Laurie McCabe
Sanjeev Aggarwal
Dwight Davis

January 2012

Using Cash Flow as a Strategic Tool: A Guide for SMEs

Sponsored by SAP

Key Highlights

- Companies need a clear window into and solid control of accounts payable/receivable to free up cash so that they can invest in new products and markets, pay down debt and finance other strategic initiatives.
- Ineffective cash flow management can incapacitate a business by hampering its ability to fund strategic investments or burdening it with excessive interest payments and higher capital costs.
- ERP solutions can provide the process automation and optimization that are the foundation for strategic cash flow management.
- SAP Business All-in-One customers that leverage the software's financial management capabilities and its best-practice guidance can enhance cash flow management to achieve significant business benefits.

Positive cash flow is the lifeblood of small and medium enterprises (SMEs)—critical to sustaining and growing the business. But cash flow management goes beyond keeping track of how much money goes into and out of the business. By taking a more strategic approach, companies can free up cash flow so that they can invest in new products and markets, pay down debt and finance other strategic initiatives. Strong cash flow also puts businesses in a better position to negotiate more attractive financing terms with lenders and steeper discounts with suppliers.

In this paper, we look at why strategic cash flow management is so important to business success, and identify problems that point to the need for better cash flow management solutions. Then, we discuss how SMEs are using SAP Business All-in-One solutions—with integrated ERP, BI and best business practices—as a foundation to automate and improve their cash flow management processes. Next, we provide a brief overview of SAP Business All-in-One, including both the software capabilities it offers and the business process best practices that can help SMEs optimize cash flow management. We conclude with our perspective on how SMEs are using SAP Business All-in-One to improve their cash flow as a means to achieve their performance goals.

Section 1: Cash Is King—Without It, There Is No Kingdom

Most people intuitively understand that a business needs to have more money coming in than going out. No company can thrive—or even survive—if it must constantly struggle to pay workers or suppliers, or lacks funds to invest in necessary business improvements or new market opportunities.

But businesses often get so wrapped up in running their day-to-day operations that they neglect to develop a strategic cash flow management approach that can help them avoid cash shortages and maximize income.

For fast-growth businesses, a typical scenario might go something like this: A business owner launches a company with his or own savings, starts generating sales and reinvests the net income back into the company. With the business growing, all is good, right? Unfortunately, many businesses quickly realize that while they've focused on building the business, they've neglected some key considerations that are critical to long-term success and profitability, including:

- Am I maximizing cash flow—bringing in payments as quickly as possible, and holding on to cash as long as I can?
- What's the right amount of excess cash for the business to hold?
- Where should I invest the excess cash?
- Is the business getting the best discounts from suppliers?
- Is my company "bankable"? Can I secure funds when I need to, and will I get the best payment terms?

That same company is probably still using entry-level financial software to track its payments and receivables. At some point the business owner and key executives recognize that to stay on an upward trajectory, the company will need to take a more sophisticated approach than just tracking money in and money out. As the business grows and diversifies, it needs:

- A more accurate way to evaluate its current cash position and forecast how much it will need to meet expenses on a regular basis
- The ability to optimize cash flow through both management and investment strategies—in other words, how it can put any excess cash to best use for the company, to help it grow and/or increase its stability
- Access to accurate metrics, such as the quality and sustainability of revenue, ability to manage cash cycles, and ability to control costs to assure banks and other lenders of its creditworthiness

Reliance on paper-based manual processes, spreadsheets and basic small-business financial accounting software, for example, was hampering London-based CIBS and costing it money. The 200-person provider of commercial cleaning, pest control and washroom services struggled with billing errors, delays and dunning problems, and often wasn't aware of cost overruns until it was too late. Meanwhile, invoicing was a three-day, once-a-month manual process based on dated and error-prone paper records, a situation that hurt CIBS's overall cash flow. "We found that our processes and systems just couldn't scale to support growth," says Julia Kulinski, general manager at CIBS.

"In our industry, margins are small and costs can easily spiral out of control. Costs need to be managed on a contract-by-contract basis and down to a very granular level."
— Julia Kulinski, general manager, CIBS

To avoid such negative consequences, companies should be vigilant to discover indicators that may point to cash flow management shortcomings. **Figure 1** provides some of the questions to consider when evaluating whether a company's cash flow management capabilities may no longer be adequate to meet operational and growth requirements.

Figure 1: Checklist of Cash Flow Management Warning Signs

✓	Do you have real-time visibility into money owed and when it's due?
✓	Can you hold cash and pay invoices as late as possible while still benefiting from discounts?
✓	Can you chart which payments should be received in the next week/month and group payments by due date?
✓	Do you have an automated process for receivables, invoicing and cash reconciliation to reduce days sales outstanding (DSO)?
✓	Do you have good visibility into your future liquidity status so that you can maintain optimal liquidity levels?
✓	Do you have an effective, real-time approach to monitor and manage regulations, policies and business risk?
✓	Can business users create and run the financial reports they need without IT involvement?
✓	Does your financial system deliver automated alerts when a key performance indicator goes off track?

Source: SMB Group

SMEs that answer "no" to some of the questions in Figure 1 may be able to get by, but not as profitably as possible. They may not be able to generate cash for new investments, get the best discounts from suppliers or secure loans. Some may even find themselves at risk of "death by a thousand cuts," as excessive interest payments, late-fee penalties and other consequences eat up profits.

More capable and sophisticated cash flow management practices and solutions can help SMEs avoid these problems. **Figure 2** lists essential cash flow management best practices that SMEs should adopt.

Figure 2: Cash Flow Management Best Practices

✓ Centralize and standardize financial transaction processing to drive maximum cash flow–related efficiency.
✓ Take a cross-functional approach to cash flow management to drive accountability and continuous improvement of accounts receivable and accounts payable processes.
✓ Use cash flow–related data from ERP systems to drive cash inflows. Insights from the ERP system ensure real-time access to the data needed to make critical decisions. The multi-geo/multi-currency functionality of advanced cash flow management solutions can help eliminate the challenges associated with each region having different financial systems, ensuring that cash flow–related information can be accounted for globally and consistently.
✓ Use BI and analytics to analyze cash flow drivers to optimize daily cash flow, develop reliable forecasts, optimize financial performance and advise operating divisions on how to increase the return on capital invested in operations.
✓ Define and design financial measures and reports that are relevant to a company's business model: ○ The number of days sales outstanding (DSO) is often dictated by business and industry. ○ Average day's delinquent (ADD) provides information on how many receivables are deficient at the end of each month. ○ Past-due invoices track the amount and source of unpaid invoices. ○ The number of days payables outstanding (DPO) is an especially important metric for eCommerce companies that purchase everything in advance to sell on their websites.
✓ Manage cash flow–related risks. Cash flow–related intelligence can support risk management and risk mitigation strategies.
✓ Conduct financial transactions electronically and work with vendors that also support electronic transactions. This helps reduce data-entry errors and also makes cash available faster. This is supported by EDI and invoice management through ERP systems.
✓ Support an integrated payments solution for both accounts receivable and accounts payable. In addition, this should allow for acceptance of all forms of payment—including credit cards, debit cards, paper checks, e-checks, automatic clearing house, P-cards, gift cards, PayPal, and more.

Source: SMB Group

Section 2: Using Strategic Cash Flow Management to Help Grow the Business

The process of implementing strategic cash flow management starts at the top. When an SME's executives understand that cash flow management correlates strongly with corporate performance, they typically make it a top priority.

With this commitment, the company can develop a systematized method to track and analyze key cash flow metrics—providing a performance baseline against which to measure ongoing progress. To achieve more strategic cash flow management, companies must be able to actively track, capture and manage data about their current cash position and develop realistic predictions about how much cash will be required to meet their obligations.

To do this, of course, the business must be able to manage accounts receivable and accounts payable. But it's critical to understand not just how much is due or owed but *when* so that the business can use timing to its advantage. The most significant metrics companies need to monitor regularly include:

- Days sales outstanding (DSO), which is a measure of the average number of days that a company takes to collect revenue after a sale has been made. Obviously, businesses want to get paid as fast as possible once a sale has been finalized.
- Days payables outstanding (DPO), or how long a company is taking to pay its creditors. If a business is paying creditors significantly faster than it is collecting receivables, it probably already has a cash flow problem.

Other key metrics include things such as the interest rates charged by suppliers, discounts offered for fast payments and balances in company checking accounts. Ideally, cash flow management solutions don't just give companies the ability to take snapshots of these metrics, but also a way to project cash flow scenarios to generate a picture of the firm's current and future liquidity status. Businesses also need to put in place relevant cash flow forecast periods—ideally, far enough out to identify potential problems but also near enough to be realistic in terms of predicting sales and payments.

Figure 3 indicates key goals that SMEs often have when they implement more advanced cash flow management solutions.

Figure 3: Key Goals for Cash Flow Management Deployments

Reduce Costs /Increase Profits
• Decrease accounts receivable processing costs. • Take advantage of early payment discounts. • Extend time to pay bills—increase days payable outstanding (DPO). • Get paid faster—reduce accounts receivable days sales outstanding (DSO).
Improve Cash Flow Processes/Reduce Risk
• Decrease the time to process payment transactions. • Reduce redundant data entry. • Reduce the number of errors in entering data into accounting/ERP systems. • Reduce the time to reconcile payments. • Easily prepare and recalculate rolling forecasts. • Ensure compliance with Payment Card Industry (PCI) standards. • Accept more/different payment forms: credit cards, paper checks, automatic clearing house, etc. • Achieve better visibility into payments to improve cash flow. • Reduce the number of billing disputes with customers and suppliers. • Facilitate the participation and collaboration of teams throughout the company (sales, production planning, purchasing, regional offices, etc.) in the cash flow process.

Source: SMB Group

ERP solutions can give SMEs the necessary tools to automate and optimize cash flow management. The following customer examples highlight how three SMEs are using SAP Business All-in-One solutions as a foundation to help move their businesses ahead.

CIBS

CIBS turned to an SAP Business All-in-One solution when facing cash flow and inventory management problems discussed earlier in this paper. When she first heard about SAP Business All-in-One at a seminar, CIBS general manager Julia Kulinski knew it would address their the company's problems, but she doubted the company could afford software from a company best known for serving large enterprises. However, as she learned more, notes general manager Kulinski, "We found that SAP software is an affordable, long-term solution—even for a company our size."

After making the decision to go with SAP, CIBS worked with an itelligence Inc., an SAP consulting and implementation partner to bring the new software online and to train employees. Focusing first on deploying financials, materials management, suppler management, payroll and human resources capabilities, CIBS later added dunning and revenue recognition functionality to its Business All-in-One solution. Among other benefits, the

"We've cut our billing time by two thirds—even as we doubled our revenue to $6.5 million—and can bill any time, which has improved our cash flow by 30 days."
— Julia Kulinski, general manager, CIBS

latter modules let CIBS bill customers a year in advance and then allocate funds to each month in the year for accurate, rolling revenue recognition.

Thanks to the SAP software, CIBS can instantly run reports by client and site, looking at costs and rolling revenues to identify where it can optimize profitability," Kulinski says. CIBS was also able to improve its dunning processes dramatically. Late payments that formerly took 60 to 70 days to collect now take 38 days or less, according to Kulinski.

PinguinLutosa Food Group

PinguinLutosa Food Group of Westrozebeke, Belgium, was struggling to manage its growing operations—including the sale and delivery of more than 2,000 food products to customers throughout Europe. When the fragmented set of small-business applications it was using reaching the breaking point, PinguinLutosa turned to FAST-Food, a qualified SAP Business All-in-One partner solution, to help harmonize operations and drive best practices throughout the organization.

Among other benefits resulting from the implementation, the company's sales processes are now linked to customer account information. "While responding to customer quotations, we can instantly check our pricing against contractual agreements, such as volume discounts," says PinguinLutosa business analyst Ben Vanhecke. The 1,700-plus-employee company has also leveraged SAP Business All-in-One cash flow management capabilities to reduce its days sales outstanding by 32%.

"We're an example of a midsize business that accepted the challenge of increasing the value of its operations. SAP software helped us do that."
— Ben Vanhecke, business analyst, PinguinLutosa Food Group

Abastecedora de Abarrotes Scorpion S.A. de C.V.

As with many of its SME peers, Mexico City–based Abastecedora de Abarrotes Scorpion S.A. de C.V. (Scorpion) found its growth threatened by the limitations of its legacy business software. The 900-person grocery wholesaler had diversified with a chain of minimarkets, auto service centers and delivery services, and its 20% average growth annually was straining its existing systems. To address its problems, Scorpion contracted with SAP implementation partner Indra Mexico for an SAP Business All-in-One solution.

"We wanted centralized and highly visible data that could be accessed quickly, best practices for improving our business processes, tools for financial analysis and optimization, and most of all scalability to support unlimited growth—all hallmarks of SAP software," says Samuel Sarmiento, Scorpion's CIO. The company achieved its operational and strategic objectives with its SAP Business All-in-One solution, which included embedded best-practice guidance that Scorpion followed to improve its business processes while avoiding the costs and delays of implementing a custom-built solution.

The average number of days in inventory at Scorpion, which stood at 45 days before the SAP Business All-in-One deployment, is already down to 30 days and is on track to reach the company's goal of 20 days. The improved visibility into inventory has led to a 90% drop in shrinkage, and the better inventory control and forecast accuracy are helping Scorpion make advantageous discount offers that have helped improve its cash flow.

"Our SAP software has definitely helped us improve our business processes. We have also been able to consolidate the competencies of our employees and collaborators."
— Samuel Sarmiento, CIO, Abastecedora de Abarrotes Scorpion S.A. de C.V.

Scorpion can now complete its financial closing in five days, compared to the two months it used to take. In addition, Scorpion is able to more accurately and rapidly track purchases made on credit. This has allowed the company to offer credit more liberally, one of the factors that have contributed to a 30% improvement in same-store sales.

Section 3: Best-Practice Cash Flow Management with SAP Business All-in-One

The SAP Business All-in-One solutions that these and thousands of other SMEs have deployed draw directly from SAP's proven enterprise software and best-practices expertise. The "SAP Business All-in-One" label doesn't refer to a single product, but to the more than 800 industry-specific solutions that partners offer SMEs under the SAP Business All-in-One brand. SAP ERP, SAP Best Practices and SAP NetWeaver (the vendor's standards-based technology platform, which supports web services–based composite applications) form the core of every SAP Business All-in-One solution. But each Business All-in-One solution is priced, configured and optimized to meet specific SME requirements.

In addition to the accounting and financials capabilities that support improved cash flow management, SAP Business All-in-One solutions support other key processes as well, including:

- ***Sales and service*** to meet customer requirements, support the order-to-cash process and provide after-sales support
- ***Purchasing and logistics*** to control and manage costs and logistics cycles
- ***Inventory management*** to track quantity, value and movement of inventory in real time
- ***Human capital management*** to manage employee changes and payroll processes
- ***Manufacturing and product development*** to improve the product lifecycle process and manufacturing operations
- ***Reporting and analytics*** to plan, measure and manage organizational processes more effectively
- ***Corporate services*** to decrease administrative costs, gain visibility and meet corporate, legal and regulatory requirements

SMEs often need business process guidance as well as business software. To assist here, each SAP Business All-in-One solution includes SAP Best Practices, which are embedded process "blueprints" for more than two-dozen vertical industry sectors, from automotive to wholesale distribution. SAP has also produced cross-industry packages of best-practice blueprints to help customers perform a range of core functions including cash flow management, business intelligence, data migration and human capital management.

To help customers identify their core requirements, SAP and its partners offer services designed to make the evaluation and implementation process as simple as possible. Most notably, these services include the SAP Business All-in-One fast-start program. By pre-testing, pre-integrating and pre-configuring the various software components of SAP Business All-in-One, the fast-start program reduces complexity and risk, cuts licensing and implementation costs, and speeds deployment times.

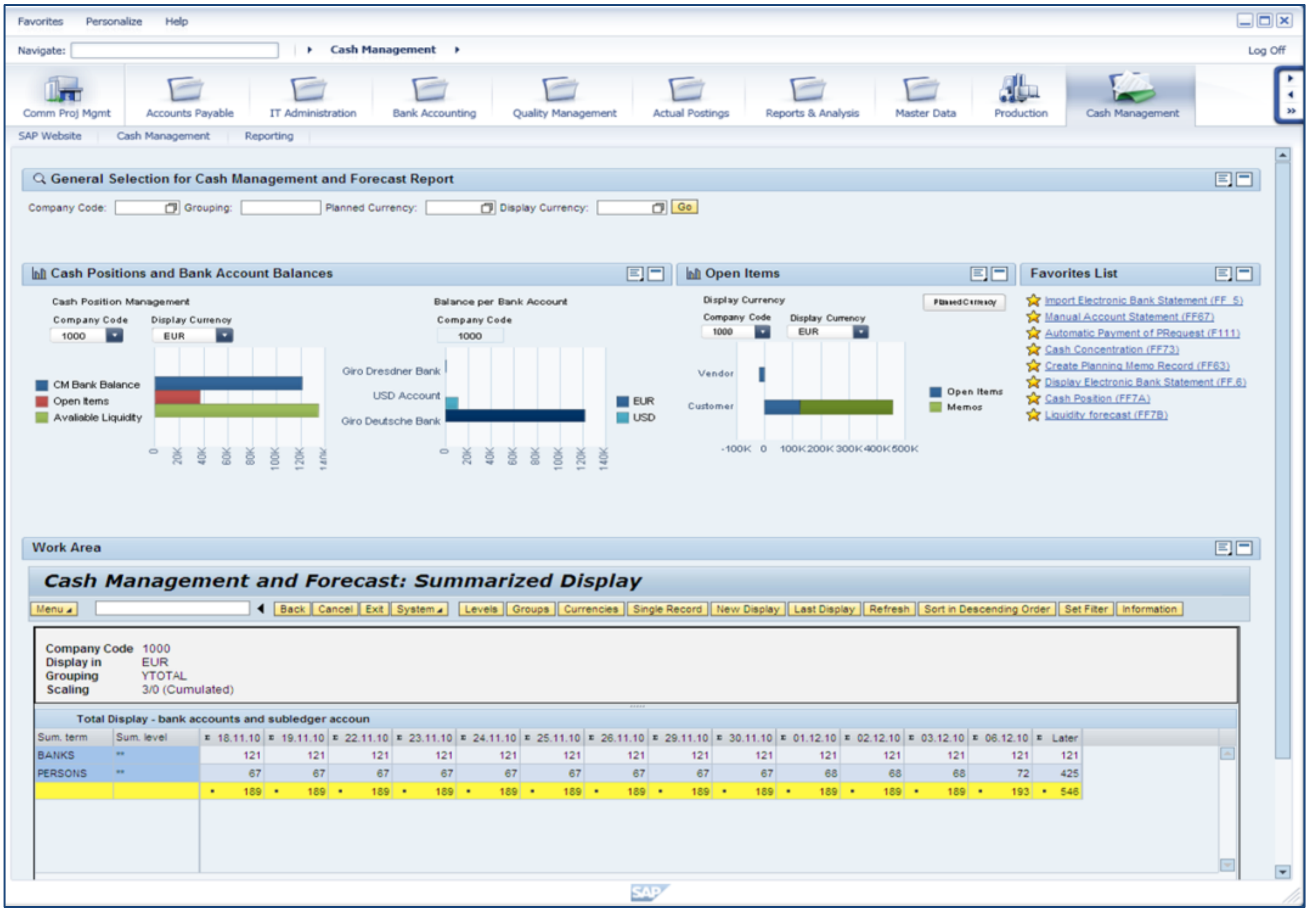
In the first step of this program, potential customers input their needs and business scenarios into an online solution configurator and get instant scope and pricing estimates for required SAP software, optimized hardware and implementation services.

A Cash Management Scenario is one of the options available in the solution configurator. This scenario covers a number of functions such as the determination of liquidity based on bank account balances (cash position) and open receivables and payables (liquidity forecast). When implemented, the Cash Management Scenario lets SMEs:

- Quickly and reliably transfer all cash-relevant information from internal and external sources (inbound data)
- Perform analysis and reporting of current and future cash flows to help make cash management decisions (analysis and decision)
- Communicate with banks and other business partners based on the results of the decision process (outbound data)

Beyond the Cash Flow Management Scenario itself, SAP Business All-in-One solutions can include embedded business analytics dashboards, whose functionality comes directly from SAP BusinessObjects Edge business intelligence technology (see **Figure 4**). SMEs with business intelligence requirements beyond that provided by SAP Business All-in-One can integrate the complete SAP BusinessObjects Edge BI software with their SAP Business All-in-One solution.

Figure 4: SAP Business All-in-One Embedded Business Analytics Dashboard



Source: SAP

Section 4: Summary and SMB Group Perspective

The ability to effectively manage cash flow—or not—can make or break a business. Yet many SMEs take a passive approach, relying on manual processes or on simple accounting software, even as their businesses grow and financial operations and requirements become more complex.

However, sophisticated and powerful cash flow management solutions are within reach of growing SMEs and their budgets. As the companies highlighted in this paper illustrate, SAP Business All-in-One offers proven and affordable solutions with cash flow management benefits that can help put SMEs on more stable and advantageous financial footing.

As the customer cases illustrate SAP Business All-in-One solutions can provide SMEs with the benefits of enterprise-grade ERP and BI software, configured and priced specifically for their needs and means. Equally important is the best-practice expertise that SAP and its implementation partners embed into the SAP

Business All-in-One solutions. Simply dropping some powerful software into an SME's lap won't solve its cash flow management problems. But through guidance and best practices to help them emulate how the best-run companies perform key business processes, SME customers can quickly move up the learning curve.

While cash flow management may not be as "sexy" as some other business solution areas, strategic cash flow management provides businesses with solid advantages. Done right, strategic cash flow management helps businesses identify trends and head off potential cash flow gaps, secure better payment terms and build credibility for funding. By building on a solid foundation, such as the one that SAP Business All-in-One provides, SMEs can achieve these objectives and function at their highest levels.

"I look at the running costs of SAP software—which for us is the equivalent of one full-time employee—and then at the value the software delivers to the business. There's no way one person could deliver this much value to the business." — Julia Kulinski, general manager, CIBS

SMB Group, Inc.

The SMB Group focuses exclusively on researching and analyzing the highly fragmented "SMB market"—which is composed of many smaller, more discrete markets. Within the SMB market, the SMB Group's areas of focus include Emerging Technologies, Cloud Computing, Managed Services, Business and Marketing Applications, Collaboration and Social Media Solutions, IT Infrastructure Management and Services, and Green IT. Read our 2012 Top 10 SMB Technology Market Predictions for our views on game changers in these and other areas of the SMB market.