

The hidden cash that could be funding growth for British businesses

Finding the money to finance growth is crucial for any firm that wants to reach its full potential. Yet new research from Lloyds Bank suggests that £498bn is tied up in working capital in businesses across the UK – funds that could be put to much better use

Working capital is a critical resource for any business to manage, which is why Lloyds Bank has developed its Working Capital Index, a new measure of the pressures on British businesses to increase or decrease working capital. By looking at what is causing this pressure, its aim is to help firms understand what they can do to manage their own working capital cycle and free up cash for other purposes.

There is no doubt from the data in the index that there is significant pressure to increase working capital, with the UK facing new challenges and opportunities after the EU referendum. The index shows 104.1, indicating pressure to increase the cash tied up in working capital, against a low point of 88.5 just after the 2008 financial crisis, when companies were very focused on managing their money.

For companies concentrating on growth in more buoyant times, it can be easy to overlook the benefits of an intense focus on the operational controls that drive earlier collections, lower inventory levels and better-timed payments. Yet the rewards of such a focus are clear. If even a small percentage of the £498bn excess currently sitting in the working capital cycles of UK firms were freed up to be redeployed as a driver of growth, the effects on the British economy could be dramatic.

Many of the largest companies have known this for some time, yet the benefits of addressing working capital are, arguably, even greater for a smaller business in the heartland of the country. Optimising working capital does not have to be a complex process. There are three key steps that every business can take in this regard.

1. Make working capital a business priority

Working capital is cross-functional. Improvements are driven by almost all areas of a business, so executive-level focus is critical. How does your leadership review and discuss working capital and cashflow? How do you communicate, educate and emphasise the value of working capital? Communicating working capital as a business priority can help to create a “cash culture” and set a purpose and strategy for working capital improvements.

2. Start with data

Too often companies realise the value of working capital but struggle to prioritise resources or articulate a business case for solutions or changes. Simply monitoring three key indicators – days payable outstanding, days sales outstanding and days inventory outstanding – will often reveal opportunities. New technologies are also making this process easier and paving the way for future automation.

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3. Understand all your levers

It is important to understand what is driving working capital in your business, as well as the full toolkit of solutions to manage those drivers. This will include leveraging trade finance instruments, discounting invoices, asset financing, purchasing cards, direct-debit initiatives and well thought-out supplier financing programmes.

Finance-only initiatives, however, tend to have limited success over the long term. Sustainable value is unlocked only when financial solutions are balanced with process, IT and operational improvements.

It might seem counterintuitive for Lloyds Bank to be promoting alternatives to bank finance. But, as Adrian Walker, its head of global transaction banking, puts it: “We want to ensure that we’re ready to help British business take on this challenge. That means putting working capital at the heart of the bank’s service. We’re investing in our people to give them a deep understanding of working capital issues. We’ve also created a digital working capital tool that allows our colleagues to analyse the working capital cycles of our clients, benchmark against their peers and identify opportunities and challenges.” 

The full data is included in the first ever Working Capital Index, which is free to download from lloydsbank.com/workingcapital

To further help companies understand the opportunities they could create for themselves by optimising their working capital, Lloyds Bank and Bank of Scotland have organised a series of round-table lunches for business leaders. The first two of these took place in Edinburgh and Manchester in June and early July respectively. The next round-table lunch will be held in London on 18 October, at the Institute of Directors, 116 Pall Mall, London SW1Y 5ED.

To find out more information about this event, or to request an invitation, speak to your Lloyds Bank representative or contact the team via:

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