

Managing Your Company's Lifeblood: The “Ins” and “Outs” of Cash Management

By Michael Missle

Cash management can be a truly challenging undertaking for many small to medium size businesses and professional firms. However, it is one that, if handled properly, can enable a company to take advantage of new opportunities while safely positioning itself for years to come.

If you were to ask five people to define cash management, you would probably get five different answers. In simple terms, cash management is the ability to administer and invest available cash, most likely over a short-term period. It is the management of money coming in, inflows, versus money going out, outflows. A good strategy will effectively predict these inflows and outflows in order to maximize the use of any available cash.

So, how does one manage cash? In order to answer this question, we must look at the various segments that make up cash management. Cash management typically refers to Collections, Disbursements, Electronic Banking, Information Reporting, and Liquidity Management. More specifically, for small businesses, it pertains to:

- a. Managing payables and collecting receivables in order to generate and maintain positive cash flows;
- b. Reconciling and monitoring account transactions and balances in order to make the most of working capital and prevent fraud;
- c. Disbursing funds in a fast, secure manner (e.g., electronic bill pay and on-line funds transfer) in order to increase accuracy and reduce costs; and
- d. Investing short-term excess cash in order to maximize returns.

Each of the above processes may need to be pursued separately, as an individual project. Therefore, by focusing on the individual part, the whole becomes stronger. Cash management becomes a stronger and more integral part of the company's overall financial strategy.

You might think these suggestions seem like simple, basic concepts. This could explain why cash management is so often overlooked. Most small businesses tend to focus on the sales and marketing aspects of their specific businesses, and are satisfied if the basic bookkeeping and accounting are being done at some level. This approach, while perhaps natural, overlooks the contribution of cash management to the business as a whole. By incorporating a sound cash management program, a company can pursue an aggressive sales strategy while knowing that they have a solid and healthy cash foundation on which to rely. In addition, a sound cash management strategy can also help to reduce internal costs, free up resources, increase efficiencies, and reduce errors; thereby enabling individuals to focus on other important tasks

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within the organization. These are simple concepts that, if properly addressed, can lead a company towards success.

At this point, I think we can agree that cash management is an important practice. It represents a simple application of finance principles that yields proven results. How does a small business pursue a cash management strategy? One way would be to hire a variety of cash management specialists to manage each individual task. This would probably work but might not be the most cost effective method.

Another way would be to obtain professional advice through your local bank. Banks are typically staffed with individuals who specialize in cash management products and services for small businesses. Typically, a relationship manager would be assigned to your business to help guide you through the process. Banks provide a variety of products and services specifically designed to address the processes discussed above. Bank professionals will listen to your needs, review your company's financial profile, and work with you to customize a cash management solution specific to your business. Banks can ultimately help your company to run more smoothly and help you practice effective cash management.

Still unconvinced of the merits of cash management? Think of it this way: Cash management is important because cash is the lifeblood of any company. It is what allows you to operate a business, and it supports business growth. I encourage all business owners to take advantage of the benefits cash management has to offer. Without a sound cash management strategy, your business may not be around for long!

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