



## Working Capital Management



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## The Working Capital Analyzer

# Working Capital

***“In 2016, European non-financial companies need to renegotiate 70 billion euro in business loans”***

*Before the end of 2016, 64% of the debts will expire, this means companies will have to renew these debts (PwC report 2016). It is a fact that banks are a lot stricter and less adventurous in providing credit! Companies will need to find other resources, but where?*

*Find resources within your company....*

*There are billions of Euro's stuck in Working Capital in enterprising Europe. These means are therefore not available to finance investments that can contribute to the growth of the company. Most companies can significantly reduce the amount of cash locked up in operations by more actively managing their **Working Capital**! Ackinas has developed The Working Capital Analyzer. A tool and a way of thinking that allows to pinpoint where to free up cash and obtain just that little bit more of financial independency!*

## The Working Capital Analyzer



The idea of designing a Working Capital Analyzer on QlikView came from Ackinas' consultants. The first version contained a **debtors** and a **creditors analysis**, but still lacked **simulation** possibilities and **stock analysis**. After a market analysis it became clear that further development was needed. In 2014 Ackinas developed a complete new Analyzer, containing all working capital elements and allowing to easily follow-up the improvement developments via KPI's and trends. Also WC forecasts can be set-up so that analyses against targets is now part of the solution. The actual Working Capital Analyzer is a unique tool that pinpoints exactly where to focus to optimize your working capital! It can be implemented in a surprising short time and will immediately show the challenges and opportunities without any additional effort.

# The Working Capital Analyzer

## 1. Insight in Working Capital?

Recent surveys show that around 40% of the CFO's has no view on the number of debtor days and the allowed customer credit of their own company. Lack of insight implicates that these companies cannot manage their business on relevant working capital information. Insight in the working capital situation is one issue, but insight in the business processes is much more important.

Balance sheet items like stock, debtors and creditors come about in the production process, the sales process and the purchase process. When the management of a company believes that there is too much working capital involved, they have to evaluate the related business processes to be able to release working capital:

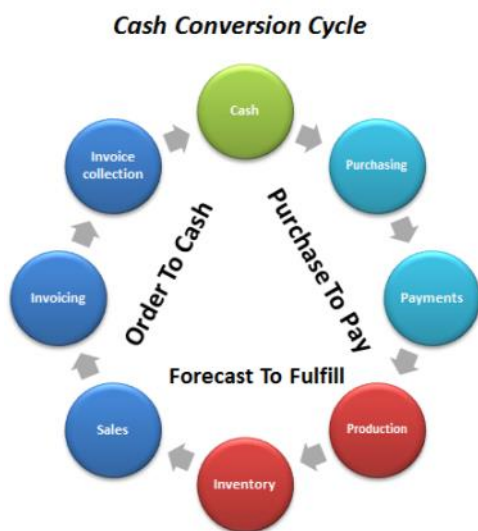
- Do we have a master contract with our suppliers and is procurement centrally organized or can every department purchase individually?
- Are we a 'lean' manufacturer or is there a lack of harmonization between sales procurement and production?
- Is a salesman compensated on made or on paid revenues/margins?
- Are we maximizing the payment discounts or are we paying our suppliers as late as possible?

**40%**

of the CFO's has no view on the number of debtor days and the allowed customer credit!

The answer to these and many other questions can be decisive on the level of working capital in your company.

## 2. The elements of Working Capital



The three components that will define your working capital are:

- DSO – Days of Sales Outstanding
- DPO – Days of Purchases Outstanding
- DIO – Days of Inventory Outstanding

With Cash Conversion Cycle (CCC) being the overall view on Working Capital

Working capital is important and often under-managed. Improving its performance can generate cash to fund value-creating opportunities and reveal insights that improve other aspects of business performance.

# The Working Capital Analyzer

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## 2.1 Days of Sales Outstanding

The days of sales outstanding figure is an index of the relationship between outstanding receivables and credit account sales achieved over a given period.

It is considered an important tool in measuring liquidity. Days sales outstanding tends to increase as a company becomes less risk averse. Higher days sales outstanding can also be an indication of inadequate analysis of applicants for open account credit terms. An increase in DSO can result in cash flow problems, and may result in a decision to increase the creditor company's bad debt reserve.

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## 2.2 Days of Purchases outstanding

DPO is an indicator of how long a company is taking to pay its trade creditors. DPO is typically looked at either quarterly or yearly. If you can wait longer to pay your suppliers, this will be an advantage and you will have more resources available in the short term.

On the other hand, it might be better to pay sooner and receive a reduction for your early payment. You will also have a better relationship with your supplier and this might be advantageous in the long run.

It is important to find a balance between these two approaches.

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## 2.3 Days of Inventory Outstanding

Days inventory outstanding shows the number of days that it is needed for the company to sell out stock. This ratio is similar to the inventory turnover ratio, only it provides information on company's stock level in days but not in times. Data needed to calculate this ratio is collected from balance sheet and income statement.

It is obvious that holding an unnecessary high stock will be expensive. In order to minimize this cost as much as possible it is very important to optimize your purchases in relation to the needs of your customers.



# The Working Capital Analyzer

## 3. Controlling your Working Capital

As it becomes more and more difficult to convince financial institutions in providing credit, the need to reduce operational costs and to optimize internal processes becomes more and more important. One of these processes is finding the right balance between the different elements that define your working capital!

### 3.1 Benefits of reducing Working Capital

Strategically the improvement of working capital results in increasing EVA for the firm. Freeing up cash, in times like this provides a cheap source of funding to which no firm is beholden where finance costs are concerned. Viewed favorably by analyst of all stripes, the methodological improvement in processes, policies and KPIs surround total working capital (TWC), also yields a lean enterprise that is flexible and agile while lowering overall operating expense.



### 3.2 Working Capital Management

We would like to debug some of the WCM myths that may lead people to believe WCM is an easy topic. As you see in this document WCM is not something confined to the Financial department, it impacts the whole company or at least the operations of the rest of the business impact it. So therefore it is not something that Finance on its own can fix, nor is it something Finance on its own can be responsible for. Everyone has a part to play.

Secondly, some people think WCM is a balance sheet item. One that you need to clean up at year-end – this is also the wrong approach, “window dressing” in this way is a short-term measure. **Real WCM management involves process change throughout the year**, and these process improvements will have not just a Balance Sheet effect but an income statement impact by reducing not just financing costs but reducing operational costs.

Another thing we commonly hear is “we want to improve our WCM what sort of system should we implement?” You also won’t fix it with a fancy system!!

# The Working Capital Analyzer



It needs a change in culture implemented with new policies, processes and indeed metrics. **You need the right metrics in place to motivate people to change their behavior toward WCM and cash.** Of course all of this can be facilitated by a fancy system like our QlikView working capital analyzer.

Sometimes WCM has the perception to have a negative impact on customer service. This could be true but only if you perform the unsustainable, short-term window dressing measures, like pay late - collect earlier.

If you manage the real cash drivers properly and pay on time and talk to you customers about when they need to pay you, you will have a better customer relationship. e.g. have the sales guy call to advise of late invoice and assess if there is an issue rather than the finance guy calling 20 days later to short about non-payment.

Finally, some people – normally in the operations side may believe WCM generates “little benefit” . And that may indeed be the case for them, especially if they do not have **WCM related metrics** to evaluate their performance. If they do, then suddenly WCM can be very important. **Experience shows that process optimization can help reduce WCM by up to 20-30% Maybe not the 5<sup>th</sup> time you do it, but the first, second and third time, it does.**

## 4. The Working Capital Analyzer

Ackinas has developed a Working Capital Analyzer making use of the QlikView BI solution and some specific API's covering all of the important aspects of 'Working Capital', Cash and Credit management information.

The Working Capital Analyzer makes company wide information on-line available and is not only showing the actual situation, but also the evolution and the trends and measurements against targets.

The data is mostly available in ERP systems, Data Warehouses or spreadsheets. Transferring this data into coherent information shown in dashboards and reports allows you to analyze the corporate wide working capital elements and ratios through a few simple clicks. This makes The Working Capital Analyzer a unique solution that can be implemented in a relatively short period, because we have several templates available. **For some of the major ERP solutions, we have a standard connector available, which allows us to connect directly with the underlying database or data warehouse in a matter of days.**

The Working Capital Analyzer is a platform independent system that will gather and combine data of multiple sources and levels and present it to management as one consistent view.



# The Working Capital Analyzer

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## 4.1 Functionality

The Working Capital Analyzer allows you to:

- Daily monitor the WC state and evolution through appropriate KPIs and ratios.
- Get insight into the working capital at group level, independently of the underlying ERP solutions.
- Automatically extract, transform and integrate your source data.
- Aggregate at different levels (flexible set-up): Group, Operating Unit, Country, Company, Plant, Customer/Vendor/Product Group, Customer/Vendor/SKU, Account Manager, ....
- Simulate results and compare results to a defined best case scenario. You can see the results in a What-if situation.
- Present the data in multiple company and/or base currencies.

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## 4.2 Working Capital Analyzer Versions

- **Top down**, Dashboard, DSO/DIO/DPO/CCC details
  - Based on financial transactions (general ledger)
  - Dimensions : Group, region, country, company
  - Measuring against Budget, Forecast (4+8, 8+4) and target
  - In group- and local currency
  - KPI's , Trends, Details (down to the account level) and what-if scenario's
  - 3 or more years history
- **Bottom-up**, Dashboard, DSO/DIO/DPO/CCC details
  - Based on transactional details (Invoices, payments, stock transactions)
  - Possible Dimensions : Group, region, country, company, customer group, customer, vendor group, vendor, plant, warehouse, SKU
  - Measuring against best practice DSO, DPO and DIO and forecasts
  - In group- and local (company)currency
  - KPI's , Trends, Details (down to the account level) and what-if scenario's
  - Detailed outstanding debtor invoices and Payment behavior analysis
  - Detailed outstanding creditor invoices and Payment behavior analysis
  - Detailed stock analysis (Slow moving and multi-dimensional stock classification)
  - 3 or more years history

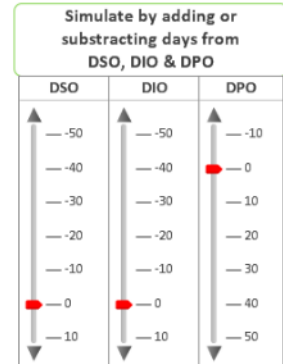


# The Working Capital Analyzer

## 4.3 Simulations

Simulate the effects of a change in your DSO, DIO or DPO and see immediately what the effects are on your available working capital!

Every change you make results in a direct recalculation of all your data. Instead of guessing what the effect will be when you manage to lower your DSO, you will get the results on your screen with one simple click.

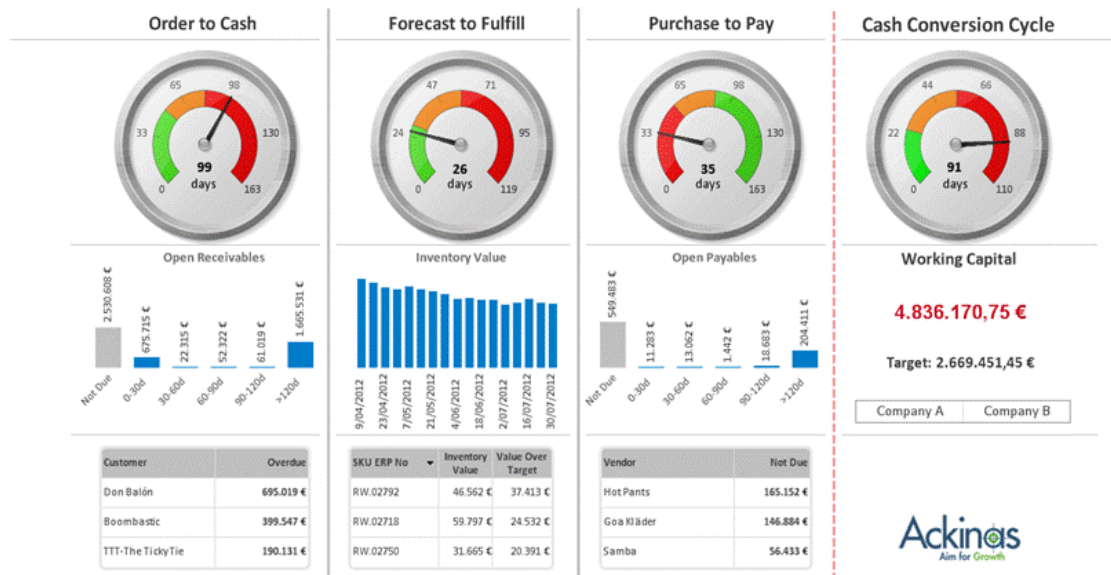


## 4.4 Personalization

The Working Capital Analyzer can be easily personalized. At any time we can add functions that are applicable specifically to your needs. This flexibility gives you the solution you need at any time!

## The Working Capital Analyzer's dashboard

One view, all information you need! Click through to the details and save the selections you perform the most.



## 4.5 The Working Capital Analyzer's Engine

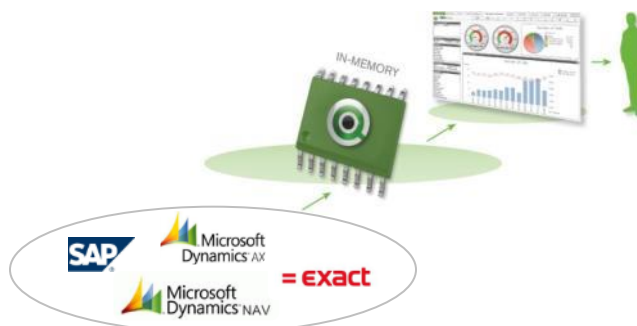
The Working Capital Analyzer was built on the powerful QlikView engine. QlikView is one of the fastest growing business discovery tools in the world. In memory technology and an associative data model creates a unique platform that is end user driven and minimizes IT involvement. Forget about data warehouses, queries, months of consulting and sending endless question lists to your IT department!



# The Working Capital Analyzer

## 4.6 The Working Capital Analyzer Architecture

The WCM architecture has been set-up from your existing databases/data warehouses, which can be several different databases/sources, transform this data into one data model and deliver the data to the WC analyzer. In this process we have created a full staging functionality which checks on data consistency/integrity and also checks on compliance issues where required.



## 5. Other Working Capital related solutions

### 5.1 Process Mining/Process BI

Working Capital improvement is all about Process Improvement. You can quickly analyse your AS-IS business processes through the application of Process Mining or Automated Business Process Discovery (ABPD).



ABPD discovers the business processes based on examining the electronic footprints the users leave in IT systems supporting the process. This allows the business process to be automatically discovered and documented in near real time. Having the approach of “bottom-up”, the facts of instances of form a detailed depiction of the business

process, complete with all the nuances and detailed statistical information on how often different variations of the process are executed, how long it takes, what data conditions give rise to process variations, and what variations there are between different users or groups.

To follow-up continuous improvement we recently introduced **Process BI** capabilities. The data coming out of the process analysis models is used as input to feed the required metrics, that will be presented in a dashboard or in further detailed analysis of the changes/ improvement that have been implemented, based on the outcome of the Process discovery. Apart from defining any metric you need, with a full historic detailed evolution, the tool provides great collaboration capabilities, that allow you to create and follow-up action plans and set-up specific alerts if desired.

# The Working Capital Analyzer

## 5.2 Cash Flow Forecasting

**Not controllers** but buyers, sales people, supply chain managers, production managers and project managers can influence the cash-flow development. We have therefor developed a very comprehensive Cash Flow Forecasting/Management solution that allows everyone to analyze and control the companies' cash flow from their own activities and responsibilities.

We provide a Top-Down version, based on financial data:

- GL Transactions
- Budgets
- Input data

Bottom-up, based on detailed transactions.

- Accounts Receivable
- Accounts Payable
- ERP data
- Bank Account data
- Financings
- Input data
- External data

- Short, Mid and Long term planning
- Multi Company, Multi Currency multiple dimensions



## 6. Ackinas

Ackinas was founded in 2002 and has grown into a team of well experienced financial and supply chain management consultants. Together holding more than a 100 years of experience in business analysis and corporate performance management we are convinced of being able to support our clients to grow in a sustainable way.

Our goal is to coach companies in analyzing data and improving the related business processes. We are not just software resellers, but a reliable solution developer and business partner. You can find more information about our products and services on our website!

[www.ackinas.com](http://www.ackinas.com)