



Delivering cash optimisation to ride the liquidity crisis

Smart solutions for tough times
Responding to the economic crisis



The challenge

2008 saw a seismic shift in the balance of supply and demand for debt. Previously, we had become accustomed to supply far outstripping demand, with banks competing to lend to companies, consumers and each other.

However, as the credit crunch has taken hold, external funding has become more and more difficult to secure. The confidence-led model has been abandoned in favour of one that offloads as much risk as possible.

For the commercial sector, financial institutions used to provide a vital cash buffer across the links in the value chain. With this buffer severely diminishing, the commercial sector is following suit in discarding the confidence model. Credit terms are being shortened and in some cases removed altogether. Suppliers are no longer willing to fund the working capital of their customers.

Management of the P&L is no longer the primary focus; instead, balance sheet liquidity is becoming the priority for many businesses. Cash is now at the top of the CFO's agenda. Companies need to demonstrate full control of their cash position, as a lack of confidence from one customer or supplier can spread very quickly, and perceived issues become real as a result. This point has several implications:

- Investments will need to be self-financed, adding increased constraint to the portfolio of projects they can undertake
- Short-term funding will not be available to cover cash fluctuations. Cash management therefore needs to become stricter, and receive daily attention.

- Companies must thoroughly appraise the liquidity of their partners, both up and down the supply chain.

The solution

Existing cash forecasting arrangements are unlikely to meet these new requirements. Therefore, at Capgemini Consulting, we have brought together our Finance and Operational Research (statistical science) expertise to help our clients strengthen their cash management capabilities, tools and techniques. We work with clients to improve working capital performance and provide both immediate remedies and solutions that deliver long-term security. Our expertise includes:

- **Risk assessment:** a review of recent and planned cash flow, using statistical analysis to benchmark your business and identify gaps and areas for improvement.
- **Cash flow modelling:** our Operation Research capability and tools allow us to extract a large amount of transactional information, analyse it rapidly, and perform 'What-if?' scenario modelling to answer questions such as:
 - How would a shortening of payment terms by your largest supplier affect your future cash position?
 - How many smaller customers need to renege on their credit terms before your cash flow is significantly impacted?
 - If one or more of these scenarios materialise, how long before you are in breach of covenant?
- **Building capability in the work force:** we work directly with your staff to embed our tools and techniques in the organisation. We see knowledge transfer and

behavioural change as fundamental in ensuring that improvements stick.

- **Transaction process enhancement:** we apply our knowledge of best-practice processes for accounts payable, accounts receivable, and inventory management to provide better control. Your staff can then focus on cash optimisation initiatives such as best use of supplier 'prompt payment' discounts.

- **Debtor management:** we help you to segment the debtor ledger and to define the most effective processes for each segment. Choices include: reactive or pro-active collection; in-house or outsourced facilities; process-driven or relationship-driven approaches.

Case Study: Industrial Turbo-machinery Manufacturer

We worked with the client to create transparency in the inventory supply chain, by implementing a visual control tool "The Bridge" to help to identify and reduce inventory bottlenecks. New processes (including capacity planning; qualification; demand/supply planning) were implemented to run the supply system. In addition, the team aligned regional supply chains, minimising transport and waiting times.

Total cycle times were reduced by an average of 52%. Inventory levels were reduced by 32%. Significant raw material reduction by up to 80%. Within 6 months, output increased by 40%. In addition, €21m of savings were made in the procurement process. Overall, this reduced the company's working capital, providing a significant boost to their liquidity.

Case Study: Glasgow City Council

A joint Capgemini and Glasgow City Council team devised new financial control mechanisms, developed customer segmentation, and introduced improved administrative procedures. The Council contributed its expertise in Council Tax and associated benefits legislation and administration, while Capgemini brought knowledge of financial process modelling, change management and stakeholder communications. As a result of the work the Council is anticipating an annual 2% increase in its council tax collection rates, equivalent to an administrative saving of over £200,000 per annum.

"Following our collaboration with Capgemini we are now confident that we will achieve significant measurable improvements in the Council's financial performance, and a better service to our customers. Equally importantly, the skills transfer from Capgemini to our staff will help us deliver ongoing year-on-year improvements."

Janice Timoney, Programme Manager at Glasgow City Council

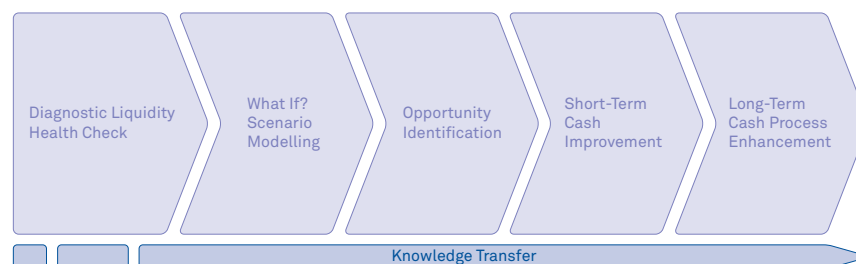
What you get from our assessment

1. A rigorous assessment of the health and potential vulnerabilities of your cash position and processes, with reference to leading practice in your industry.
2. A set of practical improvement recommendations, complete with implementation plans.
3. A Capgemini team who can work with you to implement the plan, coaching and training your staff in new ways of working that secure the cash position without damaging business relationships.

Our goal is to provide a better understanding of the key influencers on your liquidity and to identify and implement actions to improve it. This will allow you to demonstrate long-term stability to both internal and external stakeholders. A cohesive cash management programme should go beyond the immediate need for liquidity and include embedding free cash flow as the key business measure at all levels.

Even recessions have winners. Mastering cash flow is a prerequisite for becoming one of them.

Figure 1: Our approach to delivering cash management improvements



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