Cheap Cash – Working Capital Reduction

Credit lines drying up are common phenomena these days. Past credit performance, even with a great history, seems to have no impact on the decisions of banks to lubricate the wheels of commerce. There is, however, a relatively cheap and available source of cash many firms have that may be tapped into now: Working Capital. Working Capital – or the cash flow of a firm – can broadly be categorised into:

1. Customer to Cash (Receivables Management)
2. Forecast to Fulfil (Inventory and Supply Chain Management)
3. Procure to Pay (Payables Management)

Often simply referred to as 'cash flow,' working capital resides on the balance sheet of a firm. Improvements in this firm-spanning area yield many returns including the reduced need for cash to keep operations running, a reduced requirement for finance facilities that attract interest payments (Weighted Average Cost of Capital or WACC), well tuned and simplified processes which often mean a reduction in operating expense and P&L impacts. All these are some of the critical fundamentals that every analyst looks for in all economic climates. Even more so today.
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