Help Business Customers Align Capital with Strategic Plans

business customers strategic planning capital

Summary: Higher interest rates and the cost burden they impose are driving a cycle of deleveraging and cash conservation at many companies. Small business owners are balancing the need to offset higher interest expenses and lessened credit availability while also addressing competing demands for strategic growth. We provide tips for how CFIs can help their business customers align their capital with their strategic plans.

Oneirology is the study or interpretation of dreams and their significance in real life. The field encompasses various theories and approaches to understanding the content, symbols, and meanings present in dreams. Though oneirology is a more scientific perspective of dream interpretation rather than a more mystical one, the interpretation is ultimately subjective.

Businesses require more reliable ways to predict economic conditions than oneirology, especially if they are growing businesses that need to make decisions on how to maintain growth regardless of the economy's current state. They use different levers to reach that goal in different economic environments. When the economy is down, businesses work to conserve liquidity, cut spending, avoid debt, and reduce the amount they invest in their own futures. Maybe they hold off on opening a new store or purchasing new equipment.

During good times, by contrast, companies focused on growth tend to spend more. Businesses are more likely to take risks when the economy is expanding. They might open new locations, experiment with new product lines, invest in research, or purchase new equipment.

Uncertain Economic Times

A mixed economic situation gives muddled signals. It can seem as though no action is the right way forward. Companies might need to cut back on spending and use less credit to lessen the burden of higher interest rates and ensure the company survives when sales are down. On the other hand, businesses still need to invest for the future, though they may find this more difficult when lending standards tighten and credit is harder to obtain.

That's the situation community financial institutions' (CFIs') business customers find themselves in right now. They need to conserve cash even as they may want to invest for future growth. Higher fees and interest rates have teamed up with tighter lending requirements to make investing for future growth difficult, even if managers see it as vitally important.

A 2020 McKinsey study credits companies that grew throughout a downturn with the best future performance. These companies did this in part by making preparations as soon as signs of a downturn emerged, and certain sectors sustained growth by doubling down on their long-term strategies for growth, even if it meant accruing additional costs. Other companies that successfully weathered uncertain economic environments did so by ramping up their growth strategies within the first two years of their recovery.

What CFIs Can Do

Existing relationships with CFIs take on new relevance at times like this. Business customers may lean on their CFI connections in part because CFIs are more likely to lend to customers with whom they have strong existing relationships. CFIs can also serve as important guides for companies that are looking for ways to balance the need to offset higher expenses, lower credit availability, and demands for strategic growth.

Business customers also value CFIs for their ability to help them align their capital with their strategic plans, which, as McKinsey uncovered, was a key factor in the success of companies that enjoyed growth through economic downturns.

To achieve this alignment, CFIs might work with their commercial customers on some of the following strategies:

- **Utilizing cash management services.** In order to have a good estimation of where their capital is currently sitting, the cash management services that CFIs offer are a good way to determine where a business can improve its cash flow and what services they could take advantage of to improve it.
- **Stress testing cash flows.** High interest rates mean lower interest-coverage ratios, which could in turn help create additional cash flow problems. Look at potential situations that could impede liquidity. What's the worst-case scenario? How would the company deal with it?
- **Outsourcing operations** that the company isn't handling efficiently. For instance, outsourcing collecting receivables or processing payables to a specialist can both cut costs and create more working capital.
- **Allocating funds to automation.** Smart purchases in this area can both help a business save money and give it an edge in a tight labor market since automating certain services would decrease reliance on filling costly niche roles.
- **Adopting a hedging strategy,** for firms that face interest-rate or foreign exchange-rate exposures. This is a good preemptive move to reduce risk in the event of another economic downturn.

CFIs can serve as important guides for companies that are looking for ways to balance the need to offset higher expenses, lower credit availability, and demands for strategic growth. Incorporating these strategies will ensure that businesses can successfully weather uncertain economic conditions.

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ECONOMY & RATES

Rates As Of: 03/05/2024 05:34AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.48	0.03	0.08
6M	5.37	0.07	0.11
1Y	4.95	-0.04	0.19
2Y	4.57	-0.05	0.32
5Y	4.16	-0.09	0.31
10Y	4.15	-0.10	0.27
30Y	4.29	-0.09	0.26
FF Market		**FF Disc**	**IORB**

5.33	5.50	5.40
SOFR	**Prime**	**OBFR**
5.31	8.50	5.31