“Cash Management in the GCC: From Crisis to Competitive Advantage”

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ISN'T CASH MANAGEMENT JUST A THING THAT THE BUSINESS HAS TO DO AND JUST A COST OF DOING BUSINESS?

CASH CONVERSION CYCLES ARE ACTUALLY AN INDICATOR OF HOW CAPABLE BUSINESSES OPERATIONS ARE, LONG CYCLES LEAD TO A VICIOUS CIRCLE THAT ORGANIZATIONS FIND HARD TO ESCAPE AND BADLY AFFECT BOTH WORKING CAPITAL AND PROFIT

WHILE THE INTEREST COSTS OF EXTENDED CREDIT CYCLES CAN BE STRAIGHTFORWARDLY CALCULATED, THE EFFECTS OF LONG CASH CONVERSIONS CYCLES ARE MUCH GREATER AND MUCH MORE IMPACTFUL ON SUCCESS.

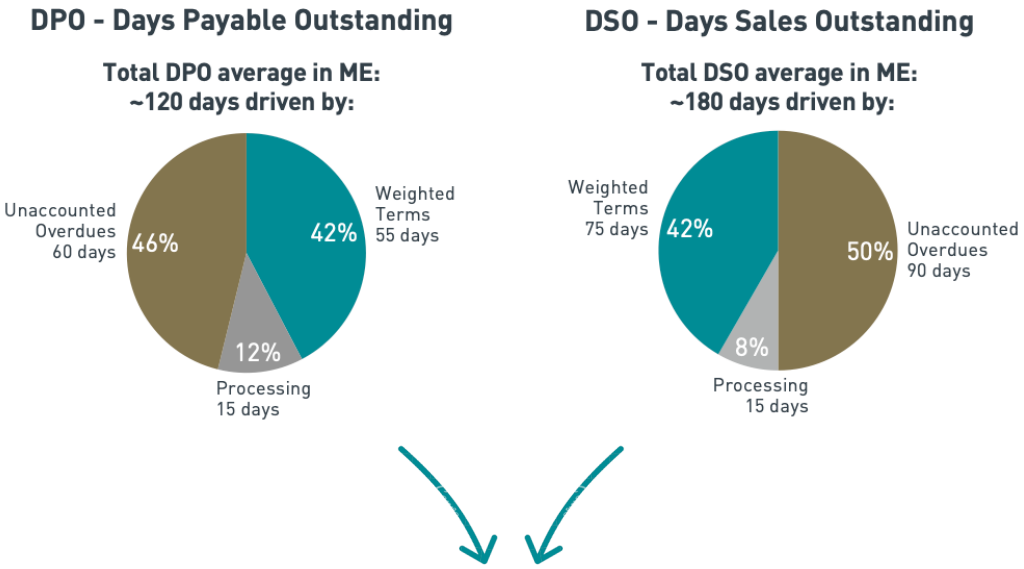
Why talk about Cash Management?

The Brutal Truth About Cash – Why Liquidity is the Lifeblood of Business

In the world of finance, few topics generate as many quotes—or as much hard impact—as cash flow. While adages like "Cash is king" are easy to remember, their consequences are often misunderstood. In the GCC today, we are witnessing the direct and quantifiable cost of inaction: cash inefficiencies are draining profitability, delaying growth, and even threatening business survival.

Recent data shows that:

- 82% of SME bankruptcies are caused by poor liquidity—not lack of profitability.
- Every $1 million locked in working capital costs $83,000 annually, given the regional WACC average of 8.3%.
- A 10-day increase in Cash Conversion Cycle (CCC) can erode between 1.1% and 4.5% of net profit—depending on industry margins.



The regional reality is especially stark. DSO (Days Sales Outstanding) and DIO (Days Inventory Outstanding) in the Middle East often exceed 180 and 160 days, respectively—double global benchmarks. Companies are not just mismanaging terms; they are operating within inefficient systems that trap them in long, destructive cash cycles.

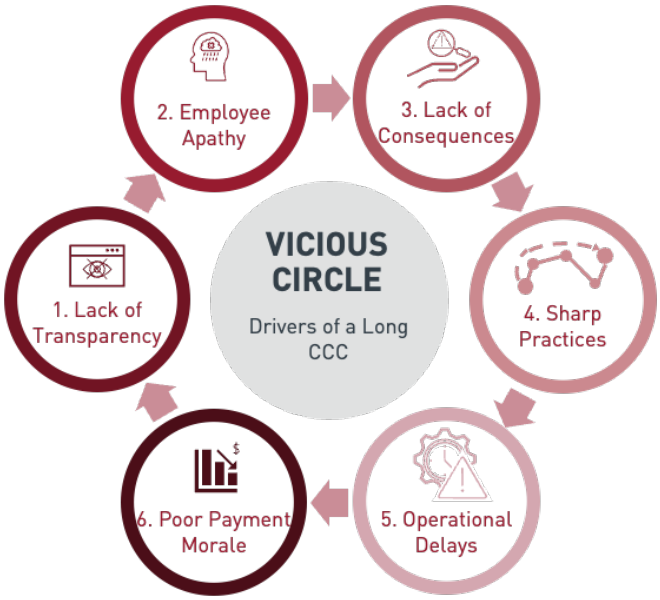
This isn't a theoretical problem. It's a performance issue with hard financial consequences. And it requires a hard reset.

Aren't payment terms the problem? No, payment terms only represent around 25% of the weighted average days in the Cash Conversion Cycle or 9% of Working Capital

So, what is driving the Cash Conversion Circle then?

Understanding the Vicious Circle –The True Drivers of Long Cash Conversion Cycles.

In our experience advising companies across sectors such as manufacturing, retail, construction, and distribution, the problem is rarely isolated to a single department or system. Long CCCs are typically the result of six interlinked organizational weaknesses, which form a vicious circle:



1. Lack of Transparency
   Incomplete visibility into payables, receivables, and inventories across departments cripples coordination.
2. Employee Apathy
   When frontline staff are disconnected from cash goals, processes are delayed, ownership diluted, and follow-through missing.
3. Lack of Consequences
   Delayed payments, missed collections, and unresolved disputes go unpenalized. Poor performance becomes normalized.
4. Sharp Practices
   Some stakeholders manipulate ambiguity in processes to extend terms or delay action, compounding delays.
5. Operational Delays
   Manual, non-integrated workflows in P2P and O2C create bottlenecks in invoicing, approvals, and fulfilment.

6. Poor Payment Morale

A cultural tolerance for slow payments undermines trust and vendor relationships.

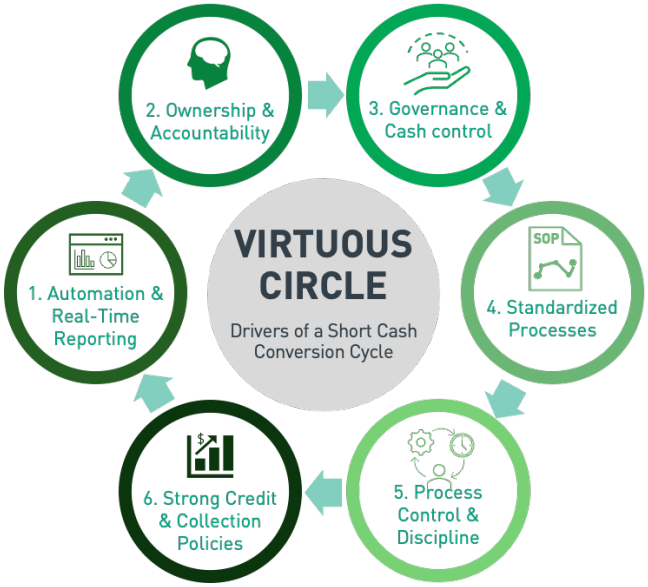
These six drivers reinforce one another, keeping companies locked in a high-cost, low-agility cycle. Fixing this means replacing the "vicious" with a "virtuous" circle—anchored in transparency, accountability, and operational discipline.

Okay, so the problem is not the terms but what does it mean? On average, mature organizations' CCCs are 30% shorter than immature organizations and mature organizations' overall total cost is reduced by 2.5% or more

What does good look like?

The Virtuous Circle – What Best-in-Class Organizations Do Differently

Mature organizations—those that consistently outperform peers on working capital efficiency—don't rely on heroic effort. They embed **cash excellence into operations**, supported by data, systems, and incentives. FP has identified six foundational best practices that drive cash cycle performance:



1. Automation & Real-Time Reporting

   Centralized dashboards displaying real-time DSO, DPO, DIO. Drill-downs on overdue items and use of AI/ML for exception spotting.

2. Ownership & Accountability

   Clear task ownership across P2P and O2C processes. Dashboards integrated with daily decision reviews.

3. Governance & Cash Control

   Digitized approvals, automated matching of PR/PO/invoice, and ERP-integrated workflows reduce manual lag.

4. Standardized Processes

   Risk-based segmentation, proactive credit control, structured follow-ups, and terms enforcement.

5. Process Control & Discipline

   Codified processes reduce ambiguity. Exception-handling protocols eliminate delay excuses.

6. Strong Credit & Collection Policies

   Defined SLAs, automated alerts, and daily reviews ensure overdue actions are resolved—not ignored.

Each of these practices contributes not only to shorter CCCs, but to **greater supplier trust, improved margin realization**, and **lower financing dependency**. And they work best when applied in a sequence, not as ad hoc fixes.
The difference in performance between immature and mature organization is however clear:

- On average, **mature organizations' CCCs are 30% shorter** than immature organizations
- Mature Organizations' overall **total cost is reduced by 2.5% or more**
- Followed by **secondary savings** in supplier negotiations, credit rating, cost of facilities, reducing of LC dependency, etc.

There is an upside to the fact that most of the delays in the Cash Conversion Cycle are operational: with time, they are solvable.

The good news? This is a solvable problem

The FP Approach – A Proven Implementation Pathway

Our work with clients across the GCC has consistently shown that implementing Lean principles within finance and operations can unlock dramatic working capital improvements. FP's approach follows six implementation pillars backed by the use of Digitization and AI to accelerate progress but also Continuous Improvement methodologies to drive sustainability.

Implementation Steps:

1. Reporting & Control Transparency
   Improve visibility of cash positions and performance through standardized reports, real-time tracking, and automated variance alerts.
2. Workflow Optimization of O2C and P2P
   Improve end-to-end efficiency of receivables and payables by automating invoicing, optimizing terms, and reducing manual mismatches.
3. Improve Credit Management
   Improve control of credit exposure by enforcing credit policies, segmenting risk, and aligning credit terms with customer behavior.
4. Collection & payout Management
   Improve collection and disbursement efficiency through structured follow-ups, automated allocation, and dispute resolution.
5. Inventory Management
   Improve cash tied in stock by reducing excess inventory, optimizing reorder points, and controlling aged and slow-moving items.
6. Finance Facility Management
   Improve liquidity and funding costs through efficient use of credit lines, e-trade tools, LCs3, and surplus deployment strategies.

Real Results Delivered:

In our experience over several engagements in the region, our interventions produced measurable improvements in 6 months:

- **AR reduced by up to 20%**, with collections efficiency gains exceeding 13%.
- **AP extended by up to 14%**, without supplier pushback—enabled by smoother internal cycles.
- **Time to Market reduced by 37%**, due to streamlined sourcing-to-shipping processes.
- **Overall productivity increased by 56%**, enabled by automation and digital workflows.

Working capital freed up for growth investments, instead of being trapped in system inefficiencies.

This isn't just optimization. It's Lean transformation.

Why focus on Lead Times so much? It's Capability, it's Culture, it's Agility. Process lead times are an indicator of how mature or capable an organization is.

What do process Lead Times tell us?

Good Organizations Have Short Lead Times – The Hidden Engine of Business Performance

Across industries and geographies, a defining characteristic of high-performing organizations is **short lead times**—the time it takes to convert intention into action, and action into impact.

Whether it's fulfilling a customer order, processing a vendor invoice, or shipping finished goods, **speed and precision** in execution are more than just operational metrics. They are competitive differentiators. And they directly shape the health of a company's cash position.

At FP, we've seen a consistent pattern: organizations with short lead times also enjoy **shorter Cash Conversion Cycles (CCC)**, lower inventory holding costs, faster decision-making, and stronger supplier and customer relationships. But the benefits go well beyond cash flow.

Why Lead Times Matter So Much

When lead times are long, the consequences ripple across every function:

- **Inventory accumulates**, tying up capital and increasing risk of obsolescence.
- **Invoicing and collections are delayed**, starving the business of cash.
- **Procurement decisions lag**, making it harder to respond to supply chain shifts.
- **Customer satisfaction suffers**, especially in high-expectation markets like the GCC.

By contrast, organizations that **systematically reduce lead times** become leaner, more responsive, and more agile. They are able to forecast more accurately, react more quickly, and compete more effectively.

Lead Time Reduction is a Cultural Indicator

Short lead times don't happen by accident. They are a byproduct of strong process design, empowered teams, and data-driven decision-making. In fact, they serve as a **proxy for organizational maturity**—a sign that a company is aligned, integrated, and accountable at every level.

In our fieldwork, we've observed that mature organizations share three qualities that contribute to short lead times:

1. Clear ownership: Every process step has a defined owner, and delays trigger escalation.
2. Digitized workflows: Automated approvals, real-time data flows, and integrated systems remove friction.
3. Embedded discipline: Routine tracking, performance reviews, and consequence management ensure consistent throughput.

These same attributes not only accelerate cash cycles but **enhance productivity, increase throughput, and reduce operational cost**.

Operational Agility is the Real Prize

The real value of shortening lead times is not just in financial ratios—it's in the **freedom it gives your business to move**.

- Want to pivot product lines quickly? You need fast feedback loops.
- Want to manage a just-in-time supply chain? You need dependable internal processes.
- Want to scale without bloat? You need lean, automated workflows that don't depend on heroics.

Companies with short lead times **don't just survive volatility—they capitalize on it**. They can test faster, learn quicker, and scale smarter.

Conclusion: A Call to Action

Working capital performance is one of the clearest signals of organizational maturity. While many organization are now investing in transformation, those who tackle the **root causes of cash inefficiency** will gain a decisive edge along with all of the working capital and profitability benefits.

At FP, we work with the impacted employees in leading companies on the ground across the GCC to turn working capital from a constraint into a competitive advantage. If your organization is ready to exit the vicious cycle and enter the virtuous one—**we're ready to support your team**. Let's transform your cash performance. Let's make liquidity a strength.

GET IN TOUCH

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