



Optimising working capital by using technology in finance



Cash is king.

When finance professionals say, “cash is king”, they recognise the importance of efficient cash flow management in supporting an organisation. Poor management often leads to business failures. So, it’s surprising that 20% of organisations have not adopted robotic process automation¹. Yet we know that process automation has incredible benefits. Higher productivity, accuracy, increased performance, reduced operating costs, and so on, all of which helps maximise working capital.

In this document, we explore how procure-to-pay process automation raises profitability and improves working capital. We discuss technology that tightens spend controls, finds instances of fraud and prevents duplicate payments.

What is working capital management?

Working capital is the amount of day-to-day liquidity required for an organisation to operate. The components of the working capital machine are cash, receivables, payables and inventory. Optimising the efficiency of these moving parts ensures that a business can meet all its financial obligations as they become due, while improving financial performance and reducing borrowing needs.

Why is effective working capital management crucial?

Working capital management requires a delicate balancing act of demands. You need to ensure that the business has ready access to cash for day-to-day operating expenses and invest surplus cash sensibly.

Insufficient cash can lead to severe disruption. What first starts as inability to pay suppliers can turn into selling off assets, bankruptcy proceedings, or even liquidation. In contrast, excessive investment may not be the best use of company resources, giving a sub-optimal return.

Effective working capital management requires close co-ordination of procurement, treasury, accounts payable, accounts receivable and stock management.



Measuring working capital management.

Working capital efficiency is measured using four key metrics:

1. Accelerate inflows of cash from sales, minimising Days Sales Outstanding (DSO).
2. At the same time, a business will delay, within reason, cash outflows to pay supplier invoices, hence maximising Days Payables Outstanding (DPO).
3. DSO and DPO are key measures of a business' success in working capital management. The typical working capital strategy is to extend supplier payment terms wherever possible, and accelerate inbound cash flow on receivables.
4. Days Inventory Outstanding (DIO) measures how long an organisation holds stock before it is sold. Holding too much stock is inefficient as it incurs more costs.
5. Finally, the Cash Conversion Cycle is an important measure of efficiency, showing how much working capital a business has tied up in its day-to-day operations. This metric measures the timing difference between paying suppliers and getting paid for sales invoice and is measured with the following formula:

Cash Conversion Cycle = DSO + DIO – DPO.

In high-performing businesses, it is now best practice to use technology to measure these key performance indicators (KPIs) to drive improved working capital.

The longer the Cash Conversion Cycle of a business, the longer it needs cash to bridge this timing gap, and therefore reducing this metric improves and profitability. To reduce the length of this cycle, the banking and fintech industry has developed techniques such as Supply Chain Finance.

However, it is important to note that although this measures efficiency of working capital itself, it does not measure the efficacy of processes that protect working capital. This can be found in the amount of working capital, and the limitation of cash leakage from risks such as human error and fraud.

How technology can improve working capital and financial performance.

Technology makes it easier to improve working capital and profitability across the procure-to-pay cycle. In this section, we explain how this is possible:

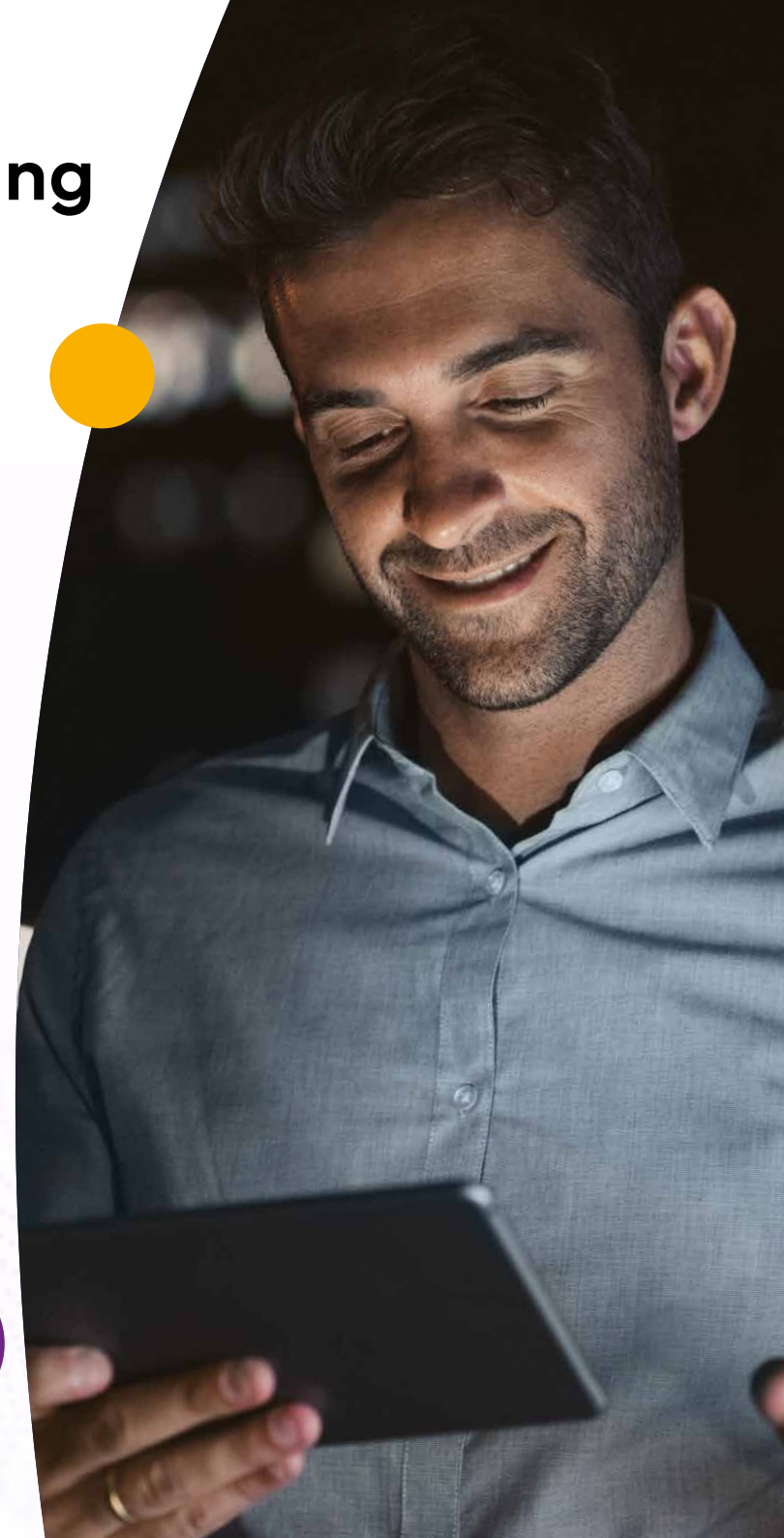
1. Invoice data capture.

A major pain point in Accounts Payable (AP) is that 70% of business invoices globally are still paper-based.¹ Thus, it is essential that any invoice automation solution handles both paper and electronic invoices.

An efficient system handles e-invoices in a variety of formats, such as text PDFs, CSV flat files, XML and HTML. These solutions use optical character recognition (OCR) and text layer extraction, and are increasingly enhanced by artificial intelligence (AI). Multi-format invoices can all be mapped into a standard format, to suit the payer's AP system or ERP.

An efficient invoice data capture capability can cut the cost of an AP department dramatically, with savings ranging from 50% to 80%.

2. The e-invoicing journey 2019-2025, Bruno Koch, Billentis.



2. Invoice validation.

The next step in the process in invoice validation. Commonly, ERPs use three-way matching,, where invoice data is checked against Purchase Orders (POs) and Goods Received Notes (GRNs). This is assists to reduce fraud risk, since it identifies invoices which do not relate to goods or services which have been ordered or recorded as duly received, hence raising an alert for possible fraud. However, it is important to note that the three-way matching method cannot catch every fraud attempt and is susceptible to matching duplicate invoices. It is therefore essential to have extra controls in place.

A file of matched invoices and a file of non-matched invoices can typically be created within a couple of days of receipt. That contrasts with a 10-to-15-day delay in businesses using manual processes. This accelerated processing using technology allows you to optimise working capital by avoiding fraud and duplicate payments and reducing costs. By automating these processes, your staff are also free to concentrate on managing the day-to-day running and increasing their personal effectiveness.





3. Invoice approval workflow.

For invoices without a PO, authorised personnel can access a web-based workflow to review and approve invoices and manage exceptions. Technology identifies anomalies which are highlighted and emailed to an approver for resolution. They can approve, reject or forward any invoices received. A browser-based workflow, with email alerts and automated escalations, ensures that anomalies are dealt with quickly, and invoices do not get lost or delayed in approvers' electronic in-trays. This automation improves visibility and control, accelerates processing and reduces costs, all of which support working capital optimisation.

Finance personnel have access to real time reports on the status of invoices, down to an individual line item. As working with invoices is much easier in one place, with one format, online workflow enables rapid resolution of queries.

For those who prefer to use their ERP approval workflow, files can be uploaded to the corporate's host accounting system. However, in organisations with multiple ERP systems, it is advisable to use a cloud-based AP automation system as a central hub integrated with various ERPs. This makes it easier to perform a standardised approval workflow, which is more efficient.

Streamlining and automating invoice management can cut the average processing cost by over 50%. After this approval workflow step, invoices can be approved for payment.

4. Optimising liquidity and payments.

Another way that technology can optimise working capital is to streamline payments and cash management.

You have a mission-critical responsibility to provide accurate, timely financial information. The many uncertainties of today's economic environment make it critical for organisations to have real-time visibility of their cash position, across multiple bank accounts, and to have better control over their payments and collections.

A payment hub enables you to instantly access a business' cash position and develop cash flow forecasts, with informative dashboards. It is important to automate cash allocation of inbound and outbound transactions, as well as loans and investments. Analytical tools, provide real time insights into the rich data available in the treasury platform and ERP, to drive better decision-making.

Many organisations require a wide range of payment types to meet all their payment needs, with access to multiple e-banking platforms. This is time-consuming and requires disparate security protocols and tokens, which increases risk and inefficiency.

A payment hub makes it easy for customers to securely access multiple banks around the world and initiate multiple payment types from a single, platform using multi factor authentication. Secure multi-bank connectivity is achieved using a combination SWIFT, Host2Host and APIs. In most of Europe and the UK, the use of cheques has declined significantly as businesses recognise electronic payments as a faster and more secure payment method..

This allows users to attain unprecedented visibility and control of their cash and working capital to improve their financial performance.



Preventing fraudulent payments.

With the rise in cyber-fraud, it is essential that organisations have multiple layers of defence. Technology and data analytics have a big role to play here. But it is important to also remember the basics: Always encrypt data, both at rest and in transit; payment systems need an internal control framework, with secure access, segregation of duties, two-person approval workflow, a full audit trail and multi-factor authentication of transactions.

Above these practical measures one valuable technique is to deploy a system to monitor transactions and employee records. This strategy should form a central part of an organisation's layered cyber defence. Advanced payment analysis enable a system to identify abnormal transactions and supplier data.

5. Statement reconciliation.

Fraud and duplicate payments are a major problem for many businesses, presenting a risk of significant financial loss and poor working capital management if preventative measures are not introduced. Automated supplier statement reconciliation is a proven way to reduce P2P costs, prevent fraud and minimise over-payments and duplicate payments. It also makes it easier to identify unclaimed discounts and rebates, along with missed credit notes. At a strategic level, supplier statement reconciliation helps detect and respond to supplier issues before they impact your business.

Transforming supplier statement reconciliation into an automated process pays dividends in efficiency and is highly lucrative. The best-in-class solutions provide AI-based reconciliation in real-time, which immediately provides users with the knowledge they need to recoup overpayments, resolve errors, and take advantage of credit notes, rebates and discounts.

Such fast process positions a business to reconcile hundreds of supplier statements, instead of being restricted to a small quantity from selected suppliers due to time constraints. If your accounts payable team reconciles more supplier statements more often, there is a significantly higher probability of detecting a greater number of discrepancies. This mitigates supplier risk and allows for improved working capital.

6. Risk management and audit.

The use of risk management software alongside regular internal audits have a crucial impact on working capital. These measures are essential in detecting errors (such as duplicate invoices), minimising losses from overpayments and reducing fraud.

Sophisticated supplier risk analysis solutions can identify slightly differing values, as well as similar but not identical supplier names. These include identifying errors which might have been made upstream, such as mis-keying a letter "l" instead of a 'one', or an OCR system misinterpreting a 'zero' as a letter "o" in an invoice reference. This can be an important factor when identifying duplicate invoices.

AI-powered analytics and intelligent invoice profiling can identify abnormal and potentially fraudulent transactions. AI's compelling advantage is that it considers patterns in the transactions. This might involve highlighting an invoice on which the value is abnormally high, and invoices submitted at a strange time for the relevant time zone.

Analysing transactions early means that potentially fraudulent or incorrect invoices are identified before they are approved and released. Hence, you can protect your working capital from unnecessary outgoings, while also saving time and effort from avoided fund recoveries.





7. Using data analytics to improve spend management.

An integral discipline of working capital optimisation is spend management. Improved visibility and control of expenditure ensures a business' cash is being spent in efficiently, in accordance with an established budget.

Risk and spend management systems provide analytical tools and insights which make it easier to improve control and visibility of all aspects of sourcing and transactions. Careful analysis can help you select suitable suppliers, negotiate terms and conditions, and more..

Using technology to track and manage these activities makes it easier to ensure you spend according to plan and achieve KPIs. Best in class systems analyse supplier performance and contract fulfilment, while measuring captured savings.

An organisation should also identify which suppliers are important strategically and should be prioritised to make payments in a timely manner. This helps you achieve improve Days Payable Outstanding as part of your working capital optimisation strategy.

Monitoring supplier risk.

There is no doubt that there is increased political tension around the world today. This volatile situation, alongside economic issues such as recession and soaring inflation, places pressure on supply chains. They can appear safe and secure but can rapidly become disrupted.

It is therefore vital that businesses constantly monitor their suppliers for potential risks, whether political, financial or reputational. Making a payment to a supplier in advance, or even at invoice maturity, does not guarantee the future stability or continuity of a supply chain. This can have a negative effect on a business' working capital and profitability.

Best practice dictates businesses screen suppliers before commencing a new relationship. As part of this due diligence, it is prudent to ascertain their credit score to ensure they are financially secure, and not liable to stop supply with little to no warning. Adverse media reports are also advantageous, as they can signal when a supplier may have financial and reputational difficulties.

Sanctions are a hazardous area of supplier risk, it's prudent to monitor this. If a company is found to trade with those entities, they can face heavy penalties, ranging from fines to imprisonment of implicated executives, not to mention the reputational damage of breaching sanctions. This can have a negative impact on a business' working capital and future profitability.

With Governments imposing sanctions on countries at very short notice, it is challenging for organisations to keep up to date with sanction lists, in fact many neglect this because of the time-consuming nature of searching through those lists. But these compliance checks can be automated and streamlined. Such checks compare your supplier file with fully up-to date sanction lists and let you know if a supplier becomes problematic.

We recommend that alongside your onboarding checks, you also screen suppliers on an ongoing basis for appearance on sanctions and adverse media lists, as well as monitor their credit scores. Should there be signs of an impending disruption, your team can be prepared. They can take the required precautions to prevent it affecting your business operations.



Operational and strategic benefits of automating procure-to-pay for working capital optimisation.

The operational benefits of automation are increased efficiency, lower processing costs, as well as improved visibility and control. Supplier statement reconciliation reduces the risk of fraud, as well as the operational risk of paying invoices twice. All of these benefits contribute to lowering cash leakage and so optimising working capital.

It also helps build stronger supplier relationships by giving them easy access to information on invoice approval and when and how they will be paid. Using a supplier portal is a simple but effective way of making this information available to your suppliers on a self-service basis.

But more important than all these operational benefits are the highly valuable strategic benefits delivered by technology: The faster and accurate approval of invoices puts a buyer in a strong position not only to pay invoices on time but also to offer an early payment program for selected suppliers. This can be a highly collaborative way to strengthen a supply chain, with benefits for both buyers and suppliers. This results in a significant improvement in the working capital of both parties.



How FISCAL can help you optimise your working capital?

Working capital optimisation is an integral part of any CFO's strategy. To facilitate this, it's vital to use technology to increase controls and allow maximum productivity and efficiency. In this document we have covered various uses, from invoice data capture, to digital payments, to analysing supplier risk, to automated statement reconciliation. A huge range of technology is available to help you, and FISCALs transactional risk management software is made for the job.

Fraud detection and prevention

Detect potential fraud with forensic examination of suppliers and transactions.

Finding errors and preventing overpayments

We analyse your transaction data and find duplicate invoices and other anomalies before the payment run, allowing your team to solve them before payment.. This prevents duplicate payments and overpayments and safeguards working capital.

Automated supplier statement reconciliation

Improve ledger accuracy and recover overpayments, credit notes and rebates with ease. Our statement reconciliation solution reconciles a statement in as little as 7 seconds, for maximum returns.

Supplier monitoring

Our software completes daily checks of sanction lists, adverse media and credit scores. We'll notify you if a supplier appears on these lists or drops below a credit score threshold, so your team can protect your supply chain and your business.

Custom reporting

Our concise dashboards and live reporting allows you to see a full overview of spend. With our pre-built P2P-specific reports, and an AI-powered custom report generator, you can see clear trends and totals, allowing you to drive process improvements.

Retrospective internal audit

The software also analyses historical data, allowing you to complete recovery audits internally. Keeping things internal means you can keep 100% of the recovered funds.

ACT NOW

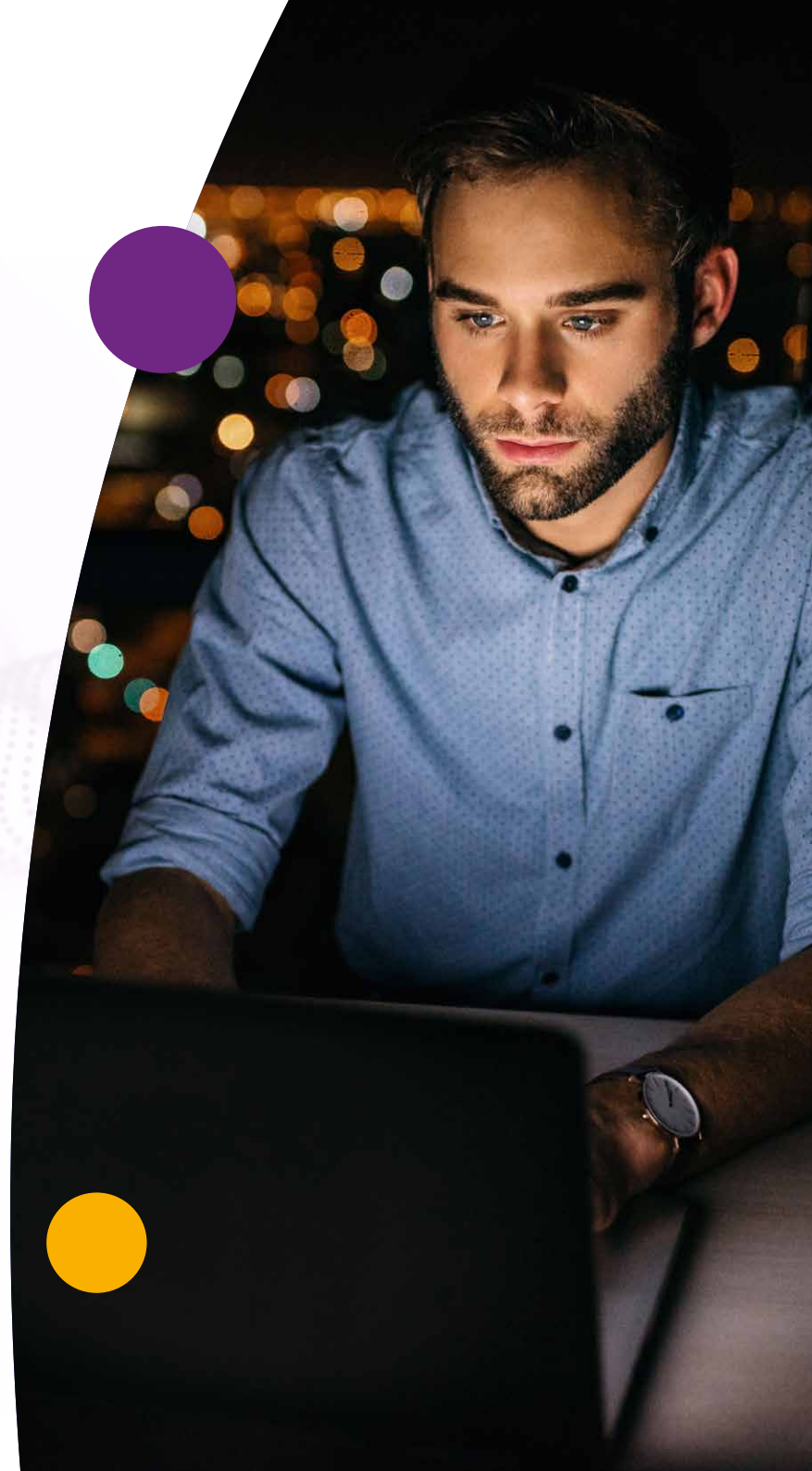
**Book a demo of our
software today.**

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Working capital optimisation

Here is a summary of tips on using technology to improve working capital:

1. Digitise your workflow for supplier invoice capture, data transformation, validation, and approval.
2. Introduce an automated supplier statement reconciliation to ensure that supplier statements are checked on an ongoing basis.
3. Implement supplier risk management and audit software to detect financial, political or adverse media risks which might disrupt your supply chain..
4. Use data analytics to manage spend more strictly across the business, in accordance with budgets and procurement policy, while ensuring suppliers' prices on invoices match agreed terms and conditions.
5. Introduce a multi-layer security system, including transaction monitoring to identify and prevent fraudulent payments.
6. Optimise payments by implementing a payment hub, to deliver greater control, visibility and standardised processes for multiple payment types and compliance with new payment schemes.
7. When on-boarding suppliers and carrying out due diligence, always check their credit score, and check them against sanction lists and adverse media lists. On-going supplier monitoring is essential.
8. Improve cash visibility across all bank accounts with secure multi-bank connectivity, via SWIFT, to capture daily statements.
9. Implement a supplier portal to make it easier for suppliers to submit invoices electronically, view the payment status of their invoices, as well as enabling a dialogue on any disputed invoices.



Book a demonstration today or speak to our team.

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FISCAL Technologies provides forensic AI-powered software and services that empower finance teams to protect their organisational spend and eliminate supplier risk.

Our award-winning, cloud-based software is used to find duplicate payments, defend against fraud, automate manual processes such as statement reconciliation, optimise working capital and provide trusted reports. We check every invoice and every supplier, every day.

Leading private and public sector organisations have trusted us since 2007, and we now guard £340 billion in spend per year.

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