



# See the bigger picture

Managing assets in volatile times: 9 ways  
CFOs can adapt to changing financial markets

It's hard to recall a more challenging environment for managing assets and raising capital than the one facing companies today. By now, the underlying problems affecting the global economy are well documented, and every major company has already been affected by the crisis in one way or another. Most are searching for ways to free up the cash they need to continue growing their business. In many cases, companies are seeking cash simply to stay afloat. Whatever situation you face, you'll find some practical tips inside to consider for managing in these volatile times.



For CFOs, the job of raising and investing short- and long-term capital just got a lot harder. It will take new approaches to get the working capital they need. Companies may have to build new banking relationships and strengthen existing relationships with an increasingly concentrated set of large global commercial banking organizations. They may also need to expand their relationships with a broader portfolio of smaller banks – no more depending on a short list of large “friendly” banks that are always ready to help. Private equity funds will play a larger role as well. That’s because many investment banks have simply disappeared, and the ones that remain are more tightly regulated. Money market funds have changed, too. The entire landscape of institutions and markets responsible for providing capital has changed. CFOs are entering a new era of capital markets.

This is the time for CFOs to focus on short-term financial demands while positioning for long-term financing needs in an increasingly unpredictable business environment. Here are 9 useful practices and strategies to consider:

### 1. Conserve cash, control costs

The global economy could be entering an extended recession, and CFOs will need to preserve every bit of cash they can. There are some obvious places to look, such as discretionary spending and corporate travel. But at a time like this, it’s necessary to take a closer look in less obvious areas. What non-core functions can be outsourced or moved offshore? Is this the time to launch a large-scale, enterprise-wide cost reduction initiative? Everybody’s looking for the quick, easy wins – but many companies will also need to implement more comprehensive, far-reaching cost reduction efforts to get the results they’re looking for.

Of course, some companies have substantial cash reserves – but they may be generating cash in the wrong locations and flowing it through inefficient tax channels. In such cases, CFOs need to look at tax-efficient cash repatriation strategies to conserve cash.

### 2. Diversify capital sources & establish new credit lines

Plan for deeper relationships with a wider variety of credit providers and banks – and develop a better understanding of the risk exposure those entities may be facing themselves. Also, companies seeking capital from banks will need to work closely with them to make sure they have the information they need to extend revolving credit facilities. Private equity firms will play a larger role as well.

The days of “covenant light” loans are over. Expect to operate in an environment of tighter debt-to-equity ratios, heightened restrictions in the use of capital and investments, and more extensive reporting requirements to providers of capital. For many companies, this will require upgrades to treasury systems as well as making sure they have the right talent in place to meet new challenges.

### 3. Lower working capital requirements

For the most part, the current set of operational processes that drive inventory, accounts receivable and accounts payable levels required to run business today have all been designed for an environment in which cash has essentially been ‘free’. The result is a gold mine of cash tied up in working capital that can be rapidly released by taking the ‘blocking and tackling’ measures to improve these operational processes. Improving demand forecasting and inventory planning processes to lower inventory requirements, tracking accounts payable performance by commodity and extending terms to industry benchmarks, and eliminating errors in the order to delivery process to reduce disputes and improve accounts receivable performance are just a few of the operational improvements that can dramatically reduce working capital requirements.

#### 4. Seek out strategic assets

There will be many opportunities to pick up strategic assets, not to mention entire companies, in the coming months. But only companies with strong balance sheets will be able to take advantage of this environment. There are recent examples of companies making moves today to bolster their competitive advantage in the future. Expect to see many more mergers and acquisitions over the next two years – and if your company has the financing and cash on hand to support it, start looking for strategic assets today, and be prepared to move quickly but carefully. As you negotiate this slippery terrain, don't lose sight of the fact that your company may already be considered a strategic acquisition target by someone else.

#### 5. Consider a new capital mix

In the long term, CFOs will likely need to develop a new mix of capital to finance their companies. That may mean bank loans and private equity investments, for starters. In the near term, the differences between companies with high credit ratings and those without are likely to be stark, in terms of both cost and availability of capital. This is a time to improve your company's credit ratings if possible to take advantage of more favorable conditions. CFOs should also consider innovative new ways of pricing capital. For instance, indexing the cost of capital to LIBOR resulted in major increases in the cost of borrowing for many organizations, when indexing to the ten-year Treasury note might have minimized interest rate hikes. CFOs need to carefully consider new financing structures, renegotiating and selectively diversifying sources of capital as well as pricing strategies.

#### 6. Have a Plan C

Scenario planning can be an extremely valuable tool at a moment marked by such uncertainty. Cash flow and demand forecasting are good places to start. But for many companies, traditional budgeting cycles are no longer applicable or particularly useful. Focused, short-term 30-and 60-day forecasts may provide a much more practical option for allowing Finance to respond to unpredictable changes in their business. What will receivables and payables look like next month? In six months? A year from now? What if demand falls off, where does that leave the company? When will you know it's time to take another look at selling off assets? Seriously considering scenarios like this can help you establish not just Plan B, but Plan C. Because with this level of uncertainty, just having a Plan B isn't enough anymore.

#### 7. Communicate clearly and constantly

Everyone's on edge these days – the board, suppliers, lenders, employees. And while you may feel that it's more important to hunker down and focus on the tremendous challenges at hand, it's important to stay in constant communication with your most important stakeholders, with a strong focus on those closely involved with finance. Even if you're not planning something major – like renegotiating that \$500 million revolving credit line – let them know how things are going. If they hear nothing, they will assume the worst. If it really is that bad, it's better for them to know sooner rather than later. This is the time for transparency – start by clearly defining which stakeholders need which information, and commit your team to regular reviews and communications with them for the foreseeable future.

#### 8. Lock in your talent

In tough times, it's a given that companies will shed underperformers. But many find their best talent also heading for the door during tough times, picked away by competitors looking to consolidate power during the downturn so that they can come out fighting when the economy starts warming up again. That's why it's important to have a strategy for identifying and retaining your best talent during the downturn. Also, this is a time to communicate more frequently with the entire company. Just like everyone else, if rank-and-file staff hear nothing, they will assume the worst – making their decision to leave the organization that much easier.

#### 9. Understand the risks of "business as usual"

Activities that are commonplace during ordinary times may take on a new dimension of risk in volatile times. Companies should consider the consequences of every CFO-managed activity. Risk inherent challenges for CFOs include functions such as managing payables, payroll, benefit plans, purchasing practices, insurance programs, executory contracts and deferred compensation plans. For example, while it may seem to make sense to delay payroll cycles for the C-suite there is a risk that in the event of adverse actions by a third party that these executives are caught in mid cycle and are unpaid creditors. Also, consider your obligations regarding trust tax equivalents. Typically withheld bi-weekly, but remitted in arrears on a monthly basis. What if the cash isn't available and these obligations are unpaid? Many of these activities may seem ordinary during "good" times, but they carry increased risks when your company has liquidity concerns.

Chances are, as a CFO you've never felt so hemmed in as you do today – and that's especially true when it comes to cash. Old ways of doing business will only keep you more constrained. Even if your organization isn't facing serious financial risk, these approaches can still be valuable tools in helping you guide your organization through the downturn and planning for the upturn.

# Contacts

To learn more about how Deloitte can help your organization in its efforts to reach its cash management goals, please contact:

**Omar Aguilar**

Principal, Deloitte Consulting LLP  
oaguilar@deloitte.com  
215-246-2382

**David Brainer**

Principal, Deloitte Consulting LLP  
dbrainer@deloitte.com  
513-784-7230

**Don deCamara**

Principal, Deloitte Consulting LLP  
ddecamara@deloitte.com  
216-830-6601

**Dan Kinzler**

Principal, Deloitte Consulting LLP  
dkinzler@deloitte.com  
312-486-3216

**Rod Sides**

Principal, Deloitte Consulting LLP  
rsides@deloitte.com  
704-887-1505

**Sheila Smith**

Principal, Deloitte Financial Advisory Services LLP  
sheismith@deloitte.com  
617-437-3854

**Jeff Weirens**

Principal, Deloitte Consulting LLP  
jweirens@deloitte.com  
612-397-4382

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