



One component of cash management for any business requires software systems that provide timely reliable information. CS3 Technology has solutions available based on your company requirements. The following article provides the full picture on the art of cash management.

The Art of Cash Management

No financial discipline is more important - and more misunderstood

Does David Hunt's story sound familiar? Hunt and a partner started a company in Atlanta distributing high-tech components, just three years ago with \$5,000 in personal savings. Their financial formula: land some big clients, try to collect from them quickly, and then reinvest all the proceeds into the business.

So far, the formula has clicked, pushing sales up from \$11 million in 2004 to a projected \$20 million this year. But with that kind of super fast growth, cash management has become a complex issue for Hunt and his partner. "At first, all we needed was a bank checking account and a package of Quicken software to keep track of sales and key financial results," Hunt explains. "But after about a year, we realized that there were all kinds of questions we were too busy running the business to ever answer. Like, what should we do with whatever excess cash we might have, and how would we really ever know for certain if we did have any excess cash? A good investment advisor and a strong accounting software package was the solution."

If you haven't considered such questions, you may be undermining your company's long-term prospects-and even its short-term stability. Indeed, there may be no financial discipline that is more important, more misunderstood, and more often overlooked than cash management. Business owners should be thinking about this issue from day one. But most don't-because they've got other issues on their minds. So long as more money seems to be coming into the business than going out, many company owners don't give cash management a second thought. And that leaves them vulnerable to all kinds of cash-flow dangers.

Luckily, the first step to improved cash management isn't exactly brain surgery: just start maximizing cash flow. There are often ways for companies to improve their cash position simply by making certain that their billing, collections, and payables systems are operating as efficiently as possible. Aim to bring cash into the company as quickly as possible: bill promptly, aggressively follow up on overdue invoices, and, if possible, require up-front deposits when making sales. (See "Cash Management Tools," below, for additional ideas.) Then hold onto your cash as long as possible by managing your payables. That means, quite simply, take as long as you're allowed-without incurring late fees or interest charges-to pay your company's bills

To practice a more elaborate form of cash management, you must be able to accurately assess your current cash position and make fairly reliable predictions at key intervals about how much you'll need to meet the company's expenses. Solid accounting solutions such as those offered by Sage Software can provide strong systems to provide precise management information.

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If your company's cash flow becomes so predictable that you can set aside sums for several months or more, you might be able to make a slightly greater commitment by purchasing certificates of deposit. Although there are penalties for cashing in CDs early, those penalties should be manageable in an emergency. To minimize the risk, buy smaller CDs and try to stagger their maturity dates.

But exercise judgment. The biggest cash-management mistake a business owner can make is to take huge risks when investing spare cash. That's because it's all too easy to lose your company's cash cushion, and possibly even to jeopardize your business's survival, by making inappropriate investments (such as a risky gamble on stock-market futures or on some tiny stock you learned about on the Internet). Unfortunately, there are plenty of brokers and investment advisers willing to peddle such investments to business owners.

Sometimes investments aren't the best option at all. When you're practicing cash management, you need to ask yourself on a fairly regular basis, "How can I best make that cash work for the company?" Be analytical. For example, if your company has \$5,000, you could invest it in a money-market fund paying 5%--but it might make more sense to use that \$5,000 to pay down your credit line and save on interest payments. Moreover, an entrepreneur carrying credit-card bills at 19.8% would be wise "to use the \$5,000 to pay those bills." The key point: allocate your cash in whatever way will wind up improving your company's stability.

Then, as your company's financial position stabilizes and cash flow becomes more predictable, it's not a bad idea to begin investigating your investment options. In particular, if your company anticipates raising a large sum from angel investors or venture capitalists--and you won't need to spend it all quickly--it's a good idea to do some research beforehand so that you won't waste time when the cash arrives.

But if your company's cash cushion is smaller, don't assume it will be easy to set up an income-producing account at the nearest bank. Some bankers will tell you that your company's cash position is too small to be worth their involvement. Or they'll offer you such a piddling rate that they won't be worth your attention. "When we called the local bank where we've got our company's checking account, they offered us 2%," Hunt recalls. "Why bother?"

Fortunately, Hunt was able to identify an option he liked better: a money-market fund with a discount broker, paying 5% in interest. "We put about \$30,000 in it and were very satisfied." Of course, the money didn't stay there. "Some growth opportunities developed that represented a more profitable way for our business to spend its money," its founder confesses, promising to "put more money in the next time that's right for us."

That's what entrepreneurial cash management is all about.

Cash-management tools

When the economy is strong, companies can lapse into sloppy cash-management practices. Don't let that happen to you. Try exploring these options:

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Sweep accounts. These bank accounts are the easiest way to generate some income from your company's spare funds; however, they make sense only if the money you'll earn will be greater than the fees your bank will charge. Business owners have two types of sweep accounts to choose between:

- **Controlled-investment accounts.** Think of these as checking accounts with the ultimate in zero balances. Every day, your bank will leave only enough in your checking account to cover those checks that were presented the night before for payment that day. The rest gets swept, quite early, into overnight investments. "These are the most profitable form of sweep account, but they won't work for your company if you have any electronic payments or wire transfers, since those may be submitted for payment later in the day and your account won't have enough cash in it to cover them," warns Stephen King.
- **End-of-day sweep accounts.** A safer bet for most small-business owners, these accounts wait until a late-hour cutoff to determine how much to sweep into your overnight investments. Typically their investment yields are 10 to 20 basis points (.1% to .2% of the investment) lower than those offered with controlled investments.

Lock-box accounts. A lock box is a cash-management system that helps you collect your funds quickly. Generally set up with the assistance of a big money center or regional bank, lock boxes provide your company with a special zip code and, usually, quicker deliveries from regional post offices. They are especially important if you have clusters of customers in out-of-state locations and don't want to lose days waiting for their checks to arrive by long-distance mail.

Cash Management Systems. A strong software system will provide management information that will allow analysis of both short term and long term cash requirements, measuring receivables against payables. Well-built budgeting tools will provide trending information for additional cash projections. Functional tools will also be present that assist with timely collections of accounts receivable and judicious distribution of accounts payable.

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