

BETTER WORKING CAPITAL EFFICIENCY

AN APPROACH TO CONTINUOUS IMPROVEMENT

Companies that make working capital efficiency part of their organization's culture have the opportunity to generate more of their working capital internally, thereby lowering costs, improving their performance and boosting their competitive position.

When outside capital is needed, good cash flow and working capital management will make it easier to find and less expensive no matter what the economic cycle.

But even the best companies can do better. The key is not to treat the pursuit of working capital efficiency as a limited project that ends at implementation, but to realize that implementation is just the beginning of an ongoing process.

ESTABLISH GOALS AND DEVELOP AN ACTION PLAN

The first step is to establish "best in class" performance goals around central issues — like the length of your cash conversion cycle — and develop metrics that measure actual performance against the desired outcome.

Continually monitor performance against your goals and analyze gaps to determine their root causes.

Then, develop and execute detailed action plans to address and remedy performance shortfalls and uncover additional metrics or measures that should be tracked.

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Your action plan might include establishing a "closed loop" procedure to link cash management processes across departments. This move can improve control and decision-making and increase operational flexibility.

Consider reinforcing the importance of working capital efficiency throughout the organization. For example, you might tie management and employee bonuses to working capital metrics, sending the message that they are just as important as revenue and profitability goals. In order for this strategy to be effective, you will need to make the tracking of performance measures transparent throughout the organization.

ASSESS AND IMPROVE COLLECTIONS PROCESSES

Treasurers today have access to timely information that can enable them to reduce such items as Days Sales Outstanding (DSO).

Analytics are also available through lockbox programs that can help to drive down unauthorized discounts and deductions by tracking and managing exceptions faster and more accurately.

These tactics can help you lessen the difference between gross and net sales.

You should also consider remote deposit and remote capture, technologies that enable businesses to scan paper checks and transmit the images and/or ACH data to a bank for posting and clearing. Benefits can include accelerated clearing and improved availability.

EVALUATE PAYMENT STRATEGIES

Make sure you are using the best method of payment to maximize efficiency, float or revenue sharing for the best return.

Purchasing card programs can boost cash flow and increase working capital. These programs can be integrated into your existing accounts payable process and extend payment cycles.

RE-THINK SHORT-TERM INVESTMENTS

Interest rates have been static for longer than at any point in history. There are new reforms and regulations that did not exist before. And the economy is exceptionally volatile, both domestically and globally. Revisit your policies and make sure you are positioned to accommodate your short-term cash and investment needs in today's environment. If you don't have an investment policy, now is a good time to create one.

INVEST STRATEGICALLY

It isn't always necessary to sacrifice project-oriented tactics. Investment in projects that help minimize the cost of capital can reap benefits now and in the future. These might include improvements in payment processes.

LEVERAGE EXTERNAL RESOURCES

Look to external resources for fresh approaches to continual improvement.

Benchmark your results against those of companies that are recognized as best in class for optimizing working capital. Scorecards from industry publications put a microscope on the details of financial performance and can help you identify the most effective companies.

Find out how those enterprises manage and measure cash flow performance. You might even consider reaching out to peers at leading companies to gather more insight, or participate in industry research panels.

MAKE CONTINUAL IMPROVEMENT A DAILY PURSUIT

Once you make working capital efficiency part of your company's DNA, it becomes more than a strategic priority. It is a daily pursuit. Continual improvement naturally follows. Becoming best in class in working capital efficiency in your industry will lead to lower cost, better performance and an improved competitive position.



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