

Back to Basics:

Critical Steps to Protecting Your Cash Flow

There are three fundamental questions that businesses must weigh in challenging economic conditions: Do we have enough cash? Are we managing it wisely? Where can we turn if we need more? To address these complex issues, many businesses are going back to the basics when it comes to managing and protecting their cash — and evaluating the strengths of their financial relationships.

Despite not knowing exactly how and when conditions will be ripe for real, sustainable economic recovery, financial decision makers who take the following critical steps can increase the security and stability their businesses need to move forward.

Practicing efficient cash management

Centralize and consolidate your cash. Cash management professionals might have once enjoyed the luxury of leaving balances in multiple locations or on the accounts of subsidiaries. Now, they should look to centralize surplus cash on a regular basis. Banks have an array of cash management tools that can help businesses consolidate cash under their control. Internal financial restructuring may be necessary, including inter-company lending or dividends.



For companies doing business overseas, a fresh cost-benefit analysis may reveal advantages to bringing surplus capital back to their U.S.-based headquarters. This is consistent with the heightened strategic importance of maintaining adequate liquidity.

Uncover hidden cash in your supply chain. If you have not yet made the switch to electronic-payments, or aren't fully taking advantage of the efficiencies that come with automating your accounts payable and employee spending processes, now may be the time. For example, eliminating paper checks can help you get paid faster, save administrative cost and time associated with manual data entry, reduce your exposure to check fraud, and increase your cash on hand. A well-designed commercial card program can help you hold on to your cash longer, increase your buying power and earn incentives, all while integrating seamlessly into your accounts payable process. Choosing a provider with a broad vendor payments network and strong enrollment support can make it virtually turnkey to implement.

Request a relationship review. Is there untapped value in your existing cash management and investment structure? This is when it pays to have a banker who understands your business and is committed to helping you get the most out of the money that you bank and invest. For instance, are you taking advantage of your earnings credit rate during this time of unlimited FDIC coverage¹ on your non-interest bearing demand deposit account? You may be able to offset banking fees, thus achieving a greater return versus alternative investment choices.

Addressing financing needs as opportunities arise

Reevaluate your needs. Take a fresh look at your company's liquidity and capital positions in light of your daily and longer-term business objectives. If you are not among the select group of businesses that already have robust funding, or if you have approaching maturities, you may need to start by adjusting your expectations.



Understand the market and adjust expectations. Bank consolidation has reduced the pool of potential lenders that, in good times, contributed to the steady flow of capital at historically attractive rates. Additionally, banks are focused on making good loans in the face of an uncertain outlook for many potential borrowers. This has resulted in tighter lending criteria and an emphasis on market-based pricing. Given the changing environment, previous capital-raising deals may no longer provide accurate pricing guidance.

Take action. For many businesses, the ability to close a transaction and reduce refinancing risk may be a more important consideration than the cost of capital. When a financing opportunity arises, and it's a banking relationship you know adds value to your business, it's probably best not to wait—even if the terms and covenants are different than what you've achieved in the past.

Being vigilant about your banking relationships

Protect your cash. Having centralized your liquidity, be vigilant about where it is left. Companies have been shunning the absolute highest yields and moving deposits from second-tier banks to a small number of strong institutions in a “flight to quality.” They want a bank they know has the full range of capabilities they need, takes an integrated view and delivers end-to-end solutions, and will be there when they need them.

Get the facts and choose a strong bank.

Unfortunately, inaccuracies and public misperception about banks have left businesses wondering where to turn. Do your own research and evaluation. Seek out trusted data and information. Do they have strong capital and liquidity levels? A large deposit and customer base? Broad and diverse earnings power? Have they been profitable, even in tough times?

Seek trusted guidance. As changing market conditions continue to impact your business and your cash flow, now is when you need fresh ideas and broader perspective. Consult a trusted cash management provider for assistance in taking the critical steps outlined above to get back to basics, protect your cash flow and move your business forward.

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