



Optimizing liquidity and working capital during times of uncertainty



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Disruption isn't about what happens to you, it's about how you respond to it, as the saying goes. For treasury departments taking stock of the disruption brought on by Covid-19, this adage may ring true.

As the upheaval caused by the pandemic persists, optimizing liquidity and working capital appear to remain two of treasurers' top priorities, and market volatility one of their biggest risks. As a result, they may be asking: "How can I plan for and minimize disruption to my company's financial supply chain and maximize access to cash when and where it's needed?"

Working capital pain

Cash pressures in the current environment can vary from company to company. Nearly uniformly, however, these pressures seem tied to key trends. Citi, seeking to get a clearer picture of our clients' working capital pain points, recently analyzed more than 1,000 large corporations across multiple sectors.



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The study revealed, for one, that deteriorating cash conversion cycles increased 10 percent during the first quarter of 2020, compared to the previous quarter. As a result, cash flow uncertainties and delays continue to disrupt juggling of internal funding needs for many companies.

Another potential working capital pressure point is sales. With the pandemic reshaping purchasing patterns among consumers and businesses alike, companies that provide essential products and services, such as food manufacturers, grocery stores and online retailers, are appearing to be doing fairly well. Others, particularly those in the airline, travel and entertainment sectors, have seen a decrease in demand.

In addition, lockdowns that have slowed or halted manufacturing continue to showcase a possible negative downstream impact on sales and cash flows.

On top of that, customers, faced with their own cash-flow challenges, are being seen to delay payments, driving up days sales outstanding (DSO) - 11% among companies in our study. On the receivables side, average collection periods among these companies increased 11% in the first quarter too, yielding a possible downstream affect across business units, countries and supply chains.

Supply chain headaches

Since the onset of the pandemic, supply chains have been hit hard on multiple fronts. The US/China trade war, for instance, triggered shortages of materials and products, sending some companies looking for alternate suppliers and impeding their ability to fill orders. Lockdowns, supply chain uncertainties and impairments to the physical movement of good appear to contribute to more work-in-progress sitting around and companies building up inventory. In the Citi study, supply chain disruptions resulted in a 13% increase in inventory outstanding during the first quarter.

In addition, some cash-crunched suppliers, particularly small- and medium-size businesses, sought guidance through government programs to turn to government programs, banking partners and, increasingly, buyer-backed financing to get the liquidity support they need to restart production or keep operations going.

Digitization and automation may be one of the most important ways to help unleash potential opportunities to unleash working capital on many fronts.



Some Best Practices

The cloud of coronavirus, unfortunately, is expected to continue to linger for months ahead. Businesses appear to continue to face a turbulent operating environment. Some employees will continue to work remotely. Sales targets appear to still be less straightforward in predicting. Supply chains continue to show signs of disruption. And the markets may experience volatility. All of this ... and more ... might continue to possibly strain treasuries' ability to assess and meet liquidity needs across their enterprises.

Fortunately, there are some time-tested best practices attempt to assist un-easing the burden of managing cash and working capital during turbulent times, and also assist in creating sustainable efficiencies over the long-term. These include:

- 1. Business continuity plans:** Ensure that you can quickly issue laptops or other essential equipment, in addition to secure remote systems access, that will make possible for work-at-home employees to get up and running quickly. Consider setting up mobile access, which can make it easy to view account and transaction information and to authorize transactions. At Citi, mobile phones also can be used to provide token-free access to our CitiDirect BE[®] banking platform, eliminating the need for users to use physical tokens.
- 2. Cash management committee:** When a crisis hits, consider setting up a cross-functional management team that meets as often as daily to make strategic decisions on behalf of the company about how to use cash and speed up incoming cash. Such teams can make every attempt to lead and drive working capital optimization over the short-term and as the company migrates to business as usual. It also can lead related communications internally and externally.
- 3. Forecasting, scenario planning and stress testing:** Forecasting, a possible foundational requirement for optimizing and managing day-to-day working capital, continues to be an important part of business during trying moments. And automation is one of many keys to analyzing dynamically changing variables and accessing up-to-date and reliable data that is so essential to decision-making.

Conduct "what if" analyses for situations such as a drop in sales, a reduction in cash collected or a disruption in a supply chain. Stress test your scenarios to determine associated impacts on liquidity, and be prepared to fine-tune them on an ongoing basis, as business conditions fluctuate.

Also consider embedding scenario-planning and stress-testing outputs into daily, weekly and monthly reporting to senior management. These outputs help provide cash management crisis teams and senior management with the confidence to make needed decisions and communicate about the response strategy.

- 4. Digitization and automation:** Last, but not least, digitize and automate where possible and equip your team with the right digital tools. Of all the best practices you can put in place, digitization and automation can enable and advance opportunities to optimize working capital on many fronts:

Unlocking trapped liquidity: During good times and bad internal liquidity can represent one of the largest sources of both risk and opportunity. Automating liquidity management and the internal movement of funds continues to be a particularly effective way to both unlock idle balances and possible related risks. The most appropriate liquidity structure for any company will depend on numerous factors such as its geographic footprint, legal structure and business environment. But, no matter what the optimal structure is, solutions such as target balancing, physical and notional pooling, cross-currency sweeps and virtual accounts can possible enable the movement of idle cash when and where it's needed.

Minimizing supply chain disruption: For companies looking to expand their supply chains, digitization can possibly accelerate the onboarding of new suppliers, while ramping up supplier financing programs can help ensure the sustainability of critical suppliers.

Citi, for example, offers web-based solutions for the majority of everything from onboarding supply chain partners to pre-and post-shipment finance, to distributor finance to early pay programs that make every attempt to support the stabilization of supply chain partners.

The digitization of communications with trade partners, including documents and signatures needed to meet shipping, logistics and customs requirements can assist in alleviating trade-related headaches.

In fact, at Citi we saw a 20% increase in the use of our digital trade tools up in the second quarter of 2020 as clients looked for options to reduce bottlenecks and errors.

Leveraging banking partners

Throughout the disruption brought on by the pandemic, and beyond, liquidity can be one of any company's most valuable resources.

Digital tools that automate liquidity management, and provide visibility into cash positions and forecasts, can be critical to mitigating risks and protecting the survival of the entire enterprise.

No matter where a company is on the digitization spectrum, it can look for innovative ways to work with banking partners, related technology as well as credit management capabilities, in identifying ways to enhance liquidity and working capital today, and to be prepared for the next big disruption.