

## Working Capital and Supply Risk Across Today's Value Chain

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## Taking Stock 2007 - 2009

- 2007-2008: the blow of unsustainable lending practices and overenthusiastic deregulation reverberated throughout the world- a global financial crisis was unleashed
- 2008 -2009: as credit and equity financing dried up, liquidity contracted sharply and we faced the deepest, broadest and most pervasive global recession in decades

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## Horizons – Ivey Purchasing Index

While we see solid signs of recovery as of Q1 2009, uncertainty will persist well into 2010.



## What Has this Meant to Supply Chain?

Ernst & Young Survey Q2 2009

*“With cash still an issue for 82% of global businesses, the supply chain represents **risks and opportunities** for Canadian companies.”*

## Working Capital (“Cash”) Management

- As traditional sources of finance dried up, and demand and supply volatility flared, working capital became an important source of short term liquidity.
- Working capital is managed by three components:
  - Accounts Receivable
  - Accounts Payable
  - Inventory

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## Supply Chain: Liquidity Tradeoffs

	PERFORMING	VS.	STRESSED
<i>Inventory</i>	EOQ: total inventory cost		<EOQ: timing trumps total inventory cost
Discounts A/P	Take the discount		Forgo discount- take extra 60 to 90 days
Discounts A/R	Fixed intervals e.g. 2/10, net 30		Prorated interval e.g. 2/10, 1.5/15, 1/20, net 30
Contract structure	Total deal value		Timing, and/or extended buyer/ supplier financing
Finance culture	Income Statement: earnings, profit, growth		Balance Sheet: cash-short term survival

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## Liquidity & Risk: A New Playing Field

- For many it is a new playing field when it comes to vital supply chain decisions related to:
  - sales forecasting and operations planning
  - demand planning
  - inventory management
  - logistics and distribution
  - relationships with key suppliers
  - customer service standards
  - cost cutting
  - capital/ cash management

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## Looking Ahead

*Is your supply chain responsive enough to recognize a rebound and respond in a timely manner: are you equipped to deal with economic recovery?*



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## Looking Ahead: Recovery

- Having survived, where is your opportunity to increase profitability?
- Are you maintaining adequate working capital and liquidity to fund inventories and receivables when production schedules increase with rising market demands?
- Are you securing supply availability and relationships to meet the impending upturn?



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