***Negotiating and enforcing good working capital***

The components of working capital are: stocks of raw materials and finished goods; WIP (work in progress – the work we’ve started but haven’t yet completed or invoiced); debtors (customers who haven’t paid us); less creditors (the suppliers who we haven’t paid yet). Working capital is like a sponge: it soaks up the cash of a business. And – like a waterlogged sponge – we can squeeze much of the cash out of it.

We can squeeze the cash out of working capital by negotiating with our suppliers and customers, and then – through good discipline – enforcing the terms we’ve negotiated.

In this article we’ll expand on some of the issues around negotiating and enforcing. Then in other articles in this section we’ll look at how to work that out in detail internally, and with our suppliers and customers.

**Negotiating**

We wouldn’t dream of saying to a customer “Pay us what you like” or to a supplier “Charge us whatever you want.” Yet we often do that when it comes to payment terms! If we don’t negotiate payment terms, we’re agreeing to their terms: “Pay us when you like”.

Our standard terms with our customers may be 30 days, but their standard terms with suppliers could be 90. If we don’t agree what the terms actually are, we could be paid much later than we expected!

So there are a lot of payment issues to discuss with suppliers and customers if we want to protect our cashflow. We’ll look at them in more detail in the other articles in this section.

**Enforcing**

It’s no good agreeing 30 day payment terms with our customers if we’re not serious about getting paid within 30 days. Yet many businesses are very soft when it comes to chasing customers for payment. “We don’t want to offend them.”

But enforcing isn’t just about making sure third parties stick to what they’ve agreed. It’s about internal discipline too.

It’s about making sure we invoice promptly, not after a delay of several days. It’s also about making sure we invoice properly, and don’t give the customer a ready-made excuse to pay late.

It’s about managing stock levels, and hitting milestones promptly. About predicting customer demand so we can buy in or manufacture what will sell quickly.

It’s also about approving supplier invoices promptly, and paying them bang on the nail.

**So what next?**

As you read through the next few articles that look at the different elements of working capital, think about which elements apply to your business. How good are you at negotiating terms, and where are the gaps? But more importantly, how do your internal processes help or hinder those terms being realised? What needs to change, and how can you be part of that change?