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5x5 series: Insights and actions

Working capital improvement

5×5

All companies can benefit from a focus on improving their conversion of cash by improving the order-to-cash, forecast-to-fulfill, and procure-to-pay working capital processes. Companies typically have a significant amount of cash tied up on their balance sheets and (based on our experience) may potentially realize ~10% to 30% or more of cash improvements across these working capital cycles.

5 insights you should know

Companies with leading cash conversion processes **manage working capital** on a companywide basis, and it is not just a focus for finance or accounting.

To get started, a successful working capital assessment should include both a **qualitative** and **quantitative review** to identify actionable opportunities for improvement.

Leading organizations align their **people, processes, and technology** to proactively manage their cash, liquidity, and investment in working capital.

Customers, items, and vendors should not be treated equally. Inventory should be viewed through the lens of sales and having enough versus too much. It is critical to look at vendor terms by category and to make strategic decisions on terms offered to customers.

Working capital improvement projects typically have a **high return on investment** (on average, between 10x and 20x) **and can help fund** other strategic company initiatives.

5 actions you can take

1. Ensure the **organization's metrics are incentivized on working capital performance, that performance is monitored on a frequent basis**, and that **timely actions are taken** across all parts of the organization.

2. Assess the current maturities of the working capital cycles and use technology solutions (such as Deloitte's **LiquidityIQ™ or Trufa)** to review metrics, key performance indicators (KPIs), and visualizations, as well as automation **to increase visibility into working capital processes** and capitalize on opportunities as they arise.

3. **Establish roles and responsibilities** and **secure stakeholder accountability. Invest in training and continuous improvement capabilities**, ensuring both are well developed.

4. **Focus on alignment** between the different stakeholders and functions involved. **Undertake vendor, item, and customer assessments** to understand how working capital management aligns with performance, profitability, criticality, and overall strategies.

5. **Get started!** Identify your greatest opportunities and rank those opportunities based on effort and value provided. Prioritize and implement the opportunity set and **begin releasing cash to reinvest in your future.**

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