Santander Commercial Banking

6 Best Practices for Optimizing Liquidity Management and Working Capital

William Brundige *Chief Investment Officer, Santander Bank N.A.*

Managing liquidity effectively in today's economic environment is a true balancing act. On the one hand, maximizing returns to earn higher yields is imperative—both for Santander and for our commercial clients. On the other hand, maintaining the flexibility to execute capital expenditures when the time is right is also vital to a company's growth.

Striking the right balance can be a challenge, but there are several tactics you can use to better manage liquidity. The following are 6 best practices that Santander and many of our clients employ to help optimize our working capital.

1. Fully leverage data for cash forecasting and liquidity planning.

At Santander, we start with a funding plan built on a 3-year forecast. We then identify the tools available to manage our liquidity. Our goal is to be as accurate as possible and look at a variety of different options to determine which ones will allow us to meet our own liquidity targets.

2. Link liquidity management practices to business practices.

While Treasury can look at many ways to optimize a pool of cash or use metrics to monitor days sales outstanding (DSO) or days payable outstanding (DPO), integrating the company's business plan with its liquidity plan often leads to better business practices that yield stronger results.

3. Closely examine business operations to find ways to improve liquidity.

Cash flow projections from normal operations should be carefully reviewed to determine if cash flow is being optimized. Consider how supplier relationships might be managed more effectively to accelerate or

decelerate payments. Some banks also offer cash management services that can help expedite incoming payments and provide visibility regarding the timing of payment presentments, so that the use of available funds can be maximized until needed.

4. Evaluate earnings credit opportunities in short-term operating cash decisions.

Many banks offer earnings credit for collected balances left in their accounts. Companies should evaluate whether it's more advantageous to maintain sufficient balances and use the earnings credit to pay banking fees or, depending on interest rates, if it would make more sense to deposit funds in higher yielding bank products (such as money market accounts or sweep accounts) and pay the bank fees directly.

5. Re-evaluate treasury center strategies.

Multinational companies are reviewing their treasury center locations to ensure they map to corporate business strategy for treasury flows around the world.

6. Assess the level and types of risks being assumed in the liquidity plan.

Test and adjust forecasts as needed in response to changing economic conditions.

We also recommend seeking input from experts, including your banker, who can make you aware of additional options—such as cash management and foreign exchange products—that can help your company better manage liquidity.

If you would like to learn more about managing liquidity and optimizing your working capital, reach out to your Santander relationship manager.

Santander Bank, N.A. is a Member FDIC and wholly owned subsidiary of Banco Santander, S.A. ©2018 Santander Bank, N.A. All rights reserved. Santander, Santander Bank and the Flame Logo are trademarks of Banco Santander, S.A. or its subsidiaries in the United States or other countries. All other trademarks are the property of their respective owners.

This information has been provided by Santander Bank, N.A. for general information purposes. Statements contained herein do not constitute endorsements or guaranties of information provided by the Institutions referred to herein, the Trade Portal or Trade Club. Nothing contained herein creates any client, advisory, fiduciary or professional relationship between you and Santander Bank, N.A. Neither Santander Bank, N.A. nor any affiliate, in connection with the information herein, is engaged in rendering auditing, accounting, tax, legal, advisory, consulting or any other professional service or advice to you. Finally, the information contained herein should not be considered a substitute for your independent investigation and your sound technical business judgment after consulting with your own professional advisors.Santander, Santander Bank and the Flame Logo are trademarks of Banco Santander, S.A. or its subsidiaries in the United States or other countries. All other trademarks are the property of their respective owners.