



## What Does Cash Management Actually Mean?

By [Phil Lynch](#) and Dustin Fidaleo

Type-casted as a taboo subject, cash management can be misinterpreted and consequentially mismanaged. No business can survive without a healthy influx of cash, but what does it mean to manage it?

The stigma that surrounds the discussion of liquidity has grown such that some business leaders focus only on certain aspects of their company's cash positions or deprioritize it until it's too late. Once a problem does inevitably arise, leaders often respond by utilizing the 13-week cash flow tool as the solution. While this is a helpful instrument, it is in no way the be-all and end-all solution to poor liquidity management. We're here to set the story straight.

*"Revenue is vanity, profit is sanity, but cash is king." – Unknown*

### Debunking the 13-Week Cash Flow Tool

A popular quick-fix tool for investigating and revising current liquidity management is the 13-week cash flow tool. While effective at times, this tool is mislabeled as the silver bullet solution when a company is backed into a mismanaged liquidity situation. For years, many organizations have been using the 13-week cash flow as the only tool for restructuring projects, and it does certainly serve a purpose when evaluating a company's current cash standing and providing visibility into the company's short-term well-being. Where we see a problem with this strategy, is limiting the focus to this tool rather than addressing the larger issues at hand.

When a company encounters a liquidity problem, there's almost always a deeper concern that a 13-week cash flow cannot solve. These issues start with problemed culture, are compounded by inadequate processes, and end with improper technology systems. While the 13-week cash flow helps to shine a light on financial issues backing liquidity problems, it fails to illuminate foundational concerns.

### Creating a Cash-Conscious Culture

The best method of implementing corporate strategy is through the people and culture operating within an organization. Take a walk around the office, noting the atmosphere and interactions between team



## What Does Cash Management Actually Mean?

By [Phil Lynch](#) and Dustin Fidaleo

members; this is the established culture, and it is integral to the future of the business. Is there tension to raise the front-end sales figures? Is there an impetus to tighten internal controls? If part of the culture is not also cash-focused, then there will be a pivotal gap in accountability leading to red numbers on your cash flow statement.

For instance, while on a recent client project, we ran into an issue where the company was positioned for expansion but did not have a handle on cash and liquidity. Their revenues were steady, market capture increasing, the management team maturing, operational expenses remaining flat, EBITDA looked good, and yet they were just weeks away from potentially encountering a liquidity event. Leadership did not understand how they could be performing well from a revenue standpoint and be in a tight liquidity situation.

From the moment we arrived, there was a lack of accountability when it came to cash management. We assisted the team with connecting the dots, gathering miscellaneous reports from various departments, interviewing support staff, and running scenario models to understand the root causes of the problem. That's when it hit us: if we are unable to understand how the client was managing their liquidity, then there must be a deeper issue beyond poor reporting. No one seemed to be as concerned as we were, and that was a significant issue.

When asking internal partners for key reports, we found employees were unaware of the reports and, in some cases, unsure who to ask for them. Accountability was off, and it was apparent to us that the culture of the company was tunnel-focused on expansion of their top-line growth. In order to shift the focus without losing that valuable goal, we had to address the deeper cultural issues. We needed to prove to management and the leadership team that if there was not a change in how the company viewed its cash management approach – from the top leadership positions to the bottom of the support staff – then there may be no future. Once there was a universal understanding of this necessary shift, we were able to move on to process improvements.

### **Improving the Processes**

Developing a culture that is mindful of your company's liquidity position is the foundation of proper cash management, but a foundation is nothing without a structure built on top of it. In this case, developing cash management processes that support the strategy of the company represents the structure built upon the refocused cultural foundation.



## What Does Cash Management Actually Mean?

By [Phil Lynch](#) and Dustin Fidaleo

The focus must be on the details. Every report pulled, every model run, every step taken in association with the cash management process must be diligently and meticulously recorded. A map of the entire process from beginning to end must be present – the blueprints. Each sub-process and step needs someone who will be responsible for performing the task, someone who will be overseeing that person, and someone who will be notified upon completion of that task. Finally, make sure that each of those sub-processes and steps have detailed documentation on how they are to be done. This documentation will enable effective cash management to continue should an employee within the process be absent or move on from the company.

Processes rely on accountability, and that is where leaders should start building. A single business leader, who is willing and able to undertake the associated responsibilities, should oversee the entirety of the cash management process. Once this focal person is established, then individual responsibilities can be distributed.

Processes also rely on governance to survive into the future of a business. Putting the right people in charge of overseeing current operations, as well as adapting to a changing macro-economic environment, is crucial to maintaining the revised culture. Accountability and governance can save countless expenses down the road and help avoid a relapse. The 13-week cash flow can help in the understanding of cash management issues, but the only way you'll evade these issues in the future is to hire the right personnel to own these new processes and set the cash-conscious culture into stone.

### **Evoking the Right Technology**

The final step in the construction of a viable cash management focus within an organization is exploring the correct technology solutions to support the required processes. Technology solutions can be extremely elegant or basic, functional systems; the key is to ensure they provide meaningful, reliable, and accurate access to the necessary data and reporting. Individuals responsible for cash management processes will only be as effective as the quality of data they have access to and their ability to properly pull and manipulate it. If the data being pulled lacks internal consistencies and integrity, then the reports become ineffective and unusable – garbage in always results in garbage out.

We see technology as the wiring, plumbing, and final steps in developing the perfect cash management building. If the wiring is faulty, the plumbing weak, or the paint cheap, all that you have worked so hard to create becomes inadequate.



## What Does Cash Management Actually Mean?

By [Phil Lynch](#) and Dustin Fidaleo

Building a company for the future takes time, effort, and risk. One must first lay the foundation of an all-encompassing culture that doesn't forget the company's cash position is integral to its future success. This requires building a structure of processes and procedures that enable fellow team members to pick up and perform tasks with minimal background knowledge. Introducing the right technology to support the business with these efforts is the finishing touch.

### How SLKone Can Help

Where some firms focus solely on short-term fixes by developing a 13-week cash flow model, SLKone can help guide your company through the fog of uncertainty by instilling a holistic cash management discipline. Take the next step in addressing potential liquidity issues before they occur by getting in touch now – we look forward to hearing from you!