

POSSIBLE (RE)DEFINED

# Optimizing Your Working Capital in a Changing Economic Landscape

Published Date: Thursday, July 20, 2023

AREA OF FOCUS

# Today, We're Covering

## Expert Insights to Navigate Uncertain Times

## KNOWLEDGE

# Learning Objectives



Understand  
why working  
capital is hot  
topic



Learn new  
strategies for  
optimize  
working  
capital



Measure  
effectiveness  
of working  
capital  
strategies

WELCOME

# Today's Presenters



**John Stewart**

Partner  
Armanino Advisory LLC



**Amy Julian**

Partner  
Armanino Advisory LLC



**Sarah Hardage**

Managing Director  
Armanino Advisory LLC



**David Sanders**

Manager  
Armanino Advisory LLC



**Nick Donato**

Manager  
Armanino Advisory LLC

EXPLORING NEW AREAS

# Agenda

- Economic Outlook
- Working Capital Fundamentals
- Key Metrics and Practices
- Strategies for Improving Cashflow
- Forecasting to Measure Effectiveness
- Summary
- Q & A



Why is this a hot topic right now?

# Economic Outlook and Uncertainty



**10 Federal Fund rate increases in the past 16 months**



**Interest rates have increased from .25% in March 2022 to 5.25% in May 2023**

This increases the cost of capital for companies and consumers  
Conversely, higher interest rates encourage savings



**As of June 2023, inflation is still trending above the Fed's target rate of 2%**

Core – 4.80%  
Food – 5.70%  
Rent – 7.83%  
Services – 5.7%

| FOMC Meeting Date | Rate Change (bps) | Federal Funds Rate |
|-------------------|-------------------|--------------------|
| May 3, 2023       | +25               | 5.00% to 5.25%     |
| March 22, 2023    | +25               | 4.75% to 5.00%     |
| Feb 1, 2023       | +25               | 4.50% to 4.75%     |
| Dec 14, 2022      | +50               | 4.25% to 4.50%     |
| Nov 2, 2022       | +75               | 3.75% to 4.00%     |
| Sept 21, 2022     | +75               | 3.00% to 3.25%     |
| July 27, 2022     | +75               | 2.25% to 2.50%     |
| June 16, 2022     | +75               | 1.50% to 1.75%     |
| May 5, 2022       | +50               | 0.75% to 1.00%     |
| March 17, 2022    | +25               | 0.25% to 0.50%     |

Source: United States Department Labor's Bureau of Labor Statistics

Optimization of working capital is measured by the cash conversion cycle

# Cash Conversion Cycle

## Cash Conversion Cycle

Measures **Efficiency**: How quickly cash can be converted to sales and back to cash



= Receivables Collection Period (DSO)  
+ Inventory Conversion Period (DIO)  
- Payables Deferral Period (DPO)

Lower is Better

### DSO or Days Sales Outstanding:

Measures how quickly cash is collected from sales.

Ending Accounts Receivable/  
(Period Revenue/Days in Period)

Lower is Better

### DIO or Days Inventory Outstanding:

Measures how many days before inventory is sold.

Inventory/  
(Cost of Goods Sold/Days in Period)

Higher is Better

### DPO or Days Payable Outstanding:

Measures how long it takes to pay obligations

Ending Accounts Payable/  
(Cost of Goods Sold/Days in Period)

## Working Capital Dollars Invested/Committed:

**DSO**: Loans extended to the customer in terms of days

**DIO**: Cash invested to acquire inventory that does not generate cash until sold

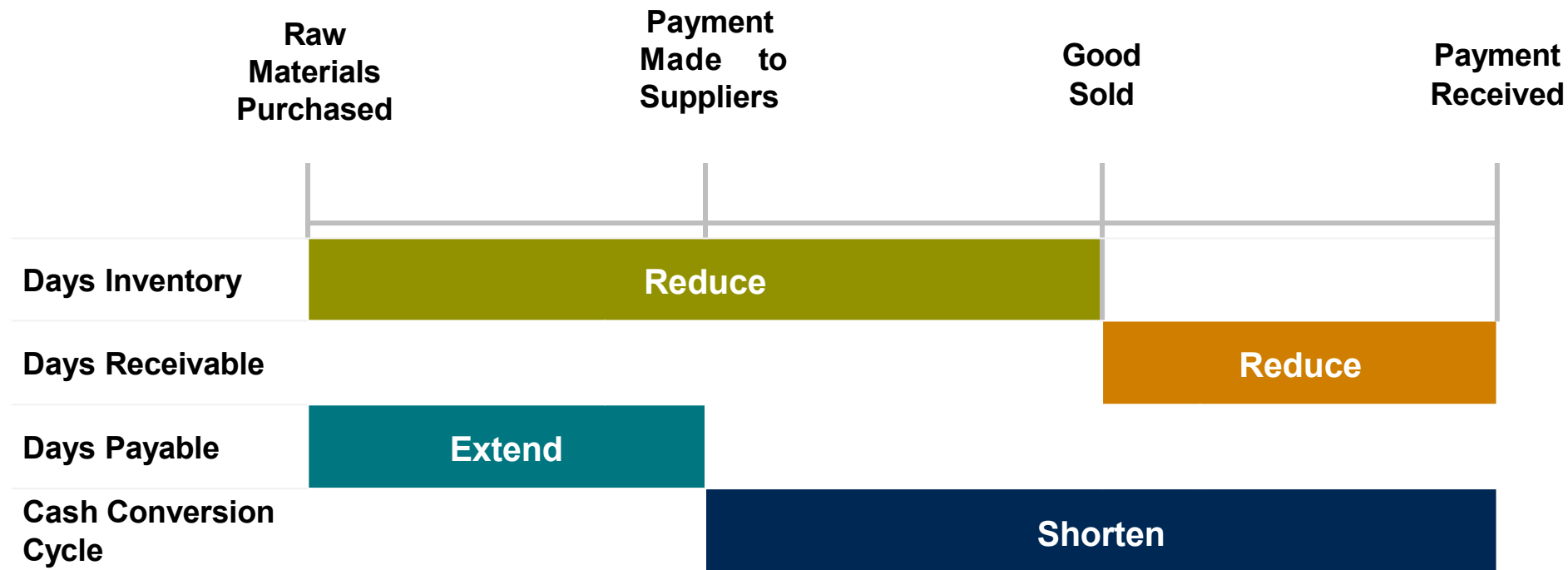
## Working Capital Dollars on Credit:

**DPO**: Days of credit from vendors

## Manufacturing Industry Example

# Working Capital & Cash Conversion

Will they receive the customer payment in enough time to fund the payment to the vendor?





Metrics that bring visibility into opportunities & how strategies are working

# Payables Metric Examples

| Financial Performance  | Process Efficiency  | Risk/Quality  | Volume  |
|--|---|---|---|
| <ul style="list-style-type: none"> <li>Days Payable Outstanding (DPO)</li> <li>Weighted Average Payment Terms (WAPT)</li> <li>Disbursement Cycle Adherence</li> <li>Total Spend</li> </ul> | <ul style="list-style-type: none"> <li>End to End Cycle Time (Invoice Date to Supplier Funding Date)</li> <li>Percentage of Invoices entered Automatically</li> <li>Days between Invoice Date to Data Entry Date</li> <li>Days between Key Date and AP date (or match date)</li> <li>% of Payments made by EFT/ACH</li> <li>Term changes implemented on Time</li> <li>Days between Payment Release Date and Due Date</li> </ul> | <ul style="list-style-type: none"> <li>% of Payments with 3 Way Match</li> <li>First Time Right PO/Invoice</li> <li>Cash Forecast Accuracy</li> </ul> | <ul style="list-style-type: none"> <li>Number of Disbursement Cycles</li> <li>Number of exceptions to payment policies (invoice, disbursement cycle, terms)</li> <li>Number of invoices processed</li> <li>Number of supplier calls for AP</li> <li>% Automation</li> </ul> |

Metrics that bring visibility into opportunities & how strategies are working

| Financial Performance   | Process Efficiency  | Risk/Quality  | Volume  |
|---|---|---|---|
| <ul style="list-style-type: none"><li>• Days Sales Outstanding (DSO)</li><li>• Weighted Average Cost of Capital (WACC)</li><li>• Bad Debt Reserve</li><li>• AR Aging Analysis</li></ul> | <ul style="list-style-type: none"><li>• End to End Cycle time – goods ownership xfer, service completion to customer invoice receipt</li><li>• Invoice Accuracy %</li><li>• Invoice delivery methods</li><li>• Customer Payment Methods</li><li>• Customer Payment Processes</li><li>• System to connect quoting to invoicing</li><li>• Price / Discount change frequency</li></ul> | <ul style="list-style-type: none"><li>• Credit and Rebill statistics: volume, reason code, trends</li><li>• Collections Strategy</li><li>• Cash Forecast Accuracy</li></ul> | <ul style="list-style-type: none"><li>• Customer base</li><li>• Number of Invoices</li><li>• Number of Credits and Rebills</li><li>• Number of supplier calls for AP</li><li>• % Automation</li></ul> |

## Actionable Ideas

# Strategies for Improving Working Capital

## Receivables

- Identify any internal factors that slow customer payment
- Establish a credit and collection policy and strategy
- Consider offering early payment discounts

## Inventory

- Use updated Sales Forecast to adjust Min/Max guidelines for RM and FG
- Adjust sales and production plans, liquidate excess and obsolete inventory

## Payables

- Categorize and prioritize suppliers
- Explore virtual card programs
- Optimal disbursement schedule

Real-time reporting & near-term clarity

# Forecasting Cash Flow

A tightly managed cash cycle improves financial planning, cash management, risk assessment, and stakeholder communication.

It helps you maintain liquidity, make informed decisions, optimize yield and navigate potential cash flow challenges effectively.

- ❏ What is **today's** cash balance?
- ❏ **Who is due to be paid** today, tomorrow and next week?
- ❏ Are our customers paying **on time**?
- ❏ Is our **forecast** in line with **today's** cash balance & 13-week forecast?
- ❏ Are we managing **inventory purchases & CapEx initiatives** efficiently?
- ❏ Why are we hitting our P&L budget but are still seeing **cash constraints**?
- ❏ When will we need to **seek funding**?
- ❏ What levers can we pull to **mitigate cash burn**?
- ❏ Do we have the cash to **hire new employees**?
- ❏ What does our **cash runway** look like under various scenarios?

Automate your data stream to drive real-time insight.

# Data Frequency & Digestibility

*Real-time data is oftentimes messy.*

*Automating data transformation is critical.*

## Consolidate disparate data sources

- Power Query (Excel)
- Power Automate (Microsoft)
- Third Party Software (Altryx)

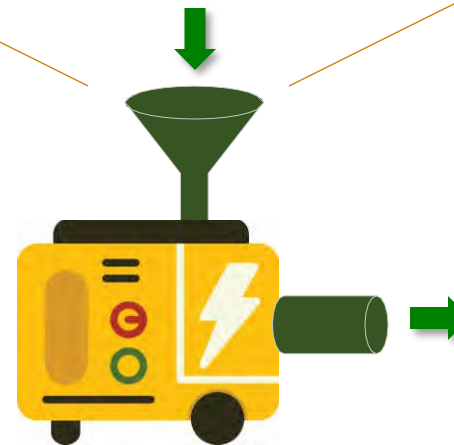
## Apply Custom Cash Flow Categorization

- Manual, line-by-line
- Utilize **Artificial Intelligence** to drive significant time savings

### 1 Identify Weekly Data Feeds



### 2 Automate Data Transformation



### 3 Output clean, digestible data to model

|    | A            | B      | C            |
|----|--------------|--------|--------------|
| 1  | Product Name | Month  | Sales Amount |
| 2  | Product A    | Jan-14 | 192.375      |
| 3  | Product A    | Feb-14 | 285.75       |
| 4  | Product A    | Mar-14 | 38.25        |
| 5  | Product A    | Apr-14 | 200.25       |
| 6  | Product A    | May-14 | 221.625      |
| 7  | Product A    | Jun-14 | 349.875      |
| 8  | Product A    | Jul-14 | 165.375      |
| 9  | Product A    | Aug-14 | 499.5        |
| 10 | Product A    | Sep-14 | 40.5         |
| 11 | Product A    | Oct-14 | 259.875      |
| 12 | Product A    | Nov-14 | 343.125      |

Drive action and monitor the effectiveness of your working capital initiatives

# Rolling 13-Week Model

- Review cash position each week vs. prior expectations
- Forecast the next quarter by week in granular detail
- Group cash inflows & outflows into discrete, **digestible** categories that correspond to your working capital initiatives

|                                  | -3          | -2          | -1          | 0           | 1           | 2           | 1           | 2           | 3           | 4           | 5           | 6           | 7           | 8           | 9           | 10          | 11          | 12          | 13          |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                  | Actual      | Actual      | Actual      | Actual      | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    | Forecast    |
|                                  | 7/17/2023   | 7/24/2023   | 7/31/2023   | 8/7/2023    | 8/14/2023   | 8/21/2023   | 8/28/2023   | 9/4/2023    | 9/11/2023   | 9/18/2023   | 9/25/2023   | 10/2/2023   | 10/9/2023   | 10/16/2023  | 10/23/2023  | 10/30/2023  | 11/6/2023   | 11/13/2023  | 11/20/2023  |
|                                  | 7/23/2023   | 7/30/2023   | 8/6/2023    | 8/13/2023   | 8/20/2023   | 8/27/2023   | 9/3/2023    | 9/10/2023   | 9/17/2023   | 9/24/2023   | 10/1/2023   | 10/8/2023   | 10/15/2023  | 10/22/2023  | 10/29/2023  | 11/5/2023   | 11/12/2023  | 11/19/2023  | 11/26/2023  |
| Beginning Cash Balance           | 2,557,896   | 2,760,197   | 4,009,320   | 4,440,988   | 3,608,128   | 4,599,648   | 3,971,426   | 4,615,480   | 2,841,382   | 3,838,096   | 3,908,254   | 3,023,078   | 2,611,147   | 3,621,207   | 3,660,120   | 4,159,504   | 1,581,438   | 2,532,226   | 2,676,805   |
| Deposits (Operating)             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Customer A                       | 1,207,809   | 3,027,135   | 1,837,960   | 1,585,838   | 1,710,838   | 1,648,338   | 1,935,499   | 1,940,918   | 1,946,353   | 1,951,802   | 1,957,267   | 1,962,748   | 1,968,243   | 1,973,755   | 1,979,281   | 1,984,823   | 1,990,381   | 1,995,954   | 2,001,542   |
| Customer B                       | 90,582      | 235,515     | 145,962     | 160,558     | 230,711     | 75,000      | 117,971     | 97,283      | 106,023     | 89,449      | 132,410     | 60,851      | 146,164     | 90,582      | 235,515     | 145,962     | 145,962     | 230,711     | 75,000      |
| Other                            | 331,734     | 66,649      | 15,944      | 35,843      | 207,500     | 12,500      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      | 65,159      |
| Total Deposits (Operating)       | 1,630,125   | 3,329,300   | 1,999,866   | 1,782,239   | 2,149,050   | 1,735,838   | 2,118,628   | 2,103,360   | 2,117,534   | 2,106,410   | 2,154,836   | 2,088,757   | 2,179,566   | 2,129,495   | 2,279,955   | 2,195,944   | 2,201,501   | 2,291,824   | 2,141,701   |
| Payments (Operating)             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Cost of Sales                    |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Shipping                         | (750,945)   | (909,933)   | (821,555)   | (957,998)   | (747,239)   | (612,736)   | (731,862)   | (731,862)   | (731,862)   | (731,862)   | (780,119)   | (780,119)   | (780,119)   | (780,119)   | (836,337)   | (836,337)   | (836,337)   | (836,337)   | (878,332)   |
| Rebates                          | (25,555)    | (25,578)    | (25,600)    | (25,623)    | (25,645)    | (25,668)    | (25,691)    | (25,714)    | (25,736)    | (25,759)    | (25,782)    | (25,805)    | (25,827)    | (25,850)    | (25,873)    | (25,896)    | (25,919)    | (25,942)    | (25,965)    |
| Total Cost of Sales              | (776,500)   | (935,510)   | (847,155)   | (983,621)   | (772,884)   | (638,404)   | (757,553)   | (757,576)   | (757,598)   | (757,621)   | (805,901)   | (805,924)   | (805,946)   | (805,969)   | (862,210)   | (862,233)   | (862,256)   | (862,279)   | (904,297)   |
| AP                               |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| CapEx                            | -           | -           | (587,288)   | -           | -           | -           | -           | (1,450,000) | -           | -           | -           | -           | -           | -           | -           | -           | (2,200,000) | -           | -           |
| Inventory Purchases              | -           | -           | -           | -           | -           | (527,825)   | -           | -           | -           | -           | -           | (521,354)   | -           | -           | -           | (525,994)   | -           | -           | -           |
| Marketing                        | (15,875)    | (15,205)    | (14,563)    | (13,949)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    | (14,898)    |
| Rent & Office                    | -           | -           | -           | -           | -           | (22,874)    | -           | -           | -           | -           | -           | (22,874)    | -           | -           | -           | (22,874)    | -           | -           | -           |
| Other                            | (11,074)    | (11,160)    | (11,247)    | (11,334)    | (11,423)    | (11,512)    | (11,601)    | (11,691)    | (11,782)    | (11,874)    | (11,966)    | (12,059)    | (12,153)    | (12,248)    | (12,343)    | (12,439)    | (12,536)    | (12,633)    | (12,732)    |
| Total AP                         | (26,949)    | (26,365)    | (613,098)   | (25,283)    | (26,321)    | (577,109)   | (26,499)    | (1,476,589) | (26,680)    | (26,772)    | (571,092)   | (26,958)    | (27,051)    | (27,146)    | (576,109)   | (2,227,337) | (27,434)    | (27,532)    | (27,630)    |
| Personnel Expenses               |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Salaries, Benefits & Taxes       | (200,213)   | (1,008,132) | (20,242)    | (1,032,331) | (242,446)   | (1,075,000) | (6,700)     | (950,000)   | (200,119)   | (950,000)   | (200,119)   | (956,700)   | (200,119)   | (956,700)   | (200,119)   | (956,700)   | (206,819)   | (956,700)   | (200,119)   |
| Professional Fees                | (175,576)   | (79,877)    | (67,588)    | (1,462)     | (100,000)   | (25,000)    | (481,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   | (121,635)   |
| Travel & Entertainment           | (8,539)     | (7,884)     | (13,158)    | (7,442)     | (8,539)     | (7,884)     | (13,158)    | (7,442)     | (8,539)     | (7,884)     | (13,158)    | (7,442)     | (8,539)     | (7,884)     | (13,158)    | (7,442)     | (8,539)     | (7,884)     | (13,158)    |
| Total Personnel Expenses         | (384,329)   | (1,095,893) | (100,988)   | (1,041,234) | (350,985)   | (1,107,884) | (501,493)   | (1,079,077) | (330,293)   | (1,079,519) | (334,912)   | (1,085,777) | (330,293)   | (1,086,219) | (334,912)   | (1,085,777) | (336,993)   | (1,086,219) | (334,912)   |
| Fees & Other                     |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Taxes & Bank Fees                | (34,660)    | (18,027)    | (212)       | (245)       | (1,337)     | (34,660)    | (18,027)    | (212)       | (245)       | (1,337)     | (34,660)    | (18,027)    | (212)       | (245)       | (1,337)     | (34,660)    | (18,027)    | (212)       | (245)       |
| Other                            | (5,744)     | (4,382)     | (6,744)     | (7,144)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     | (6,004)     |
| Total Fees & Other               | (40,404)    | (22,409)    | (6,956)     | (7,389)     | (7,341)     | (40,663)    | (24,030)    | (6,216)     | (6,249)     | (7,341)     | (40,663)    | (24,030)    | (6,216)     | (6,249)     | (7,341)     | (40,663)    | (24,030)    | (6,216)     | (6,249)     |
| Credit Card Payments             | (199,642)   | -           | -           | (557,571)   | -           | -           | (165,000)   | (558,000)   | -           | (165,000)   | -           | (558,000)   | -           | (165,000)   | -           | (558,000)   | -           | (165,000)   | -           |
| Total Payments (Operating)       | (1,427,824) | (2,080,177) | (1,568,198) | (2,615,098) | (1,157,530) | (2,364,060) | (1,474,575) | (3,877,457) | (1,120,820) | (2,036,252) | (1,752,568) | (2,500,688) | (1,169,506) | (2,090,582) | (1,780,571) | (4,774,010) | (1,250,713) | (2,147,244) | (1,273,087) |
| Operating Cash ↑                 | 202,301     | 1,249,123   | 431,668     | (832,859)   | 991,519     | (628,222)   | 644,053     | (1,774,097) | 996,714     | 70,158      | 402,268     | (411,931)   | 1,010,060   | 38,913      | 499,384     | (2,578,066) | 950,788     | 144,580     | 868,614     |
| Term Loan - Principal & Interest | -           | -           | -           | -           | -           | -           | -           | -           | -           | -           | -           | (1,287,444) | -           | -           | -           | -           | -           | -           | -           |
| Total Cash ↑                     | 202,301     | 1,249,123   | 431,668     | (832,859)   | 991,519     | (628,222)   | 644,053     | (1,774,097) | 996,714     | 70,158      | (885,176)   | (411,931)   | 1,010,060   | 38,913      | 499,384     | (2,578,066) | 950,788     | 144,580     | 868,614     |
| Ending Cash Balance              | 2,760,197   | 4,009,320   | 4,440,988   | 3,608,128   | 4,599,648   | 3,971,426   | 4,615,480   | 2,841,382   | 3,838,096   | 3,908,254   | 3,023,078   | 2,611,147   | 3,621,207   | 3,660,120   | 4,159,504   | 1,581,438   | 2,532,226   | 2,676,805   | 3,545,420   |



# Ensuring Forecast Accuracy

*Sound upstream processes & diligent tracking*



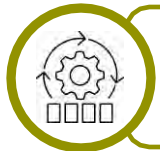
## Frequent & Digestible Cash Transaction Data

*Capture historical cash inflows & outflows  
Arrive at today's ending balance with confidence*



## Connection to Sales Funnel

*Quantify customer wins & losses and bridge to expected cash receipts*



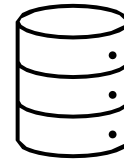
## Accurate KPI's / Historical %'s

*Sound understanding of core economics drives parallels  
between receipts & disbursements*



## Up-to-date AR & AP

*Today's outstanding invoices are the best indicator of near-term cash*



## Consolidate & store each week's updated model to analyze & answer:

- ✓ What were last week's actuals vs. last week's updated forecast?
- ✓ What were the key areas that drive a miss vs. forecast from 8 weeks ago?
- ✓ How accurate has our AP forecast six weeks into the future, after known invoices are termed?

#8

Would you like to receive  
follow-up from our experts  
after this webinar?



# Possible (Re)Defined <sup>TM</sup> Go further, faster

Gain confidence and clarity to tackle challenges  
or plan for tomorrow's aspirations

# Q&A

Thank you for  
attending

## Additional Questions?

Reach out to us at

[Experts@armanino.com](mailto:Experts@armanino.com)

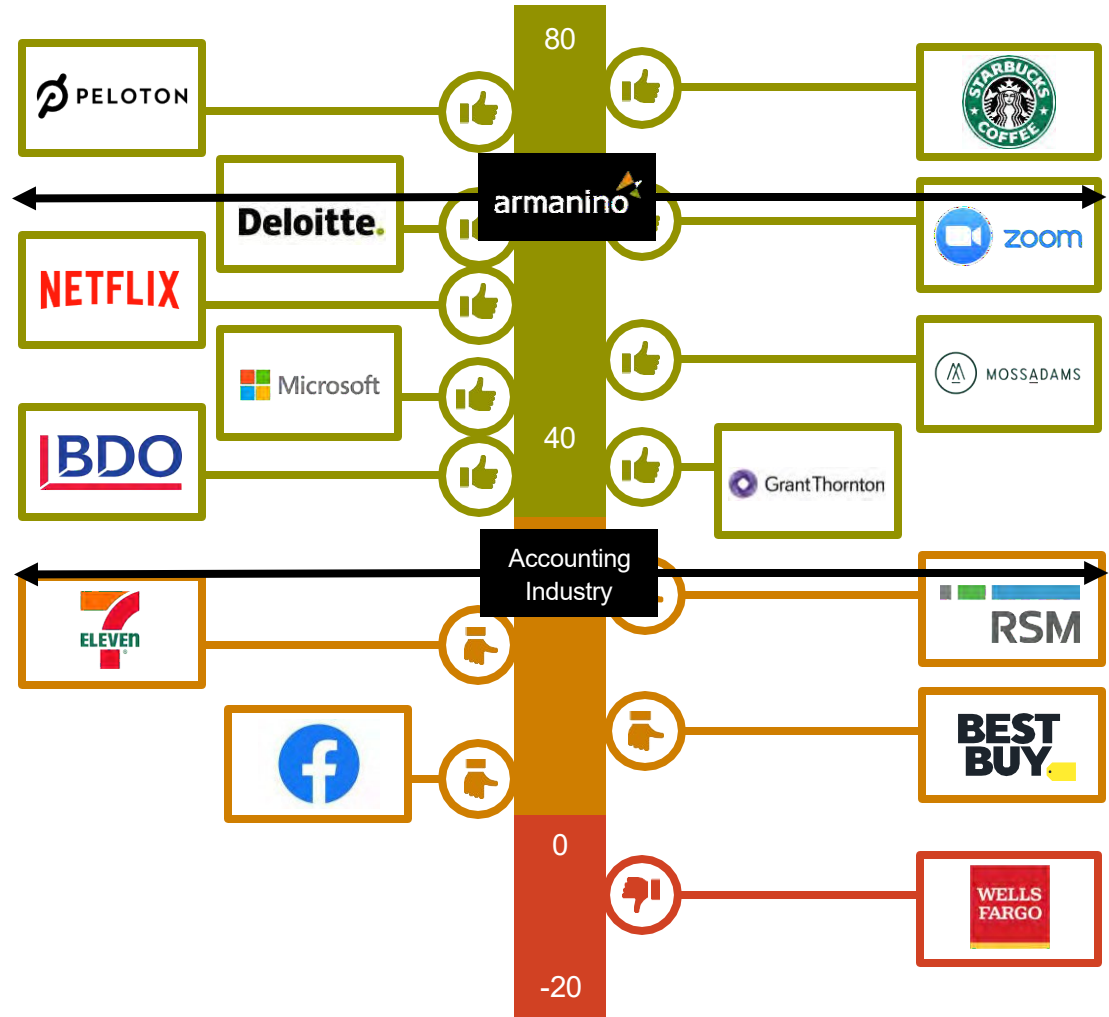


## OUR CLIENTS' VIEW

# We're Just What You Need

A Net Promoter® Score (NPS) is used by more than two-thirds of Fortune 1000 companies.

**Armanino's NPS (68) is almost two times higher** than the accounting industry average (38), and it places the firm scores closest to household name brands such as Starbucks, Peloton and Zoom.





OUR PROMISE TO YOU

# Reimagine Your Potential



## Unconventional Approach

We're a vested, entrepreneurial partner who sees your organization through a 360 lens and finds opportunity at every stage



## Comfort in Change

Our experts provide guidance and support while quickly facilitating transformation that gives you a competitive advantage.



## Focused on You

Our integrated teams and solutions deliver tailored insights to bring you more value and clarity throughout your journey.

# A New and Better Way for Today and Tomorrow

Equipping you with the insights and tools needed to redefine what's possible



## COMPLIANCE & REGULATORY

- Tax Planning
- Trust & Estate
- SOX
- Contract



## ASSURANCE & ADVISORY

- Cybersecurity
- SOC
- Restructuring
- Revenue Recognition



## STRATEGY & PLANNING

- Corporate Strategy
- Strategic Advisory
- Benchmarking
- Business Transformation



## STAFFING & DEVELOPMENT

- Payroll
- Health Benefits
- Executive Search
- Interim Placement



## TECHNOLOGY SYSTEMS

- ERP
- CRM
- Business Intelligence
- Managed Services



## ACCOUNTING & BACKOFFICE

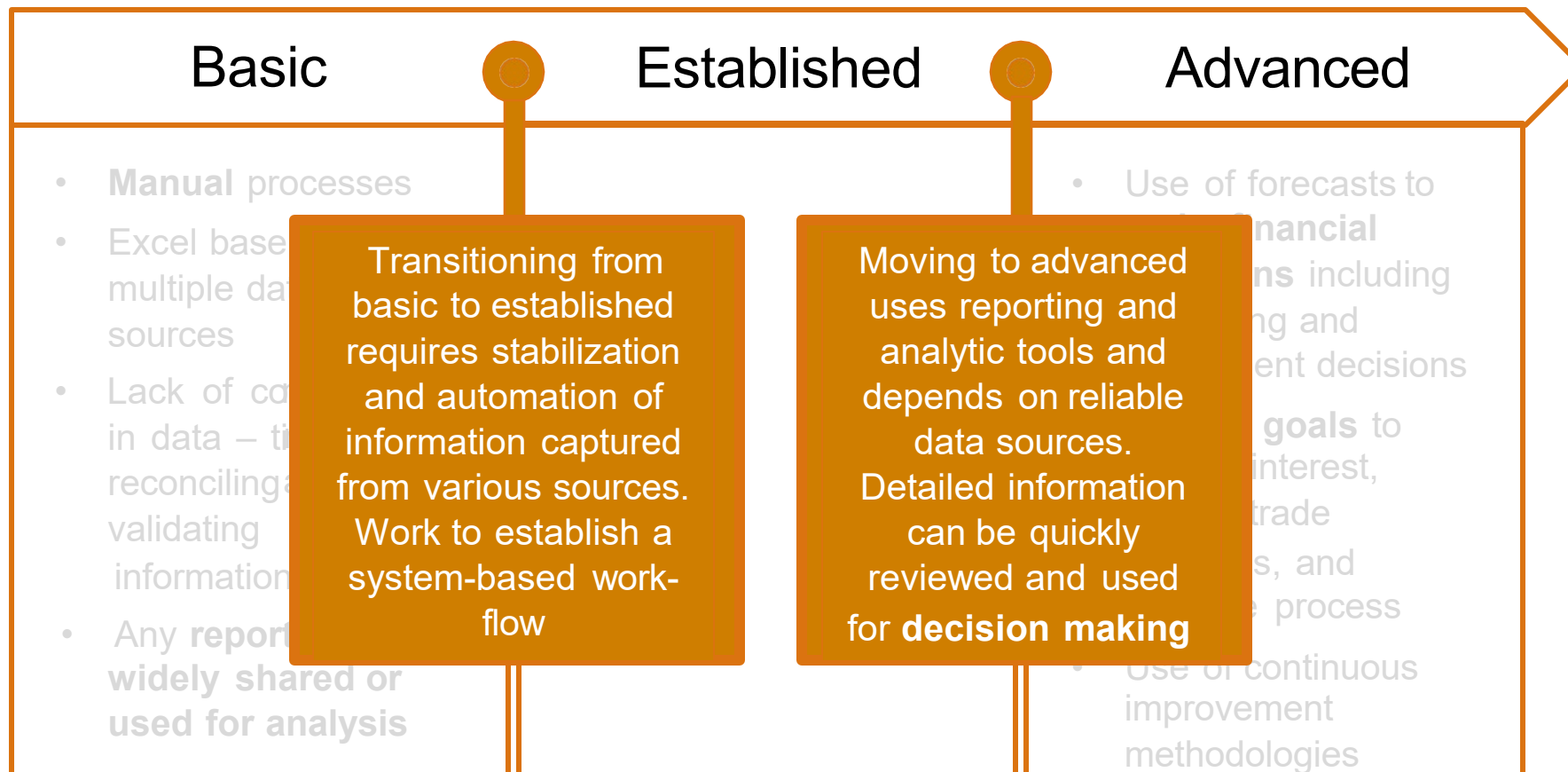
- Bookkeeping
- Budgeting/Forecasting
- Account Receivable
- Accounts Payable



# Possible *(Re)*Defined™


Delivering impactful, bold solutions that increase clarity  
and spark success for today and tomorrow.

# Cash Conversion Maturity



Cash strategies should provide inputs into key decisions

# Strategic Decisions

- 
- Set sales objectives with customers
  - Shift focus to alternative revenue streams
  - Re-negotiate terms with suppliers
  - Control CAPEX and discretionary spending
  - Reduce fixed expenses
  - Change operating plans

## Other Considerations:

- Weighted Average Cost of Capital
- Industry standard terms
- Overall industry-specific trends

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