

Head2Head: The Evolution of Working Capital Management

In this edition, Bruce and Jonathon debate progress toward truly holistic working capital management.

JTC: Bruce, you talk a lot about advances in holistic working capital. But you and I both know that industry presentations and conferences have been discussing that idea for years—what's different today? Where's the step-change?

BM: I agree with you. Working capital optimisation has been around for a very long time. I think what has changed is that more companies are finding success by taking a vertically functional piece of their organisation, working capital management, and tipping it on its side. That is, they're increasingly able to practice working capital management as an enterprise discipline. That's new.

JTC: So what you're saying is, 'If I tilt my head 90 degrees, I'm going to see things differently.' Come on, you've got to get a bit more real than that.

BM: Think about it. You've been a treasurer in days gone by when the function had cash management at its core. But today we're starting to include supply chain management at one end and sales at the other. Essentially, you're starting to see working capital as an enterprise discipline right across the organisation.

JTC: Well as a treasurer, I did spend a lot of time thinking about things holistically, end-to-end. We wanted everyone at the company, not just those in the treasury department or in finance, to be aware of the consequences of their actions. Those people making decisions about the commercial engagements and relationships of the company—be it with a supplier or procurement, with a new customer or client, or maybe with a funding facility—we wanted them to have a working capital mind-set. That's nothing new.

BM: Well, here's something new. Today you're seeing best-in-class corporations creating a new role; for instance, a working capital champion or a head of cash conversion. Their role is to specifically work with all the different functions in the end-to-end working capital cycle. And there are additional enablers: for example, new communication and analysis technologies and the rise of shared service centres that are allowing working capital to be managed and measured across the organisation.

JTC: Yes, it takes more than just developing a common language for understanding the value of cash to the organisation and getting around some of those silos. But at the same time, one irony of shared service centres is that while they may build a huge amount of efficiency in a particular function or discipline, these can lead to a singular focus on only certain metrics—on specific key performance indicators (KPIs)—sometimes to the detriment of larger enterprises goals.

BM: You're right. But we are also seeing best-in-class corporations use enterprise resource planning (ERP) systems to manage and measure working capital across the organisation. You know, the trick is in the name: enterprise.

JTC: Traditionally, this was seen largely as a cost efficiency move.

BM: Right, but I think what's happening now is that you're getting these enablers that allow working capital to be managed and measured across the whole organisation. As a result, I definitely see companies becoming both more serious and more capable in terms of generating better returns from the capital deployed. They're moving away from cost-reduction working capital metrics and towards something more value-focused—from a DPO as a metric through to, say, ROCE as a metric. That's the evolution.

THE TMI VERDICT

Companies have long been aware of the value of optimising working capital across the enterprise. Any such efforts, however, were often impeded by the high degree of difficulty relative to lower hanging fruit.

What's changed is that organisations are now flattening and today's digitally infused business strategies are building closer links between procurement and supply, logistics, sales and service. And adding treasury and working capital optimisation to the workflow becomes a relatively simple matter.

As such, leading companies are appointing executive champions to the cause. Such champions in turn promote awareness as well as introduce new, capital-focused performance metrics to recruit and rally others. Along the way, they take steps to harness today's big data technologies to inform analysis—this in turn leads to better decision-making, which has a positive knock-on effect to performance.

In short, the degree of difficulty has been greatly reduced, the benefits are amplified, and the vision of substantially improved end-to-end optimisation of working capital is finally within reach.



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