Commercial Insights with Regions Bank
Episode 7: Cash Management Strategies

For the past year, few risks have loomed as large as liquidity risk. What cash-management lessons should companies carry forward into a post-COVID business environment, and what should they leave behind? On this episode, we lay the foundation for a cash management strategy that adapts to times of stability or disruption.

Episode Transcript

Bryan Ford:

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Chris Blose:

Liquidity has been on the minds of plenty of business owners and decision makers in the past year, and for good reason, says Bryan Ford, executive vice president and head of corporate sales and treasury management for Regions Bank.

But even though it's been an unusual year, the pandemic has also served as a reminder that liquidity and cash management should always be on the minds of business owners. That's what Ford and his colleague David Neely, senior vice president of corporate bank deposit and liquidity solutions, are here to talk about on Commercial Insights with Regions Bank.

The two represent a combined 57 years of experience in banking and asset management, long enough to have witnessed past financial and liquidity crises. Today, they're here to provide insight on how businesses can lay the foundation for a cash management strategy that adapts to times of stability or disruption.

Chris:

Okay, well, welcome to the podcast and thank you both for joining us today.

So given that you both have a long history in the banking industry, I want to talk a little bit about sort of normal business environment and expectations. What factors should a company consider when they're planning a cash management strategy? And David, let's start with you.

David Neely:

I think first and foremost whenever I have a conversation with a corporate client it revolves around, how are they managing their liquidity today? And what we really try and focus on is, do they have an investment policy in place and what risk are they willing to take within that investment policy? I think for us it lays out a plan of advising them on, is it too conservative, is it too aggressive given the unknowns in the future, how should they view the opportunities within the liquidity management business?

Chris:

Bryan, what's your take on that?

Bryan:

Well, we think about a normal business environment — and I'm not quite sure what a normal business environment is anymore — but when we do think about that, we really consider companies thinking about deploying their cash in four primary areas. First, reducing their debt. Second, investing in their core business. Third, making acquisitions. And forth, returning capital to their shareholders, whether that's in the form of dividends or in share repurchase. Ultimately that's how they tend to use their cash, the cash flow in the normal business environment.

There's always going to be some minimum level of cash that's necessary to run the business. And that does vary by industry, certainly it varies by company. But there's where the importance of an investment policy statement comes into play. David often talks to clients about that; that's one of the key things that we start with is understanding what a business' tolerance for risk may be. And if they end up in an excess liquidity position, then how do they choose to go about investing that cash.

Chris:

Well then I'm curious, how did those four buckets that you mentioned, how did those change with the arrival of the pandemic, and how did companies need to approach those differently?

Bryan:

Well, I think the pandemic certainly changed things, and it re-emphasized how important it is to have access to liquidity. And that was acute during the pandemic. We see it in various business cycles, whether that's normal, but in the financial crisis of 2008 to 2011, certainly during the pandemic, liquidity became critical. So companies began to preserve their cash, they cut back on their dividends, they cut back on returning cash to shareholders, and really cut back on acquisitions in order to have cash available to survive as they moved forward. So I think that those factors did in fact shift, for most businesses, during the pandemic, and reemphasized the importance of liquidity and access to it.

Chris:

I know at the beginning of the pandemic there may have been a lot of that sort of survival mode. I'm curious, David, over the course of the pandemic, how have you seen attitudes and approaches to strategies shift as we've moved maybe from a reactive mode to more of a forward-looking mode?

David:

I think that in the initial stages, we saw clients go through a bit of a panic mode where immediately credit facilities were drawn down, dividends were lessened or stopped, and we just saw people hoarding cash. And that's understandable just given the unknown of how was this going to affect their business not only in the near term but for the long-term. So I think that as those clients got through the first six months of the pandemic and realized that it was not the end of the world, they were going to be able to continue to move forward, some businesses were affected more than others. But I think that they realized that they could start paying back those credit facilities but still wanted to maintain large cash positions with what they had.

And then it was an evaluation of what do they do with that cash. A lot of clients kept it on bank balance sheets, and we continue to see that today. As we've gotten to the last few months of the pandemic, post-vaccine, we're seeing clients maybe take on a little more risk or appetite for risk within their liquidity bucket. And I think, ultimately, it's just moving back and forth based on information as it comes.

Chris:

I'm sure this has evolved over the last year, but now we are entering that post-COVID environment, so do you think, in terms of cash management, people start looking at investing in the core business or making acquisitions and kind of moving back into a little more aggressive posture?

Bryan:

We do see companies who are well-positioned in their industry, if they're a leader in their industry, they have access to capital, then they're in a great position to take advantage of opportunities from an M&A standpoint to consolidate within their industry. And as a result of that, they are starting to become a little more aggressive in their posture. At least looking for opportunities. And you have a number of businesses, particularly those that might be privately held, that are looking to sell. And so there's a match to be made there.

David:

And Bryan, I think also one of the things that came to a halt at the beginning of the pandemic was many companies lowered or removed their dividend payments. And I think that, as they get more comfortable with their operations going forward, that we may see dividends come back into play, and that will ultimately be a use for excess liquidity on the balance sheet.

Bryan:

True. You know, I would also make the point that, as the pandemic began, various capital markets were available to certain clients as well, so they took advantage of that, and drew down on capital through bond issuances. Obviously, many companies put into place and then drew down on additional liquidity facilities. Most of those have been returned. But what we saw was a strengthening of the balance sheet for many companies, positioning them to weather the storm, and then as we are now starting to come out of that, it puts them in a position of strength where that they can then either, as I mentioned, go make acquisitions, or take advantage of the reopening of the economy as that is moving forward.

Chris:

And I think now that they've weathered the storm too, a lot of it is kind of looking back at what are the most durable lessons that we can take forward. I mean, David, you mentioned earlier thinking about this in terms of looking at past financial crises, for example. So as we look forward, if you're having a conversation with somebody a year from now, what do you think are going to be the most durable and important lessons about cash management strategy from the past year?

David:

Yeah, I think every company has to look at what were the decisions they made during the pandemic and did they correlate to the decisions that they made during the liquidity crisis. Ultimately, cash was viewed as just something on the balance sheet to meet whatever corporate needs were. I think many clients today are evaluating holding longer-term liquidity just to have that safety net that may have gone away during the pandemic or during the liquidity crisis.

Bryan:

I would add to that by saying first, again, cash is king. And liquidity will remain a key element in the strategies for businesses going forward. That's really one of the main lessons to be learned here. I don't think folks will forget that. A lack of liquidity can certainly and often cripple a business. So whatever normal may be going forward, I think a key lesson that would be durable and remain is making sure that there is a contingency plan in place.

And certainly in addition to just access to liquidity, we've spoken a lot about that, but I think contingency planning in terms of operations is important as well. That's something that we've seen many clients' businesses take advantage of. As workers were disbursed remotely, that put a dent in the way that people would do their traditional banking and operating business. So companies had to pivot, and move to more remote-enabled services in order to run their business. I think that is another durable lesson that will remain.

Chris:

I think you bring up an interesting point too about how it all ties together. I mean, making a cash management strategy obviously does not exist in a vacuum. We're talking about risk management, we're talking about looking at worst-case scenarios, and a bunch of other processes that a business needs to look at. You know, if I am a business that did not weather the storm all that well at first, what sort of things should I be looking back at and sort of assessing in terms of, "Well, here's where I went wrong and here's how we can fix that in the future, so if there's a major disruption, we weather it better."

Bryan:

I think one thing to consider is making sure that you've got relationships with your bank or other financial partners. Because you do need them. And again, as I mentioned, the best time to put those relationships in place is not when there's a critical need but perhaps when there isn't a need, so that you can be ready if there is a reason to have to call on those institutions for assistance.

David:

And one of the other, I think, keys along with that is making sure that not only do you have a good relationship with your bank and the bankers that cover you from a strategy standpoint, but many clients have treasury services that they utilize through those banks and their key partners. They see new products, new services, they see how balance sheets change over time, and I think that making sure that you have a good relationship with your treasury services partners as you run your day-to-day business can also give you insight in how to move forward.

Bryan:

David, I think that's an excellent point. And we witnessed that, in the very early days of the pandemic. There were treasury management services that our bank had suggested to clients that they should consider for operational ease and there were reasons that they chose not to move forward with that. And then, upon the pandemic hitting, there was a critical need because of the remote-enablement capability that came with these services, clients came back to us and said, "We'd like to talk to you about those services." That underscores your point, which is that the relationship between a company and a bank is more than a transactional relationship. It's truly, and can be, and should be, truly a consultative relationship where the banker brings ideas and best practices, understands the business operations and needs of a company, then finds a way to deliver value that, over time, helps that business remove friction, and improve their sales, and grow their company.

Chris:

And again, that goes back to the idea of this not existing in a vacuum. I mean, everything you've talked about, this ties into more remote workers, people being scattered, and just processes changing in general. That actually brings up one last thought for me, which is: we're talking a lot about businesses that can shore up their practices for when another major disruption happens. But how do the lessons of the last year also apply to just business as usual?

David:

Back to the first question and the discussion around the investment policy statement, as we ask for those documents from clients to review them as, as we take a look at their cash and cash equivalents, we see many investment policy statements that are years old if not decades old.

I think that one of the primary takeaways is for clients to make sure that they reviewed their investment policy statement with senior management and the board, if appropriate, and make sure that you adjust accordingly on an annual basis, taking into account what the company is doing, taking into account new risks of fraud, and just making sure that you have the appropriate levels of liquidity to meet whatever needs you may face in the future.

Bryan:

David, I would add to that that I think just like the investment policy statement should be reviewed and updated periodically, there should be a discussion and a review of the business with one's bankers. Businesses continue to have new strategies, they continue to change the way they are operating. The competitive environment is changing. Nothing is static.

And it's important, back to the relationships that one would forge with their banking institutions, I think it's very important actually that they share that business strategy so that the bankers can understand what's new, what the company is looking to achieve. Because there are many things that are changing in the banking environment as well. Different products, different solutions, different ways of connecting things that bankers can deliver. But they do the best job at that when they really understand the business.

Chris:

As Bryan Ford notes, “nothing is static.” It’s a good lesson to take from a year in which it was especially true, but it’s also always true.

So as we emerge into an unknown new normal, assess your investment statement. Is it out of date? Do you have a governance plan for reviewing it frequently? Think about those key aspects of cash management, from debt reduction to investing in your company’s growth, and assess them in light of where your business stands now. Perhaps most important, take stock of your strategy for liquidity.

Thanks to Ford and David Neely for joining us today, and thank you for listening. Get related resources for commercial business and listen to future episodes at regions.com/commercialpodcast. And be sure to subscribe to this podcast on your favorite podcast service.