Cash optimisation

A journey just begun

EuroFinance

In partnership with

Industry 4.0 = working capital 2.0

Working capital management has always been a key treasury function. However, in the past it has often fallen outside explicit board priorities and senior management objectives and incentives. No longer.

Boards are now having to grapple with the issues raised by "Industry 4.0" – the combination of automation, digital-physical systems and data primacy that characterises the business environment today.

Most analysis of this disruption focuses on the technology and process change required to make the transition without impacting growth, but the more pressing issue in most companies is simply how to fund it. According to Gartner's 2017 CIO survey, most companies use a combination of self-funding, existing IT budgets, investment from reserves or cutting budgets elsewhere.

Given this, any additional means of freeing up cash to fund transformation projects can prove a critical differentiator. In this context, working capital optimisation is increasingly being seen by the C-suite as a strategic necessity.

As Cedric Bru, Chief Executive Officer, Taulia says: "Improved working capital management is a potentially significant source of additional internal funding for business critical digitalisation projects, especially for those companies that are unwilling or unable to use bank credit or capital markets to fund them."

Enterprise cash optimisation

This underlying business need for top-level transformation is leading companies from a tactical to a strategic approach to free up the required cash.

Rather than relying upon a local, ad hoc treasury approach, companies have recognised the need for enterprise cash optimisation. Just look at how working capital management has been cropping up more and more in analysts' calls and senior management comment this year. Honeywell's CEO, Fiat Chrysler's CFO and C-suite executives at other firms have recently begun to emphasise the importance of cash generation and free cash flow. So what is the difference between current working capital management practice and a more strategic, enterprise approach? The answer is largely one of centralisation: companies need to tie together processes and information that may currently reside in scattered inventory, procurement, accounts payable, accounts receivable and local treasury silos. This in turn is increasingly a technology problem: if current TMS, ERP and MIS systems cannot deliver, then what types of platform and solution can?

Who owns optimisation?

But it is also an issue of leadership, incentives and accountability. Treasurers already treat working capital optimisation as a core priority, as a survey of 200 corporate treasurers undertaken by EuroFinance, in partnership with Taulia, in June of this year shows. Of these, 71% said that working capital was a top three priority for treasury in terms of the resources allocated to it, and 14% said that it would be prioritised in the near future (see Fig. 01).

> 71% of survey respondents stated that working capital was a top three priority for treasury in terms of the resources allocated to it.

However, treasury by itself is usually not in a position to force through a global integration programme of this nature and scale. If the C-suite has determined that the tectonic forces of digitalisation demand a working capital rethink, then CEOs and CFOs need to give a central treasury operation the power – and the budget – to deliver enterprise-wide change.

That help is still not guaranteed, as the responses to the EuroFinance survey show. When asked, "in trying to implement or improve a working capital optimisation process, which have been the most difficult to overcome?" (see Fig. 02). 24% of treasurers still say that a "lack of executive sponsorship" has been one of the most difficult challenges to overcome in implementing or improving a working capital process. This has long been an issue with both general IT investment and treasury technology investment in particular. It has to change.

Equally problematic, the most significant factor identified (mentioned by 50% of respondents) was "internal conflicts (for example differing objectives between treasury, procurement and finance)". This was followed by "imperfect process links in the supply chain (e.g. paper invoices, intensively manual processes)", mentioned by 49% of respondents. Furthermore, 30% of respondents identified "poor overall cash visibility". Many of the additional issues mentioned as "other" included global co-ordination problems, conflicts between sales and finance, demand forecasting, AP/AR forecasting, and the volatility of the business environment.

These findings show that core, long-standing treasury pain-points – poor overall cash visibility and imperfect process linkages – are still among the most important barriers to the adoption of better working capital management practices and the implementation of SCF solutions. They also highlight the problem of internal conflicts between key stakeholders - notably finance, procurement and sales.

Fig. 01 **Is working capital optimisation a top three priority for your treasury in terms of resources allocated to it?**

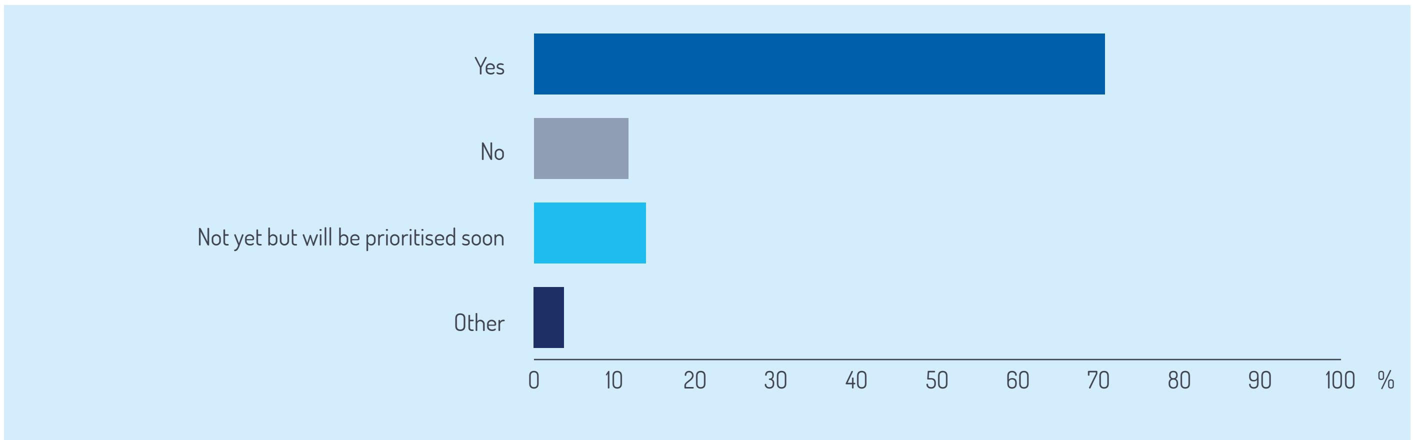
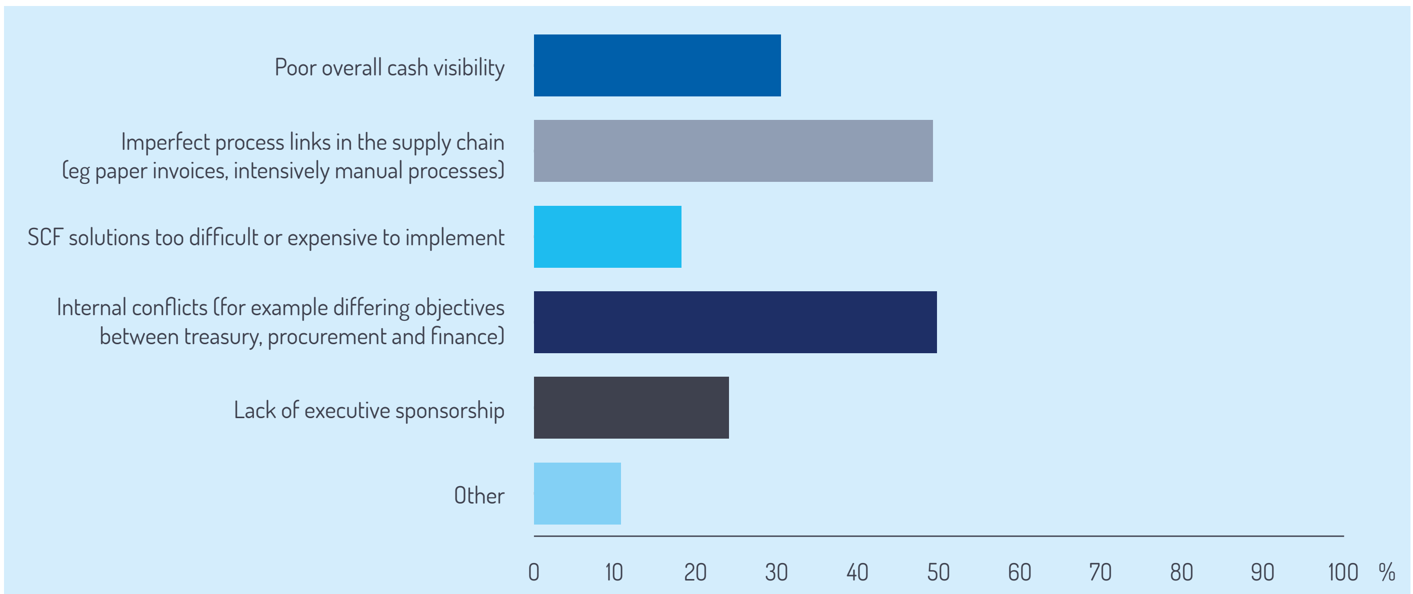


Fig. 02 **In trying to implement or improve a working capital optimisation process, which have been the most difficult to overcome? (tick all that apply)**



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So what is the answer? Even companies sophisticated enough to have created the role of "head of working capital" find internal fragmentation problematic. "With supply chain funding, it was important for us to create one treasury driven SCF process and have one strategic approach for the business" says Airbus.

That is, the key to successful implementation is to decide on the process owner and then give them the authority to deliver, centralising where necessary. Treasury is the most logical owner of working capital strategy and delivery, but other parts of the business still have to agree. If they see treasury as a somewhat clerical aggregator of transactions and as a business reporting function, then senior management need to intervene. Treasury should be a key influencer of the business flows that contribute to working capital.

In addition, companies are beginning to act upon the realisation that there has to be greater cross-functional alignment between treasury and procurement, and treasury and other key non-financial functions.

A problem of technology?

Even with C-suite backing and treasury ownership of the process, getting on top of working capital has been hampered by first generation technology.

Companies' commonest first step has been to establish a supply chain finance programme. SCF generally takes the form of a reverse factoring programme in which a corporation uses its own favourable credit rating to generate bank funding of early payments to suppliers who in exchange accept a discount on their invoices.

In practice these schemes have proved much harder to implement than originally envisaged, with the key issue still supplier onboarding. For regulatory reasons banks don't always find trade finance and supply chain finance assets attractive from a capital employed perspective. They also interpret strict AML/KYC regulations as meaning that they have to regard the suppliers whose invoices they finance as full credit customers of the bank.

This removes much of the point of the programmes, since they depend upon giving suppliers access to funding that they would otherwise not be able to obtain, using the credit rating of their buyer. Restricted to just the largest and most creditworthy suppliers, many programmes have not delivered the returns they promised.

Describing what he calls "SCF 1.0 platforms – those that utilise a batch payment file transfer process," Telstra's Papanikolopoulos, explains that they "present problems for corporates because they require manual reconciliation work. Also onboarding is clunky and long and complex for suppliers that are not online. Those 1.0 platforms are dominated by banks in this market. And these platforms are not being invested in so there is no improvement path for the process and tools."

In the EuroFinance survey, almost a fifth of respondents said that SCF programmes were inherently too difficult to implement – a very strong statement from a sizeable number of sophisticated corporations.

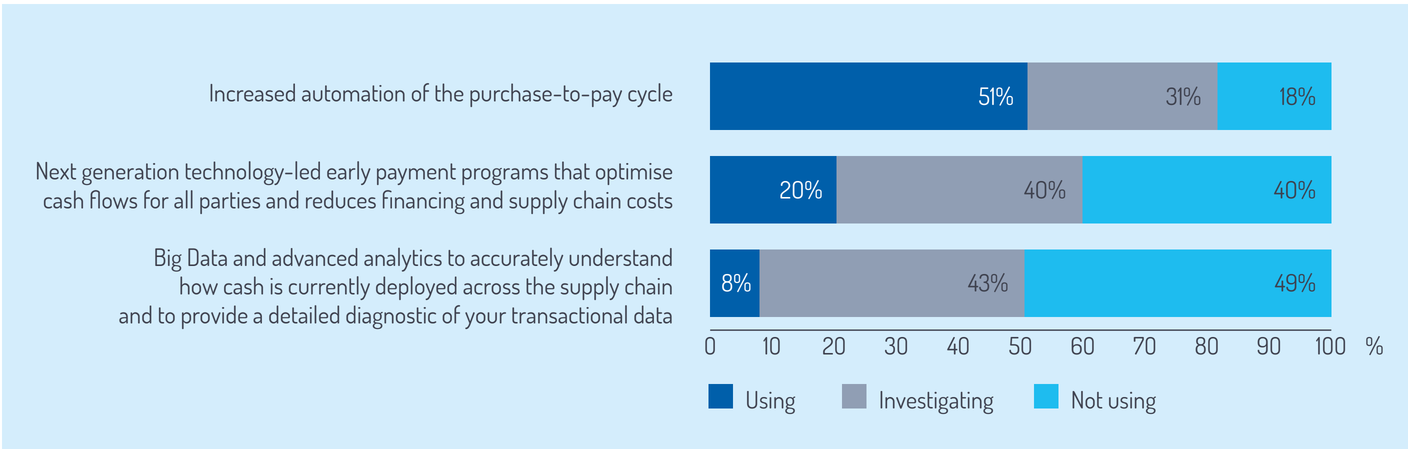
> "SCF 1.0 platforms present problems for corporates because they require manual reconciliation work."
>
> **George Papanikolopoulos,**
> General Manager Procurement, Telstra

Joining the WCM revolution

These companies may be surprised by how far the latest SCF, e-Invoicing and capital-markets-driven platforms have come. Third-party platforms are solving the onboarding problem by creating end-to-end electronic processes, using e-Invoicing, to make the process easier for suppliers. They are giving suppliers better visibility into the payment process, a user-friendly interface and easy integration into existing processes. Importantly, they are generally free for suppliers to join.

They can also help with the increasing CSR implications of SCF referred to above. Companies are under pressure from stakeholders to improve supply chain financing without putting undue pressure on suppliers.

Fig. 03 **Are you using any of the following strategies for optimising working capital across the enterprise?**



"We needed to improve working capital and we needed to address a legacy issue on short payment terms as the business transformed and restructured. But we were also under pressure to avoid doing what companies had always done before [push the problem onto the supply chain] and to do it more in line with government thinking of how we treat our supplier base. And we wanted to utilise tools to not just extend payment terms but get better pricing from our suppliers," explains George Papanikolopoulos, General Manager Procurement, at Australian telecoms utility Telstra.

Airbus agrees: "One of our criteria for choosing a platform was corporate social responsibility and supporting our supply chain." Platforms that deliver the win-win promised for so long by SCF achieve this key aim.

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>
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Large, sophisticated companies are already moving to these new providers. For example, using one of the newer platforms, telecoms giant Vodafone has enrolled over 12,400 suppliers, from the smallest to the largest, extended the $6.1 billion program to $10 billion within just nine months of program launch and accelerated payments by 51 days on average. Many other treasurers are on the verge of joining: the results of the survey suggest that interest in these new options is significant and will lead to widespread adoption.

A full 51% of respondents are using increased automation of the purchase-to-pay cycle (with 31% investigating and just 18% not using). When it comes to next-generation, technology-led early payment programs, 20% have already made the leap and another 40% are investigating the technology. Only in Big Data does there seem to be reticence. When it comes to using Big Data and advanced analytics to accurately understand how cash is currently deployed across the supply chain and to provide a detailed diagnostic of transactional data, just 8% said they were using this kind of technology, while 43% are investigating with 49% not using (see Fig. 03).

Those treasurers actively looking at these critical new technologies to help working capital by itself suggests that regardless of other trends, there will be a rapid shift onto next generation platforms and technologies.

Next steps on the journey

Going forward, whether a company's goal is focused on unlocking working capital or increasing returns for excess cash flow or both, there is a need to transition from tactical programs to enterprise cash optimisation. This means executive sponsorship and leadership; it means solving the traditional treasury pain-points of centralisation and visibility; and it means finding ways to break the cycle of inter-departmental conflicts that has dogged efficiency projects for so long. The latter requires senior management to ensure full alignment across cross-functional verticals where business units push back.

Enterprise cash optimisation also requires treasury ownership of the process. Treasury must develop core goals with senior management. It should perform (or have) benchmark assessments across DPO, DSO, other relevant metrics and set objectives relative to these. And it should be incentivised on and held accountable to these KPIs.

Given those foundations, new technology has a pivotal role to play. Treasurers that EuroFinance research with throughout the year will often stress that platforms need to be supplier-centric, have a broad procure-to-pay functionality, easy integration with ERP systems and offer flexibility and the ability to manage credit notes and other parts of the normal payment process. And technology needs to be chosen that is customisable, scalable and sustainable to drive measurable, incremental improvements in the cash position.

Airbus is keen to stress that what companies really want from a platform is "that it just works without disrupting the life of accounts payable" and that a provider is quick to recognise and rectify challenges along the way.

Treasurers also need to keep up with the possibilities raised by the data that these new platforms are gathering, and by the application of AI and other sophisticated analytics to that data.

As Cedric Bru of Taulia explains: "Today we can interrogate the data from millions of suppliers exchanging billions of dollars in invoices, together with third party data to understand what payment terms and rates suppliers are actually accepting and what they are likely to accept in the future. Technology can be used to understand program performance and to adjust these programs immediately in response to changing commercial and financial goals. Artificial Intelligence now informs and enhances our decision-making and can be used to convert program objectives into automated and self-adjusting actions on the ground."

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About Taulia

Taulia delivers working capital solutions that make it easy for businesses to free up cash, accelerate payments, and improve supply chain health. Since founding in 2009, we've envisioned a world where every business thrives by liberating cash. Today, our game-changing technology powers a network connecting 1.5 million businesses across 168 countries and has accelerated more than $80 billion in early payments. Using our AI powered platform, businesses now have the option to choose when and how to pay and get paid. It sounds simple, but our painless process provides both buyers and suppliers the chance to rocket their cash - cash to fuel economic growth all over the world. It's win-win for everybody.

www.taulia.com
Michael Rieskamp
Head of European Sales
michael.rieskamp@taulia.com

For more information contact
editor@eurofinance.com
20 Cabot Square
London E14 4QW

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