POINT OF VIEW

Six ways your finance operations can unlock cash

As organizations adapt to the global impact of COVID-19 by embracing remote-working opportunities, they're also focused on keeping their operations running and their businesses' cash flowing. In the face of many unknowns, companies are tasked with simultaneously maintaining employee safety, dealing with disrupted supply chains, quickly understanding new risk exposures, finding ways to improve working capital, and much more.

To offer practical, working-capital-focused insights, we examine the current situation and identify six ways that your finance operations can unlock cash.

Your working capital landscape

Companies must have full visibility of the financial implications they face, which includes understanding and minimizing the disruption on cost and cash-flow management. Though some businesses may have already had cash-flow challenges and are more vulnerable, a growing number of companies will face the same pressure the longer this situation lasts.

Organizations across industries are seeing the impact on their cash flow as demand, supply, and prices fluctuate. Some – such as airlines, tourism, entertainment, and consumer goods – are being hit harder than others, but none are immune. Many companies will soon ask to increase payment terms if they haven't already. And suppliers will exacerbate the situation by asking for early payment to address their cash needs.

Responding to the cash challenge

CFOs will have a keen eye on their company's liquidity, and many will have started reviewing whether they should draw on credit lines as a safety net. They're reassessing their cash needs and sources, and making daily updates to their required cash outlay on a rolling basis.

They're also bringing greater transparency to their communications with banks – that face their own challenges – by sharing their plans for cost containment and are preparing multiple forecast scenarios for their banking partners. You can also expect an increase in companies renegotiating their current loan agreements with banks and refinancing debt where appropriate given the low interest rates.

Working with banks and freeing up lines of credit are sensible steps, but this is also the time to reevaluate how finance operations can unlock cash for the business. Here are six initiatives that can make a major difference to your business:

1. Make accounts payable strategic and intelligent

One way to increase working capital is to delay your supplier payments. However, this approach only shifts the problem to your suppliers and damages relationships. Instead, focus on how to make accounts payable (AP) intelligent by connecting it with upstream sourcing and procurement functions, and downstream treasury, and use data to generate insights that enhance decision-making.

Analyzing areas such as mismatched terms between vendor master data and invoices, due-date calculations, and invoice-prioritization rules are a few quick ways to optimize your cash flow.

Work with procurement to analyze spend patterns and use benchmarks to identify contracts with suboptimal terms, optimize your supplier base and buying channels, and simplify terms. This streamlines the end-to-end source-to-pay value chain, releases cash, and strengthens supplier relationships.

2. Strengthen and accelerate receivables

Having a proactive approach to managing collections improves your cash-flow performance. Focus on customer-specific payment performance by understanding payment behaviors and identifying self-payers and prioritize proven approaches that maximize collections performance.

Because the situation is evolving rapidly, it's important for the collections function to capture customer-payment signals early and make dynamic adjustments to contact strategies. Using available data and insights from a collections technology workbench allows you to use this contact-strategy intelligence at scale.

Organizations need agile processes that allow people to review and support important guidelines such as credit policies, write-off-threshold policies, and discount policies given to customers. And lastly, you need greater control over master data, order capture, and billing accuracy because they not only reduce collections performance, but they also impact the customer experience.

3. **Tackle inventory management head-on**

Inventory management is perhaps the most challenging area in which to unlock working capital right now. Manufacturers will most likely continue to face disruption to their supply chains because of shortages of raw material and components. While supply chains are in flux, revise how you manage safety stock and other inventory areas to keep production going.

Companies – like people – are likely to overstock finished goods given the uncertainty over how long this situation will last, resulting in working capital being locked in your inventory. At the same time, it will be hard for you to predict demand accurately for some time. This requires agile demand-and-supply forecasts and adjustments to balance both customer-service levels and production challenges.

Creating greater inventory transparency, enhancing how you plan for demand and supply, and rationalizing product portfolios sound like major transformation initiatives but will generate long-term savings and improve working capital.

4. **Take another look at supply chain financing**

Depending on your company's cash-flow situation, there are financing options to consider. For receivables, factoring can have a quick impact on cash flow, but can also come at a cost.

Companies with the ability to pay suppliers faster can also adopt dynamic discounting. AP teams have access to a range of dynamic supplier-financing solutions that allow a funding organization to pay suppliers early at low interest rates.

5. **Audit payables and receivables transactions**

Turning to receivables, you need a robust dispute-management process to capture and resolve all invalid deductions as quickly as possible. Aging on deductions delays cash flow and, beyond a certain cutoff point, invariably results in a write-off too.

Simple technology solutions that capture, code, and take a deduction to closure are critical. Additionally, technology can swiftly identify the root causes, which can then be addressed to avoid further revenue leaks.

For payables, you need checks and balances to stop overpayment or duplicate invoices, realize early payment or promotional discounts, or be issued credit.

6. **Enable an end-to-end cash conversion cycle and sharper forecasting**

As you help your business navigate its way through today's uncertainty by improving working capital, it's important to coordinate actions through payables, receivables, and inventory performance. Cash forecasting is another key area. CFOs are reassessing their businesses' cash needs and sources, and providing daily updates on their cash-outlay needs on at least a two-month rolling basis. This is where digital technologies can play a crucial role by providing visibility on demand and offering scenario-modeling capabilities so that the business is better prepared for future needs.

Finance operations – the key to unlocking working capital

Any robust plan to mitigate the risks from COVID-19 will include cash-flow management. Adopt these six actions and allow your finance operations to have a lasting impact on business. Improving working capital will help your organization weather today's uncertain landscape and build a more resilient business for the future.

Learn more about how Genpact can help.

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