The **Working**
Capital Forum

Full-Spectrum Working Capital:
Completing the treasurer's toolset

Working capital remains a priority for Dutch corporations, but there's much more to it than extending DPO. Rabobank gathered a group of corporate treasurers at its Utrecht HQ to compare experiences.

When asked to focus on working capital, most corporate treasurers will look first at the three indicators of Days Payable Outstanding (DPO), Days Sales Outstanding (DSO) and Days Inventory Outstanding (DIO).

In recent years, the growing popularity of supply chain finance has offered a way of pushing out the first of those metrics, offering a 'quick win' for cash-strapped corporations.

Global data from PwC suggests, however, that the days of ever-greater DPO are over (see table 1). In the Netherlands, according to Rabobank research, typical DPO are even shorter than that global average (table 2).

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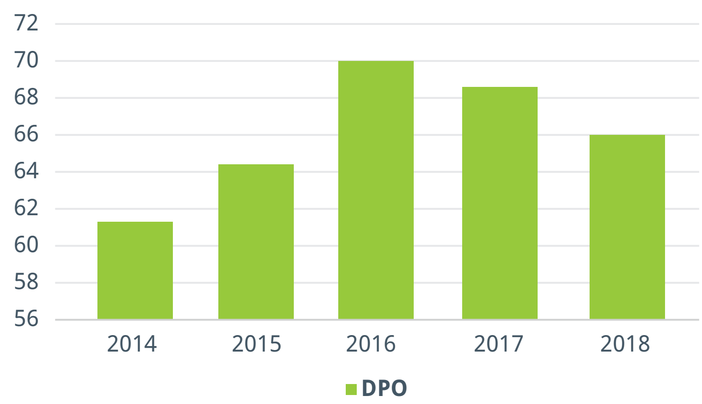
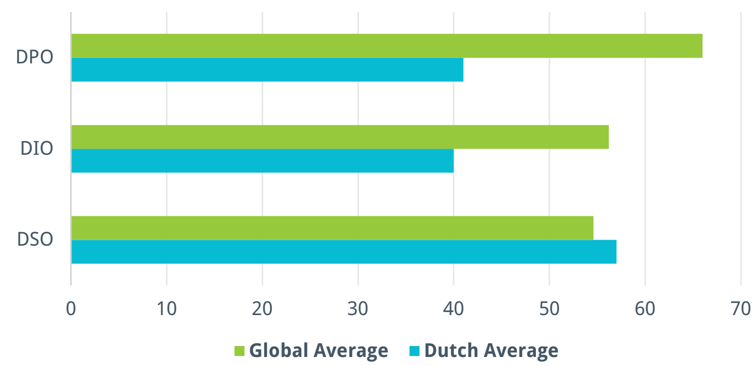
Table 1. **Global DPO Trends**



Source: PWC Working Capital Report 2019/2020

Table 2. **Global vs Dutch Average Working Capital Position**



Source: Rabobank analysis based on FactSet data from 579 Dutch companies with revenues above $20 million.

For the treasurer charged with freeing up cash, this may present a challenge but, as the group invited to our Working Capital Forum lunch at Rabobank demonstrated, there are many more ways to optimise working capital than simply extending terms.

Have we passed Peak DPO?

The discussions around our table in Utrecht made it clear that fewer Dutch corporates see pushing out DPO as a realistic option. As one treasurer put it, "We have done an extensive programme to extend DPO and now there is not much more to gain."

Another took a similar view: "We are below industry average on payment terms, but do we want to extend? Maybe not – we want to be average, we don't want to be outliers, and we are more or less there. If something must make up for it – it will be on the sales side."

The reluctance to push DPOs out further was, in part, driven by a desire to be fair with payment terms and the reputational risk of going too far. Treasurers stressed the importance of a buyer "doing the right thing", and not just leaning on suppliers to improve working capital position.

As one treasurer put it: "For us it is about finding the balance. We don't want to push SMEs to the brink."

Ownership structure matters

One interesting insight to emerge from the discussion was how much the approach to working capital differed according to the ownership structure of the company. Family-owned companies took a very different view to those in private equity ownership, which again had a different set of priorities from public companies.

The corporates at the roundtable who were owned by private equity firms generally prioritised being 'asset light' and wanted to keep debt on the balance sheet to a minimum. PE-backed companies were also often hungry for acquisitions and looked to use working capital as a source of funding for these deals.

However, family-owned companies are often more traditional or conservative than their peers and may be less eager to take big risks or push their working capital ratios beyond the market norms.

This isn't to say that working capital is less important in these companies – rather the tools used might differ.

On or off the balance sheet?

Whatever their ownership structure, every treasurer was concerned about the lack of clarity over whether some supplier finance solutions should be considered on or off-balance sheet.

For public companies, there was a strong awareness of the views of ratings agencies such as Fitch and Moody's that large-scale supply chain finance programmes were not always clearly set out in annual reports and, in some cases, should be regarded as debt rather than as trade payables.

Whatever ruling comes from regulators such as FASB (which has been asked for clarity by the 'big four' accounting firms), there is no doubt that it will have a significant impact on the future use of products which rely on extending DPO.

Many in the Utrecht group were concerned that if any change forces working capital programmes to be fully disclosed and potentially treated as debt, it could dilute the benefits of these solutions.

For now, being open and transparent with investors about your company's use of SCF is the best policy.

> "The group was united on the need to create more operational efficiencies and cut down the amount of time spent on manual processes."

Unlocking the value on the asset side of the balance sheet

With the option of extending DPO becoming more problematic, corporates have been exploring other opportunities to free up cash. Next to receivables securitisation or monetisation techniques, one of the ways the treasurers are achieving this is by inventory finance, focussing on goods and raw materials in warehouses and even in transit. This is an area in which Rabobank has worked with several clients, especially in the agribusiness sector (see box).

As one treasurer in Utrecht pointed out, the key to successful inventory finance is that the inventory itself should be capable of being valued accurately and be relatively 'liquid'- easy to sell in case of default. In some sectors, especially food and agriculture, where the goods concerned are often easy-to-value commodities, this is a solution that works well. In others, there is still work to be done on methods of valuing inventory and managing risk, but the potential is clear.

Co-operation and KPIs

As companies take a holistic approach to working capital, venturing into new areas such as inventory finance, so the need for greater cooperation between departments increases. None of the solutions discussed would work if departments outside treasury were not aware of the overriding importance of cash.

One treasurer called for more education on the sales side to help during negotiations with potential suppliers. "They don't always know the impact of their decisions on payment terms," he said.

The inclusion of working capital goals within treasury and the wider management team's key performance indicators (KPIs) was also mentioned as a fast route to unlocking a 'full spectrum' approach to working capital. Several attendees reported that working capital metrics had improved significantly when bonus schemes for management were linked to optimising working capital.

Ilze Nijs
Head of innovation, asset-based finance, Rabobank, on integrated working capital

"Rabobank worked with a client who had about 30 suppliers – we bought the inventory ourselves from these suppliers and then would sell that to our client with payment terms.

Using this technique, the client was able to lock-in a price with their suppliers early – the financing effectively acted like a hedging instrument.

We can use this structure to provide liquidity to the client throughout the company's value chain which bridges the gap between the buying of goods, the processing stage and the selling of the goods to their customers."

> "Treasurers were interested in how data analytics and the use of artificial intelligence (AI) technology could be used as an additional tool."

Operational Efficiencies

Our group of treasurers was united on one topic – the need to create more operational efficiencies. They wanted to reduce the amount of time spent on manual processes, for example in jumping from one platform to another to gain an overview of the company's working capital position.

One treasurer said his biggest issue in this area was a need for more effective cash forecasting. "Our priority isn't always to seek to delay outgoing payments, but in some cases to accelerate payments to secure discounts – I just need to know which!"

Greater visibility over the company's current and future cash position would enable him to make a judgement on when it would be most beneficial to pay a supplier early.

For those treasurers who were already running successful supplier finance programmes, the key was to look for cash forecasting solutions that could work in tandem with their SCF platform, rather than generating additional layers of complexity.

Bank or Fintech?

This requirement for better integration might seem to point treasurers towards a technology-based solution for working capital issues. Yet opinion was divided on whether banks or the new wave of financial technology firms were the better option.

One treasurer said fintechs, “Often have great concepts but lack the financing capacity to fund large-scale working capital projects.” He said he had concerns about the reliability of the investors investing in fintech-led programmes.

Another treasurer described a ‘disappointing’ experience with a fintech when the lack of ‘meaningful’ funders behind the platform became clear. “That project didn’t work, but it gave us a lot of insights.”

In fact, the ‘holy grail’ for every treasurer present was a truly integrated approach to working capital management.

For them, the ‘bank vs fintech’ debate over working capital management was less important than getting a solution that used the right technology but allowed them to access multiple funders.

Elke Maas
Senior relationship banker, F&A, Rabobank, on operational efficiencies

“What we are seeing is a clear wish from clients to be operationally better at managing their different working capital solutions. They often see the benefit of a working capital product, but the operational work attached to it can be time-consuming and not that efficient – for example incurring costs such as hiring an extra finance director to get the solution up and running.

I see a trend towards looking at the entire value chain proposition. This means companies can use working capital solutions to support the whole value chain and pass on the benefits to their suppliers. This is one of the prime reasons we offer working capital solutions to our clients.”

Further innovation

Looking further into the future, treasurers expressed interest in how data analytics and the use of artificial intelligence (AI) technology could be used to reduce uncertainty. As one roundtable attendee put it: “Can we predict if a customer will go bankrupt? We have a lot of data we don’t use but is it possible to predict clients’ behaviour?”

So, we may have passed ‘peak DPO’ but, for our group of treasurers, there is no sign that working capital is diminishing in importance. On the contrary, in a world of uncertainty over trade wars, tariffs and Brexit, the importance of freeing up cash in the business is arguably greater than ever.

What is changing is the variety and scope of possible solutions.

As Elke Maas of Rabobank puts it: “What’s unique about working capital is that every company has its own dynamics and requires a tailor-made solution. We aim to either develop our own solutions or co-operate with outside partners. It’s about identifying pain-points and working on solving those.”

The **Working Capital** Forum

Ten Working Capital Issues for Treasurers

1 | **Have we reached the limits of DPO extension?**
There are signs that payment terms have been pushed to their maximum

2 | **Be mindful of the company's ownership structure**
Private equity-owned or a family company? Ownership matters when defining a working capital strategy

3 | **Emerging opportunities in inventory finance**
There is growing interest in financing inventory and goods in transit.

4 | **Reputation matters when it comes to payment terms**
No one wants to attract publicity for being a late payer

5 | **How to be fair to suppliers and maintain good relations**
Finding a balance between the right DPO and maintaining 'fair' supplier relations is essential.

6 | **Operational efficiencies matter**
Treasurers don't want to waste time on manual-intensive work

7 | **How does regulation affect working capital products?**
More clarity needed on regulatory guidelines for working capital solutions

8 | **It's essential to find the right partner**
Fintech or bank – who offers the best solution?

9 | **Cooperation is key**
Every department needs to work together to get results - working capital-based KPIs help focus management minds.

10 | **Stay abreast of technology and innovation**
What will shape the future of working capital?

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The Working Capital Forum is organised by Adaugeo Media, Blackwell House, Guildhall Yard, London, EC2V 5AE.

www.workingcapitalforum.com