Insights Library

Liquidity & Cash Conversion Cycle

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Recent surveys on corporate liquidity and cash conversion cycles (CCC) indicate that managing working capital efficiently remains a top priority for many organizations as they navigate economic uncertainties in 2024.

Companies are increasingly focusing on optimizing their CCC to unlock trapped liquidity, which can free up significant capital for growth.

The latest reports highlight a trend towards leveraging technology and supply chain finance solutions to improve cash flow management and extend payment terms, especially amid persistent challenges like high interest rates and inflation.

According to recent insights from KPMG, cash forecasting and liquidity management have become top priorities for corporate treasurers, especially amid a volatile economic landscape characterised by rising interest rates and inflation

Many organisations are now focusing on enhancing the accuracy of cash flow forecasts by adopting advanced technologies like AI and machine learning to optimise their cash management processes.

This shift allows companies to not only improve forecast precision but also reduce manual workloads, thereby freeing up resources for strategic decision-making.

These trends highlight the growing need for robust treasury management systems that can handle complex data analytics, enabling organisations to stay agile and financially secure in a rapidly changing environment.

The Hackett Group's latest insights on working capital efficiency highlight a growing emphasis on optimizing cash conversion cycles, particularly amid economic uncertainty. Their research indicates a focus on reducing days sales outstanding (DSO), days inventory outstanding (DIO), and enhancing days payables outstanding (DPO) to improve liquidity. This strategic push is driven by the need for better cash flow management and cost efficiency, especially in the face of inflation and rising interest rates.

Key trends include increased adoption of supply chain finance (SCF) programs as companies look to free up cash and manage supplier relationships more effectively. The Hackett Group also emphasizes the importance of digital transformation in streamlining financial operations and driving working capital improvements, which is crucial for maintaining competitive advantage and operational resilience in 2024

Emphasis on Cash Forecasting and Liquidity Management

A 2023 survey by KPMG indicates that cash forecasting and liquidity management are top priorities for corporate treasurers. Organisations that have adopted cashflow forecasting tools report higher confidence in their forecasting accuracy over longer horizons.

Focus on Working Capital Efficiency

The Hackett group's 2023 Working Capital Survey reveals a decline in the overall productivity of working capital management, with all elements of the CCC deteriorating. Notably, days sales outstanding (DSO) experienced the highest increase since the pandemic, and both DSO and days inventory outstanding (DIO) worsened for the first time in a decade

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Conclusion

In my thirty years of experience in Corporate Risk Management, I've observed that effective liquidity management and optimisation of cash conversion cycles remain central priorities for global treasurers – regardless of market conditions. Whether navigating economic downturns or capitalising on bull markets, these two pillars are essential for ensuring financial resilience and strategic agility.

Amid the inevitable fluctuations in the business cycle, the focus on liquidity and efficient cash management has proven to be not only a constant but also a critical enabler for companies aiming to drive sustainable growth and weather economic uncertainties

Read More:
Hackett Group, CFO.com, The Hackett Group

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Trusted corporate advisor to global treasurers and CFO's with an expertise in enterprise treasury and finance, digital transformation and post-merger operational and financial integration, cross border transactions and risk management.

Providing clients with planning and guidance on implementing digital transformation initiatives that drive sustainable revenue growth and create long-term value.

Related projects to date have yielded a cumulative global economic value of greater than $500B and generated revenues in excess of $200M