

Manufacturing

A guide to managing financial risk

Manufacturing of all kinds requires ready cash supplies to guarantee agility and mitigate risks. From automobiles to airplanes and computers to clothing, an approach with supply chain innovation at the heart is critical.

As global economic headwinds ease and central banks promise interest rate drops, there are signs of optimism in the manufacturing world. S&P Global's UK Manufacturing Purchasing Managers' Index, a measure of market sentiment among leading manufacturing companies, rose to 50.3 in March 2024 – a near two-year high. Increased output and new orders are helping to drive a more upbeat mood after years of pandemic — and conflict-induced turbulence.

Risks to supply chain stability cited as one of the top concerns for major discrete manufacturing businesses.³



The situation at a glance:

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Cited as one of the top concerns for major discrete manufacturing businesses.³

Supply chain disruptions have hit business bottom lines at an average cost of

6-10%

of annual revenues.⁴

1 - GlobalData Thematic Intelligence, "Supply Chain Disruption", Aug 2022
2 - GlobalData Thematic Intelligence, "Top Themes in Consumer, Packaging and Foodservice, 2024", Oct 2023
3 - GlobalData Company Filings Analytics, "Company Filings Analytics Q2 2023: Trends and Signals", Aug 2023
4 - <https://www.theaccountant-online.com/sponsored/a-guide-to-managing-financial-risk-in-manufacturing-industries/>

But challenges remain. As demand for discrete goods grows, so too does complexity in their manufacturing and delivery. A recent report by GlobalData on supply chain disruption found that 80 million cars were delivered in 2021 and an average of 30,000 multi-sourced parts per vehicle. Bureaucratic hold-ups, consequently, are a bigger problem than ever, with up to 100 documents exchanged per container trip. The report concludes there is an “obvious need for new systems to deliver more transparent, prescriptive, digitized corporate supply chains.”¹

It is a problem spanning multiple sectors. “Continued disruptions to supply chains in the last year have highlighted how the ‘just-in-time’ model employed by many global companies has made them very exposed to even the slightest complication,” argues a GlobalData report analyzing consumer, packaging, and foodservice industries for 2024.

Manufacturers need novel approaches to manipulate their inventories, secure funding, and get cash to flow.²

Failure to do so means courting financial risk. The intricacy of modern supply chains means a single disruption can cascade through the entire system, causing delays and increased costs. This, in turn, can severely impact a company’s financial stability, eroding profit margins and straining cash flow. Consequently, getting to grips with these complexities is a logistical necessity and a critical financial imperative.

Why supply chains are on the frontier

According to GlobalData analysis of company filings for Q2 2023, risks to supply chain stability were one of the most prevalent concerns cited among businesses in major discrete manufacturing sectors.

9.7% of auto manufacturers’ filing reports mentioned these concerns and 9.1% of foodservice firms. This contrasts with an average across all industries of just over 6% – and supply chain risk obtained more mentions than in any other period over the previous five quarters. These risks represent a major threat dangling over firms’ financial performance. Homing in on some of the common stumbling blocks could help.³

Consider inefficient working capital management. Limited cash availability stymies growth initiatives and raises borrowing costs, which in turn reduces profitability. It can also disrupt payments to suppliers, creating ructions across supply chains and raising the risk of insolvency during economic downturns. And it appears to be a particular problem for manufacturers. According to PwC’s 23/24 net working capital study, net working capital days have decreased 2.6% year-on-year, pointing to productivity increases.

But they are continuing to rise in the automotive sector, with days payable outstanding (DPO) increasing by around 1 and asset days increasing by ³.

This suggests carmakers are struggling to turn over inventory and keep payment terms concise.

Modern financing platforms can help businesses adjust their strategies. These platforms enhance financial resilience along the value chain, benefiting suppliers and customers alike. End-to-end working capital process improvements, from eInvoicing to automated payment runs and collections, are crucial for boosting efficiency. Implementing the right cloud solutions can optimize a business’s working capital by reducing errors and accelerating cash flow cycles.

This leads to the next point: digital supply chain management. Compared with manual methods, digital platforms offer amped-up flexibility and efficiency. By digitalizing accounts, companies gain better control over cash flow and a more accurate view of balance sheet health – all of which can tighten their grasp of potential financial problems.



Digitized supply chains are also more adaptable. Automation improves supply chain efficiency by providing more accurate information and speeding up processes like supplier communication and query resolution, resulting in fewer disputes and faster resolutions when they do arise. And companies can respond to novel problems more quickly, maintaining focus on core business goals even as the economic landscape shifts.

While shifting economic sands can be unpredictable, here too there are steps manufacturers can take to shore up their supply chains and keep cash flowing. Business cycles bring inevitable peaks and troughs, necessitating strategic planning and flexibility. Identifying peak and off-peak periods can help firms tweak their inventory levels and align staffing and marketing efforts – providing a bulwark against financial shocks.

Economic volatility can make traditional funding sources unreliable or inflexible, but managing liquidity via innovative, comprehensive working capital management platforms can help manufacturers maintain stability during downturns.

The agility provided allows companies to adjust funding strategies swiftly without lengthy roll-out timelines – critical for maintaining operational resilience whatever the business backdrop.

The right solution, the right partner

Supply chains, then, needn't be a weakness for manufacturers; novel platforms are helping them identify, manage and tackle supply chain chinks precipitating financial risks. But what exactly should they be looking for?

Research suggests that recent supply chain disruptions have hit business bottom lines **at an average cost of 6-10% of annual revenues.**⁴

To ride out volatility, capital must be available whenever needed – making a swift cash conversion cycle essential effective management of payables, receivables, and inventory through an all-encompassing platform can transform a company's financial health. Taking control of supplier payments allows businesses to decide how much to pay and when.

This flexibility benefits both the company and its suppliers, providing smarter cash flow management options and a steady liquidity stream for all stakeholders.

Innovative platforms enable companies both to use their own funds for early payments and access third-party funding. This flexibility ensures consistent support for suppliers and optimal cash flow management. Whatever cyclical or seasonal pressures they face, businesses can ensure they have the cash they need, when they need it. SAP Taulia's working capital management platform, for instance, offers businesses unmatched visibility over their cash flows via a user-friendly dashboard. With an enhanced understanding of your receivables' health, putting money aside to exploit new business opportunities or protect against potential threats can be done easily and with cross-company buy-in. Digital supply chain management also comes with its fair share of risks; venturing into digitization can be daunting for firms lacking robust cybersecurity expertise. This is why choosing a reputable, experienced platform provider is vital. Implementing stringent access controls and conducting regular cyber risk assessments are essential measures to protect sensitive information. Picking a partner who knows their way around the essentials of supply chain management at an early stage can help take the pressure off. In addition to their platform, SAP Taulia offers its customers a team with proven expertise in coordinating world-leading working capital management programs – helping to avoid threats and identify efficiency-boosting tweaks.

SAP Taulia's decades of experience providing supply chain management software to enhance efficiency and mitigate risks makes it an ideal candidate. Their platform is already revolutionizing supply chain efficiency for manufacturers by accelerating cash conversion cycles, expediting digitized supply chains – with all the benefits that come with them – and providing flexible funding solutions.

As supply chains become more complex and the potential hazards associated with failing to harness them intensify, making sense of this complexity is vital. Working with SAP Taulia gives manufacturers a strategic edge in an uncertain world.

To learn more about the latest solutions in working capital management optimization, and how deploying them can help companies neutralize financial risk visit taulia.com

What could you do with SAP Taulia's Cash Flow Acceleration platform?

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