Deloitte.

Accelerate growth at the lowest possible cost

Unlock the power of working capital

A company can free up between 10 to 20% of its invested working capital by setting a clear strategy, effectively communicating, and assigning ownership in managing working capital. In our experience, leadership teams focus on growth and profitability, yet don't establish the necessary guardrails and processes to prevent cash from being tied up in working capital.

A successful approach to working capital requires an enterprise-wide strategy, collaboration across all business units and functions, and clearly defined key metrics aligned to the enterprise's overall objectives.

Capital should be put to work – having it sit in receivables or inventory without actively working for you is not productive. It's cash you should have in the bank.

Discovering smarter use of working capital is like finding a long-lost bank note in your wardrobe

Unlocking hidden value

Good working capital management is making cash culture a habit. It is like managing the contents of your fridge, i.e., making a meal plan, shopping deliberately and using leftovers to minimize waste. By applying the same principles, companies can optimize their cash flow and at the same time improve profitability.

Building a working capital culture

Business leaders need to manage growth, bottom line, and cash all at the same time. This can be hard for executives and key

Start making efficient decisions around inventory, customers, and vendors

decision-makers in a business. They're being pushed to improve numbers and deliver on end of the month and quarterly targets. This pressure on top line and bottom line means their focus is on getting things done, rather than making strategic decisions about how to get these done—sounds familiar?

Deloitte's Working Capital and Liquidity Advisory gives these same decision-makers the right level of operational and financial visibility. It enables them to start making efficient decisions around inventory, customers, and vendors - which are key enablers for growth and profitability - without jeopardizing the sustainability of their working capital and therefore, their business.

The money coming into your business, and the money leaving your business, must provide stability and balance

The cash conversion cycle

The cash conversion cycle (CCC) is a vital metric for business leaders. The money coming into your business, i.e., accounts receivable (AR) and inventory, and the money leaving your business, i.e., accounts payable (AP), must provide stability and balance. A shorter CCC is a great indicator of efficient working capital and cash management, reducing reliance on external financing. Cash flow forecasting comes in handy as a tool that provides visibility and enables proactive decision-making.

Where do you start? **Our three-step approach**

Business leaders need the right visibility and insights to start putting its capital to work.

Our three-step approach provides the insights and facts necessary to manage the current ecosystem, ensuring that businesses remain relevant, retain market share, and are positioned for future growth.

A cash flow culture takes best practices and turns them into unbreakable habits

Step 1

Maturity assessment and leakage analysis

The speed at which insights are obtained is crucial, as data and insights have a limited shelf-life. The quality and speed of insights give you more options for taking effective and timely action. We use data-driven strategies to identify opportunities; strategies that leverage transaction-level data, rather than relying solely on high-level balance sheet metrics. Our approach transforms these findings into actionable and sustainable insights, providing our clients with a clear and concise view of where value can be realized. For example, wouldn't you prefer having a list of identified customers along with a clear action plan, instead of just being told that your company needs to improve accounts receivable by X days!

By using industry benchmarks and proprietary data, we quickly highlight any blind spots, ensuring prompt and informed decision-making. Conducting interviews with key stakeholders to develop an understanding of underlying processes helps us validate initial hypothesis with your team.

Step 2

Strategy and roadmap development

Using the transactional analysis and process understanding, we draft a heat map including a catalogue of recommendations for proposed future state processes based on leading practices for working capital management. Our teams with industry expertise and operational knowledge collaborate to build trust and develop a tailored working capital strategy for you – a strategy that is focused, action oriented and designed to mitigate risk while accelerating cash conversion cycle. Once we have done that, it's time to implement and optimize.

Step 3

Execution and change management

A successful working capital program requires executive sponsorship, regular governance, setting the right targets and tracking results and progress. We help you scale a governance structure that ensures your entire organization operates with a cash-focused culture. Often, best strategies fail because accountability and ownership for actions are not cascaded down, and programs are imposed on people rather than involving them. This is where we work *with* you. We collaborate with your team, providing guidance on creating customized tools, templates, checklists and reporting mechanisms for successful execution. We support updating policies, processes, and procedures to institutionalize the positive change. We apply change management strategies to secure cultural engagement to ensure that change and savings are sustained, and the entire organization is committed to make them work.

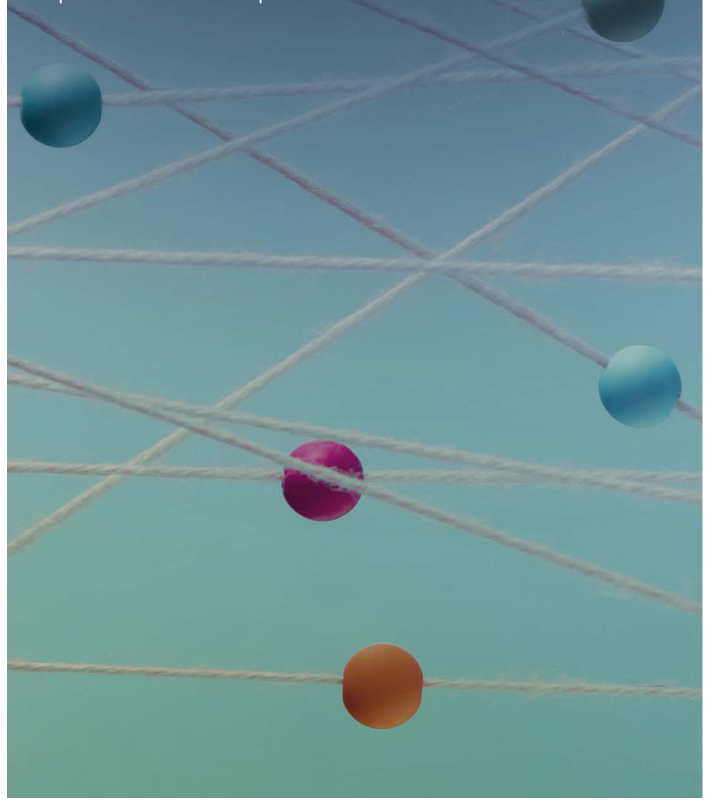
Impacting businesses with *real results*

Unlocking $230M in trapped cash for a global retailer

A global retailer engaged us to assess and optimize their working capital investment. Through a detailed analysis of their accounts receivable, accounts payable, and inventory management, we identified significant cash and margin leakages. By implementing a revised strategy and operating model, we helped release $230 million of trapped cash, thereby increasing EBITDA by $32 million.

Reducing a manufacturer's reliance on credit by 20%

Another client, a manufacturer with a diverse product portfolio, sought to optimize working capital across multiple entities and countries. Our team identified inefficiencies in their accounts receivable and payable functions, leading to a 20% reduction in credit facility reliance and a 30% increase in process standardization. This resulted in a cultural shift towards improved performance and operational excellence.



Have you got a working capital problem?

Here's a self-assessment checklist you can use to determine whether symptoms in your working capital/cash flow management would benefit from our three-step approach:

Cash Conversion Cycle

- ☐ Material fluctuations in working capital balances without corresponding spurts in growth
- ☐ Metrics not in alignment with terms of benchmarks
- ☐ Constant falling behind working capital budget/targets
- ☐ Inadequate or non-available policies and processes coupled with complex working capital organization structure

Accounts Receivable (AR)

- ☐ Large, growing, or fluctuating AR balances without corresponding increase in sales
- ☐ Inconsistent payment terms and conditions across customers
- ☐ High level of doubtful and bad debts – usually by surprise or discovered late
- ☐ Rising customer complaints related to billing or collection
- ☐ Immature credit adjudication processes resulting in reduced collections and lost sales

Cash Management

- ☐ Frequent cash crunch, having to hold day-to-day payments
- ☐ Increased use of external financing to support operations
- ☐ Defaults on banking governance and breach of covenants
- ☐ Having to fund expansion plans with expensive credit
- ☐ Inaccurate cash flow forecasting

Accounts Payable (AP)

- ☐ Immature processes leading to lost vendor discounts.
- ☐ Supplier delays and quality issues, increasing frequency.
- ☐ Inadequate financial controls in procure-to-pay cycle

Inventory

- ☐ Rising inventory and obsolete stock
- ☐ Inventory tied into slow-moving or expired or near expiring stock.
- ☐ Poor demand forecasting and production capability buildup
- ☐ Non or low availability of raw material inventory to meet sales commitments
- ☐ Warehouse management challenges

Spotting red flags in your accounts receivable, accounts payable, inventory and liquidity?

Deloitte's Working Capital & Liquidity Advisory team has worked with hundreds of companies in a broad range of industries and has delivered practical, sustainable, end-to-end solutions and best practices to significantly free up cash, stabilize the business, support strategic investments, and unlock the full potential or working capital

Contact us

Brian Stewien
National Enterprise Profitability Practice Leader, Canada

416-543-2489
bstewien@deloitte.ca

Jonathan Calabrese
Vice Chair, M&A Partner, Strategy, Risk & Transactions practice, Canada

506-663-6614
jcalabrese@deloitte.ca

Seema Mahindru
National Working Capital Leader, Canada

437-249-3481
smahindru@deloitte.ca