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Research Article

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Nestle Company Working Capital Management

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Abstract: *Every company needs capital to finance operations, then the funds that have been issued go back into the company from the sale of goods that have been produced by the company earlier. Elements of working capital such as inventories, accounts receivable, and cash essentially experience turnover until they return to being in the form of cash with a higher value than the cash originally issued. This investment is what is needed in the company because it is very flexible so that it is able to adjust the value of goods to market fluctuations that are increasing and decreasing.*

Keywords*:* *company working, capital management, nestle*

Introduction

Working Capital Management (WCM) or working capital management is a very important management tool for every company to increase its company's income. Working capital management is used by every company to manage the sources and use of funds related to the company's working capital. Industry is a process of managing raw materials, both raw materials and semi-finished materials, so that they become valuable and useful goods for society. Currently, industrial development in Indonesia is growing rapidly along with advances in knowledge and technology, especially manufacturing industry companies. This can be seen from the many foreign companies as well as local companies that are established in Indonesia.

Every company that wants to be able to continue to live and develop will always need funds both to finance day-to-day operational activities and to finance its long-term investments. Funds issued to finance operational activities are called working capital. The working capital that has been issued to finance operational activities is expected to generate profits for the company in the near term through the proceeds from the sale of goods/products. Good working capital management is very important in finance because of the deep fallacy managing working capital can cause business activities to be hampered. So that the analysis of the company's working capital is very important to do to find out the current working capital situation and related to the financial situation that will be faced in the future, so that from this information it can be determined what policies the company will take to overcome the company's financial problems. Effective and efficient working capital management is very important for the growth and sustainability of the company in the long term.

Nestle is a multinational company in Vevey, Switzerland which is engaged in the food sector. The Nestle company was founded in 1866. The name Nestle was taken from a pharmacist who succeeded in creating milk-based food products specifically for babies who had difficulty consuming breast milk, namely Henry Nestle. managed to create complementary foods for babies who do not get enough breast milk. Farine Lactee managed to save many babies at that time and Nestlé also gained the public's trust. Henri Nestle then used his family name to become his company logo. In the Swiss German dialect, "Nestlé" means little bird's nest. The logo is a symbol of security, love, kinship and tradition.

Nestlé began to grow and develop into the world's largest food company, as well as a food and beverage company that has been trusted by many people around the world for generations until now. Nestle companies are spread all over the world, Nestle is committed to remain developing products through innovation and renovation to satisfy the needs of its consumers around the world. (Nestle, 2023).

With a company as big as Nestle, it certainly requires a large amount of working capital to run the company. If the company lacks working capital, it is likely that the company will lose revenue and profits. Companies that do not have sufficient working capital but are unable to pay their short-term obligations on time will face liquidity problems. From the background described above, the authors are interested in conducting a company working capital analysis with the title "Nestle Company Working Capital Management".

Discussion

Definition of Working Capital

Working capital has two vocabularies or basic elements, namely current assets and current liabilities. Working capital management requires these two elements to determine how the office's operational activities are so that the management runs well. Working capital management (Working Capital Management) according to Harjito and Martono is the management and elements of current assets and elements of current liabilities. That the notion of Working Capital is a strategy in accounting that focuses on maintaining a balance of current assets and liabilities in the company. Working capital management also involves the relationship between the company's short-term assets and short-term liabilities. In cases like this relate to the management of cash, inventory and accounts payable. An analysis in working capital is very important, for internal analysis or external analysis, because there is a continuous relationship between working capital and also daily activities in a company. If the management of working capital is not carried out according to the procedure, it can cause failure of the company. In its operation, the company always needs daily funds, for example to pay salaries of employees, buy raw materials, pay for transportation costs, pay electricity costs and so on.

Working Capital Management Objectives

Working capital management has several objectivesrequired, namely:

1. Asefforts to optimize internal expenditure somethingincrease in sales and profits.
2. In an effort to fulfill profits for acompany.
3. If the financial ratios show a positive trend, the company can obtain investment funds from creditors.
4. Because there is respect for working capital, the company will pay all needs with a predetermined time.
5. As a protection (protection) when it occursworking capital crisis.

Types Working capital

According to expert AW Taylor, there are two types of working capital which are grouped, namely:

1. Permanent Working Capital

   Permanent Working Capital is working capital that is mandatory and must always exist in every company or company so that the company can carry out every activity to meet every consumer need. The type of permanent working capital is divided into two, namely:

   a) Primary Working Capital Primary working capital is working capital that must exist at a minimum in every company so that its function is to guarantee the company can continue to operate.

b) Normal working capital Normal working capital is working capital that is mandatory and must exist so that the company is used to only being able to operate with normal production levels.

2. Working capitalVariable

Variable working capital is working capital whose amount changes according to any changes in activities or other circumstances that can affect the company or can fluctuate based on an increase or volume of sales or production. In variable working capital, it consists of:

a) Cyclical working capital is a working capital whose level of conjunctive fluctuation is influenced by the number of needs.
b) Seasonal working capital Is the amount of funds needed by the company for prevention or anticipation if there are fluctuations in each of the company's activities.
c) Emergency working capital In this working capital, the amount of each need will be affected by any circumstances that occur beyond the capabilities of the company. A business will be said to be healthy if its position in working capital is stable, which means that there must be two types of working capital mentioned earlier available in every company.

Every day the need for working capital in one period will not necessarily be the same. The reason for this inequality is that it changes every time projections on the volume of production that will be produced in the company. This change can be caused by different or unequal requests from one time to another, therefore any working capital requirements will also change.

Determination of the AmountWorking capital

There are two factors that can affect the size of a working capital, namely:

1. The period of rotation or the period when the working capital is bound
2. Disbursement on average cash on eachday If the amount spent every day but the longer a period per son, then the amount of working capital that will be needed will be even greater.

What is meant bythe turnover period or the binding period of a working capital is a whole or from a period that includes the term the creditor purchased, the length of the production process itself, the length of storage of raw materials in the warehouse, the length of the goods therefore stored and the period of receipt of receivables. While the expenses referred to here are the costs of the average per day for the buyers of the raw materials themselves, payment of labor salaries, other auxiliary materials and so on.

Working Capital Components

The working capital discussed is working capital in a qualitative concept, namely net working capital which is the excess of current assets on top of current debt. The components of working capital include current assets and current liabilities, namely:

1. Current Assets According to experts, current assets are cash and other assets that can be expected to be disbursed or exchanged for cash, sold or consumed in the next period (a maximum of one year or in the normal cycle of company activities. Current assets include:
   a) Cash (Cash), Cash and other means of payment used to finance company operations.
   b) Short Term Investment (Temporary Investment), Government bonds, industrial company bonds, and similar debentures, and shares of other companies that are bought for resale are known as short-term investments.
   c) Bills Receivable(Notes Receivable), Company claims to other parties stated in a promissory note

d) Accounts Receivable (Accounts Receivable), Trade receivables include all bills for personal subscriptions arising from the sale of merchandise or services on credit.
e) Income that will still be received (Account Receivable), Income that has become the right of the company because it has provided its services to other parties, but the payment has not been received yet is a bill.
f) Inventory of Goods (Inventories), Merchandise purchased for resale, which is still on hand at the time of preparation of the balance sheet
g) Costs that are paid in advance (Prepaid Expense), Expenditure to obtain services from other parties, but these expenses have not yet become costs or services from other parties that have not been enjoyed by the company in the current period.

2. Current liabilities

According to expert Munawir Current debt or short-term debt is a company's financial obligations whose repayment or payment will be made in the short term (one year from the balance sheet date) by using current assets owned by the company. Current liabilities are the company's obligations to other parties that must be fulfilled within a period of less than one year, or debts that fall due in the current accounting cycle. And that includes current liabilities are:

a) Trade Payables (Account Payable) Trade payables are all loans arising from the purchase of merchandise or services on credit.
b) Deferred Income (Differed Revenue) Income received in advance is the actual income that has not become the right of the company.

3. Dividend Payable Dividend payable is part of the company's profit that is given as dividends to shareholders but has not been paid when the balance sheet is prepared. Size of CapitalWork depends on 2 factors:

a) The period of turnover or the period when working capital is bound

Is the whole or the sum ofthe period which includes the period of time for granting purchase credit, the length of time raw materials are stored in the warehouse, the length of the production process, the length of time goods are stored in the warehouse, if the time of receipt of receivables

b) Daily average cash outlay

Is the amount of cash disbursement on average every day for the needs of raw materials, auxiliary materials, payment of labor wages, and others. The targets to be achieved from working capital management are: To minimize as little as possible in the long term the cost of the capital used to finance each current asset. Can maximize the value of the company by being able to manage current assets so that the level of return on margin investment is greater than or equal to the cost of capital issued to finance current assets. As well as being able to monitor the flow of funds in current assets and the availability of funds from sources of debt so that the company can carry out its obligations in financial matters when they are due. The target above, explains that working capital in a The company must fulfill a sufficient amount, in a broad sense it must be able to finance daily expenses or the company's day-to-day operations. If the availability of sufficient capital will be very profitable for a company to be able to operate efficiently and economically and for the company, they will not experience significant financial difficulties.

Investment

Working Capital Investment in working capital can be seen in current assets on the balance sheet, including: Investment in inventory, investment in receivables, investment in cash. The three components experience turnover within the company to finance all of the company's operational activities and then all costs incurred return to the company with a higher value than the previous capital. Investment in inventory, which is the main element of working capital, is an asset that is always in a state of rotation, which is constantly changing.

The investment problem in inventory is an active expenditure problem as well as investment in other assets. The problem of determining the amount of investment or capital allocation in inventory has a direct effect on company profits. Errors in determining the amount of investment in inventory will reduce company profits. This inventory is an inventory of goods that are always in circulation, which are always bought and sold, which do not undergo further processing within the company which results in a change in the form of the goods in question. Invest in accounts receivable, to increase sales volume, most large companies sell their products on credit. Thus accounts receivable is an element of working capital which is also always in a state of continuous rotation in the working capital circulation chain. Receivables have a higher level of liquidity than inventory. Accounts receivable management is very important for companies that sell their products on credit, in order to minimize the risks of uncollectible receivables. Investment in cash, cash is the most liquid current asset owned by a company, all transactions inside and outside the company are related to cash, like blood that continuously flows in the body of a company that allows the company to live its life.

Nestle Company Working Capital

Working capital decisions affect liquidity and profitability. Excess Investment in working capital can result in low profitability and lower investment can result in poor liquidity. Management needs to make a trade-off between liquidity and profitability to maximize shareholder wealth. But there are instances where companies running on negative working capital are earning good returns. Negative working capital is the reverse situation compared to normal working capital. Negative Working capital does not necessarily mean bad financial condition; this indicates that most of the day-to-day activities are funded by customers rather than the company's own working capital. Negative working capital was previously considered as a risk of organizational bankruptcy but nowadays negative working capital is a sign of managerial efficiency in business.

A leading FMCG company, Nestle India Limited, is taken as a case in point, to analyze negative working capital and its impact on the company's profitability and earning capacity. Finally, it was found that firms with negative working capital had higher profitability and shareholders earned more dividends and capital appreciation, which maximized shareholder value in the long run. to analyze negative working capital and its impact on profitability and earning capacity of companies. Finally, it was found that firms with negative working capital had higher profitability and shareholders earned more dividends and capital appreciation, which maximized shareholder value in the long run. to analyze negative working capital and its impact on profitability and earning capacity of companies. Finally, it was found that firms with negative working capital had higher profitability and shareholders earned more dividends and capital appreciation, which maximized shareholder value in the long run.

Quoted from pasardana.id, the expansion carried out by PT Nestlé Indonesia includes three factories located in Karawang, Pasuruan and Bandar Lampung. The total investment value that was disbursed reached US $ 100 million or around IDR 1.4 trillion. At the Karawang factory, PT Nestlé Indonesia produces liquid drinks (Milo), then at the Pasuruan factory for liquid milk products (Bear Brand), and at the Bandar Lampung factory it produces cooking spices (Maggi). This increase in investment adds to PT Nestlé Indonesia's total production capacity, from 620,000 tons per year to 775,000 tons per year, an increase of 25%. The increase in production capacity is in line with the projections of the food and beverage industry in Indonesia according to an analysis by Nestle Indonesia.

Performance Summary Nestlé's net working capital in the last quarter was -4.434 billion, Nestlé's net working capital for the fiscal year ended December 2018 to 2022 averaged -1.823 billion. Nestlé operated with an average net working capital of -2.167 billion from the fiscal year ended December 2018 to 2022. Looking back over the last 5 years, Nestlé's net working capital peaked in December 2019 at 2.395 billion. Nestlé's net working capital hit a 5-year low in December 2022 of -4.434 billion. Nestlé net working capital decreased in 2018 (-3.109 billion, +94.0%), 2020

(-1.8 billion, -175.2%), 2021 (-2.167 billion, +20.4%), and 2022 (-4.434 billion, +104.6%) and increased in 2019 (2.395 billion, -177.0%). (finbox.com).

Conclusion

Every company needs capital to finance operations, then the funds that have been issued go back into the company from the sale of goods that have been produced by the company earlier. Elements of working capital such as inventories, accounts receivable, and cash essentially experience turnover until they return to being in the form of cash with a higher value than the cash originally issued. This investment is what is needed in the company because it is very flexible so that it is able to adjust the value of goods to market fluctuations that are increasing and decreasing.

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