

New York Cash Exchange 2003

Broaden Your Horizons:
Getting Ready to Wear More
Financial Hats

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Introduction & Overview

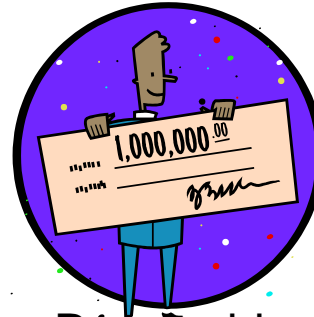
- ◆ What is working capital management?
- ◆ Why should you get involved in working capital management?
- ◆ What do you need to know about working capital management?
- ◆ How can you tell if your working capital management measures up?

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

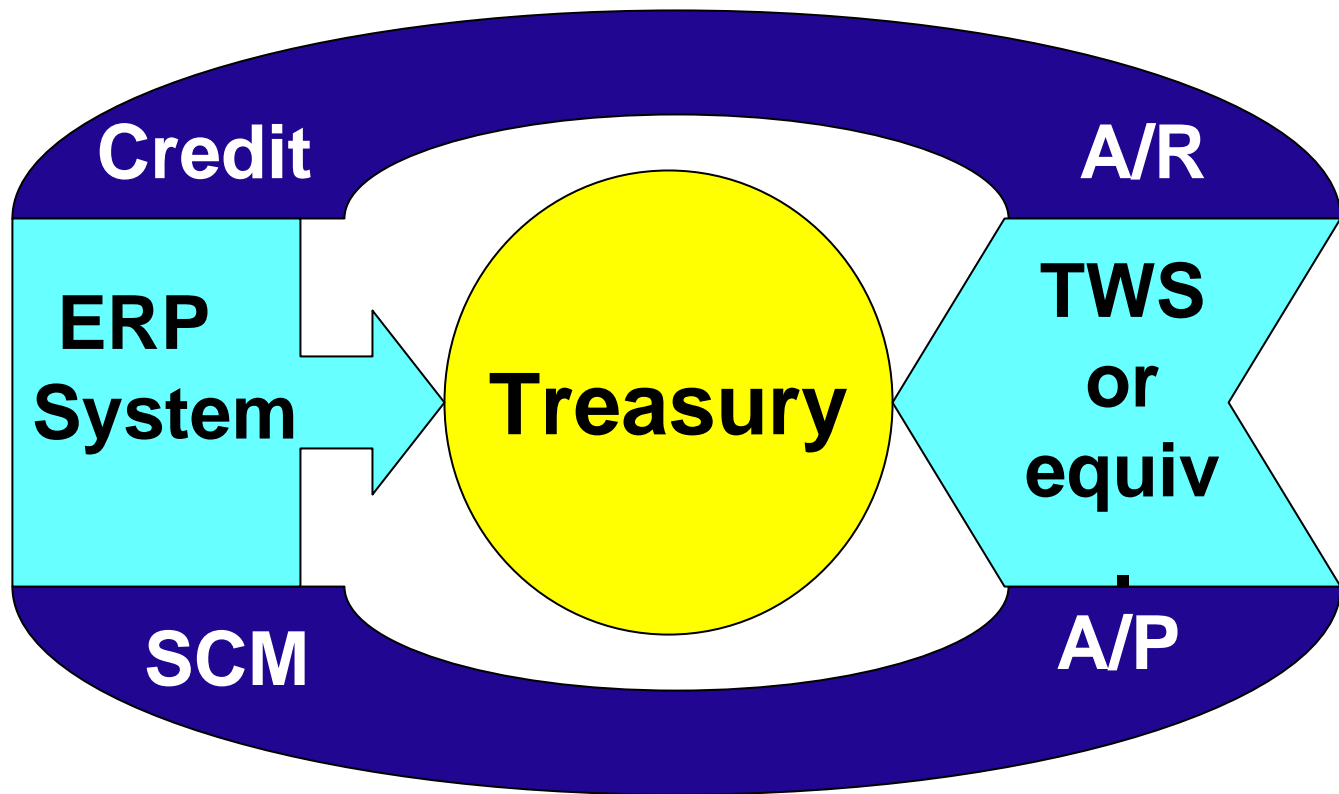
WCM Diagnostics

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

WCM Diagnostics

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

Integrated WCM System



Any Questions?

