Issue
In times of recession, companies can face major challenges in funding business operations, particularly when there is reduced access to short-term credit. Studies show that when recessions occur, more companies elect to cut discretionary and capital spending and also consider capacity reductions, store and facility closings, and layoffs. However, solutions to increase working capital are available that do not require access to credit or other funding. Instead, companies should take a closer look at how they are managing their working capital to determine where they can achieve greater efficiencies and cost savings.

Gross working capital generally is defined as current assets (cash, marketable securities, accounts receivable and inventories) minus current liabilities. Early recognition of problem areas can reduce or eliminate the likelihood of disasters and enable the organization to increase working capital while other factors remain constant. Moreover, every company has a fiduciary responsibility to its shareholders to maximize its bottom line and optimize the use of its assets.

Challenges and Opportunities
The following indicators, root causes or actions confirm the need for an immediate assessment of financial and operational practices.

- Liquidity constraints
- Excessive, obsolete or growing inventories
- Inadequate forecasting and demand planning
- Recent credit rating downgrade
- Aging receivables
- Payables leakage (duplicate payments, etc.)
- Poor working capital ratios
- Fragmented spend
- Workforce layoffs/targeted facility closings

Key questions for the organization to ask include:
- How reliable is our cash flow forecasting?
- Will we have access to our lines of credit, if needed?
- Should our investment strategy change?
- How can we collect our receivables?
- Are we adjusting inventory levels based on reliable leading indicators?
- Should we adjust our capital spending and major maintenance plans?
- Do we have assets we should sell?
- Is reporting available to monitor performance effectively?
- Do we have any broken processes?
- Is customer demand changing?
- What is the financial condition of our key suppliers?
- Can we source more effectively to reduce costs?

Our Point of View
Companies need to adopt a disciplined approach to maximizing cash flow and managing cost structure on an enterprisewide basis. By doing this, they can emerge even stronger after an economic downturn, with inherent competitive advantages. With a successful approach, a business can achieve:

- Working capital improvements
- Reduced on-hand inventory and carrying costs
- Improved visibility and reporting
- Reduced total cost of ownership for materials and services
- A more effective sales and operational planning (S&OP) process
- Enhanced master data integrity
- Reduced financial leakage
PROVEN DELIVERY

How We Help Companies Succeed
Protiviti’s Supply Chain team helps clients improve process capabilities, cut costs and recover potentially lost funds. We advocate a four-step proactive approach to improving the management of working capital.

Uncover Sources of Uncertainty
Companies should begin by determining what new and existing risks they face, and determine how those risks will impact demands on working capital.

Conduct a “Working Capital Diagnostic”
Companies can assess working capital effectively by analyzing data about their operations and benchmarking to peers.

Reassess Working Capital Policy
Determining working capital policy is a function of an organization’s business model and risk tolerance, which determine whether an aggressive, moderate or conservative policy is appropriate given the current risks.

Optimize Working Capital
Opportunities to optimize working capital exist in several areas including cash and marketable securities, sourcing, procurement, AR/AP, and inventory.

Example
An international refiner and marketer of petroleum products engaged Protiviti to assess its cash flow within the procure-to-pay (P2P) and order-to-cash (O2C) business cycles. Through detailed analysis of historical accounts payable and accounts receivable data, vendor and customer master files, and current processes and systems, Protiviti identified many opportunities to improve cash flow, including:

- Associated payment terms that were not equitable for companies that were both a vendor and a customer
- Missed and lost cash discounts, and discounts available in our client’s industry
- Conflicting payment terms between our client’s vendor master file, purchase order system and the terms charged by its vendors
- Vendors paid sooner than necessary

O2C
- Process breakdowns and inefficiencies leading to delayed invoice creation
- Customers paying at the greatest variance to contracted payment terms
- Open orders, unpaid and short-paid invoices and the underlying root causes

Our assessment allowed the client to improve its working capital and armed it with information to help achieve its negotiated payment terms, level the playing field with customers, and improve its policies, procedures and processes. Our specific findings included:
- More than $39 billion in invoices paid sooner than necessary
- Opportunities to increase vendor discounts by $57 million
- Recoverable open vendor credits totaling $3.3 million
- More than 13,000 unbilled open sales orders
- Examples where our client paid key vendors billions of dollars in an average of nine days, while those same companies as customers paid our client in an average of 17 days

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About Protiviti
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