

Unveiling the power of strategic cash management

How TMT organizations can drive value



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

For technology, media, and telecom (TMT) companies, strategic cash management is crucial, given the dynamic and rapidly evolving nature of the TMT sector, characterized by continuous innovation, high R&D costs, and fluctuating demand.

How can companies adopt strategic cash management? Below are some insights and leading practices to help organizations unlock trapped cash, enhance decision-making, and thrive amidst economic challenges:



Importance of strategic cash management



Evolution of cash management practices



Best practices for cash optimization



Role of technology and AI



Importance of strategic cash management

Strategic cash management has become 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. This is especially true for TMT companies, which often experience volatile cash flows due to the project-based nature of some of their revenues, significant upfront investment requirements, and the cyclical demand for their products and services.

Effective cash management provides significant value to organizations. It enables 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. And 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 (EPM), and how that interrelationship enables sustainable growth.

As investors continue to demand more shareholder value, organizations are increasingly setting ambitious free cash flow goals to drive business growth and overall financial performance.

However, there are challenges in achieving effective cash management...



Inadequate Governance:

Unclear ownership and decision rights. Disparate processes, data, platforms, and reporting.



Disconnected Processes:

Limited integration across end-to-end cash management processes. Function aligned decisions suboptimize enterprise outcomes



Limited Transparency:

Insufficient, reactive reporting. Organizations lack basic, integrated suite of cash related KPIs and metrics.

Another important point: The focus on cash flow has evolved in recent years. Historically, Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) was 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.



Progression of cash management practices within an organization

Cash management practices can be categorized into four stages:



Reactive



Tactical



Operational



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 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.

This progression of cash management practices will vary 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.





Best practices for cash optimization



Effective cash optimization in TMT companies involves a multifaceted approach that supports innovation and growth while managing financial risks and maintaining liquidity. It requires a deep understanding of the industry's unique challenges and opportunities, as well as the ability to anticipate and adapt to the rapidly changing technological landscape. This approach should encompass 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.
- Recognizing that a one-size-fits-all approach does not work for cash optimization. Organizations must tailor their strategies based on the specific characteristics of their suppliers, customers, and business units.
- 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, they should focus on generating benefits on the Days Payable Outstanding (DPO) 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.
- TMT companies frequently incur major costs for infrastructure, R&D, and acquisitions. Proper liquidity management ensures they have sufficient cash to cover these expenses while maintaining operational stability.
- Global TMT companies face currency and interest rate risks. Effective cash management involves hedging to counteract these fluctuations and diversifying investments across regions and asset classes to minimize risk.
- M&A activity is frequent in the TMT sector as firms aim to gain new technologies, talent, and market share. Proper cash management allows companies to fund these acquisitions without risking their financial stability.



Best practices for cash optimization (cont.)



Other factors influencing cash optimization

When it comes to optimizing cash, the procure-to-pay process is often considered the easiest to tackle. However, as organizations move towards more strategic initiatives like capex and share repurchase, there are potential trade-offs to understand. In the order-to-cash process, leading practices include ensuring accuracy and timeliness of invoicing, as inaccurate or delayed invoicing can significantly impact cash flow. It also involves implementing proactive collections strategies and being the "squeaky wheel" to improve cash inflows.

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. Achieving that balance 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.



Collaboration and communication

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 teams 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.



By focusing on these areas, TMT companies can enhance their financial stability, support growth initiatives, and navigate the complexities of their dynamic industries.





Role of technology and AI

Technology and artificial intelligence (AI) have become essential in enabling effective cash management across procure-to-pay, order-to-cash, and inventory-management processes.

TMT companies are at the forefront of adopting advanced technologies to manage their finances. This includes using artificial intelligence and machine learning to extract insights and drive better decision-making throughout the cash management lifecycle, blockchain for secure transactions, and automation tools for efficient receivables and payables management.

Other key applications of AI include cognitive contract management, which extracts terms and conditions from contracts into a central repository, enabling optimization and benchmarking. In addition, 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 can 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 best 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 inter relationships between cash management, Enterprise Performance Management, and sustainable growth, ultimately paving the way for a more prosperous future.

Let's talk about how KPMG can help you realize the power of strategic cash management.

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Michael Kokotajlo
Partner, Advisory
Finance Transformation
KPMG US
T: +1 609-462-7107



Nick Boaro
Partner, Deal Advisory
& Strategy,
KPMG US
T: +1 415-963-5100

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