

SEVEN ESSENTIALS OF CASH FLOW MANAGEMENT

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IT TAKES MONEY TO MAKE MONEY.

Shrewd business owners know how to make the most of what they have and to secure its safety. Managing the inflow and outflow of cash is a vital financial function that can create a competitive advantage or, if poorly executed, disastrous results.

What risks should you be managing in your cash management system to maximize the return of your dollar?

1. CENTRALIZATION OF CASH

Successful cash management systems accomplish this by ensuring the inflow of funds is directed to a central point and is unhindered. They also control the outflow of funds and communicate key information necessary to regulate events accurately and timely.

2. CONTROL THE CASH GAP

Everyone knows that "Time is Money" and it definitely applies to how you manage your cash gap. All cash flow cycles have a cash gap — the time between when you have invested in your business or your assets and your return, measured in days. This gap is the cost of doing business. Interest accrues each day you have borrowed on your investment. Thus, the longer your cash gap, the higher the cost of your investment and the lower your return.

3. UTILIZE YOUR BANK'S CASH MANAGEMENT SERVICES

A competent cash management system offers the tools necessary to successfully control and manage your cash gap. Characteristically, these tools include bank provider services and internal collection and disbursement policies that can help regulate and manage your cash flow timeline. More often than not, the shorter your cash flow cycle is, the more liquid and profitable your company is. And the more profitable it is, the more value it provides to your stakeholders. Naturally, the value of these tools is offset by their cost and return is highest when complemented by low cost. In addition, the system must be supported to achieve maximum benefit.

For example, a company utilizing ACH transfers (Automated Clearing House, a collection of electronic interbank networks used to process transactions) as a payment option could achieve benefits. ACH transfers eliminate the typical float period caused by traditional payment options; the exact date of payment is defined. As a result, the payee has more control over when its payment is deducted from its bank account, and the payor knows precisely when the payment will be received.



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The end result provides information to manage your business's cash forecasting and cash flow with greater accuracy and align your organization's strategic goals with the needs of your customers and suppliers. With these enhanced cash management skills, you will also be providing better customer service while matching the needs of your cash management system and making modifications that are beneficial to both you and your customers.

4. DEVELOP AND MONITOR YOUR CASH FORECAST

A profitable cash management program is designed to control the allocation of funds to attain maximum value for the organization's short- and long-term business strategy. Regulating your company's cash flow timeline — the time cycle of purchasing and paying for resources and then correspondingly selling and collecting payment for your company's products or services — requires informed judgment and precise calculation. Time is money, and impediments to your cash flow can produce negative consequences and reserves should be invested for maximum return. Achieving equilibrium between these conflicting counterparts is cash management's primary function. Forecast statistics and credit resources should be qualified to ensure sufficient funds are readily and constantly available.

5. SET UP SECURE METHODS FOR ACCESS TO BANK ACCOUNTS

Personnel must follow the system's policies and guidelines. Bank accounts should be constructed to sustain receptive and efficient processes including "Dual Authorizations" for movement of funds or making changes to account structures. Many a businessperson has been burned with fraud by allowing a trusted employee to manage all points of contact for their cash management system. Your greatest risk to your business is giving up control over your cash activities. It is most critical that you protect yourself up on the front end in order to prevent the possibility of being a victim of unauthorized activities that can lead to disastrous surprises.

6. KNOW YOUR CUSTOMER AND YOUR COMPETITION

To improve your organization's cash management process, you must understand how you do business and how others do business with you. This essential business-process evaluation can uncover cash flow improvements that will support your strategic goals.



7. MAINTAIN A STRONG RELATIONSHIP WITH YOUR BANKER

Your banker wants your business to succeed. He or she can review your cash flow projections with you, provide industry insight, help finance your growth, and identify helpful treasury management services and other banking solutions. Review your business's performance with your banker annually and share plans for your future growth.

THAT'S JUST THE BEGINNING

The advantages of a strong cash management program reach well beyond mere cost savings. They can also enhance your organization's ability to regulate many other internal processes such as banking fees and services, relationships with financial partners and fraud prevention, to name a few. All of these benefits can add to your bottom line but their intangible benefits can be equally valuable to your organization and its stakeholders. A cash management system can help you eliminate unnecessary procrastination that can waste your organization's valuable resources. Following these prerequisites are essential to the success of any cash management program.

WHAT'S THE ALTERNATIVE RISK?

Without planning for the future, you are failing in the present. Focusing on developing associates in your organization is like a savings account - it is an investment in your future, it just takes a little interest!

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