



# Unveiling the power of strategic cash management



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Cash optimization has become a top priority for organizations looking to build liquidity, enable strategic investments, and provide a positive cash flow story to stakeholders. However, effective cash management remains a challenge due to lack of accountability and limited visibility.

This webcast explored strategic cash management, offering insights and leading practices from industry experts to help organizations unlock trapped cash, enhance decision-making, and thrive amid economic challenges.

Panelists discussed the following topics:



## The importance of strategic cash management

The increasing demand for effective cash flow management has made strategic cash management a top priority in the C-suite agenda, not just for distressed organizations but also for healthy ones. Cash flow optimization is crucial for building liquidity, enabling strategic investments, and providing a positive cash flow story to stakeholders.

Effective cash management provides significant value to organizations, enabling them to build a “war chest” to weather economic challenges and make strategic investments. Generating a positive cash flow story is crucial for stakeholders and investors to value the business positively. Understanding the components of free cash flow, particularly working capital, is essential for identifying improvement opportunities. Cash flow optimization involves understanding the interrelationships between cash management, enterprise performance management, and how it enables sustainable growth. There is a

strong connection between ROIC, cash optimization, and working capital—here the focus is on three key operating levers of procure-to-pay (AP), order-to-cash (AR), and inventory.

Organizations are setting ambitious goals for cash management, such as generating an incremental 5 percent of revenue or more in liquidity and improving cash conversion cycle times by three to four times. Despite the importance of strategic cash management, there are challenges in achieving effective cash management. These include:

- **Accountability of process:** No single function owns end-to-end cash flow across an organization, making it a cross-functional responsibility.
- **Limited visibility:** Most organizations focus on the profit-and-loss statement (P&L), resulting in less reporting and information gathered around metrics that matter for cash flow.
- **Silos:** Many organizations operate in functional silos, which can lead to suboptimal decisions when looking at cash management from an enterprise-wide perspective.

The focus on cash flow has evolved in recent years. Historically, earnings before interest, taxes, depreciation, and amortization (EBITDA) were used as a proxy for cash flow, but now companies are starting to do EBITDA to cash flow bridges to understand the true cash generation of the business. In some cases, cash flow has even superseded EBITDA and cost takeout as the top priority for organizations.

## Evolution of cash management practices

Cash management practices can be categorized into four stages: reactive, tactical, operational, and strategic. Organizations at the reactive stage have a near-sighted view, often pulling levers in silos without fully understanding the impacts. They focus on getting the basics right, setting up bare minimum key performance indicators (KPIs) and metrics, with cash flow forecasting typically extending only 12 weeks out.

As organizations move to the tactical stage, they establish a standardized way of forecasting the near term, usually the next 90 days. They aim for 100 percent certainty of cash outflows in the next 30 days while figuring out the accuracy of cash inflows and inventory management. Tactical companies also set up fundamental governance structures and start looking at the impacts of pulling different levers across accounts receivable, accounts payable, and inventory.

In the operational stage, organizations adopt a longer-term view, extending their focus to 6–12 months with a higher degree of confidence in cash flow forecasting. They give the balance sheet more prominence, recognizing that cash management is not just about the P&L but also the cash flow statement. They connect the three-statement model to ensure that the cash flow aligns with the business activity. These organizations have formalized KPIs cascading down from operating cash flow to segment-specific metrics.

Strategic cash management represents the most advanced stage, where organizations have mastered the fundamentals and achieve a high degree of accuracy in forecasting. They have connected financial plans and cross-functional committees driving true strategic cash management. While still managing cash in the near term, these companies also focus on longer-term strategic initiatives. They plan the timing and resource allocation for these initiatives to realize value, deploying incremental capital to areas with the highest return on invested capital. Not every organization needs to be strategic across all components of cash management, as some areas can

remain tactical. The evolution of cash management practices varies by organization, but the most critical aspects are well-defined end-to-end processes, robust governance, and KPIs that provide transparency and enable informed decision-making.



## Leading practices for cash optimization

Effective cash optimization requires a thorough approach that encompasses various strategies and leading practices across different areas of an organization.

Key aspects of cash optimization include:

- Implementing an enterprise cash management structure, which can be a dedicated function or a part-time role, depending on the maturity of an organization. This structure should focus on governance, metrics and reporting, forecasting, and communication to ensure a holistic view of cash management across the enterprise.
- Cash management evolution can be organized into four stages.
- Allowing for flexibility and nuance in standardized processes. While having standards is important, organizations should create different standards for various spend categories or risk profiles, enabling the organization to extract all the capital that's trapped as efficiently as possible.
- Considering the balance of trade when dealing with customers who are also suppliers. If an organization spends more with a customer than the customer spends with them, then they should focus on generating benefits on the days payable outstanding side.
- Aligning terms and conditions on both sides when dealing with a customer who is also a vendor, and having a single point of contact for that customer/vendor to ensure effective collaboration and communication between different functions within the organization.

When it comes to optimizing cash, they give the balance sheet and operating metrics more prominence, recognizing value is not driven from just the P&L but also in assessing operating cash to the statement of cash flows.

However, as organizations move towards more strategic initiatives like capex and share repurchase, there are potential trade-offs to understand. In the AR process, leading practices include ensuring accuracy and timeliness of invoicing, as inaccurate or delayed invoicing can significantly impact cash flow.

Inventory management is another critical area for cash optimization. Organizations should strive to find the right balance between maintaining sufficient inventory levels to meet customer demand and minimizing excess inventory that ties up capital. This may involve implementing better forecasting techniques, understanding past challenges, and having a future-oriented growth profile that maintains customer service levels while carrying less inventory. Organizations should also look beyond traditional areas of working capital management to identify other opportunities for cash optimization, such as reviewing employee benefit plans.

Effective cash optimization requires close collaboration and communication between different functions within the organization. Finance teams should work closely with procurement, sales, and operations to ensure alignment and identify improvement opportunities. Establishing cross-functional committees and regular communication channels can help break down silos and drive better cash management outcomes. Finance plays a crucial role as a strategic partner in driving enterprise-wide cash management initiatives, aligning cash optimization efforts with overall business objectives.

## The role of technology and AI

Technology and artificial intelligence (AI) are crucial in enabling effective cash management across AP, AR, and inventory management processes. AI and machine learning can extract insights and drive better decision-making throughout the cash management lifecycle.

Key applications of AI include cognitive contract management, which extracts terms and conditions from contracts into a central repository, enabling optimization and benchmarking. Anomaly detection using machine learning can identify unusual behavior in cash management processes, such as customers or vendors consistently falling behind on payments. Advanced analytics and dashboards powered by AI provide a comprehensive view of cash management performance, going beyond traditional metrics to include granular, segment-specific metrics and operational KPIs. Linking these data sets and applying machine learning techniques helps organizations gain deeper insights into cash flow performance drivers.

To fully realize the benefits of technology and AI, organizations need well-defined, structured, and controlled end-to-end processes to ensure accurate and reliable data. Integrating cash management data with broader enterprise performance management and integrated business planning processes enables

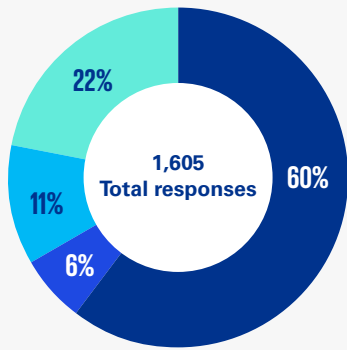
a holistic view of financial performance. Intelligent automation and AI can streamline cash management processes by automating routine tasks and prioritizing actions based on their impact on cash flow. However, a business-led, technology-enabled approach focusing on end-to-end processes is crucial for effective cash management.



## Embracing evolution. Forging ahead.

Strategic cash management has the power to revolutionize the way organizations operate and succeed in today's ever-changing business environment. By embracing leading practices, harnessing the potential of cutting-edge technologies, and fostering a culture of continuous improvement, companies can optimize their cash flow and build a strong foundation for the future. The key to effective cash management lies in understanding the interrelationships between cash management, enterprise performance management, and sustainable growth, ultimately paving the way for a more prosperous future.

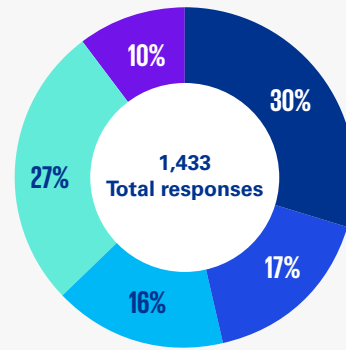
### What is the C-suite concerned about today?



- All of the above
- Cost takeout
- Growth
- Liquidity/Cash flow

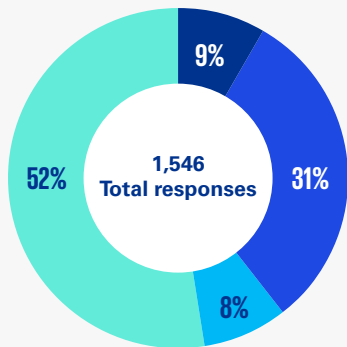
Note: Percentages may not total 100 percent due to rounding.

### What are you providing as guidance to stakeholders?



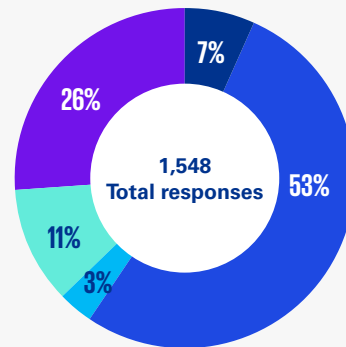
- All
- Free cash flow target
- Other
- Target EBITDA or EPS improvement
- Target growth percentage

### What is your cost of capital/hurdle rate?



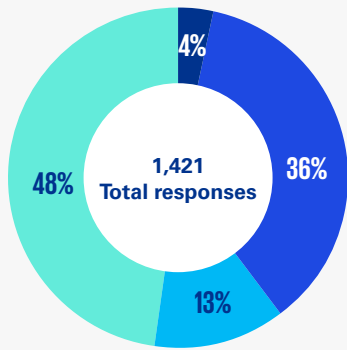
- 15% or more
- 10%–15%
- 1%–5%
- 5%–10%

### Who in your organization is responsible for managing cash flow performance?



- Cash management office leader
- CFO
- None
- Other
- Treasurer

**How extensively is your organization currently using AI in its cash management and working capital processes?**



- Extensive use
- Minimal use
- Moderate use
- Not at all

Note: Percentages may not total 100 percent due to rounding.



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