Improving Cash & Working Capital Management

KPMG in Saudi Arabia

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April 2020

Developing a cash management strategy

The global economy is currently impacted by a number of events that are curtailing the ability to conduct business as usual. Now is the time for effective cash management – a practice vital when the economic horizon darkens.

Cash management can sound laborious and complex, involving huge spending on things such as information technology – but it does not have to be this way.

There are four fundamental steps to building a robust cash management strategy and safeguarding the future of any business, regardless of the industry it operates in or its size:

1 Gain visibility and control over cash flows

i. Make use of 13-week rolling cash flow forecasts that are prepared on an expected receipts and payments basis, by business line and jurisdiction.

ii. Conduct weekly variance analysis of cash flows, understanding the reasons for variation, whether due to timing or permanent.

iii. Form Cash Committees to meet weekly, with participation by all function heads and having aligned KPIs. Cash flow management should not just be the responsibility of the finance function.

iv. Engage early with financiers to address any forecasted deficiencies and take appropriate steps to retain control of the situation.

2 Proactively manage working capital needs

i. Consider working capital needs in the context of overall business requirements for the weeks, months and years ahead. Consider your working capital strategy holistically. For example, a decision to change payment terms with your suppliers may have a consequential impact on their quality of service, impacting inventory levels and thus the quality of service to customers. That said, in our experience, most businesses are able to drive improvement and unlock cash from at least one, if not two areas of the working capital cycle. These include trade receivables, inventory and trade payables.

ii. For trade receivables, ensure appropriate processes are in place to ensure clients are invoiced in a timely manner, in accordance with contract terms, and there are robust credit controls in place. Use analytics to understand customers' payment behaviours and take proactive measures to align behaviours with contractual terms. Consider receivables factoring programmes to unlock cash and deploy more rigour in the cash collection process.

iii. Address slow-moving, obsolete stock. Critically examine forecast production requirements, the need for buffer stocks and SKU assortment, and avoid tying up cash in unproductive inventory.

iv. Every Riyal counts. Ensure that trade payables are paid only in accordance with contract terms. Avoid daily payment or ad-hoc payment runs. Consolidate these on a weekly or fortnightly basis. Consider your market leverage, and seek a mutual extension of payment terms to suppliers. At the same time, remain aware of the risk of supply chain disruption at your supplier level caused by their own financial health. Make use of supplier finance programmes to release cash earlier to suppliers and ensure continuity of supply and service levels.

3 Go beyond working capital

i. Review trapped and illiquid cash within the group structure. Make use of treasury pooling structures, to make more effective use of available cash that may be lying idly within the group structure.

ii. Review the capex strategy and consider leasehold / rental as an alternative, deferring significant capex outlays or releasing cash through sale and leaseback.

iii. Review the tax efficiency of operations (including zakat, VAT, customs and excise), making use of any opportunities offered by the government to defer or reduce payment of zakat and fees. Ensure any potential refunds are pursued.

iv. Review all other non-trading contracts / commitments that have a cash requirement over the months ahead and reconsider their necessity.

v. Assess latest government COVID-19 initiatives and programs meant to support the private sector and boost liquidity in the system

4 Think strategically

i. Make cash management a boardroom priority. For leading global businesses, effective cash management is a top priority.

ii. Ensure that your business model fully considers cash requirements – for example, the markets you operate in, the products and services you sell, and the channels these products and services are distributed through. To preserve cash, many businesses are looking to rationalise their product assortment and the markets in which they operate.

iii. In reviewing and developing your cash management strategy, develop clear metrics for cash and working capital. Understand that corporates within same industries may have very different cash management strategies depending on stakeholder requirements, brand positioning and ethical considerations, amongst other factors. For example, one corporate may pay their suppliers on 120-day terms, because it drives significant cash flow upside, whereas another corporate may choose to pay every 30 days, because they believe it is ethically important to pay suppliers in a timely manner.

iv. Make use of funding and liquidity products provided by banks and supported by SAMA, and other stimulus packages provided by the government.

The importance of cash

Cash is key to the survival and growth of any business. Gaining visibility & control of cash flow and optimising working capital can help a business to do the following:

Better understand inefficiencies through use of data and analytics

Identification of cash management inefficiencies can be likened to finding needles in a haystack. Making sense of them once found is even harder. Very often, without the right information, your perception of cash management performance could be very different from the reality. In turn, performance may be very different than it would be if you collected and paid cash in accordance with agreed contractual terms.

Corporates are increasingly making use of data and analytics to identify cash management inefficiencies, understand root causes and develop a plan for improvement. The root causes of inefficiencies can be attributed to four areas:

1. Weak **policies, controls and processes** that are not aligned to overall strategy and, or no longer fit for purpose.

2. **Systems** that are unable to produce timely, accurate and insightful management information.

3. **Culture**: A strategy and KPIs that drive the wrong behaviours around cash management. For example, sales teams that are incentivised by revenue targets but not cash collections.

4. **People**: A lack of awareness around the importance of cash management and a limited understanding of what is required.

Without understanding the root causes of problems and fixing them well, issues are likely to manifest themselves again and again, especially once focus is directed elsewhere.

KPMG can assist by creating and ensuring data transparency, defining and developing concrete data measures including system roadmaps and data analytics platforms, leveraging machine learning, and ensuring a cash culture through improved corporate governance.

Illustrations of screenshots of visualization tools being used to identify inefficiencies

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