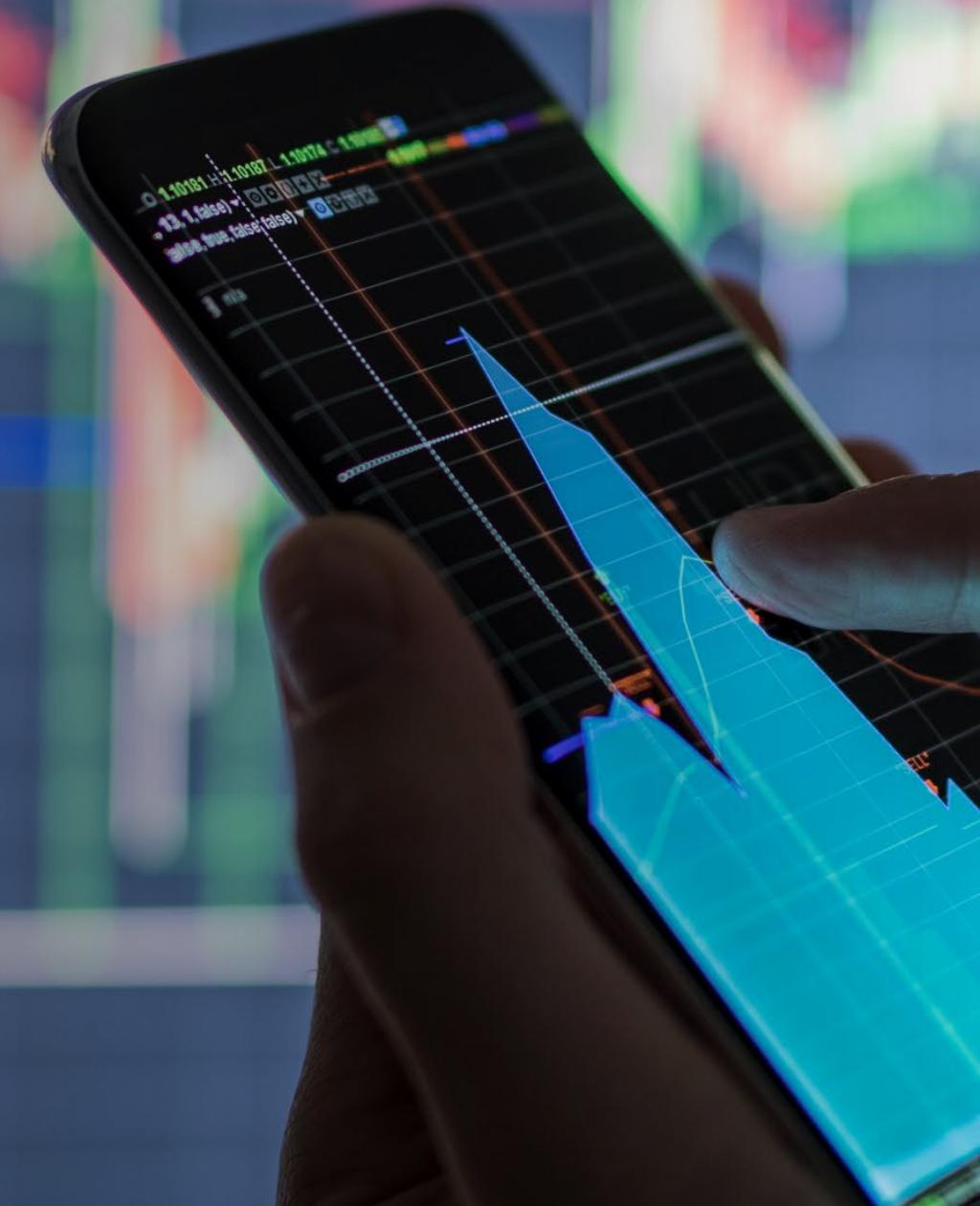




Working Capital Optimization: Tips on how to release cash from your balance sheet to support your liquidity needs



Speakers



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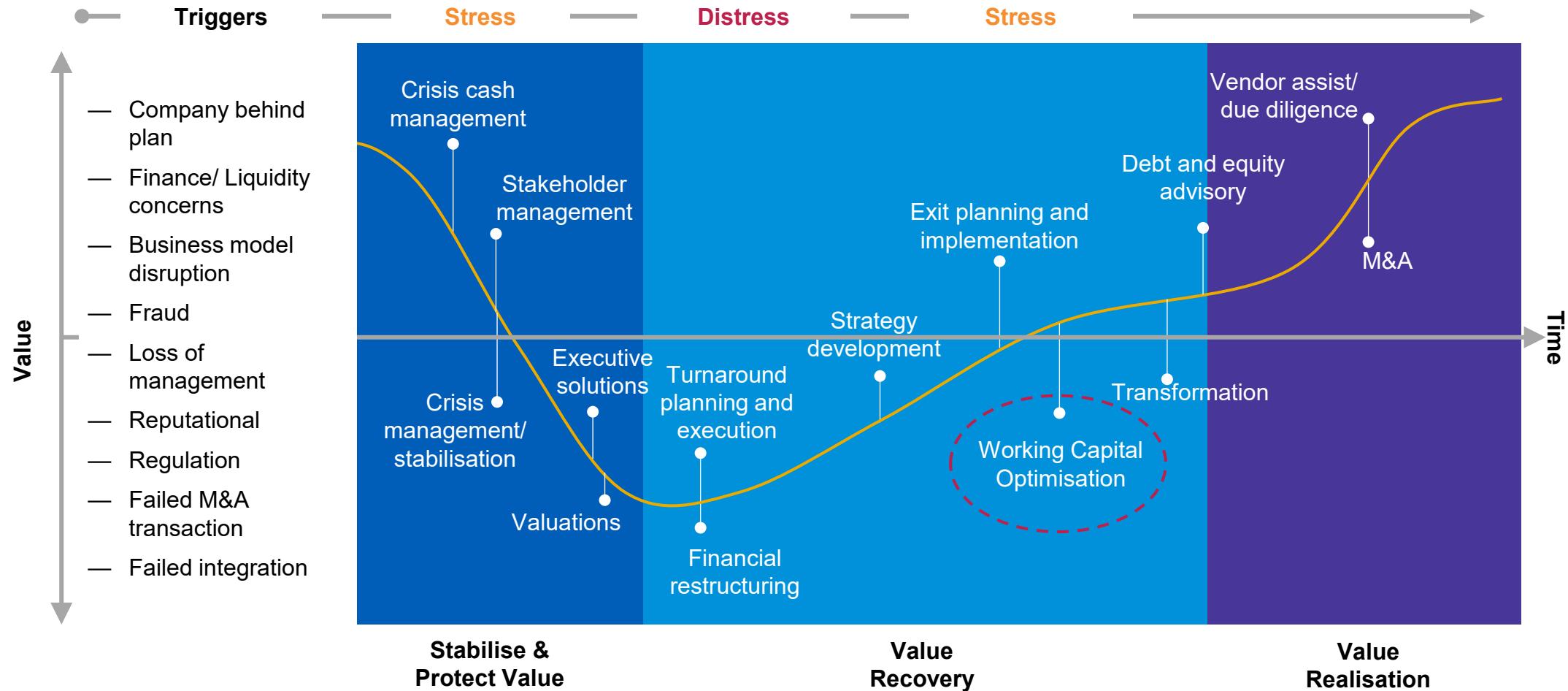
Agenda

1. The importance of working capital under COVID-19 for Thai businesses
2. Key concepts of working capital management
3. Hints and tips of best practices to optimize working capital
4. Sharing of our data analytic tools and real-life examples
5. Q&A session

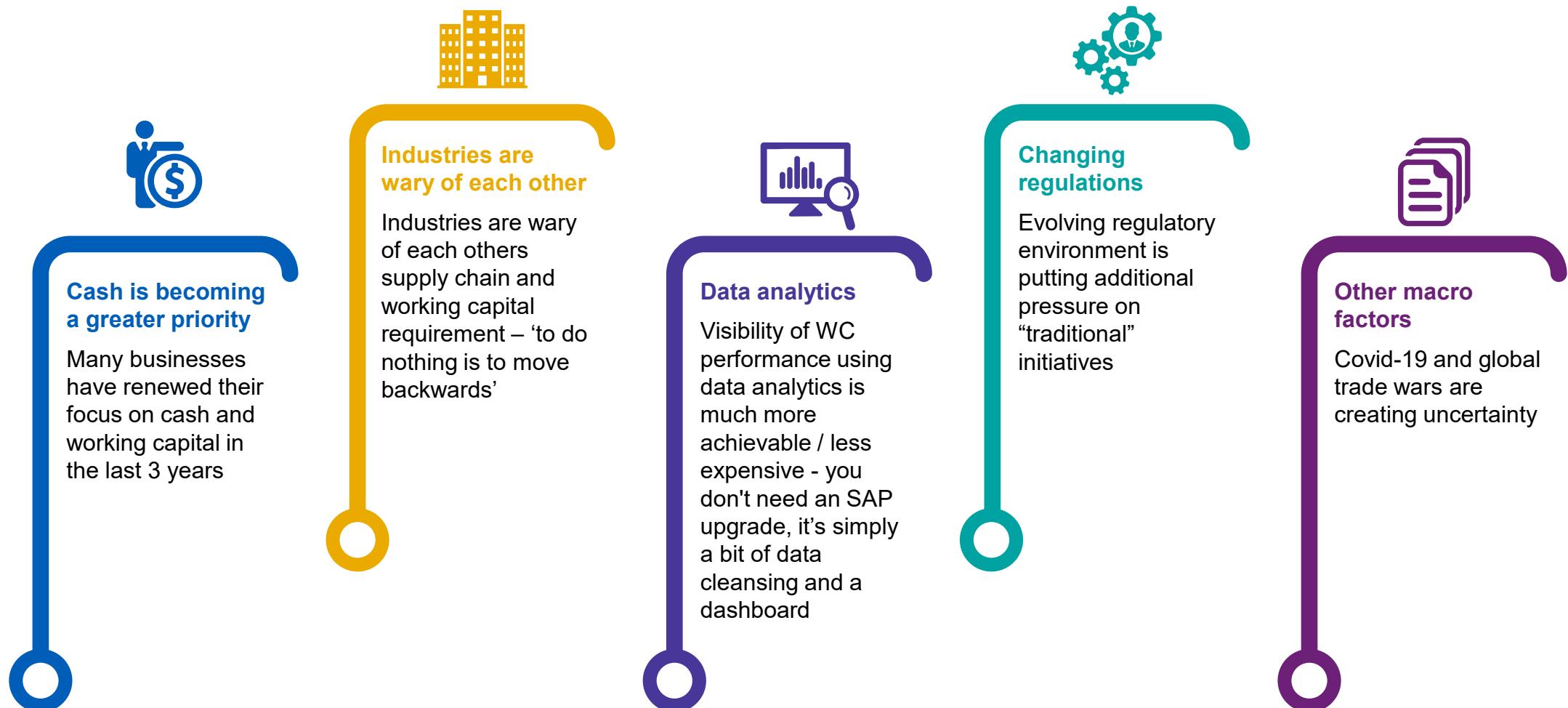


The importance of working capital under COVID-19 for Thai businesses

Working capital across the business cycle



Trends in cash & working capital



What drives cash-rich businesses to focus on WC?

1

Best practice processes and disciplines enabling financial flexibility

3

Self funding transformation

5

Acquisition of companies or purchase of fixed assets

7

Pay dividends to shareholders

2

Paying off long-term debt

4

Investing in R&D

6

Stakeholder focus

8

Responding to the regulatory environment



It's a relatively cheap and untapped source of potential funding and a means by which economic value can be added

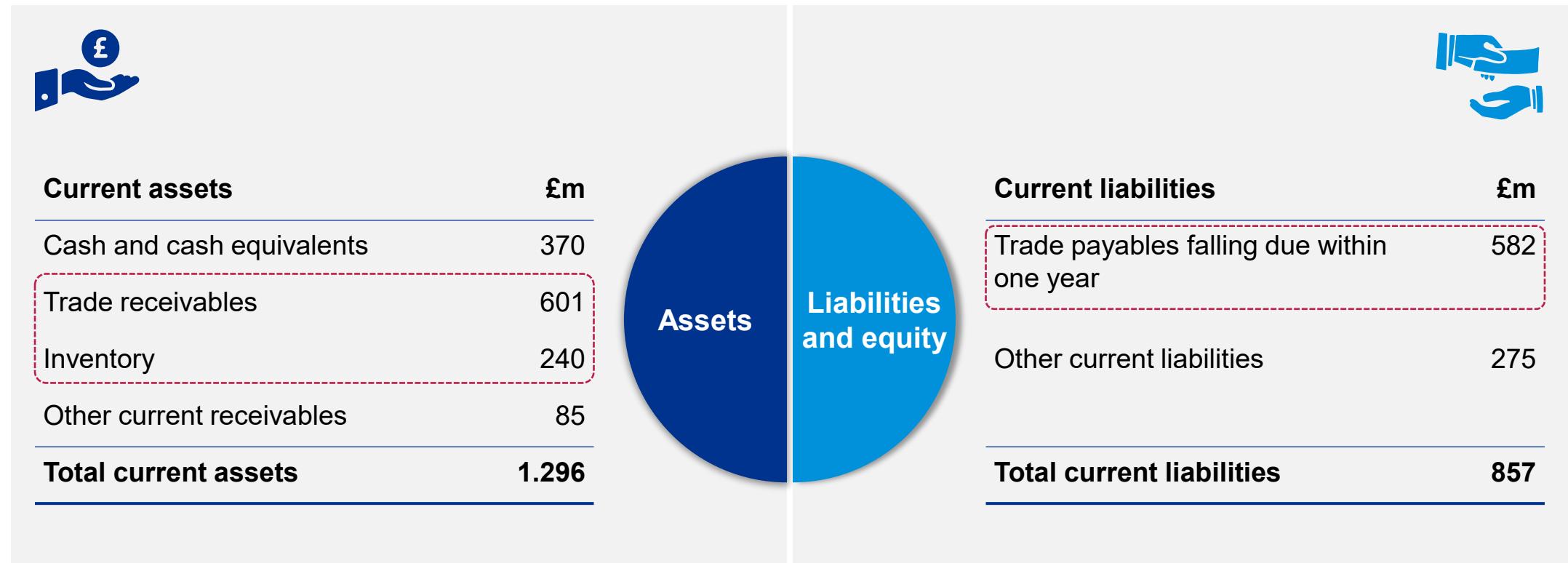


Key concepts of working capital management

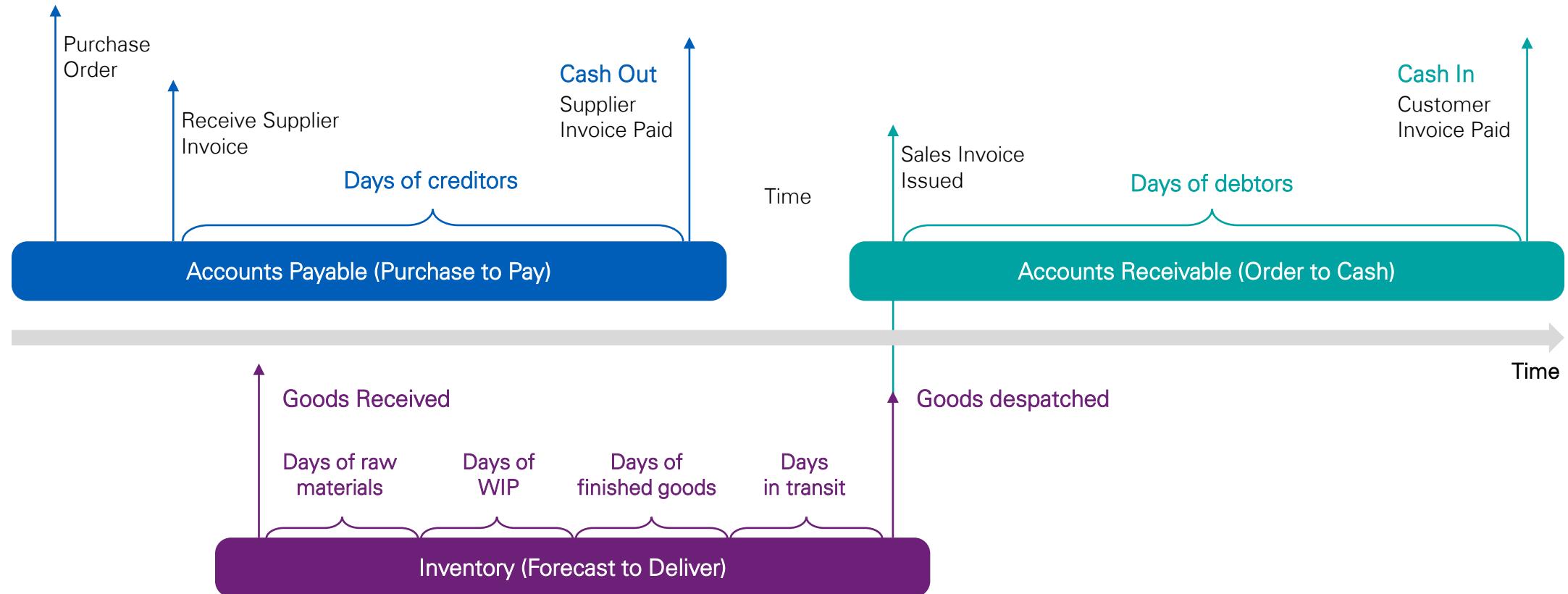
Defining working capital

Working Capital: amount of cash necessary to run your day to day operations

When performing working capital optimization projects we focus on the trade elements of current assets and current liabilities – or Operational working capital. The three components of which can be found in the balance sheet.

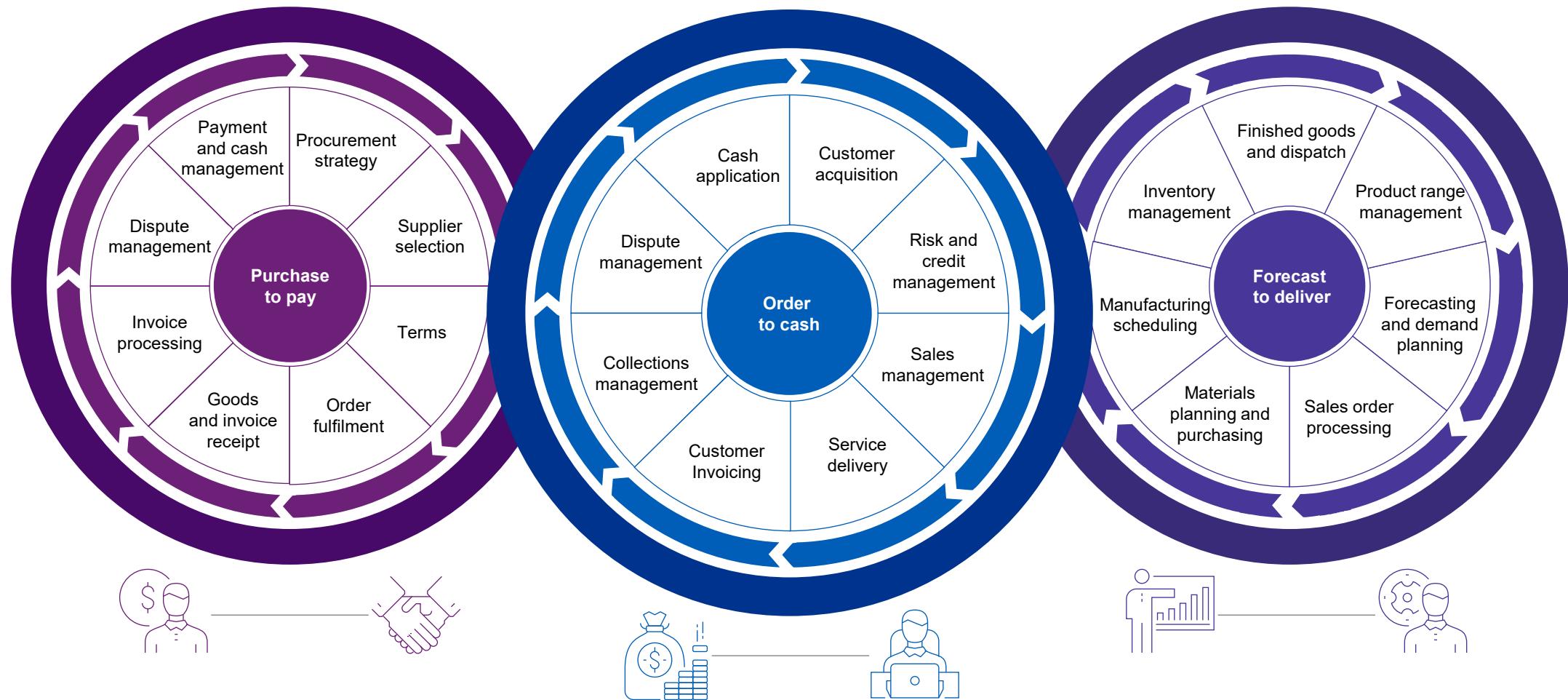


The cash conversion cycle

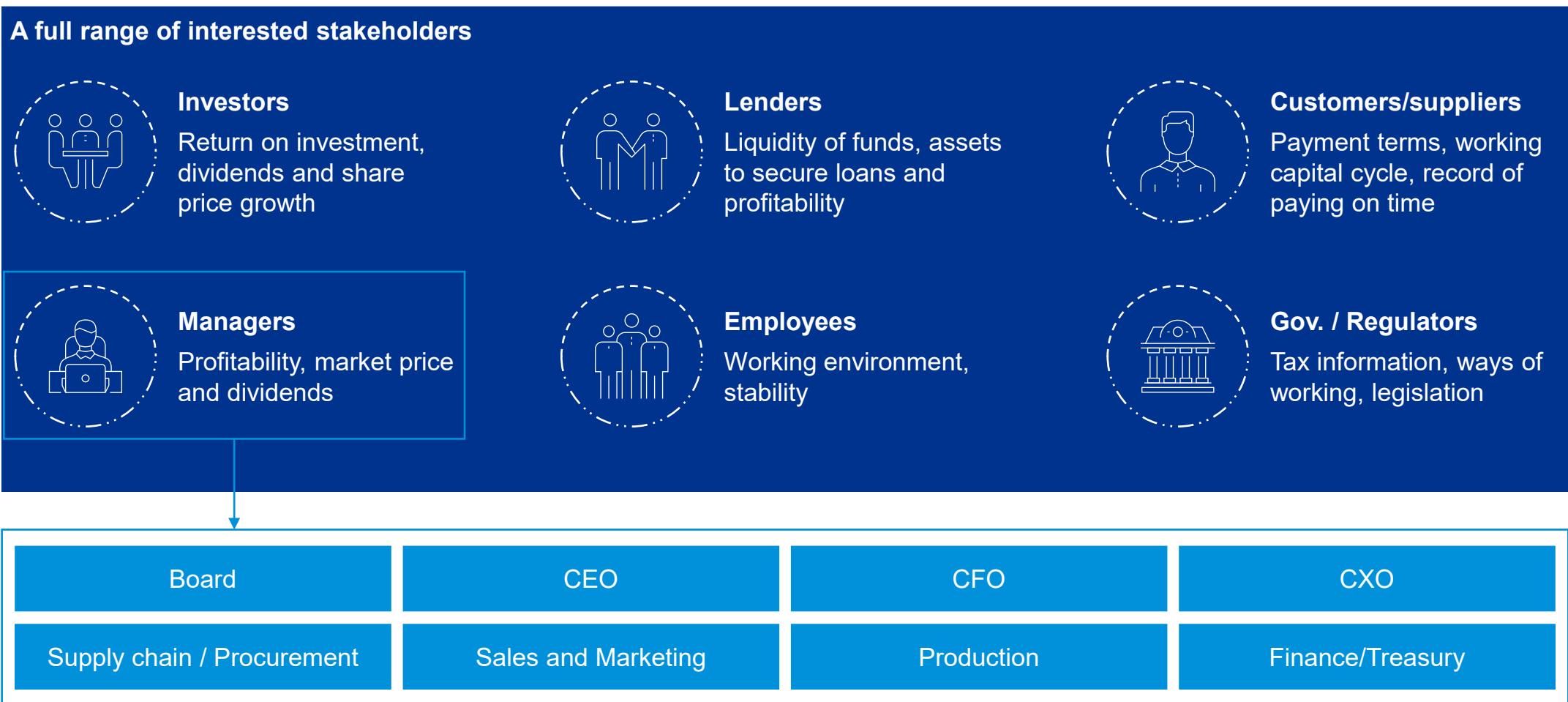


The objective of a WC improvement programme is to optimise the Working Capital cycle ("Cash Conversion Cycle", "CCC") to release cash for other uses

Three main cycles of working capital



Who is interested in working capital?





Hints and tips of best
practices to optimize
working capital

Key warning signs and triggers for working capital optimization

Order to Cash



Forecast to Deliver



Purchase to Pay



Lack of working capital metrics and reporting

Worsening debtor days (non collections)

Deteriorating customer aging profiles

Customers breaching credit limits

Growing volume of bad debts

Increasing unallocated cash balances

High or increasing stock coverage

Significant amount of slow-moving inventories

High number of SKUs

Disconnection between inventory and sales forecasting

No central inventory planning

No standard or agreed supplier terms

Significant early and late payments

No defined payment process

No contract management tool or VMF

High number of high-volume low-value invoices

Effective working capital management during COVID-10

Order to Cash



- Customers - Incentivize customers in order to maintain sales levels during periods of economic stress
- Invoicing and Collections - Put in place processes to ensure customers are invoiced in a timely manner, in accordance with contract terms

Forecast to Deliver



- Inventory Planning - Critically examine forecasted production requirements, the need for buffer stocks and SKU assortment
- Inventory Reporting - Ensure robust reporting around inventory levels is in place and review and adjust production planning and inventory levels in line with changing demand levels

Purchase to Pay



- Payment Processes - Assess the frequency with which you make payments to suppliers, whilst ensuring transparency on when they can expect payment
- Supplier Terms - Considering market leverage and seek a mutual extension of payment terms with suppliers

Focusing on working capital to improve performance

Sacrifice cash for profit at all times

Suboptimal customer payment terms agreed to grow top line



Manage customer relationships

Customer segmentation strategy, clear and defined payment terms and disputes root cause analysis

Pay invoices manually and immediately

Pay invoices without regard to their payment terms and with manual intervention



Transparent and optimized payment policies

Agree suitable payment terms with suppliers, with a clear payment process in place

Avoid supply shortage at all cost

Stock-up inventories and pay for them in advance



Maintain right amount of stocks

Ensure stocks are available to fulfill orders but prevent inventory build in warehouses



Five tips for effective working capital management



Gain visibility of your working capital and cash flow requirements

Develop and embed a robust forecast of cash flow and working capital for the business. We recommend a 13-week forecast as well as a 12-month forecast.



Take a proactive approach to invoicing and collections

Make sure customers are invoiced in a timely manner and pay in line with contracted terms, with actions taken immediately where payments become overdue.



Examine forecasted inventory requirements

Critically assess forecasted stock requirements to identify any unnecessary buffer inventories, and highlight inefficiencies in SKU assortment to avoid cash tied up in slow-moving products.



Consider how frequently you make payments to suppliers

Instill fair and transparent payment processes with your suppliers so they know when they will be paid, whilst ensuring that the payments are paid only in accordance with the contract terms.



Leverage data and analytics tools to monitor working capital

Embed operational levels of reporting to ensure you have granular visibility of working capital at a customer, supplier or SKU level to support identification of issues and decision making.



Sharing of our data analytic
tools and real-life examples

Leading data analytics tools

KPMG's leading working capital diagnostic methodology utilizes proprietary cutting-edge data visualization software. Drawing from multiple, standard, ERP data outputs our software is able to quickly analyse and prioritize working capital enhancement opportunities.

This output is dynamic and users have the ability to interact 'live' with their data, adjusting assumptions and performing sensitivity analysis in a real time environment, quickly getting to the root cause of problems. Coupled with our extensive experience of where to look, this is a powerful methodology to enhance working capital performance.





Thank you

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