Five ways to manage cash better

THE APPLICATION OF SOME BASIC TREASURY PRINCIPLES WILL IMPROVE EFFICIENCY AND CONTROL WITHIN YOUR BUSINESS, SAYS DEE KOTHARI

ILLUSTRATION: IMAGE SOURCE

As treasurers, we understand that cash is king. It touches every part of a business because it is an integral part of the revenue and expense cycle. Cash needs to be carefully managed in order to minimise the investment of operating cash in the business, not to mention the cash in the business's working capital.

When operating units make sales and purchasing decisions, these inevitably impact the amount of cash that is needed to run the business. Including operating cash in the asset base of local operating units for performance measurement purposes is usually a good starting point in controlling cash. Ask operational staff within sales, supply chain, procurement/purchasing and even logistics to devote effort and resources in helping to develop and maintain an efficient and controlled cash-gathering and disbursing system.

Treasurers can also help to control cash by reviewing the entire cash-gathering and disbursing cycle, and looking for defective processes, non-value-added work streams and opportunities to speed the flow of cash through the system.

This could be part of a larger working capital management programme aimed at driving defects and non-value-added work out of all operating and administrative processes in order to make them error-free, faster and more flexible. Moreover, inventory lead times should be examined using value stream mapping to compare current and future state lead times so that cash can be squeezed out of the stock cycle. Lastly, part 36 of the cash-flow analysis should be to look for opportunities to simplify the cash management system.

Reducing the number of points at which cash enters and leaves the company can help to minimise the number of transactions that are processed and thus increase the control that you have over the cash management process.

EMBRACING TECHNOLOGY

The days of managing cash using spreadsheets are drawing to a close. Now corporates are increasingly investing in enterprise resource planning (ERP) systems that simplify workflows and connectivity to banks and supply chain partners.

ERP systems such as SAP, Microsoft Dynamics and Oracle have integrated certain cash management functionalities, together with payment initiation, into their systems. Making this ERP functionality work is where the treasury team will need to put some serious effort in, especially when it comes to bank connectivity and automation. Both receivable and payment initiations can be imported via bank account files for large-scale usage. Increasingly, however, bigger corporates want to bypass the web front ends and achieve throughput processing to the banks' middleware.

If your organisation is serious about achieving ERP and banking connectivity, it is important that you shop around in the market for vendors to get the most cost-effective deal. Also, make sure that you enquire about standard formats. Frustratingly, when banks or vendors claim that they have multiple standards files that can be used, it basically means that there is a lack of a standard in place, which presents another hoop that the treasury team needs to jump through. But do not get disheartened – there are various other options open to you in terms of connectivity for data flows, including the internet, dedicated connections and SWIFTNet.

DEMAND MORE OF YOUR BANKS

Large corporates that have already invested in connectivity should now be looking for more than just transferring data. They should demand off-the-menu, bespoke modules that integrate into their in-house ERP system, such as analytical tools to support investment options that can be integrated with treasury management systems.

System vendors should be able to deliver more web-based services or a service-oriented architecture. A service-oriented architecture would not only enable you to create business 'mash-ups' (combinations of data from different sources), but also to aggregate data, where these pieces of data can be channelled correctly. This would allow the workflow to be more streamlined, without users jumping from one system to another.

This is not a quick fix, since investment and re-engineering will be necessary to enhance existing bank systems. The pay-off will be greater benefits in terms of flexibility and agility, however.

REPORTING ANALYTICS AND DIGITAL SIGNATURES

Cash-flow forecasting still remains a central key issue in treasury today, with end-of-day balance checks being key.

Wouldn't it be wonderful if both receivables and payable data points featured alongside current balances to predict future cash flows? Also, wouldn't it be good to be able to apply analytical tools to ascertain optimal cash requirements on surplus and deficit cash positions? Some of the investment banks are now embracing this technology, so it is worth enquiring about this with your relationship managers.

Another cumbersome and often painful task is maintaining an up-to-date signatories list. Digital signatures will help to revolutionise the current, rather paper-intensive, process of physically submitting supporting documentation for each account under know-your-customer rules.

Management and control of cash

So how does the treasurer translate this approach from theory into practice? Well, there are a number of steps that any company can take to improve the management and control of its cash.

1. Establish a centralised cash management function to manage cash flow and balances every day. Have well-defined procedures to follow when carrying out cash management duties. Set the bar high – just because something has not been done before, does not mean that the organisation cannot achieve it. Aim for the sky.

2. Select a strong cash management banking partner, and for daily cash management use cash management technology systems that promote security, reliability and enhanced functionality. These will help to consolidate multiple data cash points within the company, while minimising the chances of failure and improving control.

3. Minimise the number of bank accounts that your business has and close down all superfluous bank accounts that are not under the direct control and operation of the central treasury function. Mandating this as a treasury policy will prevent operating units from opening bank accounts without the central treasury team getting involved. A word of caution, however – do not try to solve all your problems on your own; engage your relationship banks and ask them to help and work collaboratively.

4. Close down all petty cash accounts. In this day and age, these are now unheard of. This avoids cash floating around in the office, as well as potential misplaced funds and even the misappropriation of cash. Simplification is the key here; petty cash is no longer required.

5. For low-value purchases, use corporate credit cards that have contactless payment enablers and get staff to claim via the company's expense policy. Have all large customers and suppliers use and/or accept electronic payment through the bank. This is now considered best practice for transaction execution.

These basic five steps will help you to significantly reduce the amount of cash required to operate the business and improve control.

Moreover, make sure that you have complete separation of duties in cash management. The basic controls are separation of the cash management and accounting activities. This includes separating the functions of depositing cash and bank transfer and cash accounting. The accounts receivable team must not have access to cash or accounting. In order to prevent fraud, do not allow one person to manage the entire cash process.

All the steps listed above aim at making the cash-gathering and disbursing system simple to operate, fast, flexible and highly automated. They should minimise errors, improve control and keep unnecessary operating cash balances to a minimum.

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