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Cash Flow from the Balance Sheet

A better-managed balance sheet makes transformation more effective

There is one overlooked area of financial performance that a company can tackle head-on without controversial job losses or site closures: cash locked up on the balance sheet.

Better cash management can free up money for investments, product development, dividends, reducing debt or funding the transformation.

“Too often transformations address the immediate P&L but ignore substantial benefits on the balance sheet that can be low-hanging fruit,” says [Joe Berardino](#), Managing Director of Alvarez & Marsal’s (A&M’s) Corporate Transformation Services practice.

“Often operational inefficiencies are reflected on the balance sheet,” says Berardino. “For example, if a company does not have good supply chain processes, they will tend to load up on inventory and have a bloated balance sheet. If a business has product problems, it is often later reflected in returns or uncollectable accounts receivable.”

More cash, less debt, extra flexibility

When A&M works with clients on tightening its balance sheet, we typically find we can sustainably release at least 10 to 15 percent of working capital as cash (often more). For example, if a company holds \$100 in inventory and receivables, it is not unusual for us to help reduce that to \$85 of inventory and receivables and \$15 of cash in a sustainable way – it’s not just a tactical ‘dash for cash.’

“In most cases, you’re going to have more cash, less debt and with that comes a degree of flexibility and agility within the organization which benefits the P&L. And you don’t have to go to the capital markets for extra cash,” says [Ben Tatham](#), Managing Director with A&M in London.

Achieving this starts with a detailed analysis of how cash is used in the business.

“Looking at a balance sheet 12 times a year does not necessarily give a true picture of working capital performance and associated opportunities – for example if you don’t pay your suppliers for two weeks before the balance sheet date, then it distorts the position,” says Tatham.

Cash flow under the microscope

A&M looks at every payment and receipt from the past year, and presents this transaction data in a dynamic way that shows ‘real’ performance – actual weighted average terms for each supplier/customer, who the company pays early or late, who pays late, and more – which provides a concrete base for identifying opportunities. Discrepancies are flagged up and root causes explored. Cash management is benchmarked against industry peers for a broader perspective.

Some 90 percent of the opportunities to boost cash and working capital come from three operating cash cycles namely: payment terms and processes with suppliers; the lag between customer orders and when payment comes in; and managing inventory levels. Clearly, this will vary from industry to industry. Supermarket chains have thousands of suppliers and very few debtors because their customers pay on the spot; specialized industrial clients may have a handful of large customers and very little room for negotiation on terms.



CORPORATE TRANSFORMATION SERVICES

FROM THE INSIDE OUT

“We would never suggest a business prioritize cash over cost or profit,” says Tatham. “It’s about taking a more balanced view.”

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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With over 3,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

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