Automating the cash conversion cycle

Christophe DuMonet (above) is managing director of cash conversion solutions specialist Esker.

As Australian businesses struggle against the headwinds of adverse economic conditions, they can no longer afford to tolerate inefficiencies in their cash conversion cycle.

The cycle measures how many days it takes for a business to convert the cash it spends on inventory back into cash by selling its products. In other words, it is a measure of how long a business's cash is tied up in working capital.

The combination of rising interest rates, climbing inflation, slowing economic growth, congested supply chains and ongoing labour shortages is increasing the strain on every business. As a result, any delays in the cash conversion cycle can push an otherwise healthy business to breaking point.

In the manufacturing sector, the cash conversion cycle blew out from 55 days in 2020 to more than 100 days in 2022, according to CommBank customer data.

Factors include the need to buy stock earlier due to supply chain constraints and an increase in the amount of time that businesses are forced to hold onto inventory before selling it. At the same time, late paying customers – sometimes due to their own financial stress – have also put greater strain on the cash conversion cycle.

Across the economy, 55 per cent of Australian companies increased earnings in 2021-22 over the previous year, yet 64 per cent had a corresponding increase in net working capital, according to the Deloitte 2022 Working Capital Report, indicating that more businesses increased the cash tied up in their working capital cycles than increased their earnings.

When business is booming and the economy is strong, managing business growth tends to take priority over managing costs. Some inefficiencies in the cash conversion cycle can be overlooked, even though they are impacting the bottom line.

But when times are tough, taking a more aggressive approach to managing costs becomes critical. Streamlining the cash conversion cycle can be essential in order to stay afloat, according to Christophe DuMonet, managing director of cash conversion solutions specialist Esker.

A global cloud platform which integrates with existing ERP environments, Esker allows finance and customer service professionals to unlock strategic value, as well as strengthen collaboration between companies by automating the cash conversion cycle.

Many inefficiencies in the order-to-cash and procure-to-pay cycles come from handling tasks manually, which not only slows down the cash conversion cycle but can also introduce costly errors, DuMonet says.

Some businesses believe they have "transformed" their operations simply because they have switched from paper invoices and purchase orders to PDFs, but this is of limited benefit if those PDFs are still handled in the same old way.

"Failing to transform these processes, which includes taking advantage of tools like automation and artificial intelligence, is increasing their cost of doing business," DuMonet says. "This, in turn, increases business risk when times are tough.

"There's little benefit in digitising or even automating a bad process. The real benefit comes from finding smarter ways to do things."

The impact of the pandemic and adoption of the hybrid office makes it even more important for businesses to streamline and automate the cash conversion cycle, rather than rely on manual processes. Otherwise, key business processes can come to a standstill until one specific staff member is sitting at their desk in the office.

When it comes to improving the processes which make up their cash conversion cycle, DuMonet says many businesses have traditionally focused on accounts payable and the cost of processing invoices.

Today, as economic conditions deteriorate, these businesses are recognising the need to pay more attention to accounts receivable and the cost of slow-paying customers. This includes the impact of tying up more cash in working capital, as well as the impact of higher interest rates on the cost of borrowing.

The push to eliminate manual processes in every aspect of the cash conversion cycle is not intended to entirely remove people from those processes. Instead, new technology is intended to carry the heavy load when it comes to simple and mundane tasks. This allows the business to scale more easily, while freeing up people to focus on higher value tasks which still require the human touch and deliver greater business value.

As such, optimising the cash conversion cycle is not only about adopting new technology but also about implementing effective change management, DuMonet says.

"Businesses can make the mistake of mandating these solutions from upon high, without making those people who are directly affected part of the conversation," he says. "At the end of the day, people are still one of any business's greatest assets – so the idea when improving the cash conversion cycle is to increase the productivity of your people, not simply replace them."