Managing Total Liquidity in Response to the COVID-19 Crisis

A Rapid Response Guide for Chief Financial Officers
We’re all in this together

COVID-19 has turned into a global crisis, evolving at unprecedented speed and scale. It is creating a universal imperative for governments and organizations to take immediate action to protect their people.

It is now the biggest global event—and challenge—of our lifetimes. As such, it is changing human attitudes and behaviors today and forcing organizations to respond.

However, the need to respond won’t end when the virus’s immediate threat eventually recedes.
The economic crisis precipitated by the spread of the COVID-19 virus is unprecedented in its suddenness, its severity, and its global reach. The collapse of demand in hard hit sectors has stopped production lines, put supply chains into a state of suspended animation, and forced companies to lay off or furlough millions of workers.

While national governments respond to the crisis with public health initiatives and economic stimuli, businesses are still charting the right course of action. Leaders need to protect their employees while responding to customer demands. At the same time, they must safeguard the future of the company.
The depth of the crisis is profound

The table below illustrates an analysis of the Altman Z-score, conducted by Accenture. Of the S&P 500 companies, 210 companies were in the distress zone in late March 2020. The distress zone suggests a considerable risk for many companies of going into bankruptcy in the near future.

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**What is the Altman Z-score?**

The Z-score formula for predicting bankruptcy was published in 1968 by Edward I. Altman, who was, at the time, an Assistant Professor of Finance at New York University. The formula may be used to predict the probability that a firm will go into bankruptcy within two years.

Z-scores are used to predict corporate defaults and an easy-to-calculate control measure for the financial distress status of companies in academic studies. The Z-score uses multiple corporate income and balance sheet values to measure the financial health of a company.
COVID-19 is now dominant in C-level discussions

According to our research into chief executive officer sentiment, on average, **finance issues make up one quarter of CEO discussion topics as they relate to the COVID-19 crisis**. Not surprisingly, finance is the greatest single topic of discussion for business-to-consumer (B2C) and business-to-business-to-consumer (B2B2C) CEOs⁴ with supply chain related topics coming in at a close second.

In this time of crisis, **actions taken by the CFO and the finance function can have an immediate impact on the survival of the company**, its suppliers and customers. By accelerating a rebound from the global downturn, the CFO can help ensure the company’s financial health and sustainability going forward.

Source: Based on proprietary research conducted by Accenture, March 2020.
The time to act is Now

As CFOs attempt to safeguard total enterprise liquidity in this time of crisis, they should ensure they have two capabilities supporting the core of finance and liquidity management activities:

1. A liquidity control tower

An effective approach to managing liquidity, risk, and operations requires the finance team to create and maintain a liquidity control tower that provides an enterprise’s leadership with a single view of all aspects of liquidity, linking information related to receivables, payables, inventory, risk, taxes and cash flow, through a 360-degree governance framework. This helps establish targets and develop action plans, communicate and coordinate with operations, drive needed change and allocate resources. The liquidity control tower also helps the CFO manage risk and communicate effectively with banks, the investment community and other business stakeholders on measures taken and their impact.

The liquidity control tower

An agile group of cross-functional, interdisciplinary teams aligned with the chief financial officer, a liquidity control tower is empowered to collect, interpret and act upon data in collaboration with other core corporate functions and lines of business.
2. Data and analytics capabilities

The finance function should develop programmatic ways to manage liquidity by leveraging data and analytics. Actions and impact assessments should be enabled in days, instead of weeks or months, through dynamic scenario-based forecasting models. These models should be agile, adjusting forecasts and outcomes to rapidly changing scenario inputs. Bias to action should be the fundamental underlying principle.
NOW: Respond immediately

In the immediate term, CFOs should strive to secure and strengthen existing financing sources and look to create breathing room by cutting non-essential spending.

At the same time, CFOs should leverage the liquidity control tower to improve cash flow.
Actionable points to help ensure liquidity: NOW

1. Modeling for working capital management

Targeted programs can **reduce working capital and deliver up to a 30% increase in operational cash**. Finance, for example, can assess the use of factoring programs to optimize the funding of receivables.

Working with the business lines and leveraging data, the **liquidity control tower can model working capital pain points** (such as persistent late payments by customers and the probability of raising disputes) through predicting invoices with a high probability of rejections or disputes due to price-quantity mismatch or improperly coded service description.

**Proactively monitoring flagged invoices can reduce disputes by up to 80%** and address potential downstream problems. Furthermore, intelligent collection tools can monitor and analyze customer-specific payment performance via payment behavior analytics.

On the payables side, auditing and analytics can ensure available discounts are used, **increasing discount capture by as much as 40%** and minimizing other charges.

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**Case in point**

A food and beverage company could improve days sales outstanding and reduce working capital by $660 million by rationalizing credit terms across business units and countries.
2. Global cash visibility and control

Many organizations lack full real-time cash visibility and an understanding of the cash liquidity potential. The nature of the business, the complexity of the value chain, and poor forecasting processes can result in significant cash buffers, cash trapped in regulated countries, and investment decisions that do not reflect the liquidity needed to respond to the current situation.

The Liquidity Control Tower can enable full end-to-end visibility and control of liquidity decisions, supported by cash management analytics solutions incorporating business and regulatory insights. This can help drive maximum value from the capital structure while freeing up stranded cash in the short term.

Actionable points to help ensure liquidity: NOW
Actionable points to help ensure liquidity: **NOW**

3. **Insight-driven procurement**

The liquidity control tower should leverage spend optimization capabilities and coordinate with Procurement to analyze all open purchase orders and **reduce non-essential spending**. These insights allow the CFO to identify large areas of spend and indicate possible commercial renegotiation of rates and payment terms, including payment deferment. This can **help reduce the SG&A spend by as much as 30%**.7

Organizations can also leverage dynamic discounting capabilities to strike a balance across the ecosystem, such as between their cash needs and the needs of their suppliers and customers. Commodity price analytics and **supplier market intelligence can inform supplier negotiation strategy** and can also help manage the impact of volatility for key materials such as ethanol and crude oil.

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**Case in point**

An airline’s cash reserves could be increased by identifying non-essential activities and non-critical commodity contracts that can be placed on hold.
NEXT:
Recover from the economic shock

Once immediate steps to improve cash flow are in process, the liquidity control tower can focus on building scenarios with dynamic supply and demand planning options.

These scenarios leverage agile frameworks and diverse data sources, including macroeconomic factors reflecting the impact of COVID-19.
Actionable points to help ensure liquidity: NEXT

1. Scenario modeling for demand scaling
The liquidity control tower can adjust demand and supply forecasts based on what-if scenarios using analytics modeling tools. Since there are divergent possibilities of a relatively rapid upturn in demand or a more gradual recovery, the liquidity control tower should help balance the need for inventory to meet immediate demand against the ongoing need to avoid tying up cash in idle inventory. By doing this, organizations can see as much as a 30% reduction in inventory carrying costs.8

Case in point
With the implementation of a liquidity control tower, an aircraft manufacturer could reduce spare parts inventory by $200 million through the highs and lows of travel.
2. New CapEx governance

Declining business performance, increasing liquidity constraints and overall dilution in return on invested capital (ROIC) will likely drive many companies and industries to take drastic decisions on canceling CapEx investments. While this has an immediate positive cash effect, it can slow down recovery from the crisis and cause companies to lose their competitive edge.

The liquidity control tower can help organizations with CapEx governance by ensuring better capital allocation decisions and improving certainty on in-flows and out-flows of cash. The liquidity control tower team helps equip CFOs with insights to challenge predictions on CapEx returns and paybacks and provide both CEOs and CFOs control of all decision-making before the investment is made. The liquidity control tower also helps monitor results throughout the investment in all areas of the organization.
3. Stress test simulations of the supply chain

The liquidity control tower can work across the supply chain to drive simulations and analytical scenario modeling with multiple options across demand, supply, inventory, logistics, and networks. For example, the organization should analyze the inventory of raw materials, unused production capacity, and new potential logistics patterns. This analysis serves as the basis to re-route capacity and raw materials to produce urgently needed products closest to where they are needed, given the likely continued limitations in global transportation and logistics.

Case in point

Conducting a rapid analysis for a consumer packaged-goods company—which identifies products and suppliers in most-affected COVID-19 regions—could lead to a procurement-enabled solution that substitutes alternate suppliers in nearby regions to ensure product continuity and availability.
4. Supplier market intelligence for production continuity

The pandemic may put suppliers in danger of insolvency or cut off suppliers due to restricted global trade patterns.

Accordingly, the liquidity control tower can identify risks to the supply chain related to dependencies on key suppliers and use supplier market intelligence to help identify alternate suppliers that are economically viable from non-affected proximity regions to ensure production continuity.

5. Securing new funding sources

The liquidity control tower can help identify and analyze FinTech and non-banking funders including local government initiatives as sources of flexible and cost-effective capital and to link company financing programs with clients’ and vendors’ value chain financing needs.
NEVER NORMAL: Rethink how things could and should be done

In the early phases of recovery, the liquidity control tower continues to help organizations increase their agility and respond to rapidly changing conditions.

CFOs should invest in the technologies and skills needed to accelerate decision-making to grow the business.
Actionable points to help ensure liquidity: NEVER NORMAL

1. Real-time cash forecasting

The liquidity control tower needs online access to near-real-time cash position data, as well as the modeling and analytical ability to simulate cash forecasts across a range of scenarios. This requires constant input from Corporate (reflecting top-down decisions) and bottoms-up realism from the business lines, all captured in a driver-based cash forecasting model, leading to forecasting accuracy of up to 95%. ⁹

Case in point

Global logistics companies can achieve up to 95% forecasting accuracy which in turn can significantly improve cash flow.
2. New technology enablement

Companies can and should adopt new ways of leveraging Human + Machine augmented solutions. These can be powered by techniques such as data, analytics and artificial intelligence. As well as information extraction, dialogue management, fuzzy matching and reasoning.

While these solutions help provide close and continuous monitoring leading to better visibility into the company’s cash position, their effectiveness hinges not only on implementing the right technologies but on adding the right mix of people and skills to the Finance team.
Actionable points to help ensure liquidity: NEVER NORMAL

3. End-to-end investment and returns visibility

The liquidity control tower should be able to view end-to-end performance across the value chain from marketing to production to fulfillment and servicing. Availability of integrated data can help CFOs initiate an ongoing evaluation of investments, revisit the returns of committed projects and reassess resource allocation, with all cash returns modeled to portfolio profitability.

Finance organizations will likely need better predictive models to support shorter investment cycles as well as more phased capital allocation.
4. Own the ecosystem

Successful portfolio management should reflect changes in the company’s risk appetite as well as changes in the ecosystem and potential growth areas. The liquidity control tower can be the arbiter of transparent investment analysis based on reliable data, using standard and stable analytical tools, and can help balance returns against risk.

Customized investment management tools can allow proactive monitoring of performance and early alerts of potential risks while providing a centralized facility to manage all investments globally. These organizations are generally very effective in driving cost optimization programs and embedding a culture of Zero-Based Spend (ZBs). A culture of ZBs can help improve overall ROIC and secure liquidity in the full value chain. ZBs enables organizations to identify discretionary non-labor overhead expenses, allowing leadership to take steps to free up cash that can be channeled into growth initiatives, capability improvements and EBITDA improvements.

Actionable points to help ensure liquidity: NEVER NORMAL
Envisioning a post-crisis world

The COVID-19 pandemic poses unique challenges to CFOs and their finance organizations. Nearly every industry in every region will be affected and some companies will find it difficult to survive. CEOs are looking to CFOs worldwide to take the lead in dealing with the crisis.

A comprehensive liquidity control tower approach—using data, analytics and innovative technologies to obtain a clear picture, make the right decisions, and develop a plan for recovery and future growth—can offer CFOs a way to deal with current volatility while building an enterprise that is fit for a post-crisis world.
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References

1 The Economist, “Much of global commerce has ground to a halt. Some companies will never restart”, March 21, 2020.
5 Based on Accenture projects and delivered outcomes.
6 Ibid.
7 Ibid.
8 Ibid.
9 Ibid.
To help our clients navigate both the human and business impact of COVID-19, we’ve created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions which can be taken **now**, and what to consider **next** as industries move towards a new normal.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

**VISIT OUR HUB HERE**
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