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MANAGING CASH FLOW: AN OVERVIEW

Part of the Emergent Partners Business Roundtable Series

Properly managing cash flow involves looking at many different aspects of the business. Managing invoicing processes, credit terms, and collections play a significant part in good cash flow strategy. Equally important is setting and maintaining appropriate margins and payment structures depending on credit terms and risk. Here are a few takeaways from our roundtables discussing cash flow management.

Areas to Focus On

Below are some key areas to focus on when devising an effective cash flow strategy:

- Invoicing Processes: how long it takes to generate invoices and how accurate those invoices are.
- Credit Terms: timing of credit terms between customers and vendors should create positive or neutral cash positions whenever possible.
- Collections: managing Days Sales Outstanding (DSO) is as important as managing credit terms and should be carefully tracked.
- Margins: margins should be accurately tracked and adjusted when sufficient cash flow risk is present.
- Payment Structure: payments should be received in the most expeditious way possible; this is a critical aspect that often gets overlooked.
- Financing: short-term financing can make up for negative cash flow situations, but the overall cost of that financing and its effect on margins must be considered.
- Cash Forecasting: whether it is a simple or complex process, determining future anticipated cash positions is important for every business.
- Inventory: improperly managed inventory levels can create significant cash flow issues for businesses and must be taken into consideration when reviewing cash requirements.

Cash Flow for Individual Transactions

It is a good practice to look at individual transactions from a cash flow standpoint rather than just a revenue or profit standpoint. Doing this effectively involves understanding basic deal structures and how cash will flow throughout the entire transaction. Successful business leaders who have seen long-term success do this on a consistent basis, sometimes for every transaction they conduct. These leaders also look to establish consistency in structuring transactions in order to speed up the decision-making process and more easily determine nuances between different transactions that can have significant effects.

Complexity versus Simplicity

The complexity of any aspect of the business must match the complexity of the business itself. Businesses with simple transaction structures do not necessarily need complex systems for managing cash flow. In situations where overall transactions are not complicated, there is a simple process at the point of sale, or cash moves slowly, a simplistic, manual system for tracking cash flow may be adequate, as long as it is effective. More complicated transactions will require more sophistication. It is important for leadership to understand the right level of complexity in business transactions and apply corresponding cash management processes and techniques.

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