EMBEDDING A SOLID CASH CULTURE

Making working capital a business proposition rather than simply a financial consideration was at the heart of a discussion hosted by American Express at ICAEW on how gaps in the financial market are being filled

Post-crisis market growth has seen a surge of new players entering the financial market to fill gaps made by traditional players. Iwoca in particular launched its same-day funding solution for brokers earlier this year, while Fleximize, which offers alternative finance options to SMEs and start-ups, launched in early 2014.

American Express has its own cash flow management solution, which places partnerships at its heart. Working Capital Solutions allows companies – from SMEs to multinationals – to finance purchases with increased days payable outstanding (DPO), while their supplier is paid via BACS within five working days.

Speaking at a recent American Express roundtable workshop at ICAEW, Gregg Morris, senior manager at American Express, said: "It's a flexible solution which can be drawn upon at any point. There isn't a minimum requirement and there are no tie downs."

Central to the workshop were discussions around working capital and its importance to business success. There was a consensus that finance appeared to work in a vacuum, with some delegates expressing concern that creatives and those responsible for product design could be so focused on creating exceptional products and services, little thought was given to funding.

"Scientists want to create an amazing car but they don't think about who is going to pay for it," said Susanna Rixon, finance manager at McClaren Automotive Limited. "There's the perception that we have unlimited cash. They'll put so much focus into the tiniest of product details like a door handle, but there needs to be a limit as to how much money you can throw at such aspects."

It's something that resonated with Steve Williamson, VP finance at AstraZeneca. "I've known businesses which focus entirely on profit whereas their cash focus is right at the bottom," he said. "Profit is fantastic, but it's just a number on a balance sheet. You can't do anything with profit, but you can do things with cash."

Working capital should be a business proposition instead of just a financial one, Williamson argued. It was a prevalent theme as delegates discussed how to embed a cash culture as a sustainable approach to working capital management.

Yet creating a solid cash culture – which incorporates policies and controls, targets and KPIs, incentives, performance and metrics, key tools, clear accountability and responsibility – is no easy task. The overriding advice was not to take on the burden of creating a cash culture alone. One person may be able to implement small internal changes, but cultural change is unlikely to happen unless there is buy-in from other areas. The general feeling though, was the importance of effectiveness, rather than efficiency.

Growth Street CEO James Sherwin-Smith wondered if the cash culture concept was actually rather restrictive: "We should be more

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effective rather than just being efficient with working capital practices, but in doing so, that could create fewer opportunities to negotiate." His concerns weren't universally shared, however. Cash culture is about partnership rather than negotiation, it was felt.

Morris recalled several instances where his customers had expressed a desire to negotiate mutually beneficial payment terms. "One of the surprising dynamics I've seen in the marketplace is businesses actually asking, 'how can we support our suppliers' working capital? How can we get them paid on time? How can we make sure they are able to grow at the rate they want to?"

Monitoring business performance and working capital management performance as a way of incentivising cultural change was also discussed. For Sarah Mitchell, financial analyst at AstraZeneca, implementing a system which rewards people based on effective balance sheet management was key: "You need to measure and penalise poor performance or motivate people by driving good performance. If you are trying to drive balance sheet management as a priority, then you've got to identify who is

WESTCOAST WORKING CAPITAL

Westcoast, a wholesaler for the computer industry's household names, wanted to increase the amount of available working capital.

It looked for an alternative payments solution that could supplement its traditional invoice process and complement its existing business credit and insurance structures. It also wanted this additional capital to be available at a competitive rate.

Making use of American Express' straight forward and simple electronic payment solution enables Westcoast to access incremental working capital. By implementing the solution, both as a buyer and a seller, it has also been able to take advantage of process efficiencies.

American Express' payments solution gives Westcoast more days to pay than previously experienced. The working capital solution is advantageous for Westcoast because the payment period of up to 58 days with American Express is considerably longer than the conventional arrangement with suppliers.

As a result, days payable outstanding (DPO) are increased and Westcoast's working capital is optimised. Westcoast can access the multi-million-pound credit facility that it has with American Express. This incremental capital facility enables Westcoast to buy at competitive prices and meet customer demand.

Benefits for Westcoast as a buyer

- Improved working capital
- More stable and predictable working capital
- Diversified capital resources and reduced need for external financing
- Improved cashflow from extended payment periods
- Increased DPO
- An additional payment tool

Benefits for suppliers to Westcoast

- Ability to fund market demand
- Prompter receipt of payment - a decrease of DSO (days sales outstanding)

Benefits to Westcoast as a supplier

- Ability to meet market demand
- Access to incremental funds
- Improved working capital
- More stable and predictable working capital
- Faster and easier customer payments
- Reduced credit control administration

Sunil Madhani, finance director of Westcoast, said: "The flexibility and the incremental nature of the facility that American Express offers is clearly a great benefit to me and my customers.".

PHOTOGRAPHY: SOPHIA SCHORR-KON

Gregg Morris from American Express at the roundtable event. Below, from top, James Sherwin-Smith from Growth Street; ICAEW's Stephen Ibbotson; Stephen Price of Future Capital Partners

responsible for what so you can link the incentives to who is bringing in the major projects." Mitchell also questioned whether a focus on working capital revenue might supersede any revenue focus, causing longer-term problems in the business.

Ruth Holland, finance director at The Groundwork South Trust, said incentivising good balance sheet management was also a major responsibility for frontline staff in the charity sector. "You want to avoid a Kids Company charity situation. It's going to be an increasing trend in charities where people are going to have to shout really loud to get their financials in place, but without losing the unique thing that makes people want to work for them," she said.

Stephen Price, finance director at Future Capital Partners, recalled a bank division that had very little understanding of billing cycles, no control of cash flow and didn't have enough money to pay their senior credit controls, despite having large operations across the globe "racking up time".

"They weren't billing for three months, sometimes even longer. You do wonder how they got into that situation in the first place," he said. "Fortunately, actual cash collections were relatively straightforward. They put in a global system and people started monthly billing. It made a massive change. So often, it can be quite easily solved with processes, systems and education."

Credit control was another concern for Sunesh Aggarwal, finance director at Athi Steel, which does a lot of its business in Kenya. "If you've got a customer and you say, 'show me your financials and I'll be able to give you a better return', it's just a no-go."

But financial specialists such as Williamson are confident that the payment world is changing and for the better, thanks to working capital programmes and cash management programmes, which he claims are massively underexploited opportunities. In Williamson's view, if companies get cash management correct over a period of time, they will start to see the benefits. "If you can reduce your borrowing costs by having more cash, then it's a zero sum game. You're then going to have more money for advertising your product or service and that, in itself, is quite motivating," he added.

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