

How Procurement Can Help Maximize Cash Flow



Businesses of all sizes and types rely on cash to help them meet their obligations, take advantage of opportunities for innovation and growth, strengthen buying power by allowing for tactical and strategic spending, and help guard against unforeseen expenses.

A positive and healthy cash flow isn't just nice to have; it's essential for competing effectively in today's economy.

Because it is so intimately tied to cash flow, your company's procurement function represents one of your most powerful opportunities to protect and grow your positive cash flow.

By investing in the right tools and optimizing your procurement processes, you reduce costs, build value, and ensure you always have the cash on hand you need—when you need it.

How Procurement Affects Cash Flow

While discussions of cash management often turn to finance, it's the procurement function—which puts into direct usage the assets managed by finance—that

companies need to manage more effectively if they're concerned about cash flow.

Knowing when to hold onto cash, use it to pay for expenses, or invest it to promote growth requires total visibility into, and control over, spend data management.

All the spend flowing through your business travels through your procure to pay process, and so inaccuracies, inefficiencies, and other problems can not only damage your bottom line, but restrict your available working capital.

In many ways, procurement performance is essentially a benchmark for cash flow management; if procurement (along with its partner, accounts payable) fails to generate cost savings and value through optimization, it's damaging your ability to form effective cash flow strategies.

This is especially important in today's market, where global events like the COVID-19 pandemic and the Amazon rainforest fires have shown just how quickly disaster can have a significant impact on supply chains.

Taking a proactive approach to procurement will help you develop the internal controls and procurement processes you need not just for strategic decision making, competitive advantage development, and effective supplier relationship management, but robust and transparent cash flow control in real time.

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Four Powerful Ways to Leverage Procurement for Optimal Cash Flow

No two companies are exactly alike. But regardless of industry or size, cash flow management is improved immensely by finding ways to squeeze more value, efficiency, and cost reductions from procurement.

Let's take a closer look at four of the most common, and effective, ways procurement teams can support your company's cash flow strategies:

1. Invest in Procurement Technology

Today's savvy procurement leaders know shifting to a value-driven business model requires a lean, efficient, and accurate procurement function.

Introducing digital technologies like artificial intelligence, process automation, and advanced analytics into your procurement workflows is at the heart of procurement transformation.

This, in turn, can be the foundation for a larger digital transformation strategy for your company as a whole—but even if you're taking things slow, a better cash flow management strategy is a strong place to start.

Choosing a procurement solution like PLANERGY can kickstart your procurement transformation to support more effective cash flow management. It gives you immediate and real-time access to:

- A centralized, cloud-based, and mobile-friendly platform with role-appropriate access.
- An easy way to collect, store, organize and analyze *all* spend data through:
 - Guiding buying.
 - Full integration of contract management, inventory management, and supplier management modules.
 - Support for electronic invoicing, automatic payments based on specific criteria, etc.
- An end to rogue spend and inventory fraud that can skew financial reporting and wreak havoc on cash flow.
- Automatic three-way matching to reduce costly exceptions and prevent duplicate, missing, or late payments that can damage vendor relationships.
- Stronger, more strategic sourcing and more robust supplier relationship management tools to help you stretch your dollar and form strategic partnerships for long-term savings and value.
- Immediate cost, accuracy, and morale improvements through automation of high-volume, repetitive tasks.
- Iterative, continuous improvement, supported by machine learning and analytics, to ensure your savings and value grow over time while reducing

the need for direct human intervention (and the risk of human error).

In addition, making the leap to a digital procurement platform eliminates the waste, expense, and environmental fallout that comes with old-fashioned, paper-based processes.

2. Focus on Inventory Management

When you have an accurate inventory count and a clear understanding of demand and usage within your own organization—and an eProcurement solution with an inventory management module—you can transform data into more free cash.

How? Data analysis lets you monitor your inventory and adjust your buy to ensure you always have enough of what you need, without wasting money or tying up cash in stock you don't.

Minimizing inventory shortfalls and excesses means you'll have more cash available while still ensuring you have adequate stock levels of the materials and finished goods you need to compete and grow.

3. Use Data Analytics and Key Performance Indicators (KPIs)

Procurement data isn't useful only in managing inventory or obtaining the best prices or terms.

You can use analytics to:

- Compare budgets to actual spend in real time.
- Hedge against cash-draining seasonality in your business by buying strategically and negotiating optimal terms.
- Identify potential consolidation or contingency opportunities in your supply chain.
- Ensure your team is following internal controls (e.g., guided buying with the right suppliers for all goods and services, proper routing of purchase orders and invoices, etc.) to capture value and improve cost savings.
- Achieve more strategic decision making to plan spend in both the short and long term.

Analytics also make it possible to use key performance indicators to measure and adjust every aspect of your procurement function.

You can use internal performance KPIs to track important metrics like percentage of invoices paid on time, exceptions tracked and corrected, and verified three-way matches.

You can also create and monitor vendor management KPIs to keep an eye on supplier performance and compliance, making it easier to identify your best vendors, rehabilitate or replace those who are lagging behind, and build resiliency into your supply chain by ensuring it's flexible and responsive enough to protect business continuity both in good times and during crises like the coronavirus pandemic.

This proactive and strategic approach will not only help keep cash flowing, but help you achieve an optimal return on investment (ROI) when you spend it.

4. Negotiate Optimal Payment and Credit Terms

Coming to the contract negotiation table cold or, worse yet, with wrong or incomplete information, is a surefire recipe for wasted cash and rocky relationships with suppliers.

But eProcurement software—by supporting analysis of those invaluable vendor management KPIs—can help you get the best possible credit terms from every vendor, and craft strong, mutually beneficial contracts fine-tuned to meet your needs.

For example, tracking spend with key suppliers might reveal opportunities to revisit the contract to leverage economies of scale for greater savings or extended payment terms that will leave you with more free cash.

For other suppliers, you might see a greater benefit from early payment discounts that will help improve cash flow over time and ensure it's available for future investment or expenses.

Either way, complete and accurate data from your internal systems and vendor management module will help you negotiate the terms and contracts you need to achieve your goals for better cash flow management.

Plus, you'll gain soft value from stronger supplier relationships with vendors who know they can count on you not just to meet your obligations, but suggest opportunities that can benefit them as well.

Better Cash Flow Begins with Better Procurement

You can't fill a bucket from an empty well—and you can't leverage working capital you don't have (or can't find!) Are you ready to transform your procurement department into a powerful source of value and cash flow optimization?

By investing in digital tools, leveraging your data and relationships, and developing and implementing proactive procurement processes, your procurement team can set the stage for accurate and flexible cash flow management.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

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- Learn about us, and our long history of helping companies just like yours.

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about new articles or if have something interesting to share.

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