KEEPING EXPENSES AND CASH FLOW IN CHECK: BUSINESS OWNERS

Whether companies are succeeding, struggling or somewhere in between, managing cash flow and expenses are critical for all of us. Challenges with cash flow and managing expenses can arise for a myriad of reasons, including late collections on accounts receivable, or facing new, competitive threats from other businesses. Regardless of the reason behind cash flow trouble, businesses need to have processes in place to ensure unexpected costs or slow cash flow does not impede success.

Optimizing Working Capital Remains a Top Priority

What are the finance function's most important business goals?
Top three rank responses:

Source: Certify 2017

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What is EAP?

EAP is defined as a non-plastic commercial card account used to pay for goods and services after an invoice has been received. The essence of EAP is a dynamically-adjustable spending limit that is assigned to match the amount of each transaction. Hence, after the transaction is completed there is no available line of credit on the account.

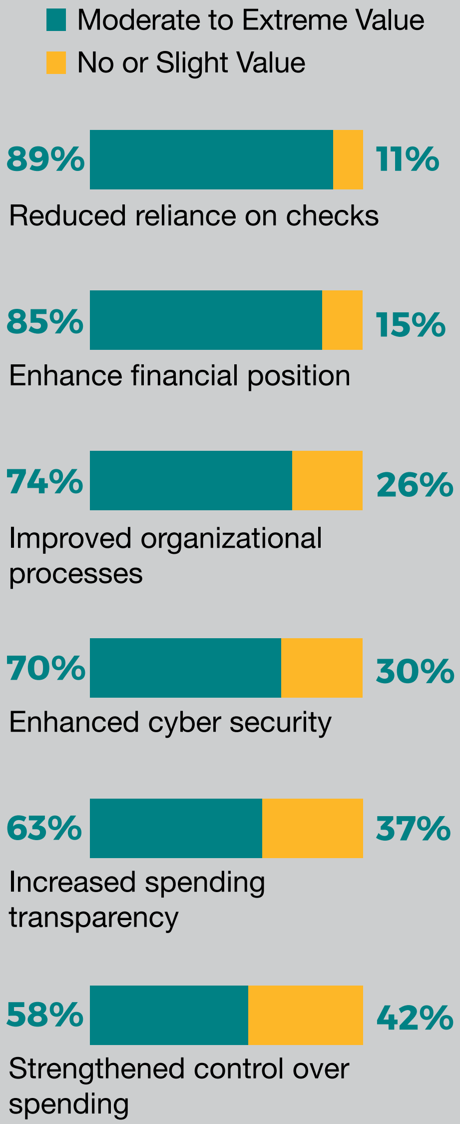
Benefits of EAP

There are several benefits of using EAP. First, EAP reduces the cost and financial risk associated with check payment activity. Second, depending on when payment is made, EAP can significantly improve working capital by increasing “float” (the length of time between the date a purchase occurs and the date the payment is made). Third, EAP can reduce any financial risk associated with plastic cards as the EAP account numbers are typically tied to a credit limit designed to support a single transaction rather than multiple transactions. In addition, from the perspective of organizational demand for specific transaction data, an EAP transaction—since it traverses the traditional workflow approval routing within the accounting or Enterprise Resource Planning (ERP) information system—can satisfy whatever data requirements the organization requires of a traditional purchase. Further, in the case of single-use cards, the card numbers themselves can be matched to PO numbers to facilitate easier transaction reconciliation.

	2012	2015	2018
Organizational Statistics			
Number of employees	7,868	9,889	9,649
Age of program (in years)	2.90	3.36	4.27
EAP Spending Metrics			
Average monthly EAP spending	$1,070,751	$2,550,063	$3,047,846
Median monthly EAP spending	$168,750	$550,000	$600,000
Monthly spending per employee	$136	$258	$316
Annual EAP spending as a percentage of revenue[1]	2.06%	2.30%	2.62%
Spending per transaction	$2,359	$4,842	$4,754
Percentage of Transactions Paid with EAP			
Transactions of $2,500 or less	14%	17%	20%
Transactions between $2,501 and $10,000	18%	21%	25%
Transactions between $10,001 and $100,000	17%	18%	16%
Transactions between $100,001 and $1 million	N/A	8%	8%

[1] *Source: 2018 Electronic Accounts Payable Benchmark Survey Results*

EAP Value to Respondents



How to Evaluate and Manage Cash Flow

As a business owner or leader, understanding what impacts cash flow is—or should be—a priority in operating tasks. Below are several areas where cash flow can go awry, as well as guidance on how to fix issues over time.

- **Discretionary Expenses**—One of the most overlooked areas of cash outflow that can derail business success is the discretionary expense category. According to Certify's 2017 Expense Management study, research found that not only is there a need for smaller and mid-size firms to formalize their travel and entertainment expense policies (including spending maximums), but also improve periodic monitoring which can be surprisingly low. Travel, entertainment, and technology enabled expenses are individually modest amounts in most cases, but they add up over time. This warrants looking even more closely at where this spend is occurring.

  What trends are you seeing in discretionary expenses like travel and entertainment? Are you noticing growth in any new categories of expenses? For example, are team members jumping to use web-based ride services like Uber when they might have not in the past? Maybe it involves ordering items from Amazon that can be quickly shipped; whereas in the past, perhaps items were not purchased or were ordered less frequently. Focusing in on these small, discretionary expenses and putting policies in place for minimizing their reign over the business can lead to better cash flow over time.

- **Capital Budgets**—McKinsey found that, while spending more time on the largest projects was important and yielded important 80/20 benefits, it was also important for the business and its finance team to have sufficient processes for evaluating projects based on projected or expected business benefit. Taking the time to evaluate the return on investment for a specific project requires the inclusion of experts and stakeholders, but this should not deter businesses from taking this approach to capital budgets. Even in times of strong business growth, when budgets for projects are seemingly free flowing, understanding the cost benefit of major projects is crucial to safeguarding cash flow.

- **Product and Service Fulfillment**—As you look more closely at cash flow, you may also evaluate to what degree you are speeding up or slowing down in your ability to fulfill customer requests. What types of delays or risks are you seeing with your suppliers or your team's ability to fulfill orders that need to be monitored and managed? What kind of backlogs or changes in product quality are emerging that might be leading to a slow down in getting paid? Answering these questions is crucial to recognizing cash flow issues and correcting them moving forward.

- **Collections**—Another question to ask if cash flow is light: how are your collection trends tracking? How long does it take you from time of order to fulfill, invoice and collect on it? Are your collection metrics staying flat, or are they extending and putting more pressure on short term cash flow? Evaluate how other companies in the industry fare with invoice collection,

T&E Expense Trends for the Modern Enterprise

Expense reporting can present a range of complex challenges with 1,000 employees or more. Check out the latest T&E trends for the enterprise from Certify's fifth annual management trends report for 2017 with data and analysis from more than 600 CFOs, controllers and accountants.

Who Responded to the Trends Survey?

35%	Director-level or above with expense reporting responsibility (CEO, CFO, etc.)
44%	Manager controller or accountant
21%	Other accounting staff, consultant, administrative, etc.)

and if you are in-line with these trends. If not, consider if there are places you can generate cash flow even more quickly and in ways amenable to your customers. This is a smart step to take before cash flow is tight, especially if you are seeing either growth or contraction that will put more pressure on cash flow in the future.

- **Access To Funds**—To what degree do you have enough available cash on hand to manage brief ups and downs? Do you have three to six months of capital available to cover cash flow shortfalls? Common questions to monitor in this evaluation include: is the new sales pipeline picking up and going to put more pressure on new expenses? Is the sales pipeline contracting and putting more pressure on the ability to pay for fixed expenses? To what degree are your company's lines of credit enough to meet the potential change scenarios that you anticipate as you look out into the coming 12 months?

- **Budgeting and Forecasting**—Most businesses think about a typical budget, which guides your decision-making on multiple fronts. However, it's also important to review the timing of inflows and outflows to get a daily, weekly, or monthly forecast of your cash flow position and needs. While cash flow may be predictable for some businesses, it's often only a matter of time until a change occurs that will put more pressure on these variables.

These are all important topics to drive your cash flow analysis and projections whether in a start-up, growth, or maintaining phase.

Top Resources

- Below are several additional resources[2] you can use to better understand information management expenses. Also, be sure to utilize the Learn Center in My Money Roadmap for other financial planning topics and guidance.

- AFP Research Dashboards

- Expense Management Trends

- Are Today' CFO's Ready For Tomorrow's Demands On Finance?

- Why Capital Expenditures Need More CFO Attention

Disclaimer

As with all important financial topics or decisions, be sure to consult with a financial advisor beforehand. The content seen here is for educational purposes only and is not meant to serve as any sort of advice or endorsement.

[2] You will be linking to another website not owned or operated by the bank. We are not responsible for the availability or content of this website and do not represent either the linked website or you, should you enter into a transaction. You are encouraged to review the privacy and security policies which may differ from ours.

Expense Management Today

How are you currently managing T&E expense reporting?

20% Manual[3]

56% Web-based

24% ERP (Enterprise Resource Planning)

[3] Any process that uses Excel spreadsheets, pen and paper or homegrown systems.