.
2. Increasing straight-through processing and automating cash allocation can be key to improving efficiency, driving your costs down even further.
3. One tweak to enhance revenue is to measure based on sales collected, rather than just pure sales. This can incentivize your sales team to see the revenue process all the way through to completion. Another is to follow the "80/20" rule and increase focus on the customer segment that drives the largest part of your sales.
4. Improving cash velocity in a slowdown begins with understanding the actual time required to go from production to collection, and knowing where variances could occur, including supply disruptions, early payments or late receivables. A good cash forecast can alert you to potential variances before they occur.
5. Optimizing liquidity starts with increased flexibility and includes a shift from yield pursuit toward capital preservation in your investment portfolio. Reducing weighted average maturity (WAM) is an option — overnight maturity can be attractive — though this can add to staff workload.

### Takeaways at a glance



#### Cost reduction

- Review hedging levels
- Keep cost discipline
- Avoid long-term contracts



#### Cost efficiency

- Review minimum stock levels
- Improve standardization and simplification
- Drive process accuracy and tactical automation



#### Revenue enhancement

- Rebalance sales channels — leverage digital
- Follow the 80/20 rule
- Identify late payments
- Preserve sales value (discounting)



#### Cash velocity

- Reduce timeliness variation (no early payments)
- Identify cash "idle time"
- Focus on recycling cash internally



#### Optimal liquidity

- Focus on capital preservation
- Draw down on uncommitted lines
- Reduce weighted average maturity (WAM) of investments

## Conclusion

Treasury's strategic importance grows during uncertain times as the business shifts focus from future growth to short-term needs. This means a renewed focus on managing cash, liquidity and working capital.

It's an opportunity to master the basics and move to a new frontier, speeding your transformation with new digital tools and techniques that make things easier than ever. Contact the GTS Advisory team or your relationship manager to learn more.



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