



CORPORATE PERFORMANCE IMPROVEMENT

Working Capital Management Trends

It's no secret that strong working capital management is critical for long-term success. However, working capital performance has deteriorated over the past nine years across a wide variety of industries, and the economic effects of the COVID-19 pandemic have only accelerated this trend.

How did Covid-19 Impact Working Capital Management?

The COVID-19 pandemic significantly impacted global economies, which created short term pressure on working capital. Shortly following the first reported COVID case in the U.S., corporations began to delay payments, Days Payables Outstanding (DPO), Days Sales Outstanding (DSO) and Days Inventory Outstanding (DIO) spiked, and companies were required to lean more heavily on debt to bridge working capital shortfalls.

The S&P 500 CCC performance has recovered in aggregate, but the recovery has been uneven. The pressure caused by the pandemic is expected to ripple across sectors for years to come. Changes in consumer behavior will continue to challenge forecasting accuracy, and if the federal fund rate increases, post-pandemic borrowing will only become more expensive.

Creating a Cash Culture

Companies must take a proactive approach in managing working capital in order to achieve a competitive edge. During the recovery from the 2008 financial crisis, those with the most efficient cash conversion cycles registered Earnings Per Share (EPS) growth rates one and a half times compared to their peers.

This is an opportunity for forward-thinking companies to invest in working capital management today, in order to see greater returns in the future.

How A&M Can Help

A&M applies leading practices to help clients capture working capital improvements by identifying structural, operational and tactical opportunities for change. For example:

1. Structural: Evaluate alternative fulfillment models to balance customer service levels and inventory optimization.
2. Operational: Deploy billing and collections strategies to improve receivables conversion.
3. Tactical: Identify opportunities to optimize against payment terms.

Tactical

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| Year end collections push |
| Early payment discounts |
| One-off deals with customers |
| Sell SLOBs at discount |
| Change in SLOB provision policy |
| Stop / accelerate production, incl. delivery of materials |
| Stop / delay supplier payments |
| Request original invoice vs. electronic |
| Reject invoice and request revised version |
| One-off internal company directives, instructions |

Operational

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| Billing strategies (i.e. consolidated billing, billing frequency) |
| Collections strategies (i.e. proactive AR calling / regular AR and sales meetings) |
| Implement new KPI reporting |
| Reduce safety stock levels |
| Consignment stock / bonded warehouse review |
| Focus on S&OP (i.e. improve forecasting, stock delivery times) |
| Change to payment frequency |
| Change payment methods (i.e. letters of credit, check) |
| Change to approval process |
| Implement 13wk CFF |
| Optimize internal cash transfers (i.e. cash pooling, inter-company billing) |

Structural

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| Change Sales compensation structure (align to cash collection) |
| Change terms (i.e. retainers, billing schedules) |
| Alternative debt structures (Factoring / ABL / invoice discounting) |
| Make to Order / Make to Stock |
| SKU & Product line rationalisation |
| Outsource/ sub-contracting manufacturing models |
| Terms renegotiation (i.e. supplier prioritisation, back-to-back terms) |
| Supplier base rationalisation / consolidation |
| Improvements to ERP/ MI systems |
| Implement cash culture (focus on cash, not P&L) |

■ Accounts Receivable ('AR') ■ Inventory ■ Accounts Payable ('AP') ■ Other

A&M follows a phased approach to creating a cash culture:



Rapidly Assess Working Capital Opportunities: Develop working capital analytics, benchmark performance against peers, evaluate Forecast to Fulfill (FTF), Order to Cash (OTC), Procure to Pay (PTP) processes, then size and plan key initiatives.

Implement Quick Wins and Pilot Major Initiatives: Pursue quick wins to fund initiatives that require investment and collaboratively pilot major initiatives that create sustainable working capital improvement.

Build Cash Culture and Track Benefit: Implement recommendations across enterprise, stand up governance to maintain focus and accountability, and develop analytics to measure performance, including 13-week cash flow models and KPI dashboards.

KEY CONTACTS

A&M's leaders, many of whom are former CFOs and finance executives and/or have served in interim CFO roles, help clients plan and execute successful working capital management initiatives that deliver real results. Contact us today to learn more about how we can help.



Will Lovis

Managing Director
US CTS Practice Leader
+1 214 438 1026

wlovis@alvarezandmarsal.com



Helen Van Ness

Managing Director
US CFO Services
+1 908 313 2370

hvanness@alvarezandmarsal.com



Sean Laffere

Managing Director
US Supply Chain Services Practice Leader
+1 713 320 6057

slaffere@alvarezandmarsal.com



Ben Tatham

Managing Director
EU CFO Services Practice Leader
+ 44 207 863 0772

btatham@alvarezandmarsal.com

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