

Cash management is king

The recent crisis in the global economy has led large corporates to rethink how to make best use of their cash. Their search for security, liquidity and yield is prompting them to increase the focus on their cash management practices, as Richard Martin of **Barclays** explains to Jim Banks.

In a radically changed economic climate there is a growing desire among companies to have a clearer view of their cash position, and to temper the search for maximum yield from their cash with an increased sensitivity to risk. Their cash management priorities are changing, not least because of changing attitudes towards counterparty risk. Banks must adapt to provide a range of complementary services for corporate clients.

'Cash management priorities have evolved on a number of fronts. There is more focus on the availability of working capital finance. The downturn has reduced available credit, so treasurers have focused more on managing their own working capital and liquidity position effectively,' says Richard Martin, deputy head of cash and trade at Barclays.

'Treasurers are increasingly looking at counterparty risk, given the problems that some institutions have faced. There is a renewed focus on updating and confirming treasury policies, and many companies have reduced counterparty limits because of their view on the financial standing of some institutions. But the priority is liquidity management, with companies looking to ensure the availability of cash in the right place, at the right time and in the right currency,' he adds.

Cash pooling techniques to offset credit and debit balances are a key tool in corporates' efforts to optimise use of cash. Recognising this, Barclays has developed new and enhanced services, including cross-currency notional pooling and cross-border, cross-currency cash concentration facilities, in which cash in accounts in different jurisdictions, including those not held with Barclays, can be automatically swept into a single account.

Barclays is also seeing an upswing of interest in services designed to help corporate clients find alternative sources of finance, rather than traditional debt solutions. Supply chain

finance is prominent amongst these, not only to ease the flow of funds between buyers and suppliers to make the supply chain more robust at a challenging time, but also as an enabler to allow buyers to negotiate improved terms whilst providing suppliers access to potentially cheaper funding.

A preference for partnerships

Companies are rethinking how they engage with providers of financial services, which makes it increasingly important for banks to get closer to their corporate clients. Because primary lenders are now more likely to be chosen as providers of ancillary services, the willingness to engage in partnerships is vital.

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'The management of relationships with banks has been re-evaluated, with companies focusing on their main providers of finance. Cash management is more intrinsically linked to the provision of debt. Barclays has always been very strong on relationship management and we are very close to our corporate clients. The first step is to fully understand customers' needs, which allows us to design and deliver cash management solutions to help them through difficult times,' remarks Martin.

This mirrors the trend among many firms of forming closer relationships with suppliers to support the physical supply chain. With counterparty risk in the spotlight, they are pursuing closer relationships with their banks.



'In physical and financial supply chain arrangements there is much more of a partnership approach between buyers, suppliers and their banks. In balancing the different needs of trading partners, banks must have a good understanding of the priorities of each party. Large buyers are increasingly focusing on maintaining good relationships with their suppliers and with financial supply chain solutions, banks can offer their suppliers an alternative financing option.

With regard to liquidity management, there is a greater need for banks to understand their clients' priorities and to balance their needs for security, liquidity and yield from the investment of surplus cash. There is always a risk/return trade off, but to develop the right approach you must truly understand what a company wants to achieve. Then you can advise on the investment options that support the company's strategy,' comments Martin.

Barclays' "Turning the Corner" initiative is a support designed to demonstrate that the best banks can give useful, relevant advice to their clients on how to make it through the recession, whether it is on the management of Day Sales Outstanding, or the order-to-cash cycle. It is impartial advice, willingness to partner with corporate clients, and its range of new services show that Barclays has been listening closely to what customers want. ■

Further information

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