Informita

Knowledge Transfer With Tangible Results

Why is Working Capital Management a good thing?

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Working Capital Management is often misunderstood

Perceptions	Reality
• Is purely a finance issue • Is a balance sheet item • Is improved only by securitisation or systems implementation • Has a negative impact on customer service • Generates little benefit	• Is mostly an operational issue • Also impacts P&L • Is improved by new policies, processes and metrics • Improves customer service • Is one of the fastest ways to generate cash

"You only run out of cash once"
Professor Roland Smith, former Chairman BAe

Why companies focus on working capital

Distress	Create cash for investment	Reduce the need to borrow
Pay down debt	Improve credit ratings	Meet debt covenants
Improve CFOP	Analyst Expectations	Shareholder Expectations

Ways to improve working capital

Reduce Receivables

- Shorter customer terms
- Better collections
- Factor receivables

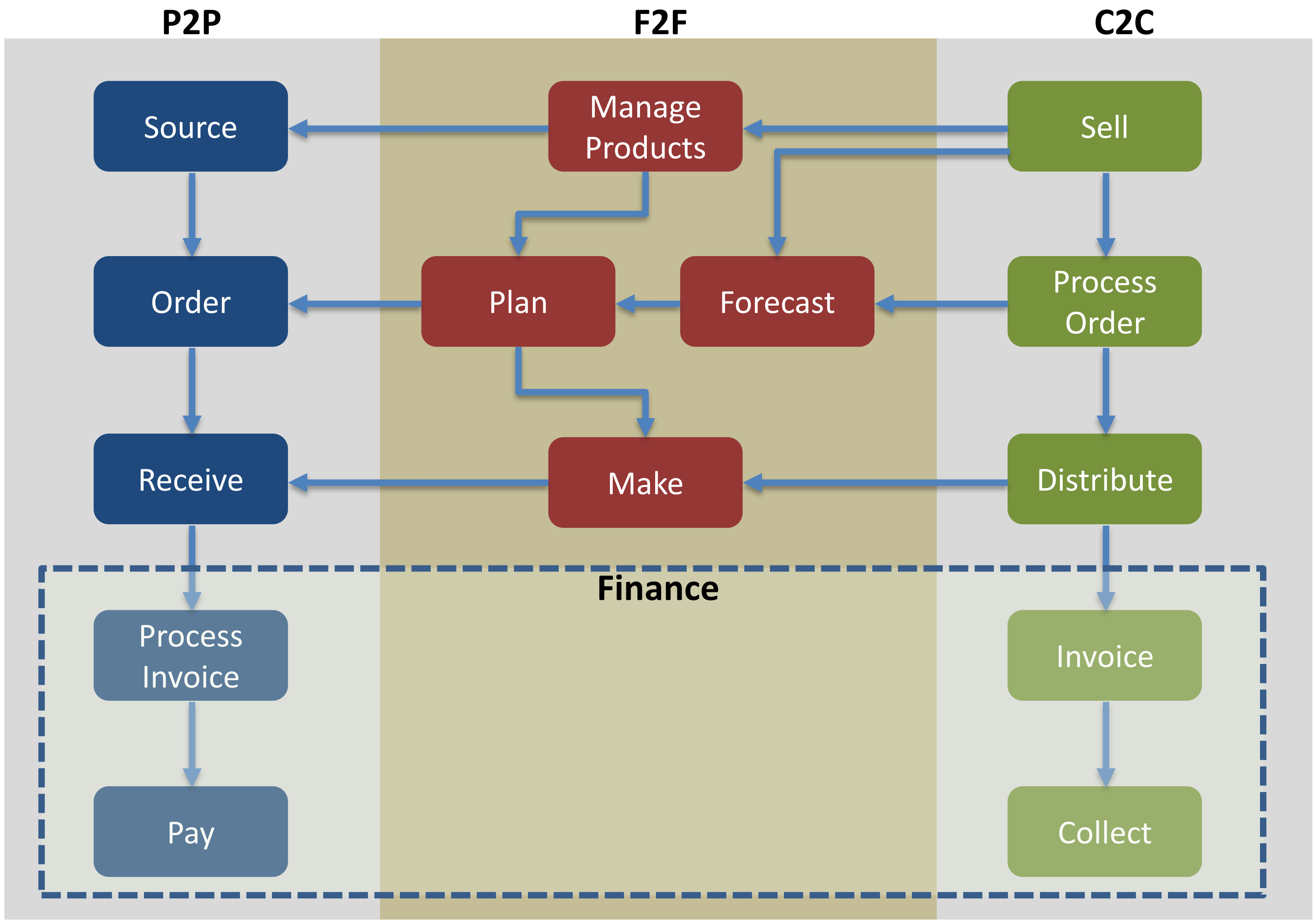
Reduce Stock

- Shorten production cycle
- Improve inventory management
- Finance inventories

Increase Payables

- Lengthen supplier terms
- Adjust payment cycles
- Supply Chain Finance

Cross-functional co-operation is essential



Funding versus process change

- All the internal measures have been completed
- All the internal measures are too difficult
- A large amount of liquidity is required quickly
- The cost of borrowing is far below return on investment or the internal rate of return
- They want to exploit their excellent credit rating

Funding Options

From the traditional to the more exotic

P2P

- Supply Chain Finance
- Travel & Expense Cards
- Purchase Cards

C2C

- Securitisation
- Traditional Factoring
- Receivables Exchanges

F2F

- Asset Backed Financing
- Crowd Financing

- Most of these options have traditionally been offered by banks
- Increasing Fintechs are offering different options

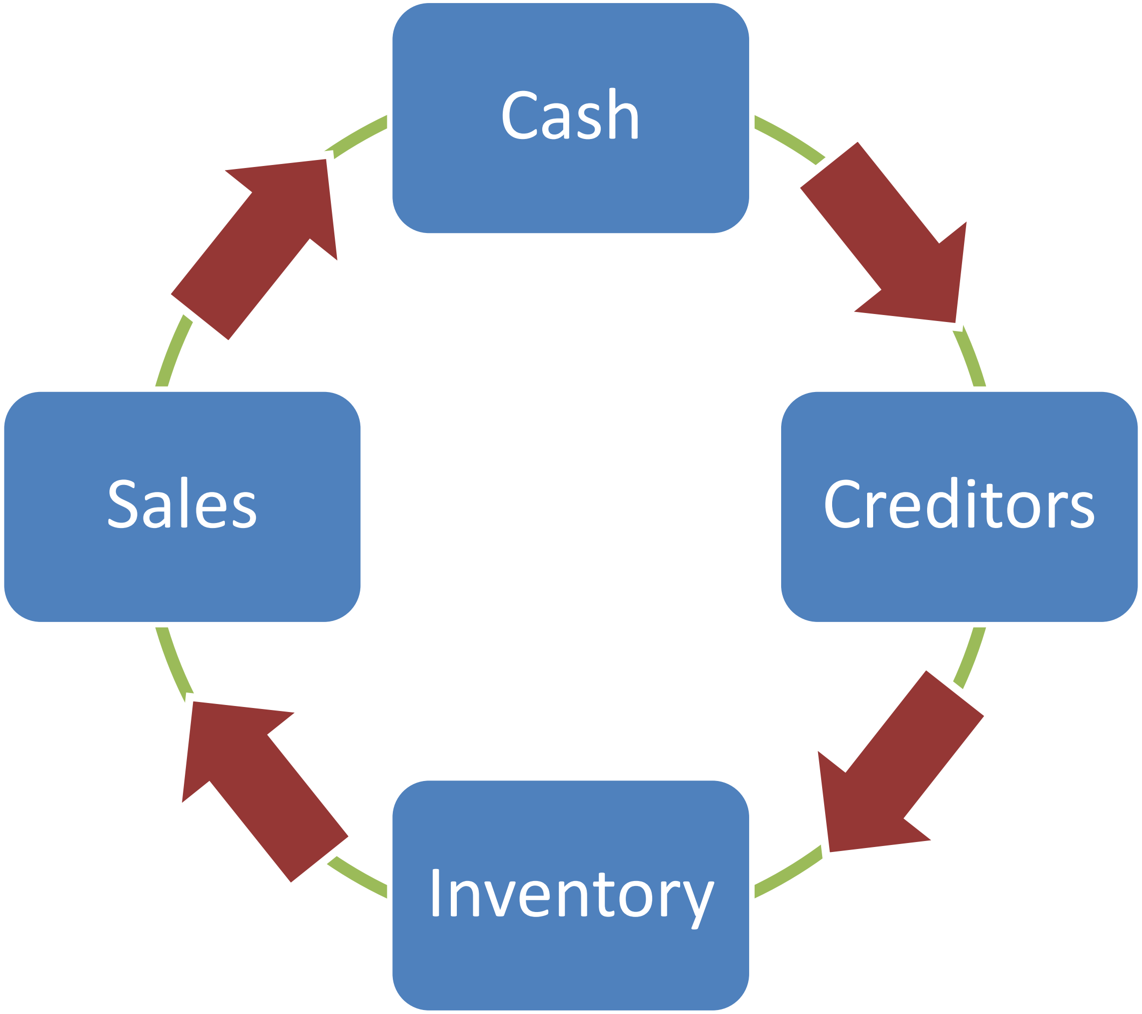
Why is good working capital management good for your business

Done Well

- Opportunity to create a competitive advantage for your firm
- Opportunity to finance growth

Done Badly

- Sub optimal financial performance
- Threat of insolvency if you run out of cash



Why is good working capital management good for your suppliers

If your company tries to behave like a bank

- You are limiting investment in your own business
- You are limiting the potential of suppliers to increase their revenues with your company in the future

If you manage working capital properly

- The total supply chain is more secure
- It is more likely that your company will pay on time
- Suppliers might even be paid more quickly
- Suppliers will feel more secure to invest in the future

Late Payment

Supplier Driven

- Issuing inaccurate invoices
- Sending invoices to the wrong location
- EDI failures
- Sending invoices in batches

Customer Driven

- Poor Invoice capture processes
- Slow sign-off procedures for invoices
- Agreeing short payment terms with suppliers
- Slow dispute management processes
- Too much financial control

On time payment is the first step to partnership

Cash Culture

How to sustain the improvements

Leadership comes from the top	Senior leaders need to practice what they preach
Working capital performance must be properly incentivised	There must be "skin in the game"
Polices and procedures must be deeply embedded	Everyone must understand how their actions impact working capital

Any programme has to be able to transcend changes of circumstance

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