

## Outline CashBuilder Review

<b>Business</b>	<b>Product Company 1 Ltd</b>
Date	5 <sup>th</sup> January 2020

### Summary

<b>Target Cash Generation Opportunity</b>	<b>£2,718,000</b>
Max Cash Generation Opportunity	£5,437,000
Total Current Investment in Working Capital <sup>1</sup>	£10,584,923

Based on the data provided by your business

There appears to be a substantial cash generation opportunity within your business, based on what should be possible with your current credit terms with suppliers and customers. Further opportunities may be available upon negotiation of better credit terms.

Our Target Cash Generation number is 50% of the maximum. In our experience, 50% in most companies in your sector is achievable. A higher percentage may well be practically possible.

#### We recommend that you improve in order:

1. Debtors – credit control, invoice accuracy and query resolution
2. Stock – demand forecasting, stock management, ordering and transportation.

Both stock and debtors have equal opportunity in value terms, with debtors being the quicker and easier to impact.

<sup>1</sup> Note: “Working Capital” is an accounting term = Stock + Debtors - Creditors

## In a little more detail

### Stock

<b>Target Stock Opportunity</b>	<b>£1,200,000</b>
Max Stock Opportunity	£2,406,000
Current Stock balance	£6,421,000

Your current stock days are 107 days against your expected lead time (the time between ordering and receiving) of 60 days and 1 day for repackaging. Even assuming 5 days of inefficiencies, there are 41 stock days that are unaccounted for which provides the maximum opportunity of £2,406,000.

Stock is one of the harder areas to impact and relies on the quality of the sales forecast. You should work on the quality of your sales forecast between 50 and 120 days to take into account your 60-day lead time.

Following discussion with your supply chain team, it would appear that you have some issues with a number of SKUs that are no longer being purchased by your customers and also a number which are very slow moving. These should be investigated as soon as possible.

To understand the opportunity in more detail, we would need to analyse your stock ageing by SKU, your ordering, transportation and warehousing processes. We cover this in our Detailed CashBuilder Review.

### Debtors (what is owed to you by your customers)

<b>Target Debtor Opportunity</b>	<b>£1,275,000</b>
Max Debtor Opportunity	£2,545,000
Current Debtor balance	£7,398,449

Your current debtor days are 76 days against the average credit terms you give your customers of 45 days. Assuming 5-day customer processing time, your customers are on average paying 26 days later than the agreed terms. This provides the maximum opportunity of £2,545,000.

There are several possible reasons for this payment delay, most of which you have some control over:

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- Quality of the invoicing provided to customers – i.e. is all the information correct and covering what the customer needs. We suspect based on comments made that this can be improved.
- Speed up how quickly invoicing queries are dealt with and resolved. This is not currently a priority with the team and should receive more attention.
- Provide more training your credit control team and insist that they follow an agreed framework and/or process once an invoice has been issued. We also recommend grouping your customers into different categories and apply different approaches for each. Some are good payers, some are not.
- You customers are paying late on purpose. You appear to have a few of these and the credit control team need to be focused and persistent with this group.

We suggest that you focus on your debtor opportunity first as this is easier to fix than stock.

You are also taking 5 days to prepare your invoices and send them to your customers. Many customers do not take the date displayed on the invoice but the date they receive the invoice and apply agreed terms from this date. Consider preparing the invoices in advance or as much as possible in advance.

## Creditors (What you owe to your suppliers)

<b>Target Creditor Opportunity</b>	<b>£0</b>
Max Creditor Opportunity	£0
Current Creditor balance	£3,720,301

Based on the data provided you are paying your creditors after 62 days on average and your average terms are 60 days. This does not provide a working capital efficiency opportunity.

There may be opportunity via renegotiating credit terms with suppliers particularly as you are paying them well. There may also be price reduction opportunities.

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## What this report does not cover

We have not analysed the accuracy of information provided.

The analysis does not take into consideration the opportunity to renegotiate better terms with both customers and creditors. This is often a significant opportunity and can create a “step change” improvement in cash investment in working capital (stock, debtors and creditors)

For a more detailed analysis, including steps of **how** to make the changes to stock, debtor and creditor management, please speak to us about a Detailed CashBuilder Review.

## Input data provided

Outline CashBuilder Review		
		Annualised figures
<b>Sales</b>		
	Sales	35,424,782
<b>Cost of producing the sales</b>		
	Direct cost of sales (cost of goods/services sold)	21,838,220
<b>Average stock levels</b>		
	-Finished products	6,421,504
<b>Customers amounts owed to you</b>		
	Average debtors balance	7,398,449
	Average payment terms provided	45
<b>Suppliers amounts owed by you</b>		
	Average creditors balance	3,720,301
	Average payment terms provided	60
<b>Invoicing speed</b>		
	Average number of days taken to prepare and send invoices - i.e. gap between delivery or work completed and your customer receiving the invoice.	5

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