



# MAKING SMART WORKING CAPITAL DECISIONS FOR YOUR COMPANY

February 2017

Co-Presented By:



## Coming Up...



2017 B2B Payments & Working Capital Management Survey

2017 Treasury Fraud & Controls Survey

Leading Practices: Working Capital Management, Managing Globalization

Outsmarting Payment Fraud: Common Exposures and How to Defend Against Them

## About the Presenters



**Sean VanGundy**  
*Managing Director, Working Capital  
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**C2FO**

**C2FO** provides a solution for working capital and risk-free profit, allowing companies to optimize their working capital positions in a live marketplace. Companies across the globe use C2FO to increase their gross and net profit while simultaneously producing working capital flows to their supply chain.



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*Senior Consultant*  
**Strategic Treasurer**

**Strategic Treasurer** is a consulting firm advising on treasury, financial risk and risk technology issues. Their seasoned treasury consultants efficiently work alongside financial executives in treasury, finance, and other related areas within corporate, government, education, and not-for-profit entities, providing treasury consulting services.



**Debbi Denison**  
*Senior Consultant*  
**Strategic Treasurer**



# Topics of Today's Discussion

-  Working Capital Primer (What is working capital and why is it important?)
-  Financing Options for Impacting Working Capital
-  Determining the Right Mix
-  Concluding Remarks

# Working Capital Primer: What is Working Capital?

Working capital is the level of available cash or liquidity available to an organization to satisfy short-term cash outflows and day-to-day business operations.

For Treasurers, the task of managing working capital is one of the most important functions that is performed. For those involved with the daily management of working capital, the “treasurers evaluation”, **WC = AR + Inv. - AP** is a more helpful formula.

This formula allows treasurers to more effectively recognize the impact that various components of the cash conversion cycle have on working capital.





# Working Capital Primer: Why is Working Capital Important?

It is important to remember that the goal is not to maximize or minimize working capital, **it is to optimize working capital.**

### **Working capital management is an essential component of business operations.**

- Treasurers must ensure that there is enough available capital on hand to satisfy short term cash outflows.
- Having too little available working capital increases the risk of being unable to pay off cash outflows and can have adverse effects on the balance sheet.
- Having too much working capital on hand results in a loss of opportunity, as idle assets could be invested and put to work generating returns.

## Poll Question



# Financing Options: The Umbrella of Supplier Financing

Supplier financing is not a single technique or solution set. Rather, supplier financing can refer to a number of different techniques or approaches, all of which are intended to provide suppliers with easier access to funds while simultaneously allowing buyers to optimize their working capital.

Some of the most commonly used supplier financing strategies include:

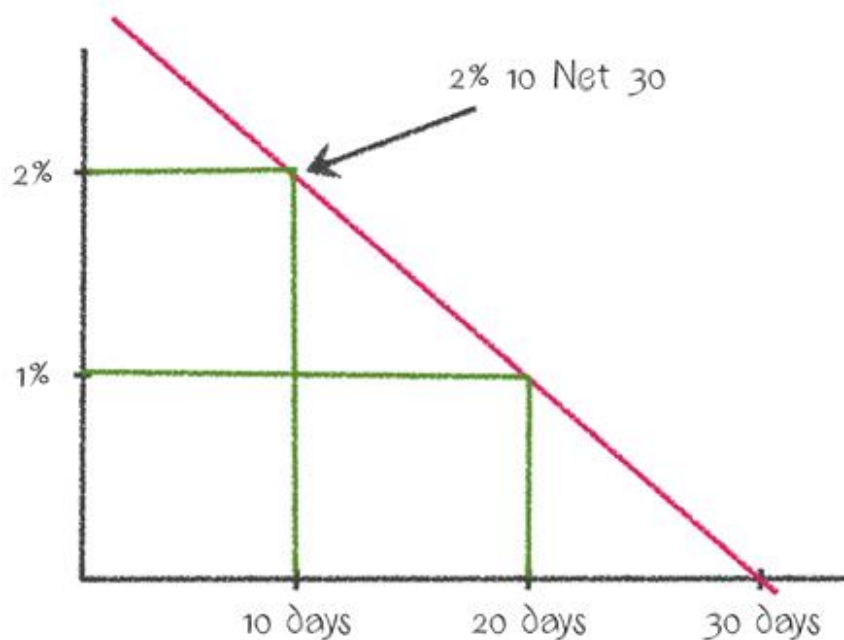
- **Supply Chain Finance (Reverse Factoring)**
- **Dynamic Discounting**
- **P-Cards**








# Financing Options : Dynamic Discounting

Dynamic Discounting is when suppliers offer discounts to buyers on approved invoices if the buyer is able to make payment early. Instead of using a “hit-or-miss” discount, such as 2/10 net 30, a supplier will offer a sliding discount that offers gradually reduced discounts throughout the life of the payment terms (i.e. 3% within 10 days, 2% within 20 days, etc.)



## Benefits of Dynamic Discounting

-  Buyers can use their own available capital to generate returns in the form of early payment discounts.
-  Dynamic Discounting programs typically allow an organization's entire supply chain, including the "long tail" of suppliers, to participate.
-  The returns generated through early payment discounts are generally just as high if not higher than returns offered through short term investments elsewhere.

# Making Smart Working Capital Decisions

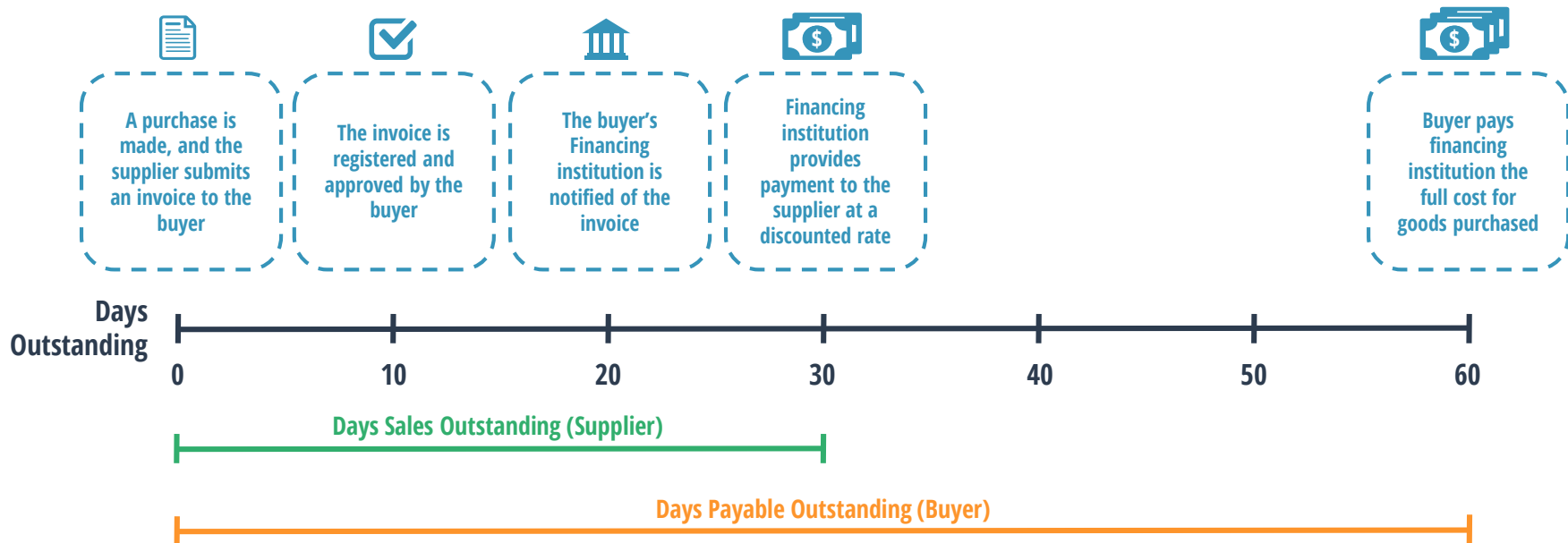


## Financing Options : Supply Chain Finance (Reverse Factoring)






Supply Chain Finance, or reverse factoring, is when a financing institution will agree to pay a buying firm's suppliers early at a discounted rate, in return for being paid in full by the buyer later on.

**This allows buying firms to hold onto their capital for longer while also ensuring that their suppliers are not starved of cash in the process.**

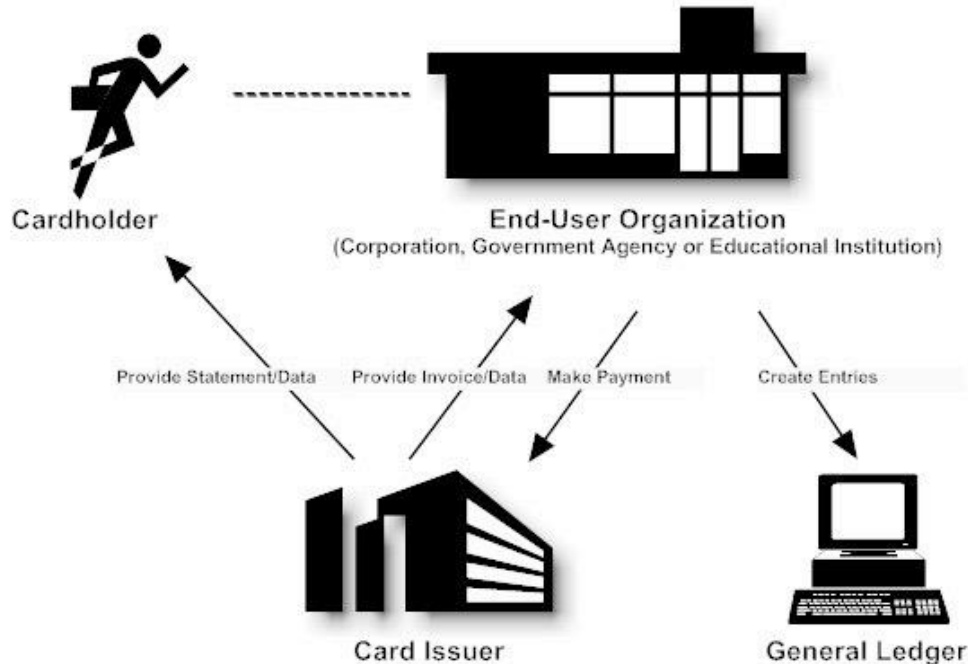


### Benefits of Supply Chain Finance

-  **Buyers who wish to hold onto their capital for longer can extend their DPO without putting their supplier base at risk.**
-  **This allows buyers to either generate greater returns in the market by investing their capital for longer periods, or allows them to use that capital to satisfy other cash outflows.**
-  **Suppliers benefit from supply chain finance, as they are provided with financing that is based on the creditworthiness of the buyer. Typically, the buying institution will have a higher credit rating, and thus suppliers will receive better rates than what they would get on their own.**

## Financing Options : P-Cards




**P-Cards (Purchasing Cards) are cards or account numbers issued to buyers that allow them to quickly and efficiently purchase goods from their suppliers using an expedited process that cuts out many of the manual tasks associated with the traditional procure-to-pay cycle.**



 Poll Question






### Benefits of P-Cards

-  The process of ordering supplies is highly automated and simplified, and the procure-to-pay cycle is streamlined.
-  The cost of purchasing goods via P-cards is much cheaper than the traditional purchase process.
-  The use of P-cards results in a faster, more efficient payments process that allows suppliers to receive capital more quickly.



### Determining the Right Mix: Define the Need

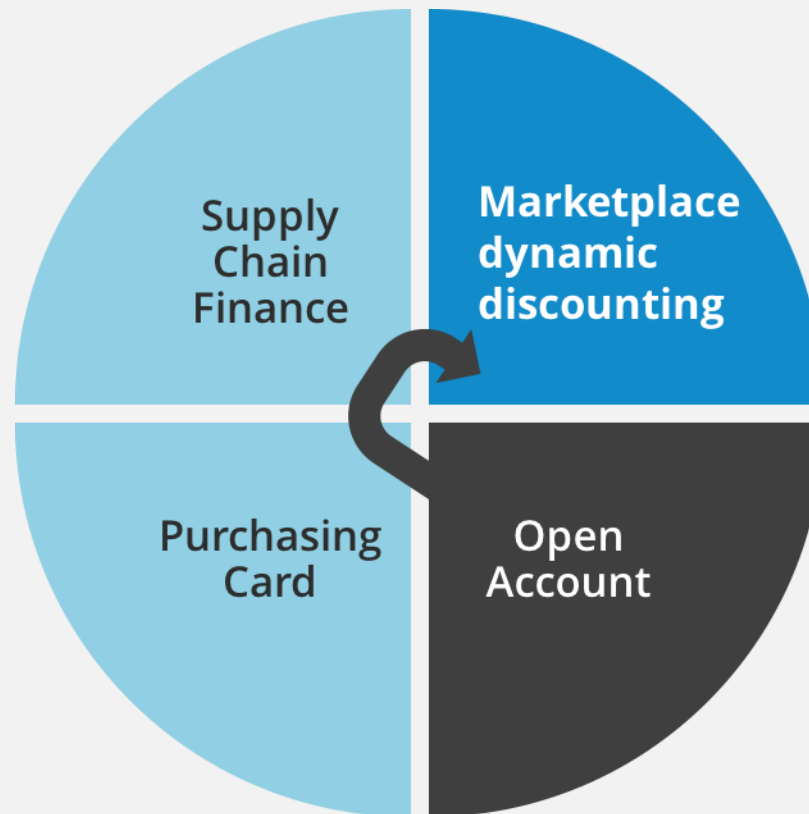
As a company works to determine the most effective supplier financing strategy moving forward, the first step will be to define their specific needs as a company.

-  What are the specific objectives of establishing a supplier financing program?
-  How much available cash can be injected into the supply chain?
-  Will the company have to rely on banks to provide any funding? If so, how much capital should we contribute versus them?



## Determining the Right Mix: Stratifying the Trading Partners

Once a standard set of company needs and objectives have been identified, the next step will be to select and stratify the trading partners. **This includes both suppliers and financing institutions.**

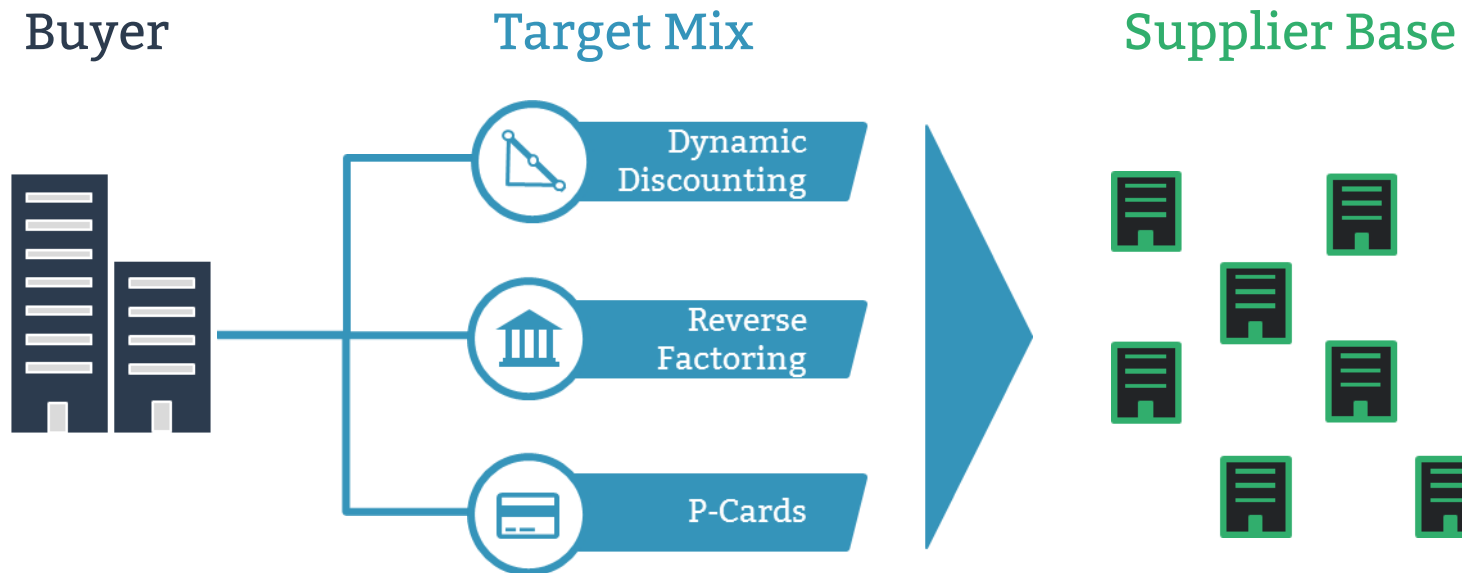




## Determining the Right Mix: Finalizing the Target Mix



Once your specific company needs and objectives have been identified and your preferred trading partners have been established, it is time to finalize the ideal mix of supplier financing techniques that will be used.





# Key Takeaways



**Working Capital Management is one of treasury's most important roles.**



**There are a range of potential financing options available to help organizations optimize their working capital.**



**In many cases, treasury can make use of a mix of available financing options to optimize their working capital.**



## Contact Information



Strategic Treasurer was founded in 2004 by Craig Jeffery, a financial expert and trusted advisor to executive treasury teams since the early 1980's. Partners and associates of Strategic Treasurer span the US, the UK, and continental Europe.



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Collaborative Cash Flow Optimization

C2FO is the first working capital market in the world. Since their first transaction in May 2010, C2FO has generated more than \$78.8 billion in working capital flow volume and more than 282 million days of accelerated payment.



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