Riding the rapids: new agile working capital era

In a post-tariff business environment, corporate treasurers have the opportunity to leverage working capital finance solutions and ensure greater resilience

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The announcements, and pauses, of new tariff regimes by US President Trump's administration have created havoc for world leaders and any corporate business that trades with the US. However, while most people are still trying to determine the overall social and economic impact on countries and organisations, many manufacturing corporates must very quickly adapt to the new regime.

While corporates are working around the clock to reconfigure their supply chains and ensure availability of their goods to their end consumers in a timely and cost-effective manner, there are new challenges faced by CFOs and group treasurers that need to be resolved at the earliest opportunity.

Corporates not only need to consider the direct financial impact on gross margin and how much they can pass on to their customers; they also need to build up higher inventory levels as contingency planning. This can lead to working capital constraints. In the longer run, CFOs and treasurers will need to balance CAPEX/OPEX while continuing to report financially healthy results to their shareholders.

Physical supply chain

The table below shows the three scenarios under which they are operating – now, next and the future. Based on these assumptions, some of the potential scenarios that corporate sales and procurement teams might consider in the coming weeks are:

1. **Reconfigure supply chain –** corporates will need to review their existing supply chains on an end-to-end basis, from procurement of raw materials, manufacturing, shipments and sale to final products to end consumers.
2. **Contract manufacturers –** these rapidly changing economic and market scenarios can potentially create new opportunities for smaller entrepreneurs to set up agile manufacturing facilities. These facilities can be used for multinational companies to move their production bases in line with supply chains,

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Corporate sales and procurement teams

NOW	NEXT	FUTURE
• Maintain sufficient inventory (raw materials and finished goods) to ensure no impact on manufacturing and sales	• Reconfigure existing supply chains in line with new tariffs, changes in customer behaviours and sales patterns	• Create resilient manufacturing capabilities across geographies to meet customer requirements at competitive price
• Ability to deliver finished goods to their customers across geographies in a timely manner	• Explore 'near-shoring' their own manufacturing capabilities in line with reconfigured supply chains	• Localisation – limit cross-border movement of goods and benefit from FX rates, tariffs and just-in-time delivery and reduced inventory
• Minimise increase in sale price because of supply chain disruptions and retain end customers	• Explore using contract manufacturers while 'near-shoring' to be quick to market and retain market share	• Explore setting up regional and/or local manufacturing hubs to minimise impact of geopolitical issues/tariff trade wars

tariffs and final sale of goods, to optimise costs and minimise CAPEX.

3. **New manufacturing facilities –** numerous corporates are considering near-shoring their manufacturing bases in more tariff-friendly jurisdictions, and this will need incremental corporate finance requirements from their banks and institutional investors.
4. **Specialist product manufacturing –** for certain components within supply chains, there might be a need to explore centralised new production sites to help reach economies-of-scale for specific parts/components, which will feed into contract manufacturers and/or new manufacturing facilities.
5. **M&A opportunities –** as corporates reconfigure supply chains, some of their existing manufacturing bases might not be cost-effective and may, potentially, be up for sale, while the same corporates might look at quickly acquiring new manufacturing bases, potentially leading to M&A activity and incremental corporate finance requirements.

Financial supply chains

While corporate sales and procurement teams work on making their manufacturing capabilities and supply chains resilient, the CFO and group treasurer roles become more difficult, as they need to ensure sufficient capital and liquidity is available at all times, as well as continue to protect the firm's profitability and ensure sustainable growth in the longer run.

The table below shows the three scenarios under which they are operating – now, next and the future. Based on these assumptions, some of the potential scenarios that CFOs and group treasurers might need to consider in the coming weeks are:

1. **Financing the inventory –** corporates will immediately need incremental liquidity for new invoice amounts (base price + tariffs) and longer tenors, plus build higher inventory levels. Pre-shipment via purchase order financing or inventory finance, and post-shipment via unaccepted invoice discounting solutions and supply chain finance programme of the final buyer.
2. **Counterparty risk management –** these rapidly changing economic and market scenarios might lead to a deterioration of counterparties' and/or buyers' credit risks, lower consumer spending, with a limited amount of credit insurance availability (albeit

CFOs/group treasurers

NOW	NEXT	FUTURE
• Need incremental working capital finance for building up inventory of raw materials and finished goods	• Corporate finance solutions for CAPEX (new manufacturing facilities) as well as financing third parties – i.e. contract manufacturers	• Corporate finance solutions for CAPEX – i.e. upgrade and/or setting up of regional and/or local manufacturing hubs
• Sustainable sales of goods while managing counterparty risk on buyers because of credit deterioration	• Set up supply chain finance and receivables discounting facilities for new manufacturing/production arms	• Create 'localised' working capital solutions in local currencies, working with regional and/or local banks
• Ensuring sufficient liquidity to safeguard business in case of any emergencies	• Purchase order (PO) financing and other working capital finance solutions for contract manufacturers	• Manage group P&L and balance-sheet because of FX fluctuations as corporate explores localisation options

higher cost of credit insurance).

3. **Balance-sheet management –** there will be a need to constantly monitor and optimise the corporate's balance sheet because of the higher amount of assets (i.e. raw materials, inventories, account receivables, etc.), as well as CAPEX for new manufacturing facilities – thus, a need to manage and optimise liquidity. Also, CFOs and treasurers might need to explore off-balance sheet or alternate financing solutions with different types of lenders.

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4. **Holistic corporate funding solutions –** treasurers can work with existing and new groups of lenders to create corporate finance solutions covering both long-term and short-term facilities to set up alternative manufacturing facilities in tariff-friendly jurisdictions, as well as finance contract manufacturers to be able to meet their production and manufacturing requirements.
5. **Localised network –** as there is a potential for localisation of manufacturing and sales, CFOs and treasurers will need to explore setting up local or regional supply chain finance and receivables discounting facilities in local currencies with regional or local banks.

Potential way forward

The corporate sales and procurement teams can work with strategic business consultants to reconfigure their supply chains in line with procurement, tariffs and final sale of goods to optimise manufacturing costs and minimise CAPEX.

Meanwhile, CFOs and treasurers can engage specialised debt advisers to explore holistic corporate finance solutions covering both long-term and short-term facilities.

It will be important for CFOs and group treasurers to leverage the expertise of an independent syndication team to get independent advice. These consultants can help corporates to access the right alternate lenders and regional/local banks across geographies to partner with, in addition to corporates' existing relationship banks. The right investors will need to be a balance between a corporate's funding requirements, underlying structures, facility sizes, availability of local currencies and acceptability with smaller suppliers.

While the corporate might be able to work all of the above, however, the last mile is very critical – i.e. how to automate end-to-end processing and delivery. Therefore, it is CFOs and group treasurers who could explore one-stop digital platforms with the ability to deliver multi-bank and multi-channel solutions across multiple countries and geographies.

If one takes a step back, all this geopolitical, economic and market turmoil might actually be a blessing in disguise. It could drive corporates to transform into more flexible and agile organisations, and the ones that can adapt quickly will have an opportunity to increase their market share, attract new clients and become more profitable. As per Charles Darwin's theory of evolution, the fittest ones will win.