

A capital puzzle

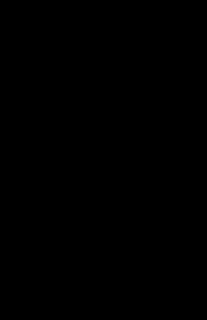
Assemble the pieces of working capital management.

Like thousands of unconnected pieces, companies are confronting capital challenges that are constantly changing. Some market dynamics are in their favor while others need to be analyzed before making sense. Here is an overview of the dynamics that are in play.

Piecing things together

Deciphering the bigger picture in a turbulent economic landscape.

- Interest rates raised 10 times in a year. The Federal Reserve has regularly raised rates since March 2022 to combat inflation.¹
- 40-year high. Inflation hit a record high in 2023, along with greater labor costs and supply chain issues.²
- Highest labor cost increase in at least 14 years driven in part by how the pandemic disrupted the workforce.³



Does cash still fit?

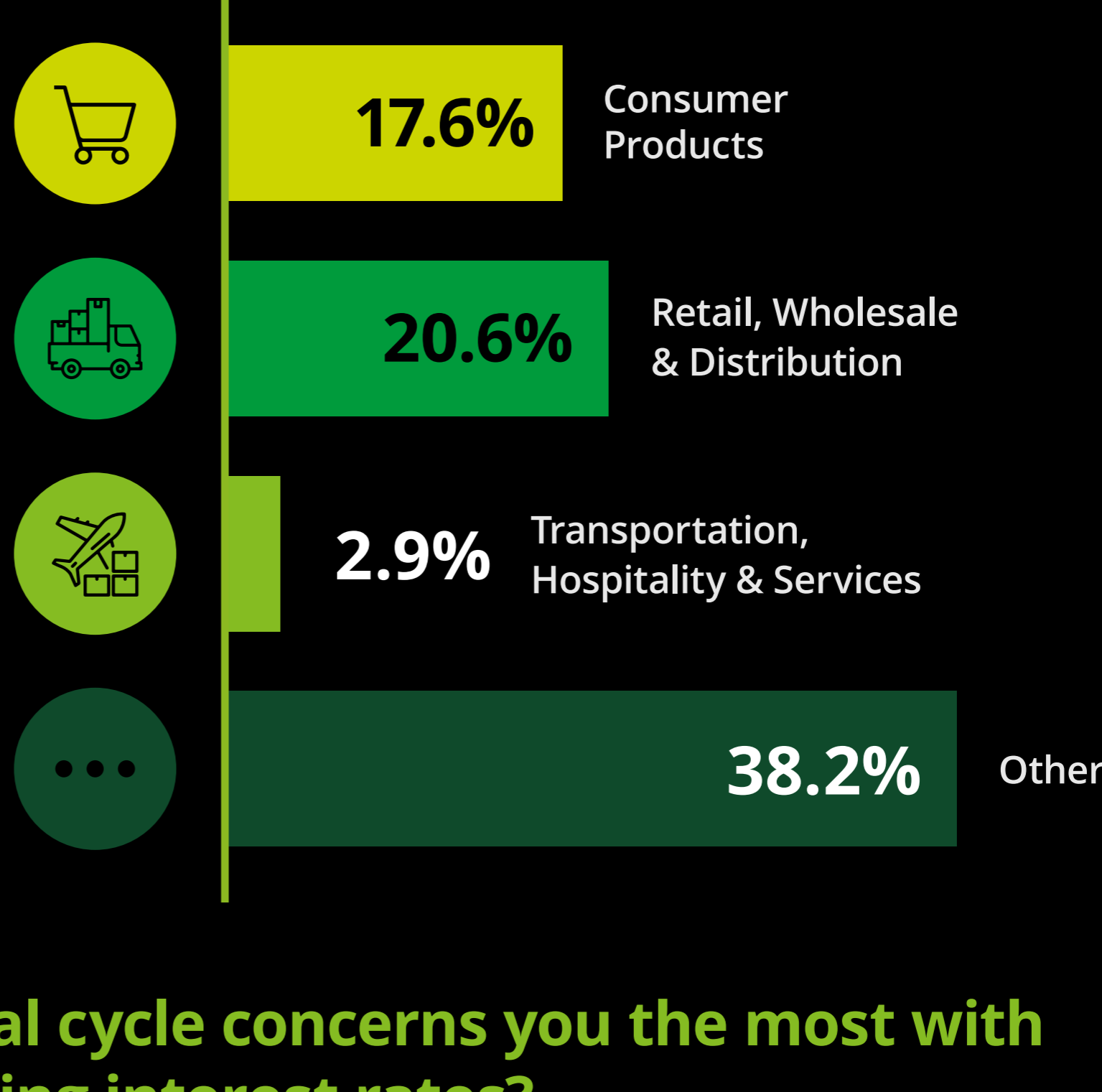
While interest rates are at 15-year highs, process improvements to the cash conversion cycle (CCC) could unlock liquidity within the business.⁴

How are accounting and finance executives within the consumer industry piecing things together?⁵

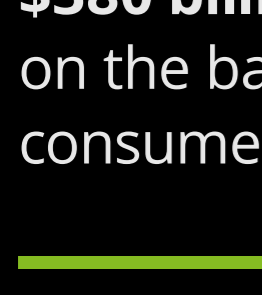
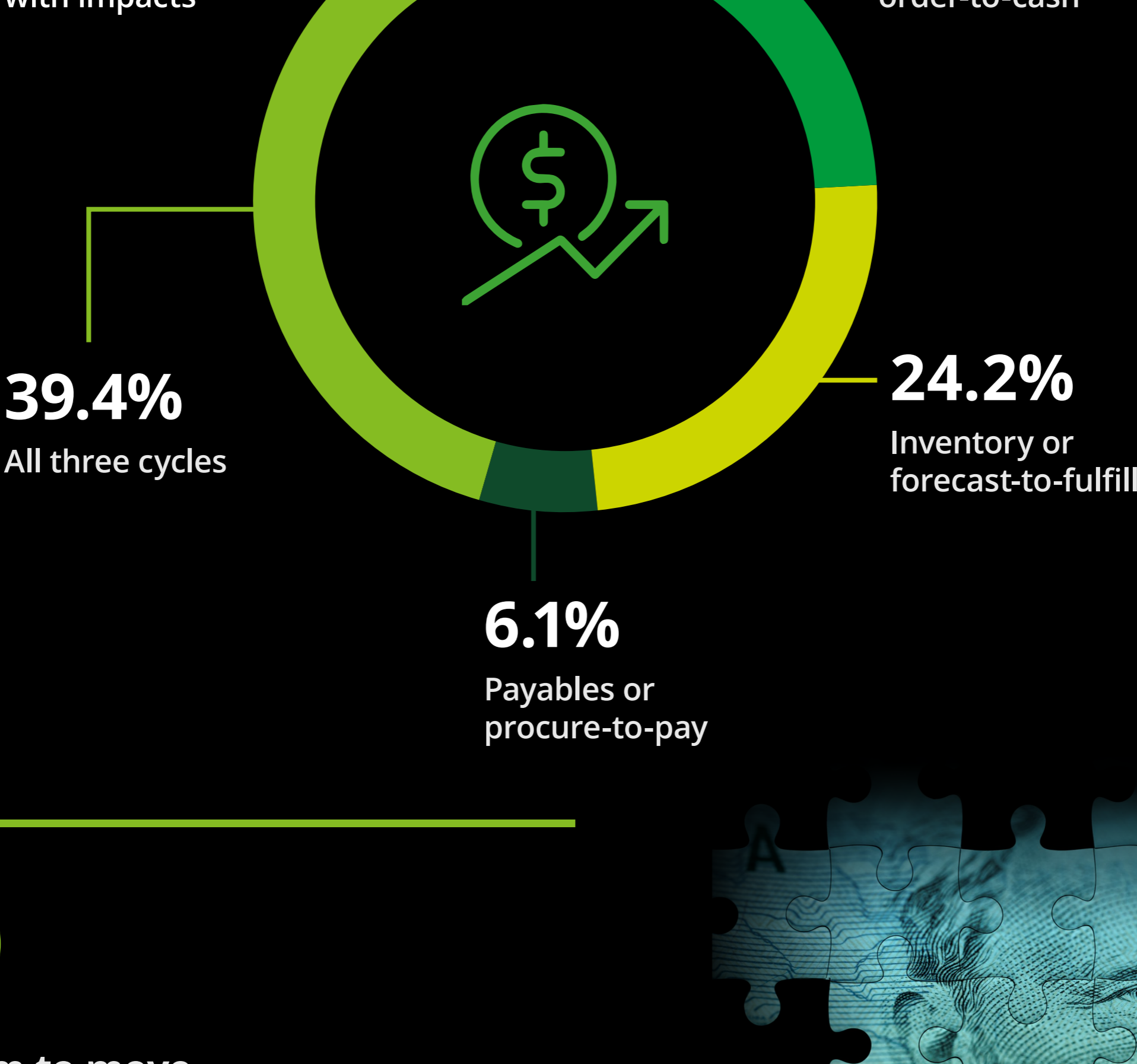
Has your company prioritized working capital management amidst rising interest rates in the last 15 months?



What is your consumer sector?



Which working capital cycle concerns you the most with high inflation and rising interest rates?

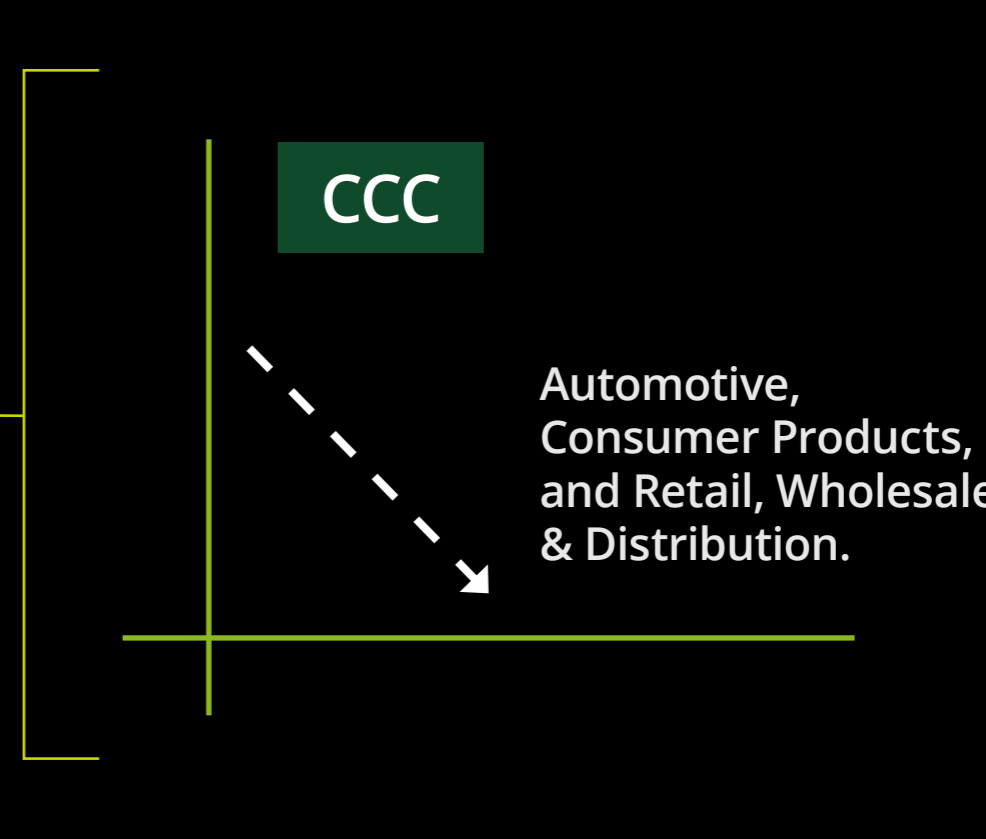


No room to move

\$380 billion in trapped cash sits on the balance sheets of US-listed consumer companies⁶

Q4, 2022: Working capital performance falls to pieces

- DSO exceeded 2021 levels. Days sales outstanding (DSO) performance exceeded 2021 levels, but days payable outstanding (DPO) and days inventory outstanding (DIO) deteriorated.⁷
- Quarterly CCC days deteriorated by 2.8 days Y-o-Y, yet remained 0.8 days below pre-pandemic levels.⁸
- Biggest deterioration in CCC: Consumer products.⁹
- Significant deterioration in CCC: Automotive due to longer DIO and shorter DPO.¹⁰
- Improvement in CCC: transportation, hospitality, and services as improved DSO offset deterioration in DPO and DIO.¹¹



Auto parts

How the automotive industry is being challenged by working capital.

- OEM saw the biggest decline, while dealers saw the smallest.¹²
- The transition to electrical vehicles (EVs) and supply chains disruption continue to affect the industry.¹³
- Automotive working capital performance declined in 2022 due to an increase in DIO.¹⁴

Cracking the code

Deciphering the current vehicle price index.

The positive

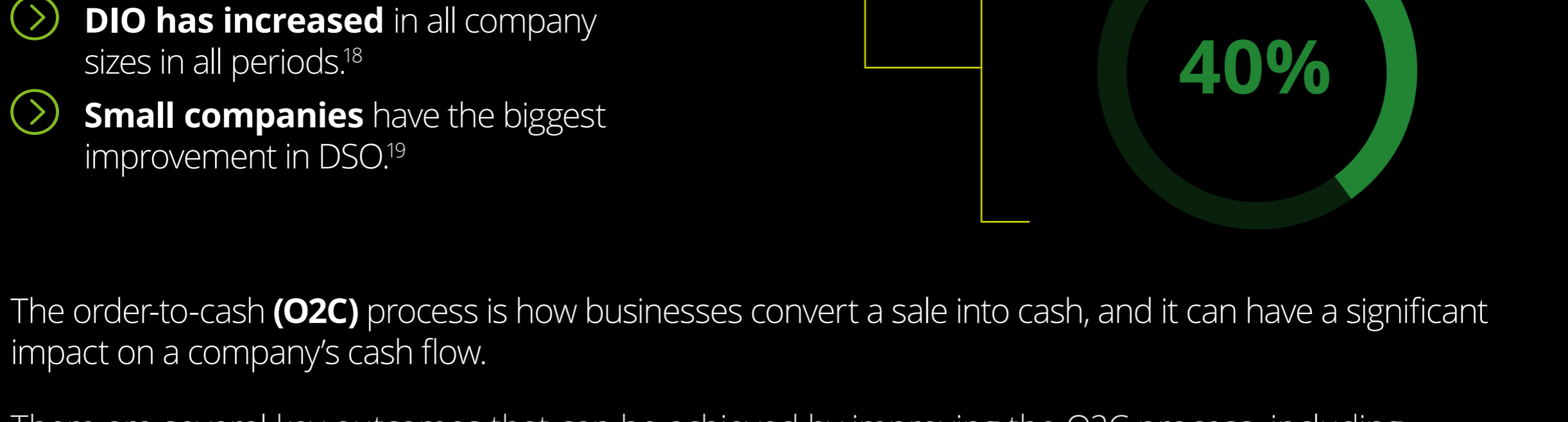
- Improving supply of new vehicles.
- Stabilizing vehicle prices.
- Unlocking underlying pent-up demand.
- Increasing consumer interest in EVs.

The negative

- Companies cutting costs due to inflation and interest rates.
- Lack of affordable vehicle options.
- Elevated transaction prices.
- Disruptions to the global supply chain.

The supplier dilemma

Rising costs and unpredictable demand take a toll on financial health.



The order-to-cash (O2C) process is how businesses convert a sale into cash, and it can have a significant impact on a company's cash flow.

There are several key outcomes that can be achieved by improving the O2C process, including:

- Improved cash flow from operations.
- Improved effectiveness of collection and dispute management.
- Collaborative cross-functional framework.
- Effective use of technology, tools, and operational KPIs.
- Balance between automation, emails, and direct client phone conversations.



Through these key outcomes, businesses can improve their O2C process and achieve significant benefits.

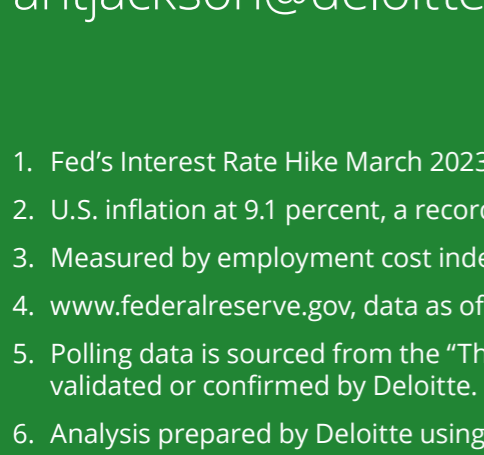
The final piece

How can companies stay in the game until the whole picture comes together? Working capital optimization measures—tactical, operational, and structural.

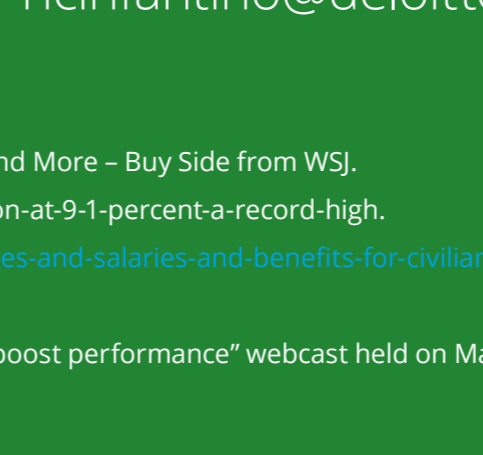
1	2	3	4
Tactical measures are short-term and can be implemented quickly.	Operational measures are medium-term, such as improving inventory management.	Structural measures are long-term and require significant investment (e.g., changes to operation financing).	Cash crisis liquidity support measures are less costly than other measures, but have less impact on profitability.

Let's talk

Let's continue the conversation. We'd love to help you get started on a working capital improvement initiative; assess your company's current state against its future-state objectives; and help you identify opportunities for improvement and free up liquidity.



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1. Fed's Interest Rate Hike March 2023: What This Means For Savings Accounts, CDs, Mortgages and More – Buy Side from WSJ.
2. U.S. inflation at 9.1 percent, a record high: https://www.pbs.org/newshour/economy/u-s-inflation-at-9-1-percent-a-record-high.
3. Measured by employment cost index: https://www.bls.gov/charts/employment-cost-index/wages-and-salaries-and-benefits-for-civilian-workers-12-month-percent-change.htm.
4. www.federalreserve.gov, data as of 05-10-2023.
5. Polling data is sourced from the "The dash for cash—reimagining working capital programs to boost performance" webcast held on May 25, 2023. Responses were taken "as is" and were not validated or confirmed by Deloitte.
6. Analysis prepared by Deloitte using financial data from CapIQ as of March 2023.
7. S&P Global Market Intelligence LCC, public financial data, quarterly earnings report.
8. Analysis prepared by Deloitte using financial data from CapIQ as of December 2022.
9. S&P Global Market Intelligence LCC, public financial data, quarterly earnings report.
10. Ibid.
11. Ibid.
12. Ibid.
13. Ibid.
14. Ibid.
15. Deloitte benchmark database; year reflects most recent company filings as of calendar year end.
16. Ibid.
17. Ibid.
18. Ibid.
19. Ibid.