POINT OF VIEW

Five ways organizations can free up cash using data and intelligence

As organizations adapt to slowing growth, increasing costs, and rising interest rates, they need to focus on keeping their cash flowing and tightly managing their liquidity. In the face of many unknowns, companies are tasked with finding ways to improve working capital, dealing with disrupted supply chains, sharpening cash forecasting, quickly understanding new risk exposures, and much more.

We examine the current situation and identify five ways your finance operations can unlock cash.

Responding to the challenge through insight

Organizations across industries are seeing the impact of challenging conditions on their cash positions. Some – operating on thin margins or with high degrees of leverage – are being hit harder than others, but none are immune. Many companies will have increased payment terms. And suppliers can exacerbate the situation by asking for early payment to address their own cash needs. Tackling these challenges requires fresh thinking.

Here are five initiatives that can make a major difference to your business:

1. **Understand your cash position and make reliable forecasts**

   A first step is to have a firm grip on your company's liquidity using a cash forecast you can rely on. This means increasing the transparency of your cash position, inflows, and outflows and being able to answer these simple questions: What will you bank tomorrow, this week, and this month? What is the variance to forecast, and why? How much financial headroom do you have, both now and going forward?

   Poor forecasting comes at a cost, and companies need full visibility of the financial implications they face. Establishing a reliable cash forecast can be a significant data capture and change management exercise in its own right, but it is a crucial step. It not only provides visibility and control but also supports the ability to manage liquidity more closely and educates the organization on the importance of cash.

   Digital technologies play a crucial role here, increasing visibility of demand and offering scenario-modeling capabilities to better prepare the business for future cash needs.

2. **Make accounts payable strategic and intelligent**

   One obvious 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) more 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.

3. **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 prioritizing proven approaches that maximize collections performance.

   It's also 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 intelligence at scale.

   To mitigate the risk of bad debts, companies should run regular credit profiling of their customers. This allows companies to spot credit-risk patterns early and take steps to reduce credit thresholds for high-risk customers. By proactively managing credit risk, companies can maintain a healthy cash flow and sound financial standing.

   Organizations also need agile processes that allow people to review and support important guidelines such as policies related to credit, write-off thresholds, and discounts given to customers. And lastly, you need greater control over master data, order capture, and billing accuracy because they affect collections performance and impact the customer experience.

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

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

   Companies are likely to overstock both raw materials and finished goods, given ongoing supply chain challenges, resulting in working capital being locked in your inventory. At the same time, making accurate supply and demand predictions only becomes more complex. Overcoming these challenges requires agile demand and supply forecasts and real-time visibility of inventory levels to fulfill orders promptly, maintain customer service levels, and minimize production risks. Creating greater inventory transparency, enhancing how you plan demand and supply, and rationalizing product portfolios sound like major transformation initiatives but will generate long-term savings and improve working capital.

5. **Audit transactions**

   For 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 cut-off 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 prevent 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.

Data and intelligence – the key to unlocking working capital

Any robust plan to mitigate the economic challenges we face will include cash-flow management. Adopt these five 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.