

# New York Cash Exchange 2003

Broaden Your Horizons:  
Getting Ready to Wear More  
Financial Hats

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# Introduction & Overview

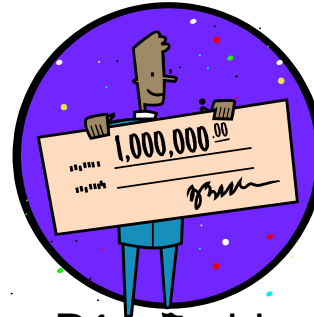
- ◆ What is working capital management?
- ◆ Why should you get involved in working capital management?
- ◆ What do you need to know about working capital management?
- ◆ How can you tell if your working capital management measures up?

# Working Capital Components

IN



Cash & ST Investments



Accts. Receivable



Inventory

OUT



Accts. Payable



Other Liabs./Payroll



Notes Payable

# What is Working Capital Management?

- ◆ Short-term financial management
  - Current portion of balance sheet
  - Mostly cash flow oriented
- ◆ Managing liquidity
  - Converting non-cash assets to cash
  - Controlling timing of liability payments
- ◆ Little lead time for decisions or actions

# Treasury and WCM

- ◆ Treasury activities only one [small] piece of bigger picture
- ◆ A/R, A/P, and inventory time lines much larger than cash
- ◆ Cash reflects outcome of decisions in other WC areas
- ◆ Treasury decisions (e.g., banking services) affect other WC areas

# Working Capital Players

## ◆ Internal

- Treasury
- Accounting
- Line/operations and Purchasing

## ◆ External

- Bankers
- Auditors
- Analysts

# Why Cash Managers Should Get Involved

- ◆ Corporate financial downsizing
  - Pressure to do more with less
  - Functions being combined
- ◆ Organizational changes
  - Flattening the pyramid
  - Reshuffling responsibilities
- ◆ Your job may depend on it

# Why Bankers Should Get Involved

- ◆ Bankers and other service providers affected
  - Customers will need and demand new services beyond cash management
  - Customers will expect new technologies to augment WC areas
  - Providers will need to know more about WCM



# Factors Influencing WCM

- ◆ Internal factors
  - Company size, organizational structure
  - Sophistication of WCM, treasury
  - Net borrowing and investing positions
- ◆ External factors
  - Banking services
  - Interest rates
  - Economic performance

# What You Need to Know

- ◆ Basic understanding of how area works
  - Role and importance to company
- ◆ How other areas affect treasury
  - Cash provider or user
  - Dominance (control) vs. Treasury
- ◆ How treasury affects other areas
  - Service and timing decisions

# Cash & ST Investments

- ◆ Efficiency of cash management system
  - Control over bank funding
- ◆ Simplifying activities
  - Automating transactions
  - Managing costs of moving funds
- ◆ Investing effectively
  - Efficient maturity management

# Accounts Receivable

- ◆ Efficient transaction processing
  - Applying cash quickly and accurately
  - Expanded number of payment methods
  - Interaction with credit
- ◆ Managing trading partner relations
  - Granting credit
  - Monitoring collections
- ◆ Looking for financial opportunities

# Inventory

- ◆ Optimizing inventory control systems
  - Just-in-time (JIT) approach
- ◆ Dangers of underinvestment
  - Inability to fill orders
  - Excessive extra expenses
- ◆ Dangers of overinvestment
  - Use up too much cash
  - End up with obsolete inventory on hand
  - Overcapacity raises operating leverage

# Accounts Payable

- ◆ Purchasing influence
- ◆ Timely payment of invoices
  - On time, not too soon
  - “Preferred” vendor lists
- ◆ Looking for financial opportunities
  - Use electronic payments when feasible
  - Payables stretching feasible?
- ◆ New technology – e-procurement

# Other Liabilities

## ◆ Payroll

- Use direct deposit services
- Use benefit transfer cards for employees not having bank accounts

## ◆ Taxes and other payments

- Make electronically
- Evaluate ACH debits vs. ACH credits

# ST Borrowing

- ◆ Developing reliable forecasts
  - Sets framework for borrowing needs
  - Increases lead time for credit line negotiations
- ◆ Monitor interest rates, market trends
  - Watch for indications of rate increases
  - Watch for credit crunches



# Measuring WCM Performance

- ◆ Productivity units of measurement
  - Costs per unit of revenue, per FTE
  - Timing involved
- ◆ Comparison with target
  - Benchmarking vs. history, goal, others
  - Best practice utilization
- ◆ Sources
  - AFP/Hackett Group
  - Special studies

# WCM Benchmarks

- ◆ Cash [management]
  - Costs and bank fees as % of revenue\*
  - Days sales in cash (bank balances)
- ◆ ST Investments
  - AFP Investment benchmark for working capital portfolio
  - Comparison vs. t-bills or other security

*\*Source: AFP/Hackett Group*

# WCM Benchmarks

## ◆ Receivables

- A/R cost per remittance\*
- Days sales outstanding (DSO ratio) or average collection period

## ◆ Inventory

- Procurement cost as % of total purchasing cost\*
- Days Sales in Inventory (DSI ratio)

*\*Source: AFP/Hackett Group*

# WCM Benchmarks

## ◆ Payables\*

- A/P cost per remittance\*
- Days payable outstanding (DPO ratio)

## ◆ ST Borrowing

- Comparison with money market rate
- Comparison with internal goal, history, other firms

# WCM Diagnostic Review

- ◆ Review of WCM “System”
  - Functional review
- ◆ Best practices
  - Automation – electronic payments and receipts
  - Centralization – of key functions, such as cash collection, concentration, and disbursements
  - Better productivity – benchmark review

# WCM Diagnostics

Cash management	<ul style="list-style-type: none"><li>◆ Level of excess bank balances</li><li>◆ % fees paid (non-credit services)</li><li>◆ Efficiency of bank network</li></ul>
Investing	<ul style="list-style-type: none"><li>◆ Average maturity of investments</li><li>◆ Adherence to policy</li></ul>

# WCM Diagnostics

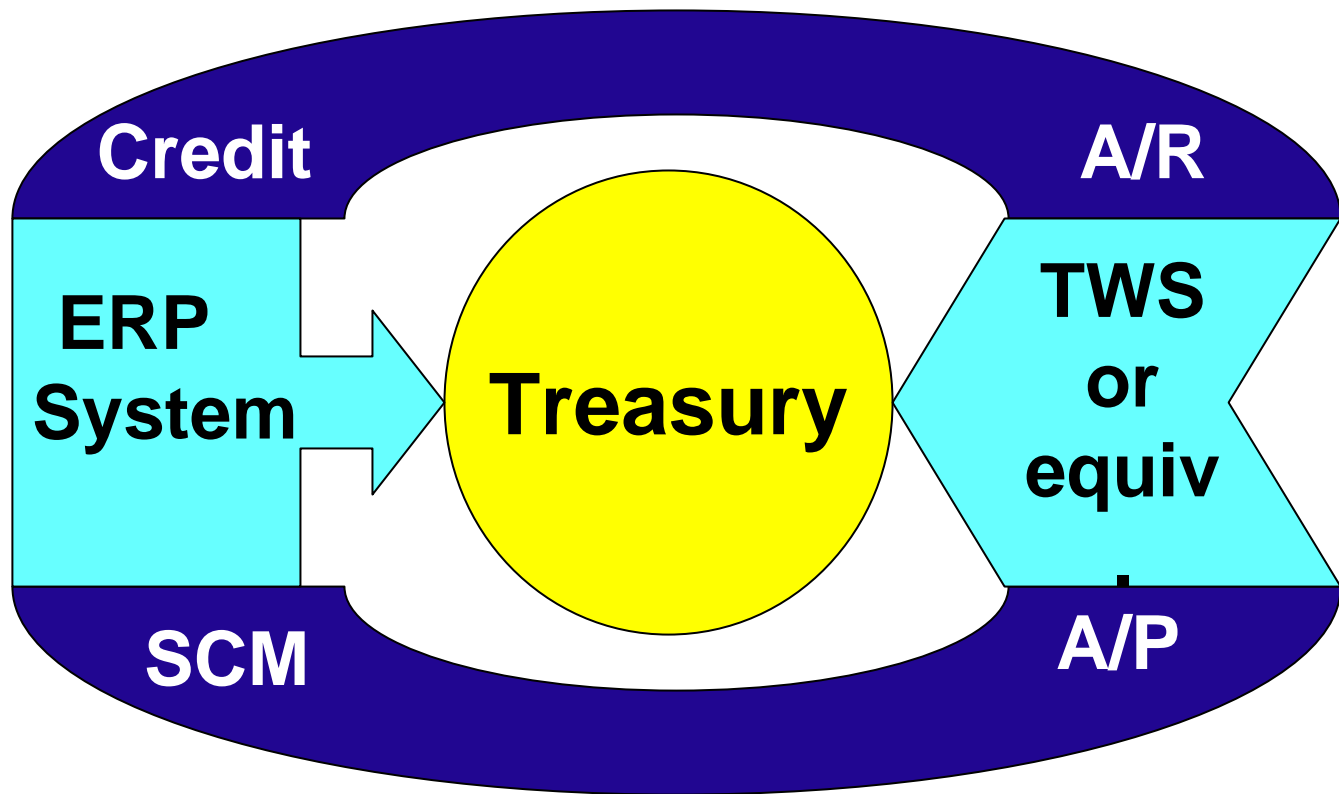
A/R & Credit	<ul style="list-style-type: none"><li>◆ Efficiency of A/R system</li><li>◆ % deposited via lockbox, electronically</li><li>◆ % cash applied automatically vs. manually</li><li>◆ Bad debt write-offs</li></ul>
Inventory	<ul style="list-style-type: none"><li>◆ Efficiency of supply chain management</li><li>◆ % of inventory &gt; 1 yr. old</li></ul>

# WCM Diagnostics

A/P, et al.	<ul style="list-style-type: none"><li>◆ Efficiency of A/P system</li><li>◆ % of payments made electronically</li><li>◆ Uses of direct deposit</li></ul>
Borrowing	<ul style="list-style-type: none"><li>◆ Number of credit line banks</li><li>◆ % of credit lines used, maximum outstanding vs. total lines available</li></ul>



# Integrated WCM System



# Any Questions?

