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About this report

It’s almost as if the Great Recession cloud had not yet lifted.

Having survived the economic downturn, midsize U.S. companies are working to retain a “culture of cash” inside their businesses. They are applying their hard-earned financial discipline to building a cushion that not only can buffer their businesses in an uncertain economy, but can also free them to identify—and aggressively pursue—the growth opportunities they see.

Such findings are among the conclusions contained in *Cash and Liquidity Management*, a study focusing on the essence of financial discipline. In a survey of senior finance executives at midsize U.S. companies, CFO Research Services set out to expand on earlier studies by exploring the cash and liquidity challenges that such companies face and the plans and priorities they have set for themselves.

The 325 responses build on last year’s findings, as reported in *Winning Strategies in the Emerging Recovery*. At that time, finance executives were counting on exercising discipline in the core capabilities that had served them well during the economic downturn—careful investing and spending, meticulous cost control, and strong cash conservation—in hopes of retaining the nimbleness, speed, and innovative edge that often form the basis of their competitive advantage.

Stretching out payables and pulling in receivables is not enough anymore, as these companies know. After all, in the post-downturn era, they are managing cash not just to maintain a secure financial foundation and to fortify day-to-day operations, but also to grow by making the most of what they have.

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<td>$10 million to $100 million</td>
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<td>Pharmaceuticals/Biotechnology/Life sciences</td>
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<tr>
<td>Telecommunications</td>
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</tr>
</tbody>
</table>
Financial discipline: A fierce competitive edge

It is no exaggeration to say that midsize firms live and die by their cash. “We all know that managing liquidity is absolutely paramount. It’s the difference between the life and death of a business,” says Hank Hague, CFO of PolyMedex Discovery Group, a midsize medical-device manufacturer.

More than a few finance executives remember a time not long ago when the cash that formed the lifeblood of their businesses nearly stopped flowing. The 2008 global financial crisis, which slowed commerce dramatically and placed severe constraints on credit, forced many midsize companies to manage through more serious, more frequent liquidity crises than ever before. And that experience motivated many of them to make lasting changes in the way they approach their businesses.

One of those changes is increased attention to the fundamentals of funding the enterprise and ensuring its financial soundness and stability. Of the 325 responses to our survey of senior finance executives at midsize firms across the United States, 85% of respondents say that their companies are more financially disciplined—more likely to maintain a lean cost structure, a strong balance sheet, and optimal levels of cash and liquidity—in the aftermath of the recent downturn.

For the vast majority of midsize companies, this renewed financial discipline started out not as a choice, but as a matter of necessity. “This has been a rough economy, and for a period of time not too many people were buying trucks,” says Pat Howard of DSU Peterbilt & GMC, which sells and services commercial trucks and personal vehicles in the Pacific Northwest. “I think financial discipline has helped our company, but it’s hard to tell, because we had to [reduce costs and retain more cash on the balance sheet]. Our competitors had to, also,” he says.

While the accomplishment of making difficult adjustments in response to serious challenges is doubtless a source of satisfaction for finance teams and their colleagues, finance executives recognize that maintaining that financial discipline will be tough. A plurality of survey respondents (41%) say they expect maintaining financial discipline to become more difficult over the coming year, compared with last year; fewer respondents (34%) say that maintaining financial discipline will become less difficult.

For some finance teams, that difficulty is actually a positive sign that a pickup in business growth—and all the effort that managing growth requires—is consuming more of their time and attention. “To me, the good problem to have is growth,” says Gary Meyer, COO/CFO of Project Time and Cost, a midsize project management company.

Figure 1. Financial Discipline and Competitive Advantage

Respondents who say that financial discipline will contribute to competitive advantage outnumber those who say it will limit competitive advantage by more than three-to-one.

“Over the next year, financial discipline is likely to...”

<table>
<thead>
<tr>
<th>Limit my company’s competitive advantage</th>
<th>Contribute to my company’s competitive advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>69%</td>
</tr>
</tbody>
</table>

Note: 6% of respondents answered, “It depends,” and 8% said, “Not sure.”
construction-management and forensic consulting services firm based in Atlanta. “When you get busy and there are a lot of people working on things that are creating new business opportunities or new revenue for the company, a lot of times it does strain the workload on individuals and that makes [maintaining] financial discipline tougher.” But Mr. Meyer also points out that growth periods tend to stress working capital. “A lot of times growth stretches working capital because you have to invest in the business, and you’re carrying more receivables or more inventory,” he notes. “That’s the biggest challenge—either growing or growing quickly. It gets busy. You think you’re doing great. Then next thing you know, you’ve got a billing or receivables problem. So you’ve got to stay on top of it.”

Why is the effort of maintaining financial discipline in the recovery worth it? Because financial discipline isn’t just about being prepared to weather a future crisis. It’s about securing the financial flexibility and control that are essential to gaining a competitive edge. Indeed, respondents who say that financial discipline will contribute to competitive advantage outnumber those who say it will limit competitive advantage by more than three-to-one. (See Figure 1, on page 2.)

Finance executives at midsize firms do recognize that maintaining a high degree of financial discipline carries risks—in particular, the risk of underinvestment at a key juncture in the recovery. The reason that competitive advantage flows from financial discipline is because attention to those finance fundamentals helps companies extract cash from their operations and put it to work in their businesses.

In an environment of scarce resources, tight credit, and costly financing, cash has become even more critical to

**Figure 2. Primary Sources of Growth Capital**

*Retained earnings have outstripped other major forms of growth capital over the past three years by a wide margin.*

![Figure 2](image)

<table>
<thead>
<tr>
<th>Source of Growth Capital</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings from ongoing operations</td>
<td>56%</td>
</tr>
<tr>
<td>Secured debt financing</td>
<td>24%</td>
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<tr>
<td>Equity financing</td>
<td>8%</td>
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<tr>
<td>Unsecured debt financing</td>
<td>3%</td>
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</tbody>
</table>

**Figure 3. Cash Derived from Ongoing Operations as Future Source of Growth Capital**

*Respondents who agree that cash from ongoing operations will be their companies’ primary source of growth capital outnumber those who disagree by more than five to one.*

“Cash from ongoing operations (rather than debt or equity financing) is likely to be my company’s primary source of growth capital over the next two years.”

![Figure 3](image)
midsize firms’ growth plans. Retained earnings have outstripped other major forms of financing as midsize companies’ primary source of growth capital by a wide margin over the past three years, according to survey respondents. (See Figure 2, on page 3.) That situation seems unlikely to change in the foreseeable future: Respondents who agree that cash from ongoing operations—not debt or equity financing—is likely to be their companies’ primary source of growth capital over the next two years outnumber those who disagree with that statement by more than five-to-one. (See Figure 3, on page 3.) “Managing our cash position well is just part of what we do,” Mr. Meyer says. “My team knows that around here cash is king, and it’s extremely important to us. It’s real important that we manage it, monitor it, watch it, and stay on top of it. We only have a certain amount of borrowing capacity and if we get tight on that, it would create a real strain on our liquidity. Cash and working capital management is built into our culture. It’s part of who we are.” Indeed, the results of this research suggest that managing the finance fundamentals of free cash flow and access to liquidity well could make the difference between merely enduring this gradual and uncertain recovery—and exploiting all the opportunities it has to offer.

Making cash flow from the balance sheet

If diligence is the watchword for finance teams who pursue excellence in cash and liquidity management, the results of this survey suggest that midsize firms have behaved very diligently indeed. A solid majority of respondents, for example, report that their companies have improved liquidity since the recession took hold: Two-thirds of respondents report that their companies’ days-working-capital (DWC) position today is better than it was three years ago.

Making a better effort at collections served as the primary contributor to this overall improvement; respondents are much more likely to report improvement in days sales outstanding (DSO) over the past three years (56%) than they are to report improvement in days inventory outstanding (DIO) (41%) or days payable outstanding (DPO) (42%). In the day-to-day work of the finance department, these improvements mean that finance teams—with contributions from their colleagues in sales, procurement, and production—have been working hard to extract payments from increasingly distressed customers, negotiate more favorable terms with suppliers, and reduce inventory levels while maintaining overall margins. As they strive to improve in the coming months, survey respondents report that their companies are likely to continue focusing their efforts on receivables performance, followed by better inventory management. (See Figure 4, on page 5.)

Lack of bargaining power creates collections barriers.

As we documented in the previous report in this series, one of the biggest challenges in improving receivables performance at midsize firms flows from an imbalance of bargaining power. Midsize firms often derive their largest volume of business from companies that are bigger than they are. But finance executives at midsize firms who agree that larger companies have used their bargaining power to force them to accept slower payments outnumber those who disagree with that statement by a wide margin (47% versus 37%). “A lot of the larger customers we have tend to use their muscle,” one divisional CFO at a midsize transportation and logistics firm told us. “We have several customers that are international, multinational businesses. In late October [2011], one of them

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just said, ‘We’re not paying anybody else until January,’” he says. “But they’re a big customer. We could say, ‘Fine, we’re not going to deliver anything to you until January, either, but that doesn’t really win you many friends long-term. Sometimes you just have to put up with it if they have the muscle.’” One of the most difficult aspects of the experience, the CFO continues, is its unpredictability. “The most uncomfortable part for me is not really being able to control when our customers pay us. We can try to influence it, but when a company just decides—way up the chain where we don’t know anybody—that they’re going to stop paying on net-30-day terms and start paying on net-45[-day terms]: That’s my biggest concern,” he says. “That’s something that you don’t typically see coming. You just find out about it when a payment is late.”

The scenario that this CFO describes is typical of what many finance teams at midsize companies have likely experienced. Part of what makes this situation frustrating is its imperviousness to the methods and practices that typically help midsize companies keep their cash flow healthy. First, large companies often purchase more goods and services and, therefore, they constitute a large proportion of midsize suppliers’ customer bases. Any change in payment terms for a large customer is likely to have a significant impact. Second, relying on good relationships with contacts at large customers often fails to win a reprieve. The decision to extend terms is typically made by corporate finance departments, which are far removed from the operating business lines that are making the purchases. “We talked to the folks we deal with over at their plant,” says the transportation-firm CFO. “They all said, ‘Look, they [in the corporate office] do this from time to time. We are adamant that it’s not a good practice.’ It’s just the policy that was handed down; we never could get a straight answer.” Finally, policies extending payment terms can be handed down with little warning, making it much more difficult for midsize suppliers to forecast their cash flow—and to rely comfortably on those forecasts.

Midsize vendors may have relatively few options to counter their lack of bargaining power with respect to their largest suppliers. In those cases, our sources say, it’s often wise to step back and consider the bigger picture. “It’s unfortunate, because usually these people are some of your larger customers,” says the transportation-firm CFO. “You have to say, at some point, ‘Even paying on net-45 days, is this still a good customer to us?’ It’s not always an easy decision.”

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**Figure 4. Working-Capital Priorities**

*Receivables performance and inventory management surface as high priorities for improvement. A fairly large number of respondents decline to choose just one area, saying they plan to focus on “all three” equally.*

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Receivables performance</td>
<td>38%</td>
</tr>
<tr>
<td>Inventory management</td>
<td>34%</td>
</tr>
<tr>
<td>Payables performance</td>
<td>7%</td>
</tr>
<tr>
<td>All three</td>
<td>18%</td>
</tr>
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</table>

“Of the three main dimensions of working capital, __________ will be the highest priority for improvement at my company over the next year.”

**Note:** 3% of respondents answered, “Not sure.”
Constructing a culture of cash

For midsize companies, strengthened customer relationships and better reporting, along with improved use of electronic payments and deposits, are usually the keys to better cash-flow management.

We asked finance executives at midsize companies to tell us which changes would contribute most to their ability to manage cash flow effectively. Survey respondents most often cite “motivating account-relationship holders to support collections activity” (40%), followed closely by “systematically employing electronic payments” (38%) and “improving reporting on cash positions and cash requirements” (30%). (See Figure 5.)

Leveraging relationships. How will midsize companies actually go about the business of motivating account-relationship holders—particularly those working in sales—to negotiate for more favorable payment terms or even make collections calls? Although some companies may choose to peg the desired behavior to monetary incentives, many finance executives say they prefer to avoid that approach. Those types of incentive programs, they say, not only distract salespeople from their core job—selling—but they also purport to reward salespeople for the kind of teamwork that should be simply part of day-to-day working life. “I think there are some things that we’d rather have good internal procedures and policies for, rather than having to incentivize people to do them. [Supporting efforts to manage cash and working capital] is one of those areas,” Mr. Meyer says. “I’d prefer that the salespeople sell.” One-size-fits-all incentive programs can also get in the way of efforts to tailor offerings closely to customer needs, he adds. “I don’t want to put a blanket incentive in place that says, ‘If you can get your clients to agree to paying us up front, then that will be an add-on to your commission,’ because that might not be the best tactic to employ in every situation. I prefer

Figure 5. What changes would contribute most to cash-flow management?

Measures directed toward more effective interactions with the outside world, along with improved reporting, are most often cited as potentially fruitful improvements.

Note: Respondents were asked to choose up to four responses.
to attack these things as individual circumstances and solve them best for the particular situation at hand.”

If monetary incentives aren’t the answer, what is? Create a culture of cash, our sources say, in which sales and product- or service-delivery staff support efforts to accelerate collections and maintain control over payments. That culture of cash starts with the tone at the top. “It’s good to have support from the top, because it’s easy for somebody [in sales] to deem the billing terms or the collection terms as not important. Salespeople just want to make the sale and move onto the next one,” Mr. Meyer says. “If you have a culture in which cash is important and that starts from the top, it really does make [managing cash flow] a lot easier.”

While survey results confirm that engaging account-relationship holders is an important component of improving cash-flow management, CFOs also point out that finance teams should work hard to build relationships with their counterparts at other companies. “Go ‘three-deep’ in [your customer’s] organization,” says Mr. Hague. “Know the AP clerk, know the AP manager, know the AP supervisor. And then have other contacts across the organization, so that if you’re having trouble collecting a receivable, you know the right people to talk to.”

Establishing those contacts is important, Mr. Hague says, but integrity is the cornerstone of building strong, lasting relationships. “Having a really strong culture of integrity plays back into having those excellent relationships,” he says. “When you’re in a relationship with a customer or with a supplier, do what you say you’re going to do when you’re going to do it, so that the supplier or the customer has a certain level of expectation that the company will perform in a consistent and predictable fashion. That makes all the difference in the world.” Maintaining that discipline of consistent, predictable behavior over time, CFOs point out, goes hand-in-hand with having strong internal transaction- and collection- processes. Unless the finance team is able to adhere to those processes and execute them consistently, they won’t contribute much to improving the company’s cash flow.

Increasing automation. The sheer number of options for electronic payment and deposit services may suggest that most midsize companies have already adopted them—but the results of our survey indicate otherwise. “Systematically employing electronic payments” surfaces as one of the changes that survey respondents believe would contribute most to their companies’ ability to manage their cash flow.

One reason so many midsize companies are still converting to electronic payments is the ad hoc process they’re forced to employ in order to make the switch. But the payoff is worth the effort, CFOs say. “We’re trying to convert as many customers as we can to payment by ACH [the electronic financial-transaction processing network],” says Mark Coleman, CFO of the bulk-hauling business at DDC, LLC, a midsize firm based in South Carolina. “It’s a huge help. It eliminates a couple of days in process, and it also eliminates the lost check problem of ‘Yes, we mailed that a week ago.’” Our sources also note that electronic payments can help reduce the risk of fraud.

Beginning the conversion process was as simple as asking, Mr. Coleman says. “Surprisingly, a lot of companies—especially the larger ones, the utilities, Fortune 500 companies, and so on—prefer to pay that way. But for whatever reason, they won’t mention it to you until you bring it up.” Now his finance team is making a point of bringing it up. “We make it a habit to ask any new customer, ‘Do you have the ability to pay by ACH? We’d prefer that you paid that way.’” Although many customers would prefer to pay via an electronic payment network, they often don’t assume that their small or midsize supplier has the ability to accept those payments, CFOs say. So the supplier should take the initiative. “We went back through the last couple of years, reviewed all of our customers, contacted them, and said, ‘Listen, you can pay us this way.’” Mr. Coleman says, adding that the company has also started emailing invoices to customers who will accept them. “We try to cut as many days out of the cycle as we can—anything we can do to speed the turnaround of that invoice.”

Mr. Howard of DSU says his company has benefited from adopting remote deposit capture. Remote deposit—which is distinct from direct deposit—has only been allowed in the United States since the Check Clearing for the Twenty-First Century (“Check 21”) legislation was enacted in 2004.
Remote deposit capabilities allow businesses and individuals to deposit checks from their offices or homes without delivering a physical check to a bank. “We scan our checks directly to our bank, and then the bank deposits them the same day, so we get faster flow time as a result of that,” Mr. Howard says.

**Improving reporting.** Boosting the quality of cash-flow reporting emerges as one of the changes that would contribute most to better cash-flow management—but that doesn’t mean that finance executives think it’s going to be easy. Indeed, survey respondents who say that cash-flow forecasting has become more difficult over the past three years outnumber by a wide margin those who say it’s become less difficult (43% versus 29%). (See Figure 6.)

That difficulty is tied much more to persistently uncertain and volatile business conditions than it is to the actual forecasting model, as CFOs say is relatively simple. To account for increased volatility, many of our sources recommend adopting a three-month or 13-week rolling cash-flow forecast, updated weekly. “You absolutely must have a 13-week rolling cash flow forecast,” Mr. Hague says. “I learned that from my private equity days.” A good cash-flow forecast includes revenues, cost of goods sold, gross margin, overhead costs, interest payments, rent payments, expected capital costs, tax payments, distributions to equity holders, and more, Mr. Hague explains, “to really understand what your cash will be, week-by-week, for the next thirteen weeks.” Standard working capital metrics—DSO, DPO, and DSI (days sales in inventory)—should be worked into the assumptions that underpin the forecasting model, he says. Although maintaining the model is far from a full-time job—“it takes about an hour per week at most”—Mr. Hague notes that it’s important that the person who owns the model should have some business skills, in addition to analytical know-how. “It’s a very simple model,” he says, “but you’ve got to have the business knowledge to know what’s coming down the pike that might affect it.” Establishing a three-month or 13-week rolling forecast, and ensuring that the right person has ownership of the model, is a worthwhile endeavor even for midsize companies that are in a very comfortable cash position. As Mr. Hague says, “It’s a very good, solid discipline to have—even when you’re in very good [financial] shape—to understand your cash position and to have your finger on the pulse.”

**Figure 6. Has cash-flow forecasting become more or less difficult?**

A plurality of respondents (43%) report that cash-flow forecasting has become more difficult over the past three years.

<table>
<thead>
<tr>
<th>More or Less Difficult</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Much more difficult</td>
<td>8%</td>
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<tr>
<td>Somewhat more difficult</td>
<td>35%</td>
</tr>
<tr>
<td>No change</td>
<td>27%</td>
</tr>
<tr>
<td>Somewhat less difficult</td>
<td>22%</td>
</tr>
<tr>
<td>Much less difficult</td>
<td>7%</td>
</tr>
</tbody>
</table>

**Note:** 1% of respondents answered, “Not sure.”
Securing a liquidity buffer

Freeing cash on the balance sheet more effectively is certainly a major component of cash and liquidity management. But with the aftermath of the 2008 credit crisis still fresh in many finance executives’ minds, securing reasonably priced, reliable sources of short-term financing is another important effort.

For most midsize companies, commercial bank lending is still the preferred short-term financing method. Twenty-seven percent of respondents to our survey say they use commercial bank financing “frequently” to manage their companies’ cash positions; 21% say they frequently take advantage of the float realized through the use of corporate credit cards, charge cards, or procurement cards for that purpose. (See Figure 7.) Although financial-services firms are marketing alternative sources of financing such as factoring, few companies have adopted them.

Using corporate credit, charge, or e-procurement cards “is a real administrative convenience,” says the CFO of a distribution firm. “It’s a lot easier than cutting all of those checks out of the accounts-payable department.” Vendors are willing to forgo a slim percentage in exchange for knowing that they will get paid on a pre-set date. “They’ll have use of that cash much sooner,” notes the distribution-company CFO.

At Douglas Machine, a midsize maker of capital equipment in Alexandria, Minnesota, customers use the cards for purchases of up to $5,000. “It’s the way companies are doing business now,” says CFO Tom Wosepka. “I collect right away so I don’t have to worry about any collection issues.” In addition, the company uses the cards in specific areas, such as maintenance, where “you don’t want to do separate POs for all of the transactions,” says Mr. Wosepka, adding that he can establish spending restrictions that reduce, if not eliminate, the risk of misuse or fraud.

Even more beneficial is the fact that such cards enable companies to stretch out their payables, optimizing working capital. Javier Cintron, CFO of Encore Construction, in Winter Garden, Florida, points out that e-procurement cards enable companies to leverage the float without alienating suppliers. The extension of the company’s DPO happens in two stages, as Mr. Cintron points out: There’s the time...

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**Figure 7. What methods do midsize firms commonly use to manage their cash positions?**

*Although financial-services firms are marketing alternative sources of financing, survey results show that few midsize companies have adopted them.*

“**My company frequently uses** [ ] to improve its cash position.”

- Commercial bank financing **27%**
- ‘Float’ realized through use of corporate credit charge/procurement cards **21%**
- Participating in customers’ supply-chain financing programs **3%**
- Factoring in bundled receivables through a third party **1%**
- Auctioning/selling receivables on a spot market **1%**
between using the card and receiving a closing statement, and the window between getting the statement and paying the card-issuer. By Mr. Cintron’s estimate, those gaps can add up to as much as 45 days.

Beyond that benefit, Encore, which builds water- and wastewater treatment plants, receives frequent-flier miles for every dollar it charges. Mr. Cintron estimates that Encore has saved $40,000 a year in travel expenses. “When you redeem those points—which can amount to several hundred thousand a month—it has an immediate impact on the bottom line,” he says.

Alternative forms of financing are burdened with many disadvantages compared with conventional financing methods, CFOs say. “Certain alternative forms of financing carry a higher interest rate, and [our owner’s] feeling is that, as long as we can get traditional financing—bank financing—he doesn’t want to go that route,” Mr. Coleman says, adding that factoring receivables or engaging in a similar transaction “is really kind of a one-time fix anyway.”

Mr. Meyer agrees. “I have found [alternative financing arrangements] to be certainly more costly and harder to do. I’ve tried cross-border financing. I’ve looked at securitization of receivables. For companies that are smaller, it’s almost impossible to do an asset securitization,” he says. “I’ve found all the other [financing] tactics to be a lot of work with little payback, and they’re typically expensive. I have always found the best thing to do is just keep talking to banks until you find one that’s a good fit and a match.”

Survey results suggest another reason for finance executives’ lack of enthusiasm for many alternative financing methods—their effect on customer relationships. Of those who had an opinion on the matter, 69% of respondents say that factoring bundled receivables through a third party would be likely to have a negative effect on their customer relationships; 75% of respondents say that the auction or sale of

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**Figure 8. Did the financial crisis weaken banking relationships?**

A majority of respondents report that their primary banking relationships are stronger today than they were three years ago.

“My company’s primary commercial banking relationship is __________ today than it was 3 years ago.”

![Survey Results](chart)

- **Weaker:**
  - Neither/no change: 6%
  - Somewhat weaker: 17%
  - Much weaker: 19%

- **Stronger:**
  - Somewhat stronger: 38%
  - Much stronger: 20%
receivables on a spot market would negatively affect their relationships with customers.

For many midsize firms, then, there are few short-term financing alternatives that are more appealing than conventional bank financing. Interestingly, survey results show that a majority of survey respondents (58%) say that their primary commercial banking relationship is stronger today than it was three years ago; only 23% of respondents say their relationship with their primary commercial bank became weaker. (See Figure 8, on page 10.) Many individuals in this survey population, which is composed of finance executives working for companies that by definition weathered the recent recession, may, in fact, attribute their survival in part to a strong banking relationship.

None of which is to say that banks will maintain that position without challenge—indeed, more than one-third of survey respondents (34%) agree that fee increases at commercial banks will make alternative sources of financing more attractive to their companies over the course of this year (compared with only 13% of respondents who disagree with that statement). Even so, senior finance executives at midsize companies classify their companies’ banking partnerships among their most important external relationships and are likely to continue to do so for the foreseeable future.

Taken together, midsize firms most often do business with large global or national banks (53% of all survey respondents) and, to a lesser extent, with regional banks (33% of survey respondents). Only 13% of survey respondents say their primary commercial banking relationship is with a local or community bank.

These banking choices may be due in part to larger banks’ capacity to lend at competitive rates. “I’m finding that larger banks—the household-name larger banks—have become much more competitive in terms of the financing that they’re offering,” says one CFO, who is currently pursuing a new lending facility to finance a major construction project. “What we’re running up against with the smaller regional lenders is—I wouldn’t say it’s their legal lending limits, but rather their comfort zone,” he says. Beneath a bank’s legal lending limit is the point at which it’s comfortable doing a deal, he continues. “We’re right up against that [point] with our current lender.” The CFO is also quick to note, however, that his company’s experience with large banks may not be typical, because his firm is enjoying rapid, highly profitable growth. “The quality of credit that you’re presenting to a bank makes all the difference in how they receive you,” he says.

Banks seeking to capture market share among midsize firms should take note: Only 11% of respondents report that their companies are likely to seek to change their banks in the next year. Seventy percent of respondents declare that they are not likely to change banks in the next year, and another 19% say they’re not sure. In an open-ended follow-up question, we asked respondents who plan to stick with their current banks to tell us why. One of the answers that came up most often was a variant of, “We recently changed banks—and it’s too much work to go through that process so soon.” Other CFOs pointed out that, with lending standards still high and many banks still struggling to recover from the recent crisis, a large number of midsize companies have narrowed their selection criteria for a suitable commercial bank. “A lot of people would probably agree with me that, especially over the last three or four years, there has really been only one criterion for meeting your banking needs, and that’s whether the bank is willing to lend you the money you want,” Mr. Meyer says. “The rest of the terms are generally secondary, compared to that.”

That said, when we asked respondents in an open-ended question to give us their best advice for improving cash and working-capital management, some senior finance executives encouraged their peers to review their current banking relationships. “If you are facing a renewal with your key banking relationship or are unhappy with your current bank, do not hesitate to consider a new banking partner,” one senior finance executive writes. “Many banks are getting squeezed by tighter lending standards and cannot offer as favorable terms as they once could. There are still banks out there that are willing to lend; you just need to find them. Not to mention, there may be breakthrough opportunities from a
process-improvement standpoint that other banks can bring to you that your current bank does not."

Once a midsize firm is settled into a banking relationship, what should the finance team do to make sure that relationship remains productive? The basic courtesies that help companies maintain any important relationship with an external partner go a long way, finance executives say: communication, loyalty, discipline, and integrity. "It's a matter of keeping your bank informed and up to date, so there's a real partnership there," says Mr. Meyer. "When things get tough, you want to have somebody who's going to work with you and stick with you. Longevity is important. Being open and honest is very important. Over-delivering against commitments makes a big difference and helps to build credibility, so when things aren't going as well, you've got somebody there behind you."

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As vital as cash and liquidity management may be, our sources point out that it's critical to keep the effort in perspective. "The best strategy for cash generation is making more money. That's number one," Mr. Meyer says. "Right behind that is expense management—always trying to call things out in your P&L that aren't really producing a demonstrable difference for the company. After that, [improving cash and working capital] boils down to solid blocking and tackling: Bill early, collect early, try to work deals with vendors to slow things down as much as humanly possible. I don't think there's any silver bullet. It really is a function of focus, paying attention, and making [the effort] important to your organization."

In some cases, our sources say, delving into cash-management improvement can help to deepen and fortify relationships with key partners. And that, in turn, can lead to improvements in operating and administrative processes that help everyone involved to make more money or cut expenses. "It's the little things, but it begins and ends with excellent relationships with those customers and suppliers," says Mr. Hague. "You might be running an initiative on working capital, or talking about receivables and going over your supplier scorecard. All of a sudden, you start developing a real business relationship that goes beyond the transactional where you then start creating additional value for each company. That's the fun part."
**Sponsor’s perspective**

The American Express/CFO Research Services report *Cash and Liquidity Management* reiterates what we’re hearing everyday from mid-market clients. That even though we’re no longer in a deep recession, there’s heightened attention on ensuring organizations are financially sound, and companies have enough cash to drive growth and invest strategically.

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CFO Research Services and American Express developed the hypotheses for this research jointly. American Express funded the research and publication of our findings. We would like to acknowledge Nyala Ward and Kyona Wilson for their contributions and support.

At CFO Research Services, Celina Rogers directed the research and wrote the report.

July 2012

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