5 Top Cash Management Tools

Knowing how much cash is in the organisation, where it is and how it needs to be managed to cover upcoming payments and upcoming financial and funding requirements is absolutely fundamental to any business.

Doing this effectively within one company takes skill, but when you start to incorporate multiple subsidiaries into the mix – especially subsidiaries that are scattered across the world, using different currencies – it can become a delicate art indeed.

Getting the right models and system in place for your organisation is essential, as is making sure that they work in harmony with the technology you have in place. Here are five TMS-friendly tools of the trade that every treasurer should know their way around.

1. **Zero Balancing**

This is what David Blair describes as being like "a standing order with a variable amount" – whatever amount brings your account down to zero at the end of each day. Often automated by your TMS or ERP, it essentially asks the bank to sweep all the money in the subsidiary account into a single, designated account (usually belonging to treasury or head office) at the end of each day.

It's a simple and effective way to keep tabs on how much money is flowing through the organisation at any one time, but it does render organisations fully responsible for their own tax, interest and other accounting issues, as the bank will not take responsibility for these.

2. **Netting**

When you're a multinational that's trying to streamline your operations and stop wasting money, intercompany invoices can present a challenge. Or, at least, they do if you opt to settle them one by one, in which case you're running up a ton of payment fees and potentially opening yourself up to FX and operational risks.

Many companies get around this by having treasury set up a "netting centre", which looks to consolidate each subsidiary's payments into a single invoice. During the month, each subsidiary continues to report all of the payments it should be making and receiving within the organization, but instead of moving money back and forth all the time, the netting centre adds (and subtracts) it all up as they go, figures out where money is owed and then turns this into a single figure, which subsidiaries then invoice on "netting day".

3. **"On Behalf Of" (OBO)**

This is an even more efficient way of handling payments made by subsidiaries in the organization – because, well, they don't actually make any.

In this model, subsidiaries scrap their own bank accounts and, instead, head office handles all payments on their behalf. OBO has proved to be a big success because it saves the usual hassle of having to manage the flow of money throughout a complex structure, creating mountains of admin and pushing payments back until the last possible moment, when they attract the most bank fees.

Because the payments are aggregated, transaction volumes and their associated costs stay low, and companies get to cut out many of the FX costs that stack up when you move money between different entities of the same company that are scattered all over the world.

4. **Payments Factory**

This is similar to the OBO model – subsidiaries centralise their payments as above, although they typically focus on financial and commercial transactions. That said, this model goes a step further by creating a dedicated unit, or “factory” to handle invoices and payments.

This payments factory tends to be heavily integrated with the tech used by each subsidiary, allowing invoices to be uploaded via their TMS or ERP. Essentially, they outsource the handling of their intercompany invoices to the payments factory, which in turn finds ways to save money in transaction, banking and FX costs by aggregating payments and arranging payments at optimal times.

5. **In-House Banks (IHB)**

These take the whole idea of payments factories and make them even more sophisticated. Organisations scrap their subsidiaries’ external bank accounts completely and instead recreate the traditional banking role in-house, using an intercompany current account.

This account can handle several currencies at once and is typically integrated with the TMS or ERP, automating much of the processing and reducing the risk of error. Third party payments are managed as per the “OBO” model, and the AP ledger is automatically updated to show that the payment has been made. Money received is managed with virtual technology and, too, automatically brings the AR ledger up to date.

Want to learn more about streamlining your treasury and stripping out unnecessary costs? Click here to download your FREE eBook.