The 7 pitfalls of Working Capital Management

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Working Capital Management: 7 warning signs that you?re on the wrong track. Well-capitalised corporations are positioned not only to survive the current crisis, but also to emerge victorious and thrive when skies turn blue again. Establishing and adhering to tight working capital standards enables a firm to continue its operations with sufficient funds to both satisfy maturing short-term debt and meet upcoming operational expenses.

It's not foolproof, however. We identify 7 common mistakes that companies make when establishing working capital improvement programmes:

Believing that only the CFO can fix problems in working capital management.

Beating the "cash is king" drum internally and for Wall Street, but not linking executive compensation to cash flow and comprehensive working capital metrics.

Waiting for business recovery before trying to improve working capital processes.

Believing that ERP systems and other technologies are a silver bullet for improving working capital management.

Delaying payments to suppliers as a tactic to improve cash flow before fully exploring ways in which the company could leverage its position to negotiate better terms or gain discounts for prompt payment.

Engaging in efforts, such as delaying payment to suppliers or stepping up collection activities, to artificially boost quarterly or year-end metrics.

Modelling the business around make-to-stock processes when the company has the capability of running in a make-to-order mode.

Any thoughts to share on this matter?

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