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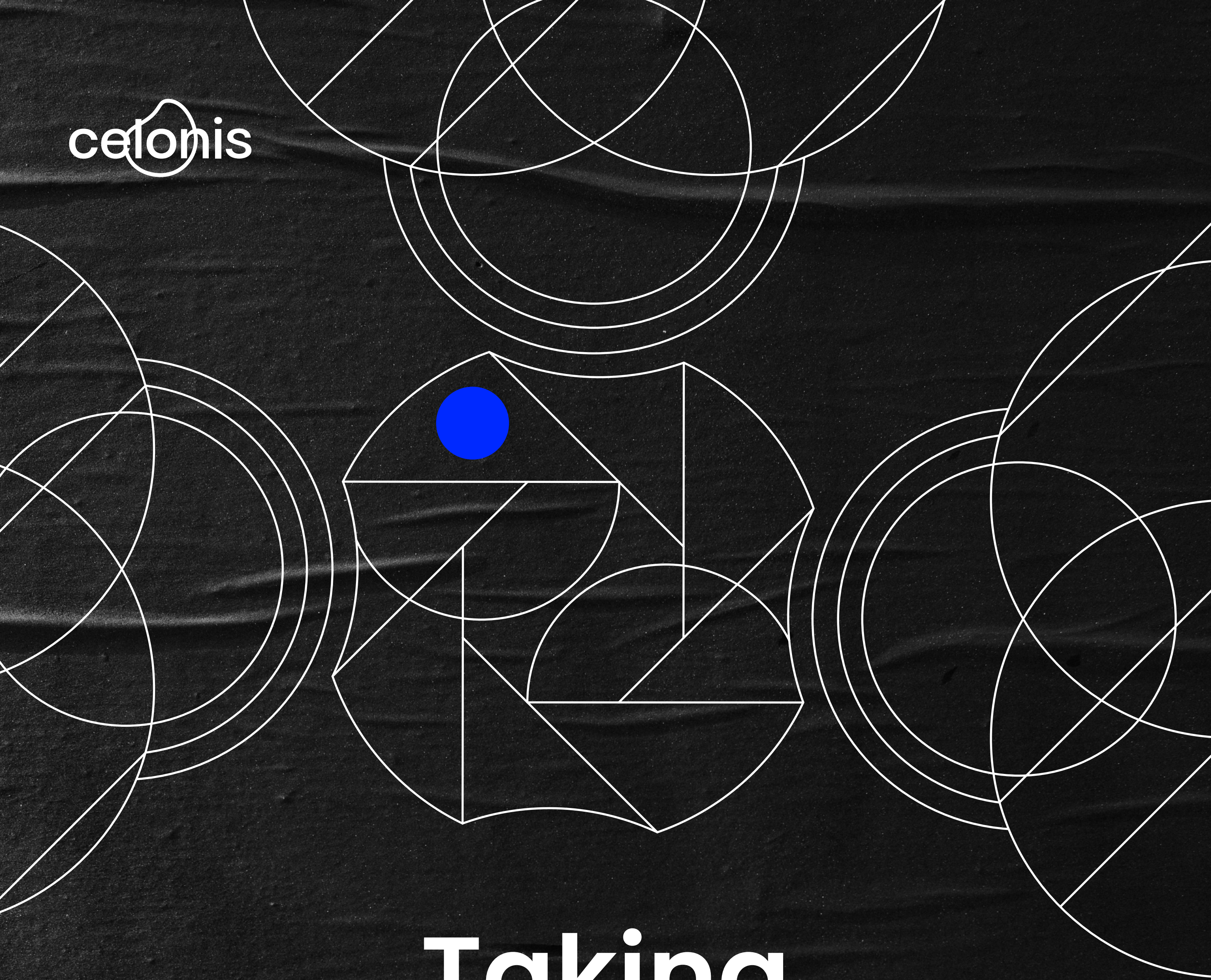

Taking the work out of working capital

An optimization playbook for the CFO

Contents

It's time to optimize working capital

As CFO, you're continually guiding your organization towards a balance of strategic financial objectives. Market share growth. Strong cost management. Free cash flow.

At the same time, the macroeconomic forces currently at play are causing a noticeable shift in business focus from rapid growth towards value creation and efficiency.

By nature, finance transformations are slow-burn projects with a focus on long-term ROI. But with slowing growth, your business will want to supplement this long-term vision with quick wins. You'll need to improve cash flow, reduce costs and accelerate productivity — all at speeds unfamiliar to most finance departments — to deliver the required results.

If you succeed, you have the opportunity to quickly deploy more cash to invest in long-term value creation, and create a more robust and resilient business at a time when these characteristics are in very short supply.

Working capital is a key lever your business can use to free up cash — fast.

20–30 %
working capital
reduction

By finding new ways to manage working capital more effectively, companies can generate tens or even hundreds of millions of dollars of cash impact within a single quarter. And that's without increasing sales or cutting costs. Just by optimizing processes, you could run your business with less working capital — often 20-30% less according to McKinsey.

So. What are you waiting for?

Pulling the right levers

You'll already be well versed in the cash conversion cycle (CCC), which measures the number of days it takes to convert cash spent on inventory back into cash and is a key indicator of a company's working capital performance. And you'll know this cycle can be broken down into days payable outstanding (DPO), days inventory outstanding (DIO), and days sales outstanding (DSO) .

In this guide we'll talk mostly about the finance side of the CCC — the DPO and DSO — partly because they tend to come under the remit of the CFO, and partly because they're the fastest levers to pull if you want to free up working capital. By finding and capturing value opportunities in accounts payable (AP) and accounts receivable (AR), you can have a massive impact on working capital almost immediately.

Working capital ratios have recovered somewhat since their pandemic-related peak. A 2022 Working Capital Survey from the Hackett Group reveals that moderate improvements in DPO, DSO and DIO reduced the overall CCC by 6.2% — from 36.5 days to 34.2 days.

€ 1.49 trillion of excess working capital

But with economic turbulence continuing to put pressure on liquidity, PwC's Working Capital Study 2022/23 suggests there are still enormous untapped opportunities — with an estimated **€ 1.49 trillion of excess working capital** currently sitting on companies' balance sheets.

This eye-opening figure raises the question — what's stopping CFOs and their teams, who've been trying to optimize working capital, from unlocking those incredibly valuable opportunities?

The answer is, of course, that working capital optimization is far more difficult in practice than in theory.

Small decisions, huge cash impact

Despite significant focus from finance departments — particularly in the context of a looming recession — significant improvements in these areas are proving elusive.

So far there's been no silver bullet to optimize working capital. No single sweeping action that will streamline processes, find opportunities and deliver immediate value. Right now, working capital management is hard work.

This is because working capital is impacted by hundreds if not thousands of daily decisions and actions. Within your business, routine tasks like placing an order, making a payment or generating an invoice can happen hundreds of times an hour, and they all have an effect on cash flow. That means there is virtually limitless opportunity to impact the cash needed to run your business — with every purchase order, every payment, every invoice.

Examples of common low-hanging fruit include:

- Two-thirds of procurement orders placed violate contract prices
- 5% of invoices are unpaid due to a lack of customer PO
- Over 300 different sets of payments terms are regularly used

Often hidden deep in your processes, standalone actions and decisions can add up to huge opportunities for cash impact. But individually they aren't always high priority. We've even heard finance leaders call them "unsexy".

Manually identifying and capturing value opportunities, piece by piece, for tiny incremental gains, is a painstakingly slow process. And it's unlikely to get you those beguiling quick wins your investors are looking for.

These difficulties are made worse by complex organizational structures. By different entities and disjointed legacy data stacks that don't enable a single customer view. They're compounded by responsibility that's spread across operations, supply chain, marketing, sales and procurement as well as finance. Many opportunities to capture missed value in finance processes originate in other parts of the value chain, and cross-functional collaboration is often... complicated.

To optimize working capital, all of these complex processes need to work smoothly, without any mistakes. Every single payment must be made at the optimal moment. Every invoice must be issued on time and error free. That way the "unsexy" individual parts add up to create value opportunities no CFO can resist. And this can't be a one-off initiative — working capital optimization needs to be baked into your everyday operations.

This might sound hard to achieve in a large organization but — with the right technology in place — it's far from impossible.

Enter process mining

The technology

As it happens, there is one technology that allows you to optimize working capital by unearthing the cash impact opportunities hidden within your core finance processes.

That technology is **process mining**.

Process mining is used to model, analyze and optimize business processes at scale. It's a bit like taking an MRI of your business that shows you how your processes actually run — not how you think they run — and empowers you and your teams with the insight needed to improve them.

Process mining quickly and easily finds all those seemingly insignificant opportunities that — when captured together — provide huge and immediate cash impact.

Process mining

- Offers objective, fact-based insights
- Is faster, cheaper and more accurate than process mapping
- Works on top of your existing systems

Find out more

Gartner® Magic Quadrant™ for Process Mining Tools

Once an academic theory, process mining is now a well-established business technology, used by thousands of organizations around the world.

In early 2023, it was even honored with its own Gartner® Magic Quadrant™, validating its growing prevalence among enterprises.

Learn more →

Let’s take a look at how process mining can **help you improve working capital** in both your AP and AR functions by **giving you visibility** into the opportunities hidden in your processes, and **empowering your teams to act**.

Accounts payable: The lowest hanging fruit

Of all the CCC metrics, DPO is the one you have the most control over, which makes AP the best place to start with working capital optimization.

All too often, organizations see AP as a cost center and optimize solely for cost efficiency. The aim is to process invoices as quickly and cheaply as possible – often using a first-in first-out approach. But this strategy leads to errors and missed opportunities that cause issues further down the line.

Process mining helps your AP team gain full visibility into payment and contract terms so these can be reconciled, and prioritize invoices by working capital impact rather than by the order they arrive in their inbox.

What process mining can do

Process mining can

- Prevent early payments that unnecessarily drive down DPO
- Reveal when payments are too late to benefit from cash discounts
- Highlight where duplicate payments are made in error
- Identify payment term mismatches that negatively impact working capital

In fact, process mining allows your AP department to adopt a more sophisticated multi-dimensional model that adapts to your business needs. You can switch between optimizing for profitability (by capturing available cash discounts) or optimizing for liquidity (by making the most of extended payment terms) all according to your immediate business priorities.

Find out more →

In this way process mining empowers your AP department to have a massive impact not just on working capital but also on operating margins and supplier negotiations.

Success story: Accenture's invoice prioritization

Globally-renowned professional services company Accenture uses process mining to optimize its entire purchase-to-pay value chain. This enables the AP team to prioritize the 1.3 million invoices it processes each year according to their impact on specific KPIs.

Focusing on priority invoices, and consistently paying on time, contributed to an overall **$35M in annualized working capital benefits**. It also helps Accenture maintain its reputation and drive long-term strategic relationships with its suppliers.

Learn more

Accounts receivable: Looking past past-due

DSO is somewhat harder to control than DPO because — let's face it — you're relying on your customers to pay you on time. But there's a lot your AR team can do to make that more likely to happen.

Most AR departments don't take action on invoices until they're past due. They work on the basis that the customer will pay on time, until they don't. While there will always be customers that pay late for no good reason, there are just as many (and probably more) that don't pay because there is a problem with the invoice. By waiting to follow up until an invoice is past due, these problems aren't noticed until weeks or even months after the invoice is issued. This dramatically delays payment and negatively impacts working capital.

Just imagine your AR team chases a customer to pay a past due invoice on day 31, only to discover you're not set up as a supplier in their system, the tax code was entered incorrectly, or the PO is missing. The problem will be resolved and the invoice will be reissued. But it will be at least another 30 days until you get paid, which has a knock-on effect on liquidity.

Imagine instead, your AR team proactively uses process mining for intelligent prioritization. Using real-time data you already have about your customers and their payment behavior, they look at invoices soon to come their way and identify vital trends, patterns and warnings that can guide them in the best way to invest their time.

Errors and issues can be picked up and resolved far more quickly, increasing the chance that payment will be made on time. And the AR team can focus their efforts on the accounts that will have the biggest impact on working capital.

Find out more

Process mining can

- Uncover systematic process inconsistencies leading to billing errors
- Identify errors and discrepancies long before invoices get past due
- Streamline and intelligently prioritize collections based on data-driven insights
- Shorten dispute cycle times through data-driven identification of likely disputes

Success story: Sysmex's improved order-to-cash process

A global leader in hematology diagnostics and testing, Sysmex uses process mining to identify and capture value opportunities in its order-to-cash process. This includes identifying overdue payments and coming up with targeted collections strategies for different types of customers.

Sysmex recovered $3.4 million in overdue service contracts in just 30 days and has seen **a $10 million improvement in cash flow**, lowering its late payments rate from 61% to 44%.

Learn more

Seize the opportunity

low-risk, high-reward

The solution to optimizing working capital is streamlining your processes. Right now, there are huge opportunities for quick cash impact hiding in plain sight. With process mining, you can reveal these opportunities and empower your teams to act on them.

We understand transformation in finance is seen as risky. There's a lot at stake if you get it wrong. But don't act and you don't win. Process mining allows you to deliver rapid cash impact in a low-risk, high-reward way as it layers on top of the tools you already use without causing damage.

It's a simple way to quickly improve cash flow, reduce costs and accelerate productivity. Get it right and you might even find you can achieve a negative CCC where your customers pay you faster than you pay your suppliers.

Celonis is a leader in process mining technology, and we have a track record of delivering results. We help organizations by revealing hidden value opportunities and enabling them to capture that value fast. We've helped the world's leading organizations achieve quick wins to improve working capital in weeks.

Company	Challenge	Result
NESTE	Optimize AP and AR	€55 M improvement in monthly cash flow
	Optimize procure-to-pay steps	€66 M saving
GE Healthcare	Improve cash flow and drive a culture of cash excellence	$1.3 Bn one-time increase in free cash flow

And process mining from Celonis isn't only about improving your cash position. It can be used to accelerate optimization projects across the finance function and improve against metrics such as gross margin and automation rate, as well as working capital.

Find out more about how you can take the work out of working capital and book a 20-minute 'Introduction to Process Mining' demo today.

Book a demo

About Celonis

Celonis enables customers to optimize their business processes. Powered by its leading process mining technology, Celonis provides a unique set of capabilities for business executives and users to continuously find improvement opportunities within and across processes, and execute targeted actions to rapidly enhance process performance. This optimization yields immediate cash impact, radically improves customer experience, and reduces carbon emissions. Celonis has thousands of implementations with global customers and is headquartered in Munich, Germany and New York City, USA with more than 20 offices worldwide.

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