



Help Your Business Customers Get a Grip on Cash Management

small business business customers cash management

Summary: A new study from Capgemini shows that business customers are increasingly in need of help with cash management. We discuss the biggest cash flow challenges for businesses and what solutions CFIs can offer those customers.

Managers spend [just over 200 hours per year](#) prepping their teams' annual reviews, according to an HR and recruiting software company's study. But while annual reviews can take up a lot of time and brain power to compile, they are necessary for a team's productivity and growth, particularly when it comes to setting goals for the next year.

For financial institutions, performing a year-end assessment of what challenges their business customers may be facing and how they can improve their offerings to meet those challenges is also vital.

As we begin 2024, it is important for community financial institutions (CFIs) to keep their finger on the pulse of what their commercial business customers' pain points and concerns are in order to strengthen those relationships.

Capgemini, a global consulting and technology services company, recently released its [2023 World Payments Report](#), based on survey data from corporate treasurers across multiple industries. Their findings suggest that, ultimately, cash management services are going to be the most important offerings that commercial business customers will look for, in order to address the previous year's challenges.

Capital Management Challenges

The driving forces that are creating new challenges around managing working capital for these customers are economic. For more than 10Ys, businesses found it relatively easy to raise capital, with interest rates at historic lows.

But interest rates began to rise in March 2022, and the cost of commercial borrowing went as high as 13%, presenting a challenge to businesses that may be seeking to refinance debt. Both of these factors — high debts and rising rates — increase expenses, which decreases a business' cash flow and nibbles away at profits. Although the December FOMC meeting has signaled rate cuts this year, it's still unclear when those will occur. Until they do, CFIs and the small businesses they provide financial services to will need to continue to operate in the environment of higher rates.

That confluence of pressures is pushing businesses to focus on managing their working capital. According to the Capgemini study, more businesses are operating with negative cash flows. That proportion was 6% in 2021 and rose to between 11% and 16% by the end of 2023. Overall, cash flows in the US are not keeping up with profit growth, at just 88 cents to the dollar. Disparities that large have not been seen since 1990.

More than 50% of those surveyed said that rising inflation, supply chain disruptions, and evolving geopolitical and cyber risks moved the need for efficient cash management services to the front burner. They see efficient cash management as an important tool for weathering volatility and creating resilience.

Cash Collection Management Challenges

Reducing days sales outstanding (DSO), a measurement of how long it takes to get paid for goods or services sold, is an important part of cash and capital management. Many businesses have invoicing systems that suffer from a lack of automation, fragmented collection channels, inefficient “please pay us now” reminders, and sometimes even missing invoices. In Q3 of 2022, S&P 500 companies reported an average cash conversion cycle of 61.6 days, up from 55.4 days in 2021.

Slower cash conversion means inaccessible working capital. According to the J.P. Morgan Working Capital Index, [about \\$523B was “stuck” on the balance sheets](#) of S&P 1500 companies in 2021 — a \$16B increase from the previous year. Poor cash collection management is another layer to the complaints from 78% of respondents about inefficient working capital.

When these businesses have turned to their financial institutions for cash management support, over 70% said that the assistance has been “subpar,” leading to higher operating costs, delayed cash pooling, and higher debt levels and financing expenses.

How CFIs Can Help

There are a few opportunities for CFIs to add value to their commercial client relationships. Here are some ways you can increase the value of your cash management offerings to business customers:

- **Adopt transaction processing.** CFIs should transition away from batch processing cycles and convert to continuous transaction processing. This switch will help their business customers achieve near real-time exception handling and reconciliation.
- **Promote automated invoicing systems.** Many businesses still handle payments with paper checks and reconcile with Excel spreadsheets. CFIs can help them transition to an automated system that dovetails with their other banking services.
- **Offer third-party integrations.** Provide a digital marketplace filled with third-party financial services. Be sure to check that these services can integrate easily with your own services, to make it even easier for your business customers to use them. Cash management services are the obvious target, though a wide variety of other offerings could also fit into a marketplace model.
- **Use digital payments.** Corporate credit cards, digital wallets, the Automated Clearing House, and the FedNow® service can all help a CFI deliver faster end-to-end payments to its business customers. Solutions like [PCBB’s instant payment settlement and funding agent offerings](#) enable CFIs to process payments 24/7 without disruption.

Better capital management improves business customers’ bottom lines. By helping commercial customers improve their cash management, CFIs can add significant value to the relationship.

BUILDING THE FEDNOW SERVICE WITH SHEILA NOLL

As the FedNow Service gains momentum, we sat down with Sheila Noll, a payments expert and PCBB’s COO, to understand how the service came to be, and get advice for CFIs regarding faster payments implementation. [Download PCBB's Industry Insights paper](#) to learn the details.

ECONOMY & RATES

Rates As Of: 01/23/2024 10:09AM (GMT-0800)			
Treasury	Yields	MTD Chg	YTD Chg
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3M	5.46	0.06	0.06
6M	5.22	-0.04	-0.04
1Y	4.83	0.07	0.07
2Y	4.40	0.15	0.15
5Y	4.06	0.21	0.21
10Y	4.15	0.27	0.27
30Y	4.38	0.35	0.35
FF Market		FF Disc	IORR
5.33		5.50	5.40
SOFR		Prime	ORER
5.31		8.50	5.31

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