

The lost art of cash management

As the recession deepens, Mark Bodger of ICit Business Intelligence argues that there has rarely been a more important time to focus on traditional cashflow management .

As the global downturn deepens, external sources of finance are harder to come by and suppliers are trying to shorten payment terms, companies are under intense pressure to hunt for the cash they need to run their businesses from within the company.

Cash management skills and the mentality that recognises its importance have gone out of fashion in recent years as management focuses on driving top-line sales growth and profitability. In my early career as the company accountant for a utility contractor, I learned the importance of cash.

Large US owned cable TV operators would release payments to sub-contractors when they felt like it. The contractors, on the other hand, would demand their wages to be paid every week, no excuses. It was not an enjoyable experience having to keep an eye on hourly cash movements as pay day loomed each week but it was a better education than anything I gleaned from accounting studies.

The local banker and cashflow forecasts

The reason for relaying this story is that, despite the daily concern of running out of cash and worrying if we could afford the wage bill, this was at a time when the local branch bank manager played an important role in helping businesses manage their money. At our weekly Thursday morning meeting, the bank manager would review my cashflow forecast for the following eight weeks and provide objectives.

This weekly governance process meant that as a company we had to develop accurate daily, weekly and monthly cash reporting and variance analysis against the forecast. This required considerable attention to

detail, ensuring that all sources of cash and expenses were accurately assessed before being included in the forecast. While the weekly visits of bankers to businesses may have lapsed, so has the focus on tight cash management.

Operational cashflow management

Several years on and the same issues surrounding cash management exist today as they have always existed in commercial enterprises. At ICit we have seen a sharp increase in the number of our clients turning to us to help them implement cash management solutions.

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The more interesting solutions involve what we term 'operational cash management' solutions. For example, we recently implemented a daily cashflow forecasting system for a retailer with 200 stores and 20,000 product stock keeping units. This was essentially a stock replenishment forecast that was integrated into the receipts and payments forecast.



The bottom line is that the client now has greater control and visibility of cash inflows and outflows that can be aligned to operational performance. The solution was built using a multi-dimensional analysis tool, IBM Cognos TM1, and was implemented in less than ten days.

More effective cashflow management

In terms of cashflow management, the tighter the cash position, the more detail you need to manage it effectively. While daily cashflow management may seem extreme to some, it is vital to others. I spent a number of years working for a £2 billion retailer that was run on daily cash management principles.

The basic measure of business performance was assessing whether the bank balance had improved over the review period. Given the current financial crisis, how many firms now wish they had been run on such sound footing? The art of cash management cannot be forgotten. We do so at our peril. ■

Further information

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