

What Is a Cash Position?

It's 10:00 AM. Do you know where your cash is? Do you know how much cash your organization has available to use? What cash flows—in and out—are you expecting today? Tomorrow? Next week?

If you are responsible for managing your organization's cash, you are responsible foremost for the organization's cash position. You must be able to answer these questions.

The primary function of your treasury group is to make sure the organization has enough cash every day to keep running smoothly. When you hear news stories that quote a corporate treasurer as saying that his or her firm has just a few days' cash left, it probably means that the company is going to seek bankruptcy protection.

Organizations of all types and sizes have to manage their cash positions daily. How well they do this determines how efficiently their organizations function from day to day. Focusing on the cash position keeps your focus on treasury's prime function—maintaining a stable liquidity level for the overall organization.

Does Size Count?

Company size often affects how complex managing your cash position is because larger companies tend to require more services and may have more banks to deal with. Because of their heavier volumes and multiple banking relationships, larger companies have bigger information systems needs. They are the primary market for treasury work stations, which provide automate support for treasury activities, including cash position management.

Smaller companies may have simpler systems, at least at first glance. The real problems for smaller firms are their ability to adjust to substantial changes in their cash flows and their limited resources, such as lines of credit or sizable investments. Smaller companies may also differ from their larger counterparts in that financial managers in small companies often are called upon to perform many tasks, whereas their counterparts in larger organizations are more specialized.

Real-time Finance

Working in treasury is challenging because you are dealing with finance in a real-time situation for much of the business day. The treasury group typically interacts with banks, the money markets, operating units throughout the company both domestically and abroad (if applicable), and other corporate staff departments, such as accounting, purchasing, inventory, and internal audit.

Obviously, the size of the organization will determine how intensely treasury staff must interact with the money markets and other internal personnel throughout the business day. Smaller companies may not immediately recognize the need to be that active throughout the day. They simply check their balances and other factors less frequently than treasury managers with larger companies. Managers in smaller companies do not understand the need to stay on top of the market.

The organization's cash position has to be managed every day that funds are available; i.e., every business day that the banks are open. This is the first order of business. Other tasks must be worked in around this key activity.

Cash flows can vary from day to day, and cash inflows do not often balance with cash outflows. The mix of cash flow items

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can change daily as well, depending on regular processing and payment cycles. The magnitudes of cash flow items can also vary widely over time, affected by seasonal factors or payment cycles. Regardless, the goal in managing the cash position is to make sure that the overall net position at the end of each day is positive.

Obviously, you cannot rely on the operating cash flows of your organization to balance daily. Financial sources of cash or places to “park” cash for a short-term period (even as often as overnight) are necessary. There also must be planning to arrange short-term borrowing facilities if funds are needed. Similarly, you will probably want to gain more familiarity with possible short-term investments when you have excess funds that are not needed on the current business day.

Collecting data

A company’s cash position, in its simplest form, is obtained when cash outflows, including any debt repayments, are subtracted from cash inflows, including any maturing investments. Managing the cash position includes pulling all the data about operating and financial cash flows together throughout the business day, as well as from day to day.

This data gathering should be a fairly simple process as long as all sources of cash flow data are identified and tapped for information. These sources can be internal to the company, ranging from central financial departments to operating divisions and subsidiaries. Data sources can also be external points, such as the organization’s financial services providers. If the latter are diverse, the system for collecting their data will be complex and possibly quite time consuming.

For small changes or simple additions, you will probably have to resort to a spreadsheet model or a group of them linked together in a workbook. If you can develop these models yourself, that can be an asset. If not, you will need help from your IT group or possibly outsource it to an external firm.

In cases large or small the key is for you to provide appropriate documentation to the systems technical experts. You cannot expect your IT group or an external outsourcing firm to know what’s in your head. You will need to provide the specifications for your new system if you want to have it completed properly.

What are we talking about here?

The easiest way to see the impact of cash management is to look at the cash position. The flows in Exhibit 2.1 are shown in two parts—inflows and outflows. There are many possible cash flow components, but the general classifications shown here should cover them. I have also included a brief comment on each component related to the large-, mid-market- and small-sized organizations. Note that all these flows do not occur daily.

You can add more detail to these components to reflect your situation. However, it is critical that you identify all major cash flows that will affect the overall cash position for your organization. This is true even if the individual flows are not daily.

The cash position should be the central hub for the company's short-term financial flows. Determining the organization's cash position at its major bank (or banks) is the starting and ending place for daily cash management decision-making. This activity is most effectively managed on a centralized basis and takes priorities over other treasury tasks until it is completed. While it is not a glamorous part of a treasury manager's job, managing the cash position is a necessary element for a smooth-running financial function. Done well, this activity blends in well with other daily activities. Done poorly, it can create significant headaches for the treasury staff.

If this daily activity is not being ably managed, the overall organization is likely to suffer. This can especially be true in large, decentralized organizations where local financial managers are accustomed to handling payments and receipts. This can create an inefficient system, but even a company with an inefficient cash management system can still function if it manages its overall cash position effectively. However, if such a company cannot manage its cash position effectively, it will face substantial problems and threats to its ability to survive any financial crises.

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Exhibit 2.1 Major Components of the Cash Position

CASH INFLOWS	Large Company	Mid-market Company	Small Company
Customer check payments from lockboxes	Large amounts	Mixture of large and small size	Smaller check size
Customer check payments from field deposits	Heavy volume if decentralized	Moderate volume	Not for small businesses
Customer check payments received at the head office	Light volume if decentralized	Moderate volume	Moderate to heavy volume
Customer check payments from point of sale (depends on industry)	Heavy volume	Moderately heavy volume	Smaller volume, if any at all
Customer check payments from remote capture and over-the-counter deposits	Heavy volume	Moderate volume	Not much
Wire transfers from customers	Can be heavy	Moderate volume	Not much
Wire transfers from subsidiaries	Moderate volume	Small volume	Not much
International wire transfers	Can be heavy	Small volume	Not much
Maturing short-term investments	Substantial amount possible	Moderate amount	Very small amount
Liquidation of assets	Large potential	Moderate potential	Small potential
Short-term borrowing proceeds	Large amounts possible	Moderate amounts possible	Small amounts possible
Long-term financing proceeds	Substantial	Infrequent	Rare
Proceeds from sale of assets (e.g., accounts receivable)	Large potential	Moderate potential	Small potential

Managing Your Cash Position

CASH OUTFLOWS	Large Company	Mid-market Company	Small Company
Check payments to suppliers and other vendors	Large amounts	Mixture of large and small size	Smaller check size
Check and direct deposit (ACH) payments to employees	Heavy volume if not direct deposit	Moderate volume, possibly outsourced	Small volume, possibly outsourced
Payments to governmental entities (taxes)	Heavy volume	Moderately heavy volume	Smaller volume
Payments to others (retirees, shareholders, ST/LT lenders)	Heavy volume	Moderate volume	Not much
Wire transfers to customers	Can be heavy	Moderate volume	Not much
Wire transfers to subsidiaries	Moderate volume	Small volume	Not much
International wire transfers (outgoing)	Can be heavy	Small volume	Not much
Making short-term investments	Substantial amount possible	Moderate amount	Not much
LT investment transactions	Large potential	Small potential	None
Payback of ST debt	Large amounts possible	Moderate amounts possible	Proportionately larger
Payment of interest on debt	Substantial	Moderate	Proportionately larger
Repurchase of company securities (stocks, bonds)	Large amounts possible	Moderate potential	None