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## ***Improve Your Short Game: Optimise Working Capital to Tee up a Successful Transformation***

As all golfers out there should know, you “drive for show, but putt for dough.” Targeting your short game is the best way to make fast improvements to your score. A similar approach can be applied to a corporate transformation. The equivalent of improving your short game is to implement improvements that have a positive impact for the business quickly in order to reassure investors and give company leaders the breathing space needed to address the longer-term issues and necessary changes.

“Targeting working capital optimisation is an example of such improvements that can have an immediate financial impact in the early phases of a corporate transformation,” says Andrew Kemp, Senior Director with Alvarez & Marsal (A&M) in London. Working capital, the capital required for day-to-day trading operations, i.e. inventory and debtors offset by creditors, can often be a source of rapid cash improvement that can effectively fund the transformation.

Working with companies that have not previously undertaken a working capital optimisation programme, Alvarez & Marsal estimates that it can release 10 to 15 percent of gross working capital as cash, with a large proportion achievable within 12 months.

“The trigger for a transformation is typically deteriorating financial performance, primarily evident from the profit and loss accounts,” says Mr. Kemp. “When companies think of targeting cash improvement, they tend to focus on cost cutting which, whilst very important, can take time to deliver benefits and even increase cost in the short term (e.g. redundancy costs). Optimising working capital can ensure cash improvement in the short-term funding the programme as the longer-term cost measures are embedded and start to take effect.”

“This is not a replacement for making tough decisions on costs, such as closing sites or reducing headcount”, adds Mr. Kemp, “but these actions typically take longer to bear fruit and hence releasing cash from working capital can fund these longer-term initiatives and therefore really- tee-up a successful transformation.”

A&M has a dedicated and experienced team that focuses on working capital optimisation helping clients sustainably release cash from their balance sheets. They apply a fact-based approach driven by bottom-up transactional level data analytics (see below) and a detailed process understanding to identify and implement cash improvement.

### **Delivering Results**

Changes that can deliver immediate working capital benefits include looking at supplier payment processes and contractual terms along with the customer order-to-cash cycle where a number of levers for improvement typically exist. Accounts payable teams can often be “over” efficient and pay suppliers sooner than is necessary. Likewise, without sufficient incentives, sales teams can be quick to give away credit terms to customers and/or be reluctant to pursue aging receivables to ensure further sales are secured.



“Good working capital is about the end-to-end and crosses all functions of a business, not just sales and procurement but also supply chain and operations”, says Mr. Kemp. “Inventory can be the single biggest working capital requirement of a business and is influenced by multiple functions.”

Running out of cash has been one of the key issues for clothing retailers in recent years, and inventory is certainly a big factor for them. Their struggles have been largely down to high fixed costs such as rent but also the need to hold a large amount of inventory in a world of fast-fashion and customers expecting next-day delivery or immediate in-store availability.

“For retailers, the focus needs to be on improving inventory flexibility, i.e. ensuring that the supply chain has a degree of ‘real-time’ choice rather than just commitments set in stone up to six months in advance”, says [Ben Tatham](#), Managing Director with A&M in London. “It is also essential that businesses have appropriate inventory accountability whereby those responsible for buying and merchandising decisions have visibility and accountability for write-downs and provisions etc.”

### **Bringing Data to Life**

In recent large transformation projects, A&M has had a workstream dedicated to cash and working capital optimisation, looking for opportunities to drive improved liquidity quickly. To do so, they deploy a proprietary data analytics toolkit, built in-house, which draws on a minimum of 12 months’ supplier, customer and SKU level inventory data (often millions of lines of transactions are analysed) and uses visualisation software to be able to play back the findings to clients, giving them a detailed view of cash and working capital performance.

“It’s a powerful tool allowing us to show the client stakeholders insightful things about their business they have not seen or been aware of previously – such as SKU level visuals highlighting inventory items that have not moved for >12 months or that have very high coverage levels on hand,” says Mr. Kemp. “It’s not something companies typically have in their standard reporting or analytics.”

Being interactive in nature, the visualisation allows clients to drill into the detail and ask questions that can be answered in real-time, which is very useful in a workshop environment, allowing improvements to be identified quickly and the necessary actions to be agreed upon.

### **A Positive Start**

Improving working capital and giving the company some early wins, can also help build support within the business for the overall transformation. “This work delivers significant results quickly, demonstrating progress and early successes while the more controversial cost decisions are being worked,” says Mr. Kemp. “This gives the programme the breathing space needed while also showing early successes to develop some positive momentum.”

The identified working capital improvements, once implemented, also ensure solid foundations for the future. He adds, “If you have best practice working capital policies and processes in place, it tees up





CORPORATE TRANSFORMATION SERVICES

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excellent liquidity in the good times and ensures you are robustly set up to face the challenges a downturn may bring. It's something every business should be looking at."

So remember, in order to stay on course in a large transformation and make significant improvements quickly, be sure to have working capital optimisation in the bag.

Stay informed about the key issues driving companies to seek meaningful, lasting change in [From the Inside Out](#), our corporate transformation newsletter.

## GOT A QUESTION? CONTACT AN INFLUENCER ANSWERS ARE ONE CLICK AWAY



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