Enhancing liquidity

CASH MANAGEMENT HAS A VITAL ROLE TO PLAY IN REDUCING WORKING CAPITAL REQUIREMENTS. IN A SHRINKING ECONOMY THERE WILL BE SOME POINT IN THE TRADE CYCLE WHERE THE IMPACT WILL BE FELT. **VIVEK RAMACHANDRAN** FROM BARCLAYS COMMERCIAL BANK REFLECTS ON THE ISSUES.

Executive summary

Effective trade cycle management will maximise the financial benefit that can be achieved and help a business continue to grow.

Given the volatility being seen in the market currently, the focus on working capital management has increased substantially and many companies are now involving their finance department in order to manage the financial supply chain. Businesses are increasingly scrutinising the processes with which they conduct each aspect of their working capital cycle to ensure the availability and certainty of cashflow. Cash management is therefore seen as vital to an efficient working capital cycle.

Risk mitigation and payment security are key factors which need to be considered to improve working efficiency and enhance company cashflows. Many corporates are increasingly looking at trade finance solutions to ensure appropriate management of debtors and creditors to enhance liquidity. Companies also use these solutions to reduce the inherent trading risks caused by fluctuating sales and supplier prices which can erode sales margins.

Without an efficient and robust policy to manage the trade cycle, many corporates are placing unnecessary strain on their business. The key considerations for businesses when looking at their trade cycle are:

- risk mitigation;
- payment security (payables and receivables); and
- working capital.

When the business environment is as challenging as it is at the moment, the old adage "Cash is King" becomes increasingly important to all businesses, whatever their size. It is therefore imperative to actively manage the financial supply chain. This will ensure a robust cashflow, enabling you to meet your commitments as they fall due, while at the same time allowing for greater certainty in supporting business development.

To keep control of your financial position and adhere with the terms of trade offered and received, it is worth considering:

- What terms are being received from your suppliers and equally what terms are you offering to your customers?
- More importantly, are payments made/received in accordance with these terms?

Working with finance, sales and procurement teams can certainly assist in managing the cashflow of the business.

The interaction between the purchase to pay, stock turn and order to cash cycles needs to be understood not just by the finance department but also by any part of the business which has an effect on the overall cash position. Effective trade cycle management will maximise the financial benefit

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that can be achieved and therefore help the business continue to grow and prosper.

For example, once goods have been shipped to a buyer, when is the invoice produced and when do the terms of trade take effect? Is it from the date of the shipment or the date of the invoice?

Proactive management of these processes is critical. A delay in issuing an invoice may have an adverse effect on the cashflow of the business, which in turn may mean that the payment for the supplies cannot be made on time. There has to be close working relationships between accounts payable, accounts receivable and procurement teams. This will allow a business to understand the interaction between the purchase to pay, order to cash and stock cycles, which is vital to continued success.

POTENTIAL RISKS IN YOUR SUPPLY CHAIN Most companies understand the major risks in their business such as availability, the cost of borrowing and trading overseas in a foreign currency. However, there are other risks to consider in the commercial flows of the business which affect working capital management.

- **Suppliers** A business may have had the same suppliers for a number of years and have built up a level of trust and understanding that on the face of it requires little management. But what would the effect be if the supplier was unable to deliver the goods in the time frame required? It is therefore important to avoid over reliance on one or a small number of suppliers in order to mitigate this risk. At the same time businesses should also consider the need to assess the financial strength of their suppliers on an on-going basis, to ensure that supply chains are not under threat.
- **Buyers** Most businesses undertake credit checks on customers when they first do business. Are these renewed regularly and does the original credit check reflect the current level of business with that customer? Are payments being made within the terms of trade? Additionally, who is the end buyer? What would be the effect on your business if the end buyer had financial difficulties or demand for the product declined?

One of the first signs that a customer may be experiencing cashflow problems is when payments are not received as regularly as in the past or there are more disputes over goods supplied. All businesses should review their debtors on a regular basis, at least monthly, so that they have an early warning to any potential problems.

Another consideration is the benefit of insuring your debtor book. While it may be an additional cost, how would your business survive if one of your major debtors failed to pay?

Working capital management should not be viewed as a means to cover a short-term funding gap, but as part of a wider change management programme to review internal processes. This will result in the release of excess working capital tied up in supporting the company's production cycle and improve risk management controls. The successful execution of such a strategy will ultimately help companies during tight liquidity markets, such as those being experienced now. The company will enhance the ability to generate more free cash with each production turn and therefore reduce its reliance on external sources of funds.

LINKING CASH MANAGEMENT THROUGH THE WORKING CAPITAL CYCLE TO THE SUPPLY CHAIN At Barclays Commercial UK Cash and Trade we deliver the right solutions for our customers by understanding all aspects of their business and the impacts of market events on the working capital cycle.

Given that improving your company's working capital position can lead to the generation of cash, we believe a real focus on the processes involved in your working capital and supply chain, not just by the treasury function but by the whole business, can lead to tangible improvements in your company's cash positions which will be vital in the current market conditions.

Understanding our customers' requirements and working across the specialist areas we have in UK Cash and Trade allows us to ensure we can support your business no matter what its size or complexity. Our focus is on building a partnership and on doing what is right for the business not just today but tomorrow and beyond.

The results are clear to see and this approach coupled with our products and people helped to ensure that we were voted the UK's Best Domestic Cash Management Bank for 2008.

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BARCLAYS COMMERCIAL

See opposite for a Focus on Barclays Supplier Finance (BSF)

Focus on Barclays Supplier Finance (BSF)

Barclays Supplier Finance (BSF) has been purposefully created to provide valued customers with a fresh approach to the payment of goods and services and working capital management. It offers a trusted supply chain finance model that facilitates effective collaboration between buyers and suppliers while delivering a highly efficient trade payment, settlement and finance solution.

BSF benefits the supply chain by injecting lower cost financing and increased cashflow through leveraging highly effective processes and technology. BSF builds upon a buyer's existing ERP system, enabling suppliers with approved payment visibility and simple efficient early electronic settlement. It also provides a payments and reporting framework that can effectively support both buyer and supplier processes and maximise efficiency.

Barclays Supplier Finance Service solution is a web-enabled payment and information solution, which manages the relative needs of the buyer in their procurement and purchasing, and of the supplier in accelerating cash receivables.

BENEFITS TO THE BUYER

- Reduces supplier pricing.
- Assists the extension of payment terms to improve days payable outstanding (DPO).
- Helps standardise payment terms.
- Additional source of funds.
- Improves supplier relationships.
- Use of cashflow savings for priority projects.
- Offers essential support for strategic suppliers.
- Certainty and visibility of payments will mean less accounts payable queries, resulting in time/cost savings.
- Buyer selects which suppliers can access BSF.

BENEFITS TO THE SUPPLIER

- Reduces supply chain financing costs.
- Early payment option to reduce days sales outstanding (DSO).
- Offers more predictable cashflow.
- Provides alternate source of liquidity.
- Represents attractive off-balance sheet financing option.
- Visibility of cashflows – reduces payment queries – process efficiencies.

IMPLEMENTATION AND CUSTOMER CARE Barclays provide full support to implement the service as quickly and efficiently as possible. A qualified Implementation Project Manager co-ordinates all activity planning and initiates full technical support. A dedicated BSF support team works with buyer and supplier to ensure that the process is managed professionally and tangible benefits are demonstrated.

Post implementation, the BSF Support Team will continue to work closely with the buyer and suppliers to ensure that the process is running effectively and any future phase supplier implementations are delivered quickly and efficiently.

Barclays works with the buyer to provide guidance in selecting the priority suppliers for the supplier finance programme. Successful supplier onboarding and ongoing supplier engagement is critical to ensure that the optimal cost benefits are secured.

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