



Is Cash Still King?

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Is Cash still king? From the ping pong rooms of Silicon Valley start-ups to the hushed halls of Fortune 100 companies, many have challenged the king. Many have declared the king irrelevant (or dead). Many claim that their special unicorn business can't be ruled by any king, cash or otherwise. But guess what? Cash is still king.

To be more accurate, cash flow is king. While a large cash balance is nice, growing cash flow implies that a business is sustainable. Cash is more than financial royalty, it's also the essential language of business. Analysts, bankers, mutual fund managers, hedge-fund managers, private equity investors, shareholders and your CFO and CEO all speak the language of cash flow. Cash flow is the ultimate measure of a company's competitiveness and vitality. And, yet, do employees in your company understand cash flow? Do they have the basic business acumen to understand how their daily decisions impact cash flow?

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The Big, Green Cash Flow Elephant in the Room

In an HBR article from 2009, a survey that spanned from executives to first level managers revealed that a whopping "70% couldn't pick the correct definition of free cash flow".¹ Our assumption is that if an employee doesn't understand something (in this case, cash flow), they are very unlikely to make choices and/or take action to improve it. This has an expensive implication: cash flow ignorance means that people don't know the basic steps they can take to improve cash flow in their daily work, and your organization is losing cash every day as a result.

Democratize the Knowledge of Cash Flow

Allowing a majority of employees to operate without understanding cash flow seems to be an obvious problem for business investors, owners and executives. I believe the tolerance for this pervasive cash flow ignorance comes from the

remnants of an older, hierarchical business management culture. The old belief that still endures goes something like this: "Let's keep employees focused on their tasks, while the people with specialized financial knowledge will worry about cash flow at the top." The problem with this old mindset today is that businesses are now increasingly decentralized and move too quickly for this thinking to be effective. The knowledge of cash flow drivers must be democratized and pushed into middle manager and front line employee ranks so that every individual can contribute directly to increasing cash flow. For example, if CEOs of public companies everywhere are under pressure from institutional investors to deliver an annual cash flow number, shouldn't democratizing cash flow understanding be a top CEO priority?

In our experience, employees at all levels in the organization don't understand the following cash flow fundamentals:

- How can a business lose cash, while the Profit & Loss statement is showing revenue and profit growth? Learning that a company can actually go bankrupt while increasing profits is NEWS to many employees.
- How do basic revenue, cost and asset decisions interact to produce cash flow?
- How do asset category changes (inventory, receivables, capital expenditures, for example) on the Balance Sheet impact cash flow? If I had a nickel for every time a non-finance VP confused the Balance Sheet with the Income Statement, I would have, guess what? A LOT OF CASH.

No business models are immune from the gravitational pull of cash flow. Not even contemporary business models like Software-as-a-Service (SAAS) companies and social media companies. For example:

- Every SAAS company CFO knows the importance of cash flow and billing cycles and how much analysts scrutinize these issues to determine their growth rate. These same CFOs will tell you their employees don't understand the above issues, and these same employees are making decisions every day that have a material impact on reported results.
- What about Social Media companies (the original unicorns)? One major social media client is focused on improving cash flow by focusing on the efficiency of their massive server farms. If they can make their existing large investments in hardware more efficient, they can lower capital expenditures, which means improved free cash flow.

Business and financial acumen are not technical skills, they are fundamental and high priority business skills that all employees in cash generating enterprises need to know.

Cash Flow in Every Pot

Cash flow is not a complex topic to be managed by leaders with specialized credentials. The drivers of cash flow can be taught to all levels of leaders, from non-finance managers and executives to first level managers. The more cash flow is democratized, the more people there are in your organization who can drive cash flow improvements every day.



Cash flow and broader financial acumen can be taught in simple, effective and proven ways, even to people with no prior financial education. And, training on the drivers of cash flow is easily connected to measurable results. Managers who attend customized business and financial acumen experiences walk away with very specific actions that are focused solely on doing one thing for your organization: improving cash flow.

About BTS

BTS focuses on the people side of strategy, working with leaders at all levels to help them make better decisions, convert those decisions to actions and deliver results. At our core, we believe people learn best by doing. For 30 years, we've been designing fun, powerful experiences™ that have profound and lasting impact on people and their careers. We inspire new ways of thinking, build critical capabilities and unleash business success. It's strategy made personal.

For more information, please visit www.bts.com.

¹ "Are your people financially literate?". Karen Berman and Joe Knight. Harvard Business Review, October 2009.