

WHEN CASH WILL BE KING



IT HAS BECOME COMMON PRACTICE, AT YEAR-END, TO POLL INDUSTRY LEADERS FOR THEIR PREDICTIONS. IN THAT SPIRIT, WE ASKED **KEN DUMMITT**, OF SUNGARD TREASURY SYSTEMS, FOR HIS VIEWS.

Take three out-on-a-limb predictions: first, the treasury function as we know it today will not exist in 10 years; second, the treasurer who does not know in detail where his or her cash is coming from, as well as when and where it is going, will himself or herself be gone in the not-too-distant future; and, last, the treasurer who does not provide the information tools to effect the oncoming major cultural revolution that will enable enterprises to hold their business unit managers responsible for their cash utilisation and generation will also be gone with the wind.

CASH AS KING. Will this decade be the one where cash management truly becomes king? Absolutely. Industry headlines for the past 15 to 20 years have proclaimed each year to be 'the year' when cash management would ascend to the throne – but it hasn't happened yet. So why hasn't it? The answer is simple: executive management's restricted ability to see the treasury department's capability for strategic contribution. The reasons for this limited ability are legacy ones.

Most significantly, treasury departments have traditionally lived with the day-to-day mandate of 'do not make a mistake'. Such a mandate is a giant psychological inhibitor to strategic thinking and contribution. Second, most companies using treasury software and solutions limit such use to a myopic vision based on what treasury management software (TMS) could do a decade or so ago. Treasurers 'grew up' in an era when the software available was what would now be considered antiquated, poorly implemented technology with limited functionality.

So, what has happened recently to help cash become king? The (still) current widely-held view on cash management is that its capability is primarily that of providing a daily cash position worksheet. If the treasury function needs to place debt, invest, talk about Free Cash, DSO and other key metrics, it must go to non-integrated systems outside its domain for the answer. With such a historical mandate and technology utilisation, cash could not possibly become king; however, the times they are a changing.

THE ASCENSION TO THE THRONE. Cash will ascend to the throne this decade for two reasons:

- it is an idea whose time is past due; and
- the technology necessary to support its ascension is now available.

The true intrinsic value of a company is its ability to generate cash on a predictable basis with an acceptable level of risk. Considering the accounting scandals we find ourselves awash in these days, valuations based solely on GAAP are dinosauric.

Analysts are spending much more time with treasurers these days. Companies are focusing more on ensuring the attainment of operating cashflow projections. Many Wall Street valuations are going back to the basics, for example, discounted cashflow with the appropriate discount factor. CFOs are beginning to mandate that treasury functions adapt to this cultural revolution by adding strategic value to the corporation. Credit and investment ratings are becoming much more closely aligned with both a company's ability to generate cash and its ability to report on that generation and/or utilisation. To not know where the cash is, and where it is going, will spell the end of that treasurer.

The technology is available now. N-Tier architecture, global utilisation, online real-time bank balances, buying and issuing commercial paper (CP) online, FX online, and software componentisation are dramatic technological improvements that have helped initiate this revolution over the past few years. And the revolution is still embryonic.

The new breed of providers that will continue to lead the industry are treasury information integrators. The providers with this expertise can provide the treasury function with the ability to look into multiple diverse systems and extract the information necessary to produce free cash reports, provide drill-downs, migrate the data into a presentation tier that CFOs will embrace and utilise – and then, folks, stand back – the explosion will be phenomenal.

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