



How to Manage Your Cash Better

An introduction to cash management services available from banks for most businesses

By Inc. Staff | Dec 1, 2010

You may not have noticed, but a revolution has occurred in business banking. Cash management (also known as treasury management) services, which were until recently available only to big companies from big banks, are now available to most businesses, from many more banks.

Cash management tools, says Bob Seiwert, a senior vice president of the American Bankers Association, are designed to help "get the money in quickly but not pay it out until you absolutely have to" -- a tried-and-true cash-flow strategy. They have also made the job easier, providing a real-time window on cash flow and automating many tasks that were previously tedious or time-consuming or both.

These pages will introduce you to the most compelling of the cash management services. Though fees can vary from bank to bank, these services are generally not loss leaders for them, and some can be expensive. Bundling may save money (see "[Pricing Cash Management](#)"), but, in some cases, you may find better deals from independent providers. Finally, remember that cash management is just one aspect of a banking relationship. Once you have invested time setting up accounts and automating transactions, you will be reluctant to switch banks and do it again. So if you plan to seek a loan, make sure you are banking with an institution that may be inclined to give you one.

Banking Online

1. Receivables

Electronic ACH collections. In recent years, financial firms have opened up the industry's electronic network, known as the Automated Clearing House, to clients. You can arrange to automatically debit a customer's bank account (with the customer's permission), and the money is routed to your bank account in 24 hours. ACH collections are particularly useful for setting up automatic recurring payments. Fewer banks offer small companies inbound ACH services than outbound services (see "[Payables](#)"), but a handful of independent firms, such as First ACH (firstach.com), do.

Remote deposit. This allows you to scan and deposit checks online anywhere you have a computer and an Internet connection -- saving you the time and energy of making regular runs to the bank. The bank provides a specialized portable scanner, often for free. However, for the service itself banks typically assess a monthly fee plus a charge for each deposited check.

Merchant credit card processing. Many banks offer to settle credit card payments for merchants, and the competition is so intense that most processors "would sell their grandmother for five basis points," says David Robertson, publisher of *The Nilson Report*, which follows the credit card industry. There is no inherent advantage to relying on your bank for the processing, he says, unless it happens to be the cheapest or is bundled with other services at a discount. Besides price (see "[Pricing Cash Management](#)"), Claudia Volk, a treasury management consultant in Falls Church, Virginia, suggests considering how quickly the processor will put the money into your account and the detail of the reporting -- you should be able to identify all the transactions processed each day so that you can reconcile them with your accounts receivable system.

2. Payables

Electronic ACH payments. Most banks offer businesses the ability to set up debit transactions online and specify the payment date, which can be in as little as 24 hours, ending the uncertainty over when a payment will clear. (More expensive wire transfers are required for same-day transactions.) Businesses can use ACH payments for, among other things, vendors, direct deposit payroll, and taxes. (Some banks market separate services for direct deposit and tax payments.) Banks may offer a less-expensive service, often called bill pay, that promises settlement within two to five days.

Payroll cards. For businesses with employees who can't afford checking accounts, a reloadable payroll card program is an alternative (or complement) to direct deposit or paper checks. Payroll cards are offered primarily by big banks, but the American Bankers Association and MasterCard have launched a program through which community banks can market cards as well.

Positive pay. With this fraud-prevention service, you transmit to the bank a list of checks you have issued. If a check presented to the bank for payment isn't on the list, you can accept or reject it. (Alternatively, in reverse positive pay, the bank furnishes you with a list of checks presented.) Treasury management consultants recommend this service unreservedly. "It's building the moat around the castle, for just another couple of pennies a check," says Ken Parkinson of Treasury Information Services in Hopewell, New Jersey. In fact, "a lot of banks are saying, 'Buy positive pay, or indemnify us from the risk of a fraudulent item being presented,'" says Dave Robertson, partner at Treasury Strategies, a Chicago consultancy. Large banks are extending positive pay protection to ACH payments as well.

Multipurpose credit cards. Credit cards can now be tools for managing, as opposed to simply making, business purchases. Company controllers can set credit and transaction ceilings for individual employees and designate categories of off-limit merchants. Statements consolidate transactions into spending categories to permit broad payables tracking and forecasting but can also monitor each card user, and purchases can be uploaded to your accounts payable records.

Banks will match your vendors against a database of those that take credit cards. "Some bankers will take your accounts payable list and try to convert the large vendors to accepting a credit card," says Treasury Strategies's Robertson. Your money will continue to earn interest for a few more

weeks during the grace period, and you will save on transaction fees (which will be foisted on the vendor). Plus, many card issuers offer a rewards or rebate program.

3. Liquidity

Sweep accounts. In recent years, small-business clients have been given access to these programs, which "sweep" excess funds out of an operating account at the end of each day and invest them overnight in money market funds and the like. And many banks, says Seiwert, will use the swept funds to pay down lines of credit, a valuable feature for businesses that borrow for operations. As always, check to make sure you will earn or save more in interest than you will spend in fees. (See "[When Time Beats Money](#).") And note that sweep accounts may become unnecessary in July 2011, once the recent financial reform legislation takes effect. The new law repeals a Depression-era ban on interest-bearing business checking accounts, and banks could respond by offering interest to business depositors.

Zero-balance accounts. These permit businesses to establish individual accounts that distinguish among types of disbursements or deposits yet still concentrate cash in a single primary account for convenience. You might, for example, want to protect yourself against employee fraud by separating payroll from other disbursements or otherwise segregating accounts to limit employee access. Each subsidiary account has a target balance (often zero), and, at day's end, money from new deposits is automatically transferred to the main account, or money from the main account is transferred to fund debits. Either way, the account returns to the target balance. With zero balancing, you can keep separate records for discrete functions and one eye on total cash -- and excess funds can be swept into an interest-bearing account or used to pay down debt.

When Time Beats Money

Some services marketed to small businesses may not suit yours -- particularly those in which the value lies in limiting check float or maximizing your funds' investment opportunities. Here are two cases in which you will have to calculate whether interest earnings or savings offset the costs.

A lockbox is a bank-managed post office box to which your customers remit checks. The bank collects the mail frequently and then gets the funds quickly into your account. But with improvements in mail delivery and bank communication, "a lockbox only buys one or two days of acceleration," even if it is located near customers in another part of the country, says Brian Hinton, a senior vice president at the Huntington National Bank in Columbus, Ohio. A lockbox can cost \$100 a month to maintain plus a per transaction charge. If total costs run \$125 a month, and you earn 2 percent annualized interest on that one-day advantage, the lockbox would have to process \$2.3 million a month just for you to break even.

Controlled disbursement is an additional service on top of zero balancing that allows just-in-time account transfers to fund payments. Each morning, the bank provides a list of your checks that will clear that day, so that you can transfer into the checking account the exact amount needed to cover them. Theoretically, a business operating on invested funds or a line of credit could benefit from this, but controlled disbursement is expensive: \$100 to \$150 a month, plus potentially the cost of wire transfers -- so here, too, a lot of principal will have to be in play to justify the expense. In any event, ACH payments, which you schedule, effectively perform the same function.

Pricing Cash Management

Comparing the cash management services offered by banks can be difficult. Start by putting together requests for proposal or quotes. Unless your business is very small, most banks will respond.

Ask around. Start with informal talks with bankers at two or three institutions to mull over which services you ought to consider.

Watch the details. Be sure each bank specifies how its services operate -- for example, cutoff times for deposits and how and when funds become available.

Estimate your needs. Devise a hypothetical, yet realistic, estimate of the number and volume of transactions you will execute for each service, and ask the banks to present prices per transaction. Comparing credit card processors, in particular, requires great specificity, given that card network fees vary by type of card and transaction. And ask for both bundled and à la carte pricing.

Resources

Most banks describe their cash management services on their websites. If you don't see it under business banking, check "commercial" services, which are usually intended for larger customers.

PhoenixHecht.com is a solid resource on cash management, including its own free resources, links to others, and a list of consultants.

Consultant Claudia Volk offers useful reference materials, including a cash management primer, on her website, at cjvolk.com.

Treasury Information Services (ticonsulting.com) offers advice on creating requests for proposal.

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