



# CFO Strategies:

## Why Many CFOs Are Focused on Working Capital and Liquidity Management

Actively managing working capital delivers valuable business insights that help CFOs better manage their business and create a competitive advantage.

### Situation

CFOs that used their balance sheet to create a strong liquidity runway during the COVID-19 pandemic between 2020–2021 outpaced competitors that were not as well capitalized. These CFOs created a pathway for their businesses to steal market share and exit the pandemic with stronger growth orientated P&Ls and a healthier balance sheet.

In 2022-2023, businesses have been contending with a difficult macroeconomic climate that resulted in inflation, rising interest rates and supply chain volatility. In several instances, the resulting impact has been volatility on customer demand and margins, placing pressure on near term operating results. Downstream impacts on the balance sheet have included slow paying customers, extension of vendor terms, higher cost of capital and more restrictive borrowing terms and conditions.

Successful Finance leaders proactively manage and prioritize liquidity in the face of operating pressure. Active working capital management stems the tide and is a proactive response to market disruption. Adherence to a “cash is king culture” is looked on favorably by the capital markets and promotes optionality for CFOs to engineer a recapitalization of the balance sheet to raise equity or refinance debt. CEOs can gain competitive advantages in the marketplace in challenging macro economic times, as proven in the recent past, when CFOs can fund the journey.

### FTI Consulting Perspective

#### To improve working capital and liquidity CFOs are focusing on the following activities:

- Using working capital improvements in A/R and A/P to generate a one-time “free” financing source vs. increasing the dependence on interest-bearing, increasingly expensive and covenant-heavy debt
- Improving cross functional operational efficiency by optimizing Inventory and vendor management processes
- Challenging the business’s leverage of SG&A to identify cost savings
- Defining strict internal processes to optimize working capital
- Focusing on the end-to-end commercial sales process from lead generation and capture to post sales customer service to cut costs and free up cash
- Intentionally and proactively maintain liquidity cushions
- Actively manage CapEx to ensure positive liquidity position

**CFOs can look to execute the following externally focused actions, with favorable terms, that extend their business’s liquidity runway:**

- Provide discounts on receivables to expedite cash collections from customers
- Work with counterparties to factor receivables
- Negotiate with vendors to streamline the supply chain to improve inventory levels and/or extend, defer, or obtain more favorable terms on payables
- Refinance debt with favorable and covenant light terms
- Effective use of working capital can lead to better valuation during capital raises

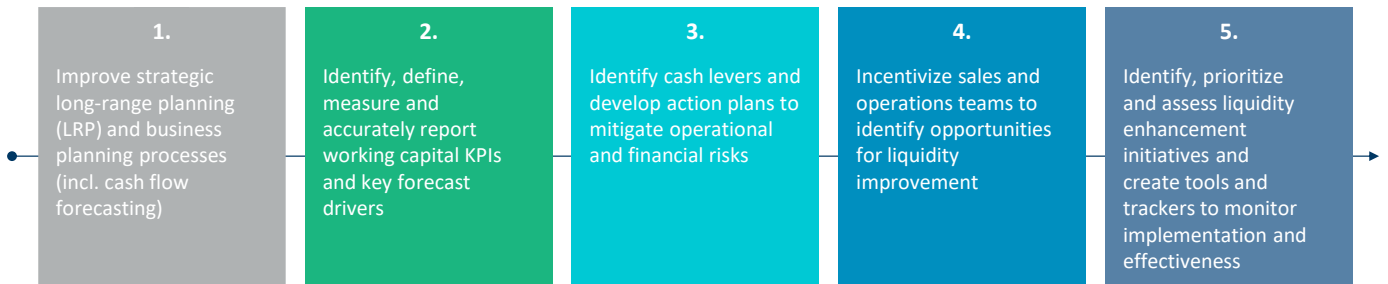


**Where can CFOs start to take action?**

1. Proactively appoint a “Cash Czar” with the operational and financial mandates and well-defined incentives to improve the cash conversion cycle (“CCC”), leveraging tools like a detailed EBITDA to cash walk and weekly cash flow report actual vs. forecasts (e.g., “13-week cash flow”)
2. Create clear, well defined performance reporting that provides visibility to information such as DSO by unique customer ID, Inventory turnover by product and sub-product family, and payment controls that can ensure capture of early pay discounts where applicable
3. Leverage analytics to improve clarity for decision making. For instance, create a 2x2 matrix that charts a customer’s propensity to pay on terms vs. profit margins of goods sold, informing operating decisions with respect to service delivery levels. This also provides improved guidelines to the sales team to negotiate price vs. payment terms when taking orders

**A Fundamental Approach**

**CFOs that are looking to improve liquidity and working capital amid market disruption should consider the following:**



FTI Consulting has the proven expertise and available resources to assist CFOs with managing and optimizing their working capital and liquidity positions. If you have any questions on the concepts or solutions discussed above, please reach out and let’s have a conversation about your working capital and liquidity challenges.

For more information, contact:

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