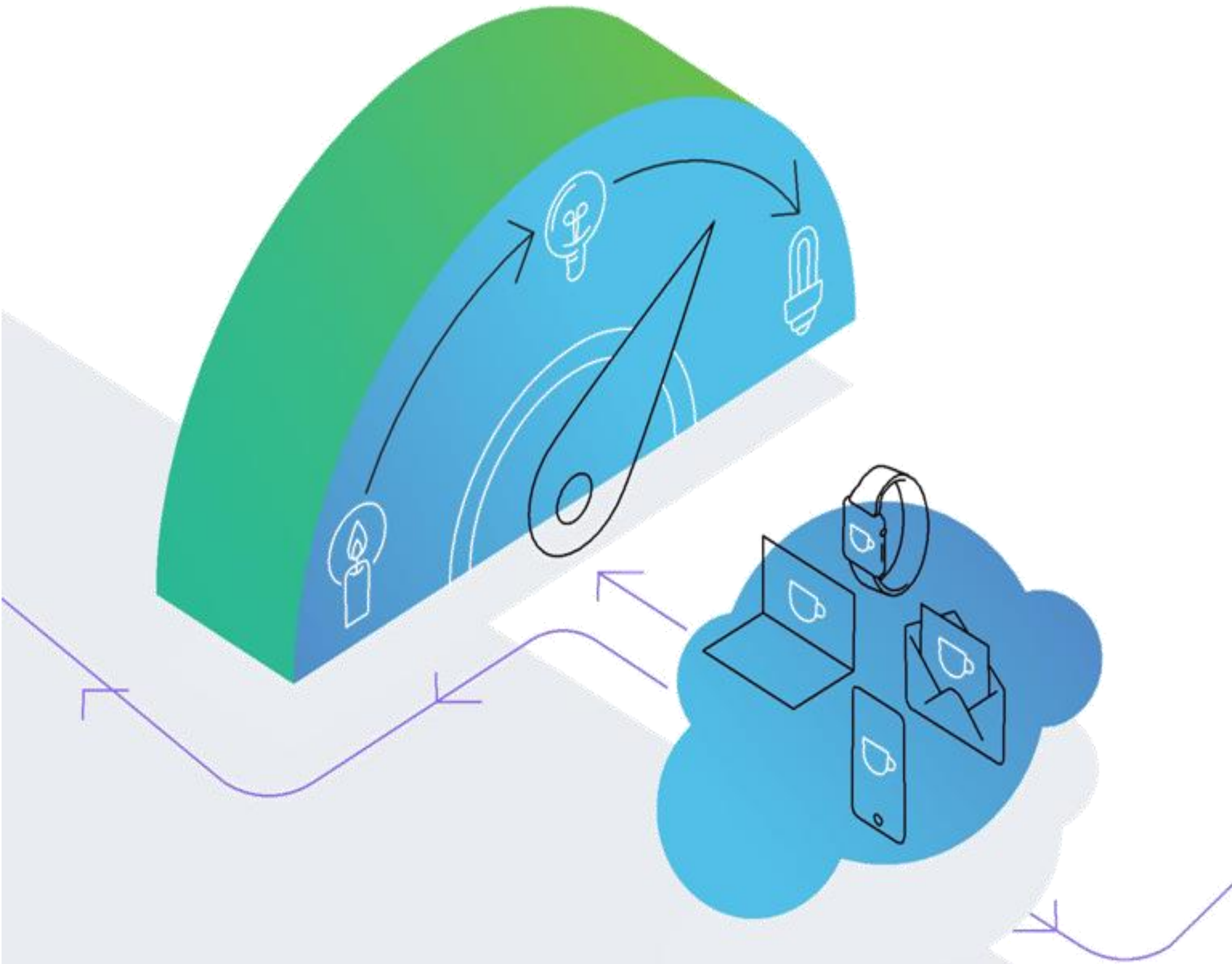

2016 WORKING CAPITAL IMPROVEMENT

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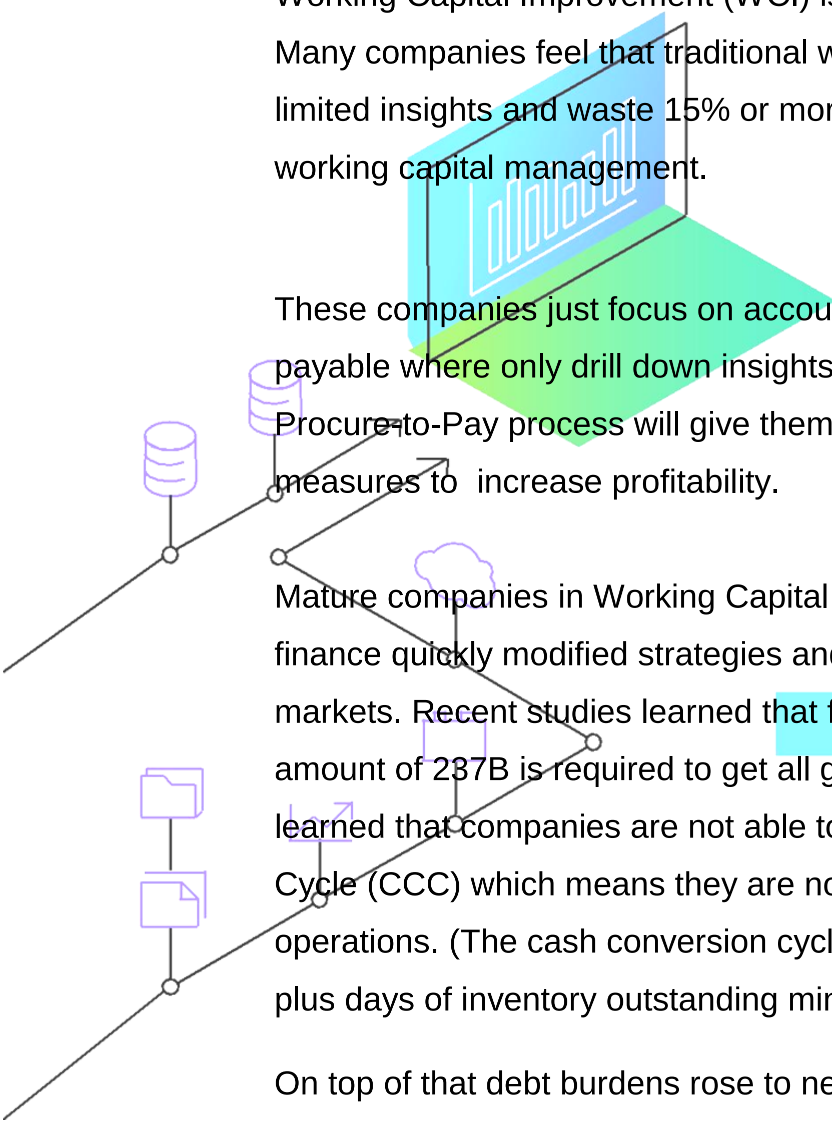
The importance of
Working Capital Improvement



Working Capital Improvement (WCI) is an increasingly hot topic today. Many companies feel that traditional working capital key figures give them limited insights and waste 15% or more of their EBIT through inefficient working capital management.

These companies just focus on accounts receivables and accounts payable where only drill down insights in the entire Order-to-Cash or Procure-to-Pay process will give them the insights to apply targeted measures to increase profitability.

Mature companies in Working Capital Improvements have the ability to finance quickly modified strategies and tactics in response to changing markets. Recent studies learned that for the next three years the enormous amount of 237B is required to get all growth plans financed, but it also learned that companies are not able to improve their Cash Conversion Cycle (CCC) which means they are not able to generate more cash from operations. (The cash conversion cycle equals days of sales outstanding plus days of inventory outstanding minus days of payables outstanding.)

On top of that debt burdens rose to new record heights, while return on capital deteriorated by 15,4%. This is worrying!

Global Survey

HamiltonRoche conducted a global survey of 300 CFO's, to gauge the level of Working Capital Improvement maturity across various verticals and company sizes. Some of the key findings from the survey include:

84%

of organizations say that Working Capital Improvement would gain importance for the next years.

74%

of companies just measure working capital key figures based on balance sheet and income statement data.

87%

of CFO's are not aware that a DSO reduction without any detailed restrictions may translate into double digit discounts.

>237B

In cash required to finance growth over the next few years.

77%

Is the average Cash Conversion Cycle over the last 3 years. Which means that company's ability to generate cash from operations is stagnating.

Highlights from our survey:

- Only when growth curves flatten or even decline, cash and working capital management become a top priority in the boardroom.
- Company size is important. Companies with revenues beyond 1B tend to be better at managing their working capital.
- Smaller companies have less sophisticated working processes, systems and functional expertise, whilst arguably they have a greater need for effective cash management to finance their growth.
- Not every company attributes good working capital management to improved and more reliable cash flows. Too often management turns to banks or investors to fund their working capital rather than finding ways of generating more free cash flows themselves or reducing the funding requirements by becoming more working capital efficient.
- The need for cash goes far beyond working capital funding. Businesses are under increasing pressure to pay dividends and/or to invest in growth.
- Our analysis shows that market leaders recognize the true value of cash and manage their working capital tightly, despite current highs in cash-on-hand and continued low interest rates.

Low Adoption and Utilization of Systems

A key element of Working Capital Improvement is how integrated systems share data and the level of automation between systems. We wanted to understand whether Finance & Administration organizations were optimizing their integrated systems to drive business.

A total of 56% of organizations responded Some or None of their Finance and Administration systems were integrated and share data, while 80% reported manual processes were needed for the systems to work properly.

This means that although many organizations have successfully automated various administrative silos and optimized systems, the majority of organizations are still at a Basic level on Working Capital Improvement. The do not use the power of integrated systems, but are still relying on their manual input.

Those organizations need to concentrate on upgrading the skill level through the definition of processes, implementation and embedding, training or new hires to better optimize this important function.
The same holds true for those organizations ranking at the Intermediate level. Advanced usage of Working Capital Improvement is important as more and more transactions and revenue are generated online and organizations must be skilled to truly optimize this.

Where do you stand?*

Level 1. Lagging

Organizations have invested little or no time in working capital improvement. Cash and working capital were not previously a priority, and the organization does not understand what is possible in terms of financial improvements.

Level 2. Achieving

Organizations keep cash and working capital in check at critical times of the year. They keep up with their peers, but have no competitive working capital advantage or disadvantage.

Level 3. Exceeding.

Organizations at this level actively invest in resources and intellectual capability to execute decisions aimed at changing current constraints. They hope to move to up per-quartile performance compared with peers, and they are evolving into an organization that values cash and working
capital regularly and in a structured manner.

Level 4. Leading

These organizations have begun to achieve competitive advantage through excellence in their cash and working capital management. They have embedded the importance of cash and working capital into the company's culture, and are now aiming to make their processes even more transparent.

- Ask us for detailed characteristics per Level.

How To Improve?

Most companies are at Level 2 and developing a higher level of working capital maturity sounds relatively simple, but the execution can be quite complex.

Two sets of factors prevent companies from achieving a higher level of working capital maturity. The first set is missing pieces. Often, companies lack all the people and systems they need to create a streamlined process for their cash management. Knowledge and involvement of many functions is required to embed changes at the level of execution.

The second set of factors is conflicting aims. For instance, sales often wants to give lax payment terms in order to close the deal, while finance wants tighter terms to speed up the cash cycle. All in all, more working capital in the system makes most people's day-to-day jobs easier — a mentality that can be tough to break.

That's why a project can take multiple years, while elements can be implemented in just a few months. The key to success is the knowledge and Change Management skills to achieve the best results for your company.

That is why we have developed a modular improvement methodology. From entire Order-to-Cash processes to Procure-to-Pay or from e-Invoicing to e-Procurement and selected and developed tools that will drive success.

Invite us for a cup of coffee and we will explain how we can assist you in improving your working capital requirements.

About HamiltonRoche

HamiltonRoche is an Amsterdam based consulting boutique with clients across the world and hundreds of years of experience. Clients include global enterprises as well as small and medium companies in technology, agrifood, manufacturing, logistics and professional services..

Our activities are focused on three pillars:

1. Strategy and Transformation
2. Business Recovery
3. Working Capital Improvement

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