

29 Steps to Improve Treasury Performance



Phoenix-Hecht

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AnalyticResults

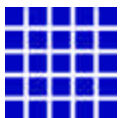
www.analyticresults.com

Michael J. Alfonsi
Managing Director

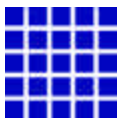
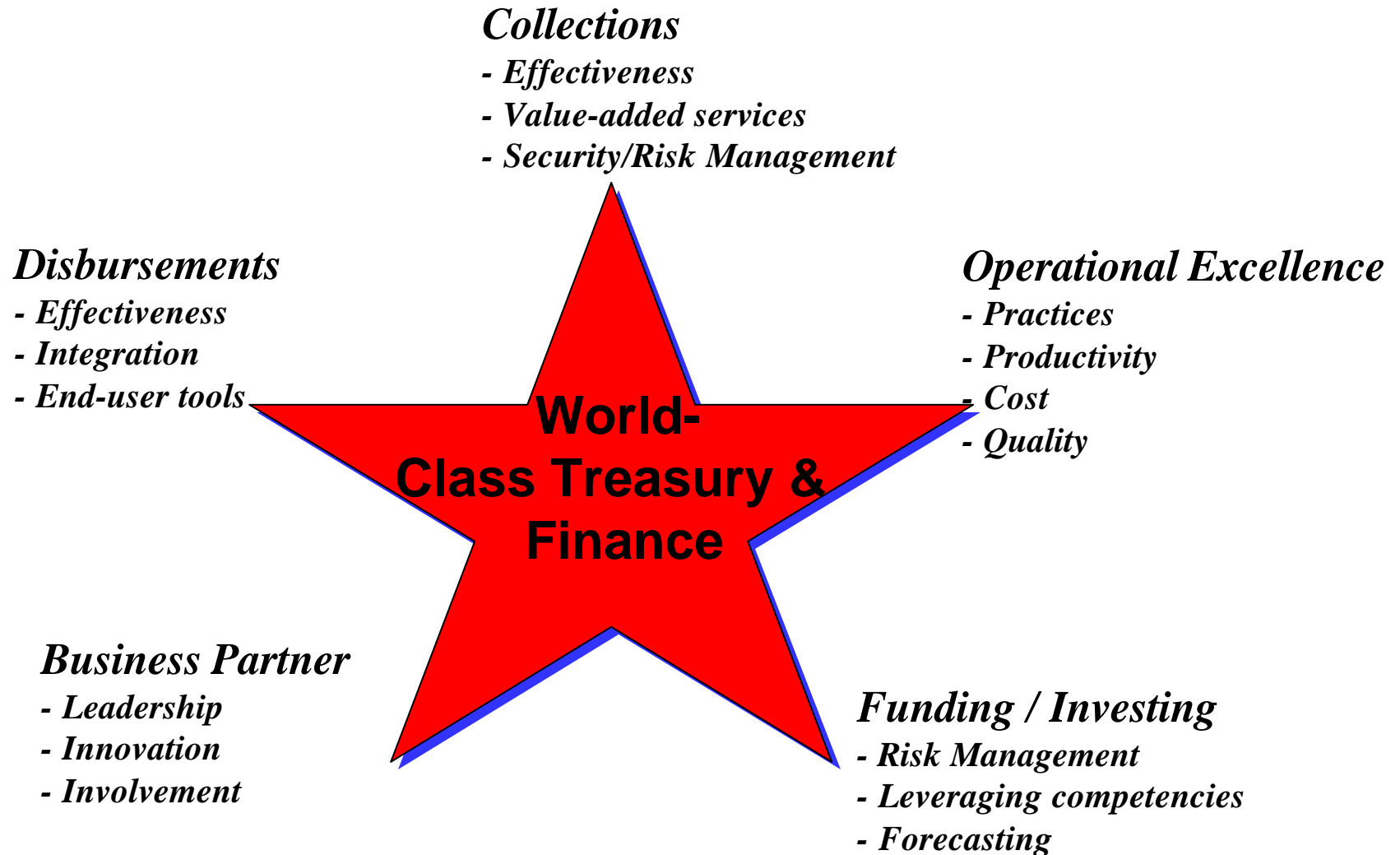
michael@analyticresults.com
610-329-7980

We collected data from over 300 treasury reviews and from six major benchmarking sources

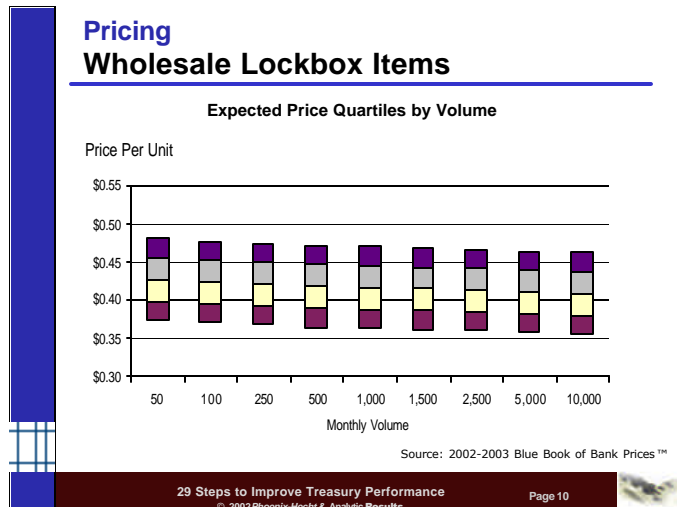
- DecisionGauge
- AnalyticResults
- Phoenix-Hecht
- Gartner
- CFO Magazine
- Hackett Benchmarking



We used a combination of quantitative and qualitative approaches to measure treasury performance improvement against five dimensions:



We'll be asking you to self-assess your own performance in each dimension, after we present data supporting why particular attributes in each dimension are key indicators of overall performance



Sample support page

Now, please rate your Collections:

Attribute	Your 0 to 5 Rating	Weighting	Extension
Remittance total float is known and managed		.2	
Payment media match BOTH customer AND corporate approaches		.1	
Electronic payment detail is used AND is effective		.1	
Collection efforts translate to DSO metrics		.2	
Risk Management Program is defined and performed		.2	
Pricing for services at or below industry standards		.2	
TOTAL	—————>		

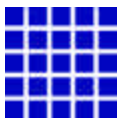
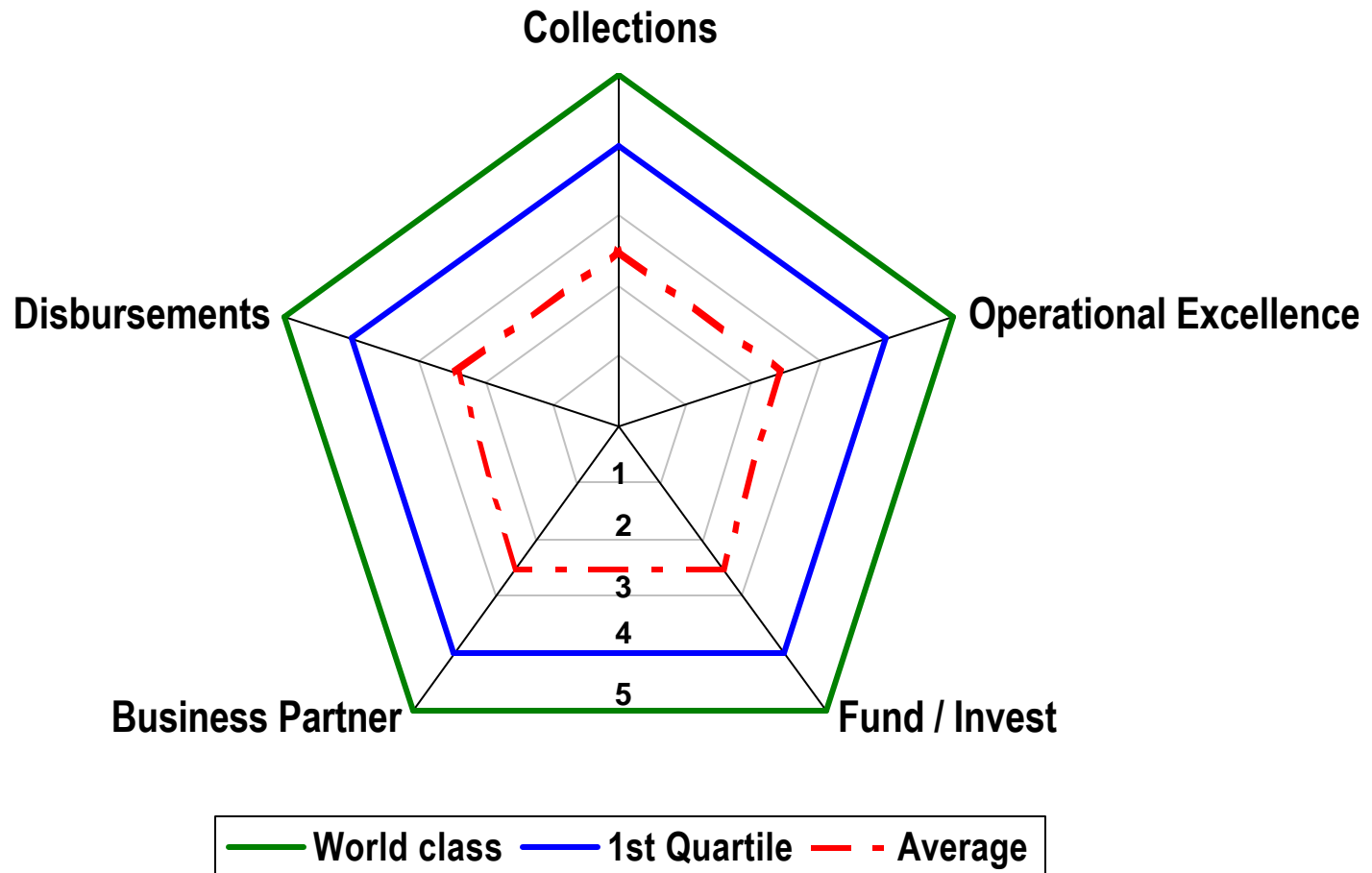
Summary Score.
Enter here and plot on the spider grid axis line: "Collections"

29 Steps to Improve Treasury Performance
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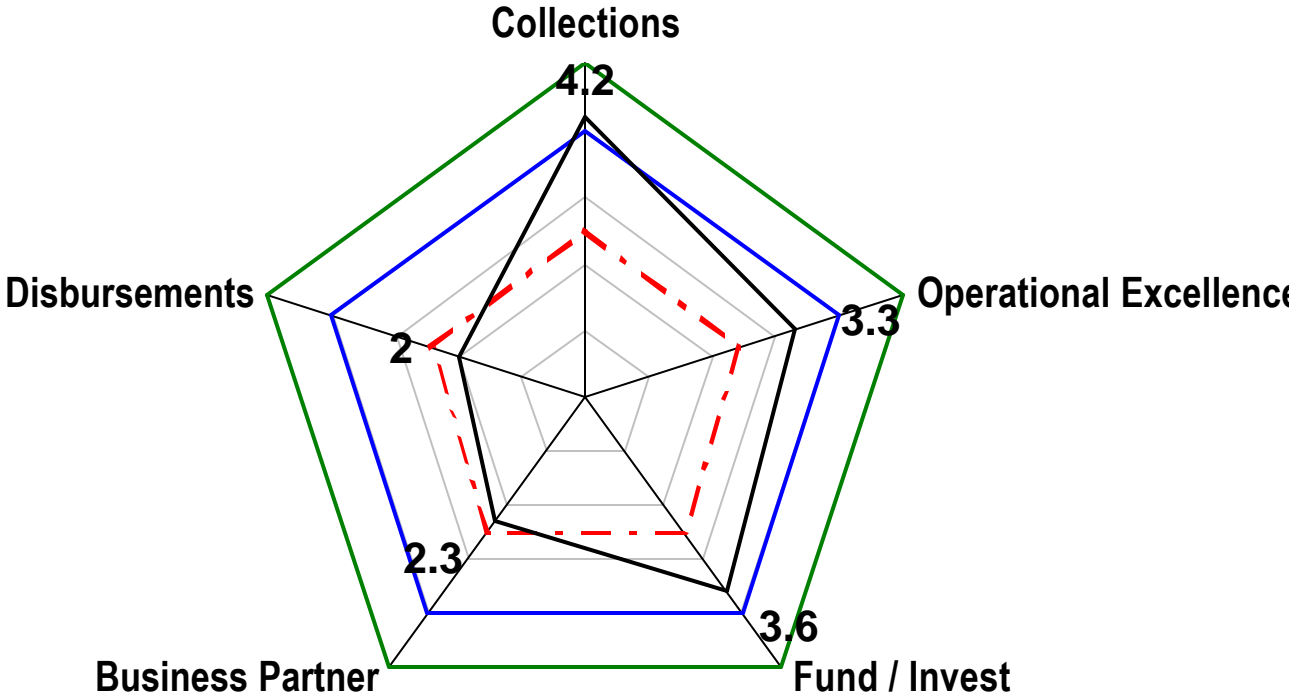
Sample rating page



At the conclusion, taking the five summary scores from from each of the five dimension's rating pages, and plotting, using the "radar" or spider technique, you can discover your own performance profile -- thus producing a tool or "snapshot" -- highlighting areas for improvement

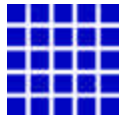


Here's a sample performance profile, using this self-assessment methodology



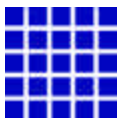
— World Class — 1st Quartile - - Average — Sample Co.

This company is in first quartile in its collection efforts, and above average in day-to-day operations & liquidity, but its efforts in disbursements and business partnering can improve

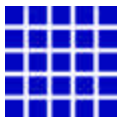


Let's begin:

- For each performance dimension, first some industry benchmarks and data
- In concluding each dimension, we'll present some specific performance attributes for it, and ask you to privately rate your treasury performance in those attributes:
 - ◆ 0 = Non-existent....not done at all
 - ◆ 1 = We need to know more and do more
 - ◆ 2 = We know about it and/or we've looked at it or perform it now & then
 - ◆ 3 = Part of the regular routine, performed satisfactorily
 - ◆ 4 = #3, AND we're "SMEs" -- we can teach it!
 - ◆ 5 = Absolutely #3and #4, AND we're best-in-class, we have people who win bonuses for it....John McLaughlin's "Metaphysical Certitude!"
- ◆ We'll all, together, transfer the five individual dimension scores, and plot the final rating page, i.e., the "radar chart," at the conclusion on the session
- ◆ We're going to go fast....we have more data than time allows!

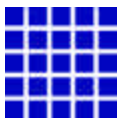


Collections



Collections has six attributes that, when combined, indicate performance:

- Float management
- Remittance production & return information management
- Integration of collections to / with overall financial philosophy & approach...e.g., attaining the “right” DSO target
- Cost management
- Payment systems utilization
- Risk Management

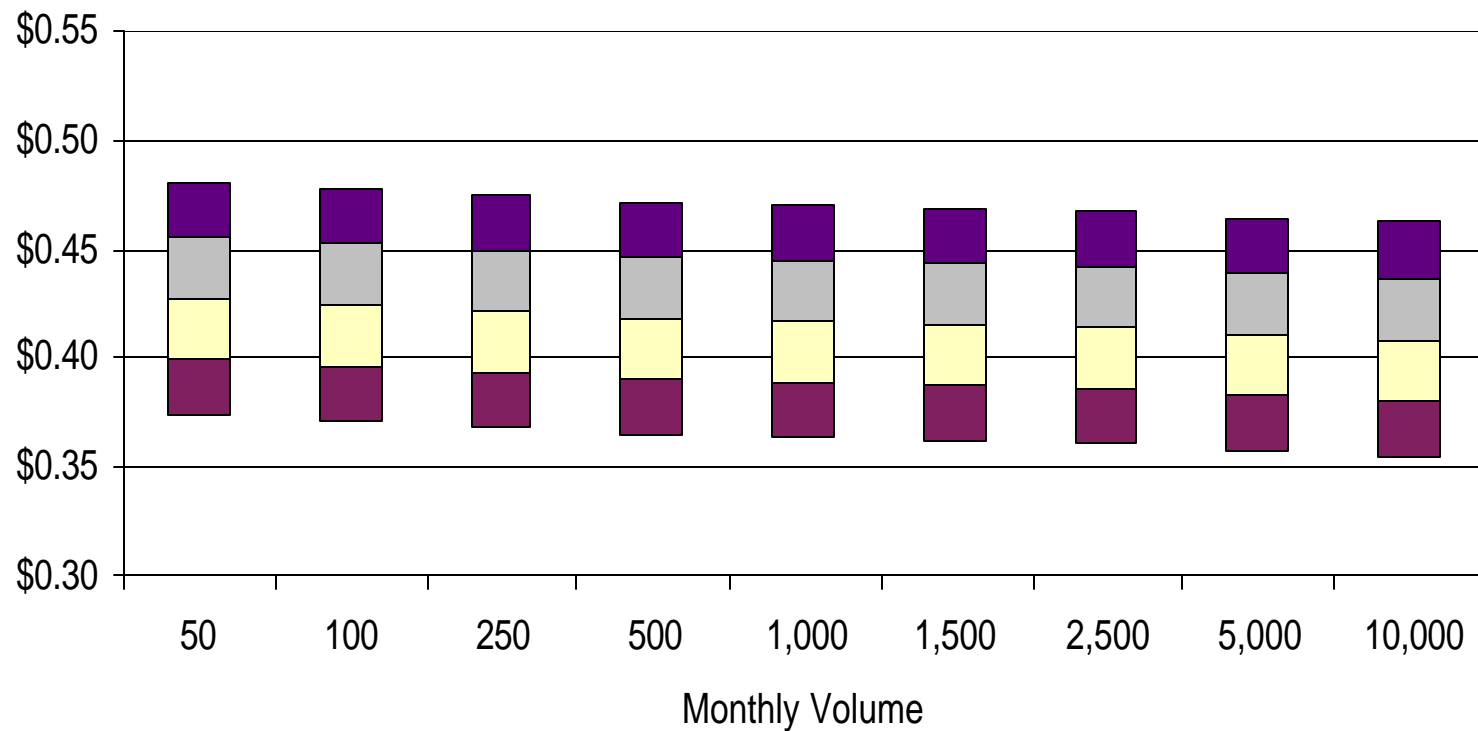


Pricing

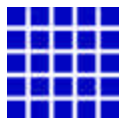
Wholesale Lockbox Items

Expected Price Quartiles by Volume

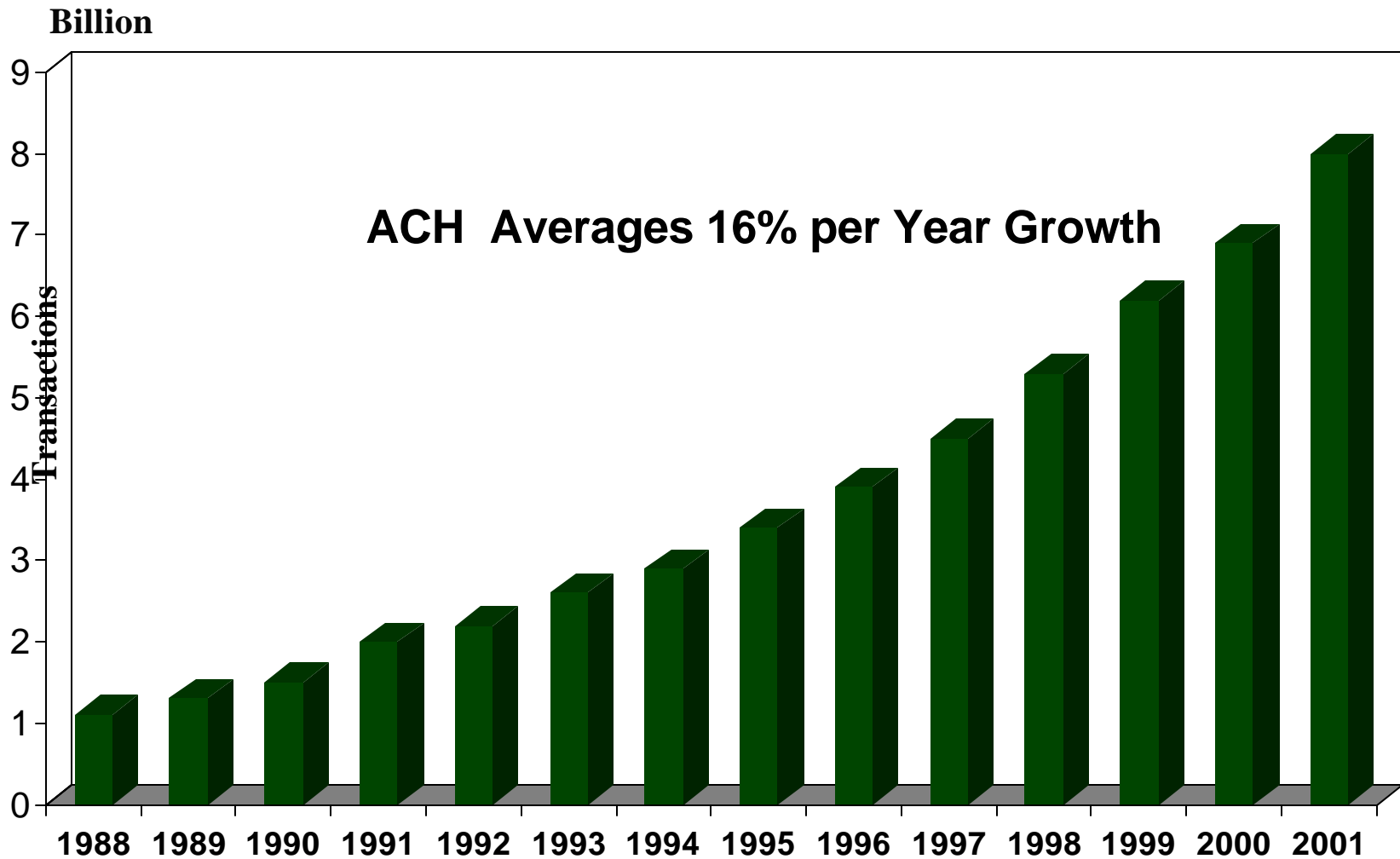
Price Per Unit



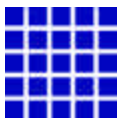
Source: 2002-2003 Blue Book of Bank Prices™



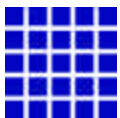
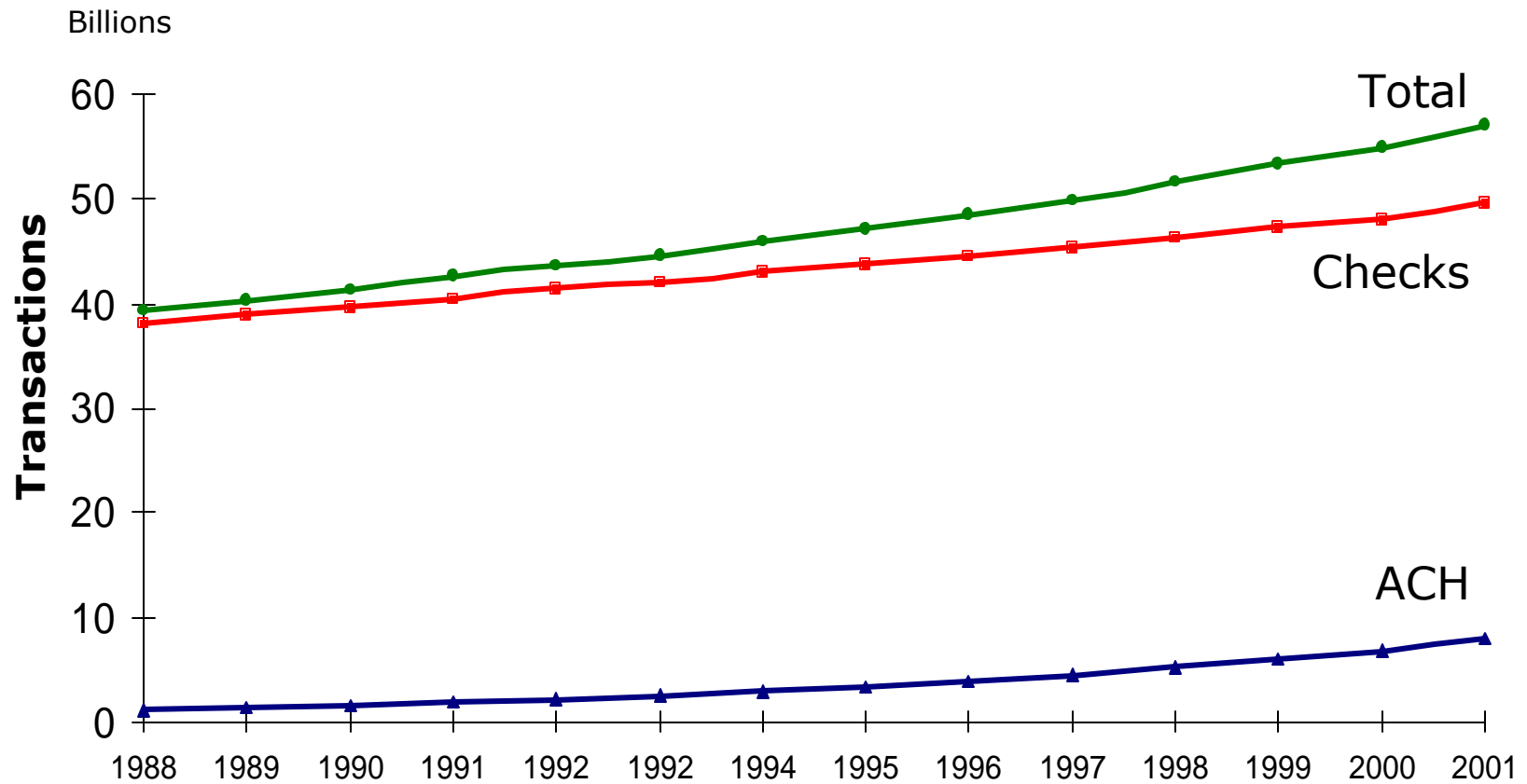
Electronic Payment Growth



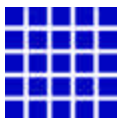
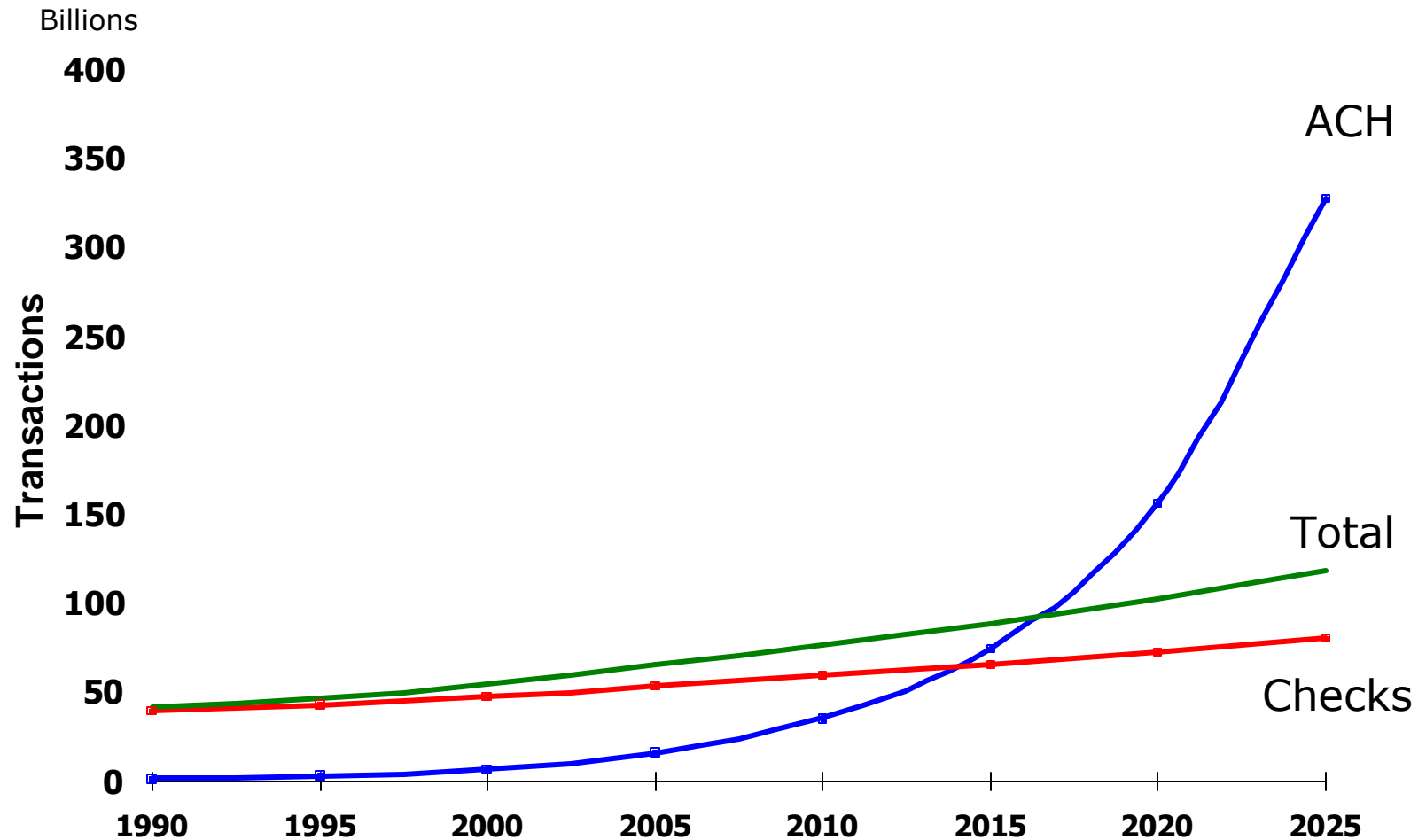
Source: NACHA



ACH and Check History



Projection Dynamics

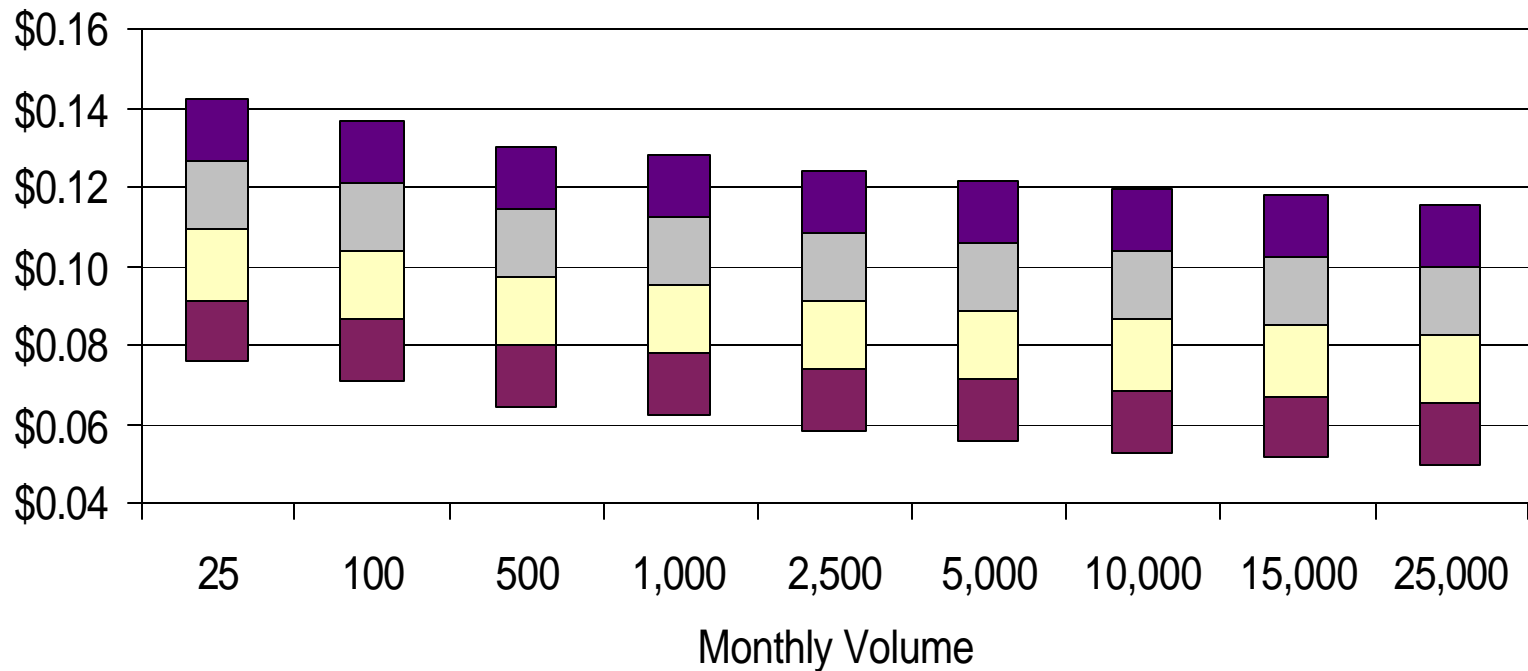


Pricing

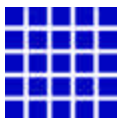
ACH – Originated Debit

Expected Price Quartiles by Volume

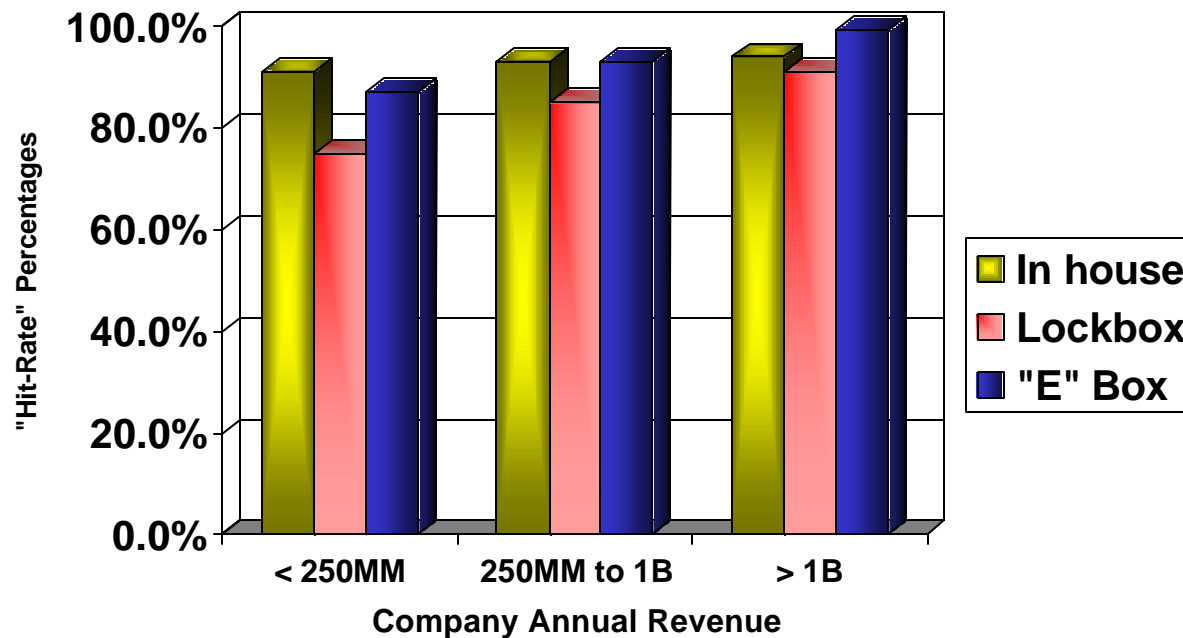
Price Per Unit



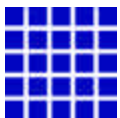
Source: 2002-2003 Blue Book of Bank Prices™



There's something about "pushing" electronics in collections....



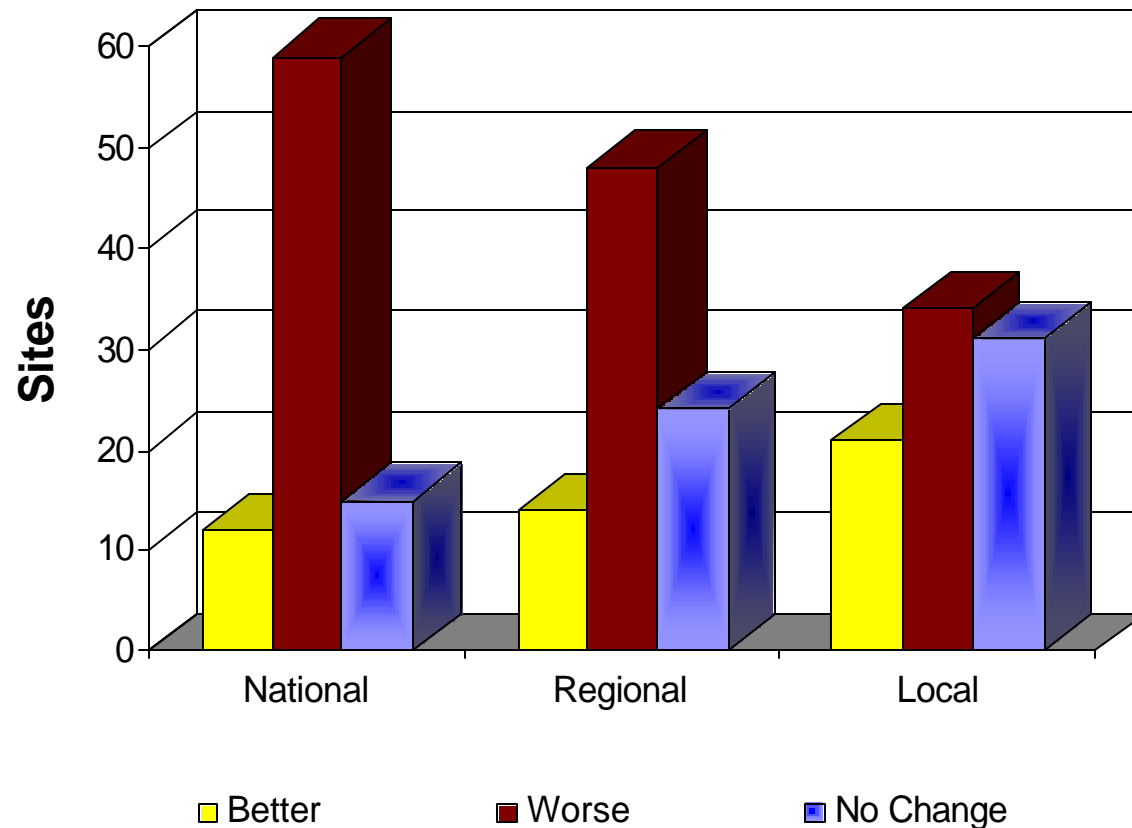
Source: Decision **Gauge**



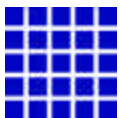
Study Highlights

5-Year Trends: Lockbox Mail Float

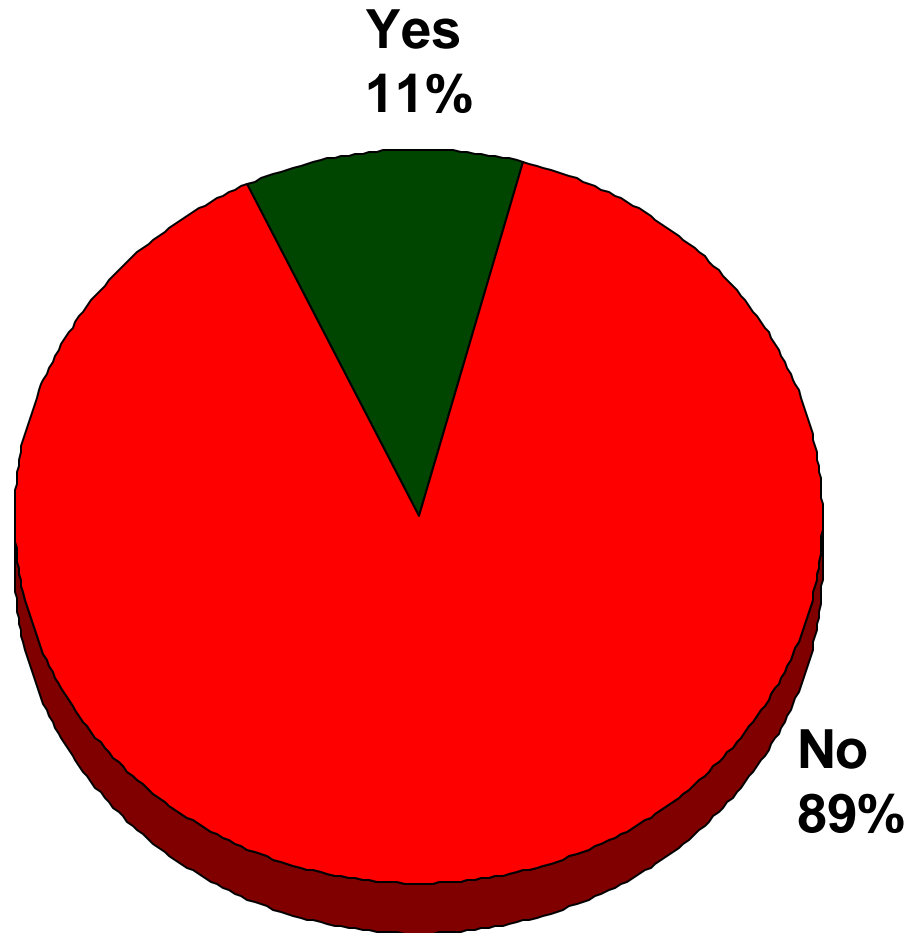
Site 5-Year Trends Phoenix-Hecht Postal Survey



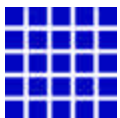
Source: Phoenix-Hecht Postal Survey™



Does your company review operations risk in collections and accounts receivable?



Source : Decision **Gauge**

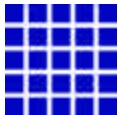


Now, please rate your Collections:

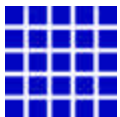
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Pricing for services at or below industry standards		.2	
TOTAL			

Summary Score.

Enter here and plot on the spider grid axis line: "Collections"

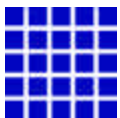


Disbursements



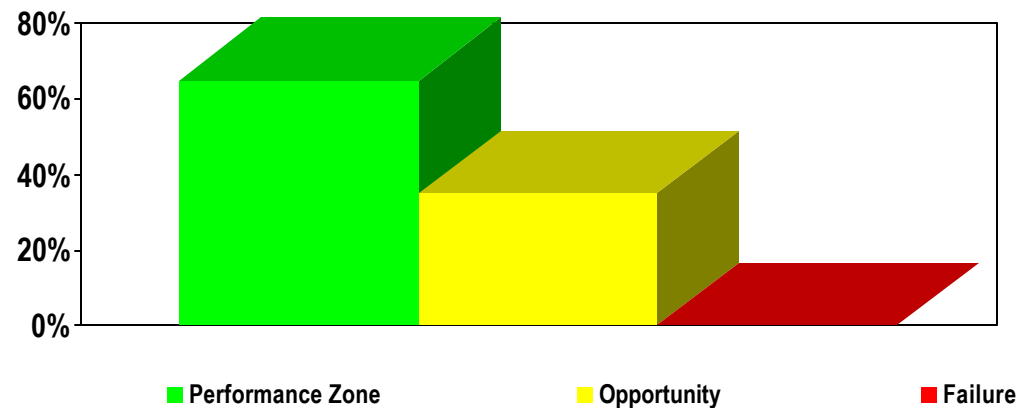
Disbursements have seven attributes that, when combined, indicate performance:

- **Positive Pay is fully utilized**
- **Disbursement payment media are utilized in “supply chain” approach**
- **Stop payment data is directly input by requestor**
- **Disbursement efforts translate to DPO / WCM metrics**
- **Pricing for services at or below industry standards**
- **Disbursement data points are utilized for forecasting**
- **“Process” costs and controls are balanced**

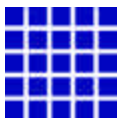


EFT Disbursements / “Primary” Vendors

Aggregated Database: Supply Chain Management

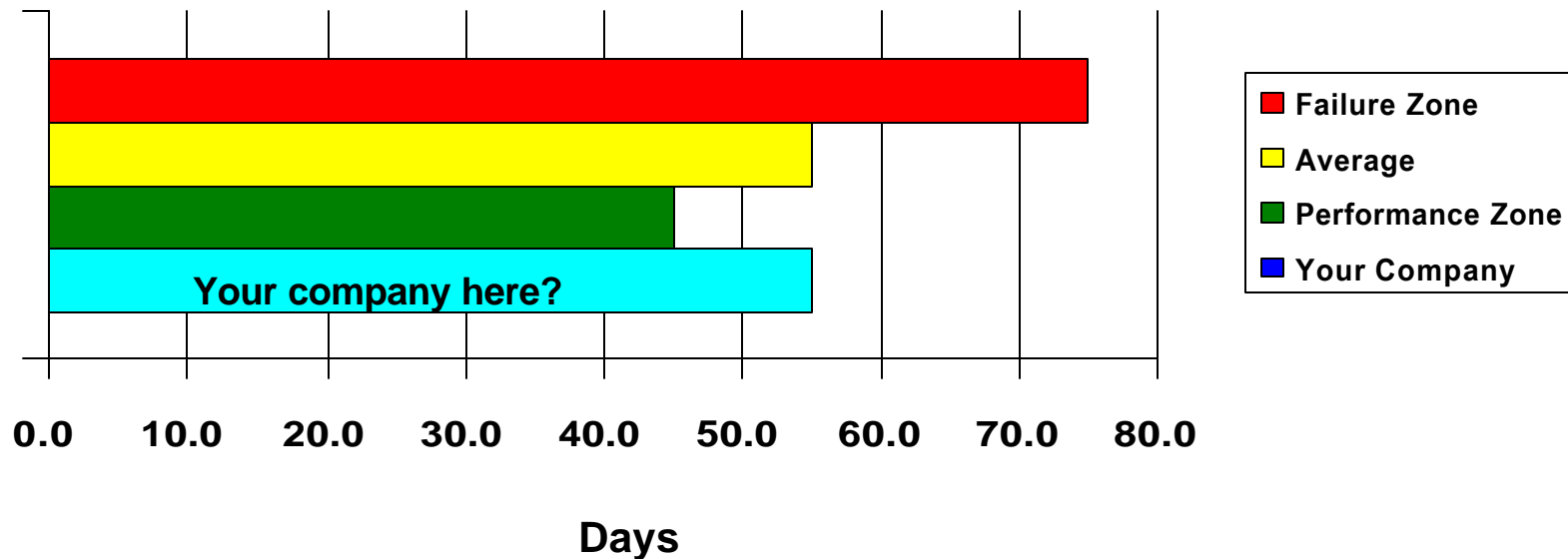


- **Observation:** Companies who identify “primary” vendors also tend to pay those vendors electronically
- **Implication:** Lack of awareness or indifference to benefits of negotiated timing of payments, coupled with the reductions of costs in electronic settlement and payments, can cost a key vendor relationship
- **Action:** Consider electronic disbursements in conjunction with an overall A/P best practices and cost reduction effort *Source : DecisionGauge*



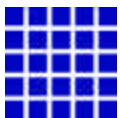
Days Payable Outstanding

Aggregated Database

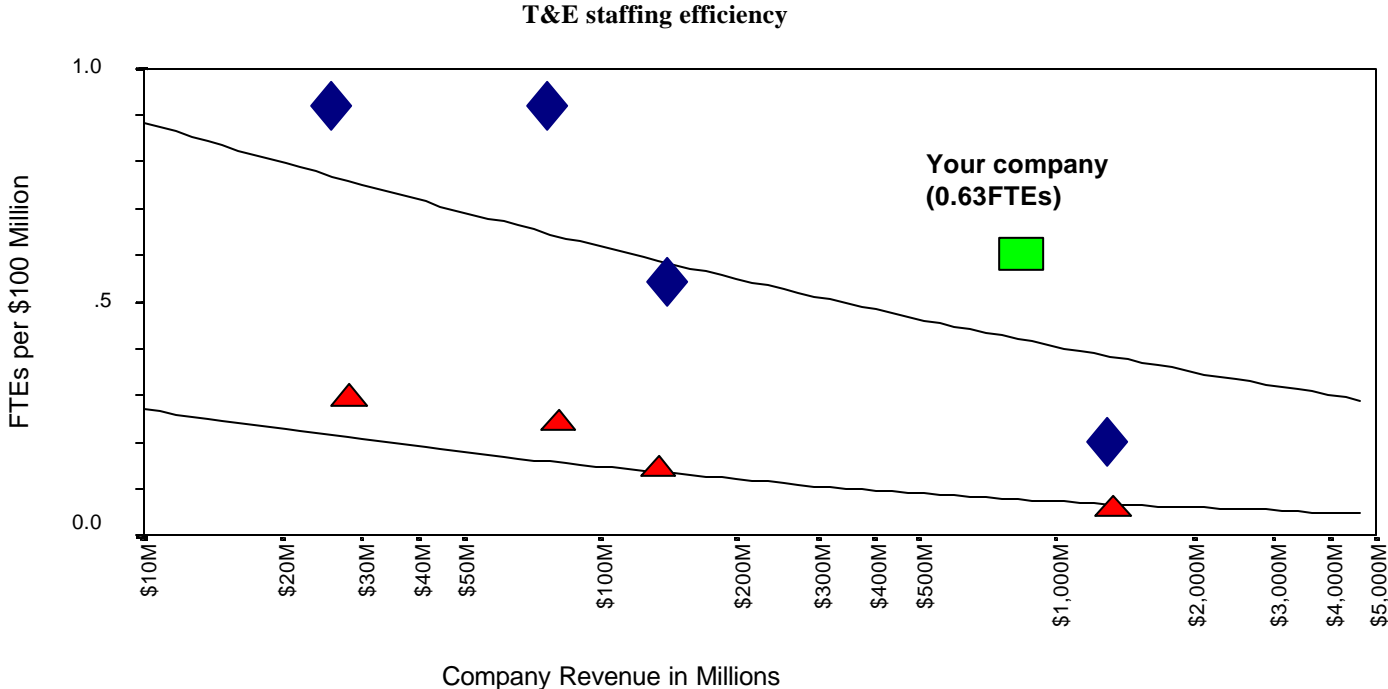


- **Observation:** Investigate your peer group, or find a peer group, for DPO
- **Implication:** Manage metric to your target
- **Action:** Maintain, within the context of current working capital strategy, but revisit if all working capital attributes are considered across the organization

Source : Decision **Gauge**

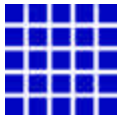


T&E best practices help reduce staffing requirements...

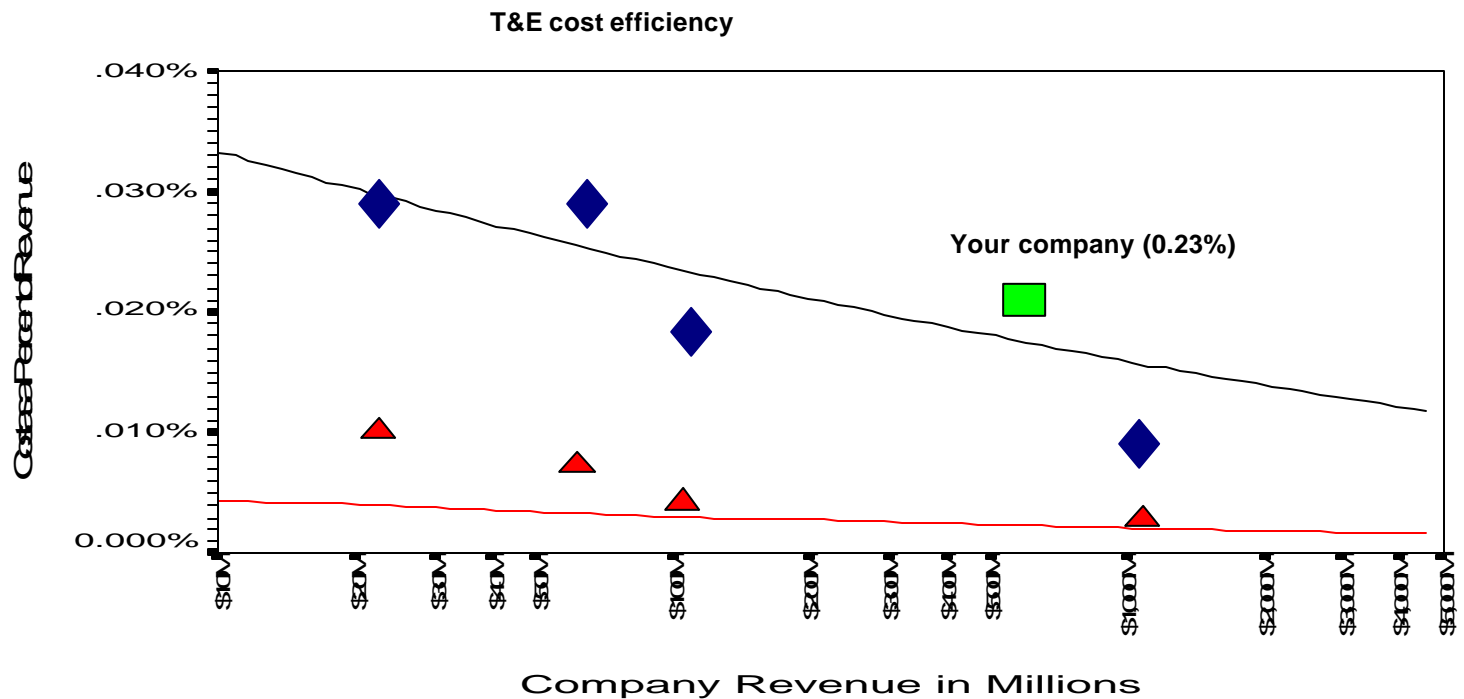


- ◆ = *mean performance*
- ▲ = *top quartile performance*

Source : Decision **Gauge**

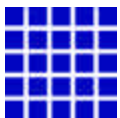


...and result in a reduced T&E cost structure



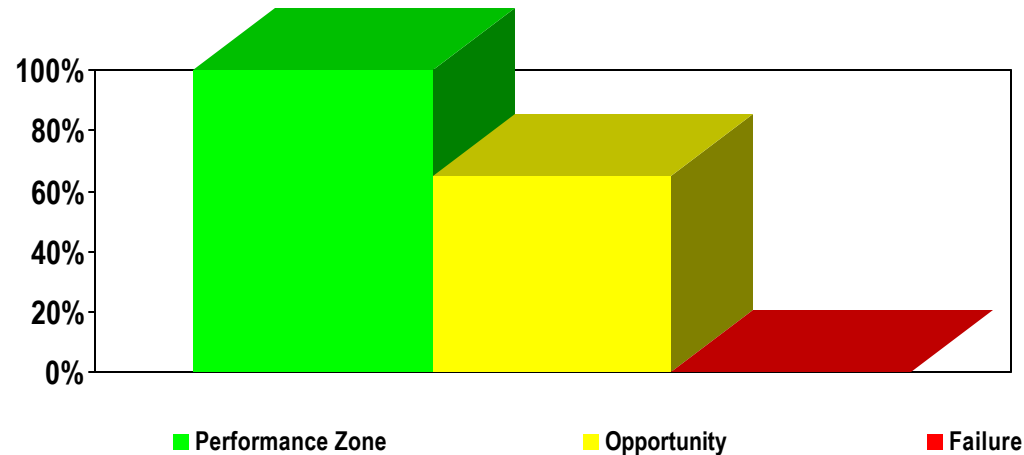
- ◆ = *mean performance*
- ▲ = *top quartile performance*

Source : Decision **Gauge**



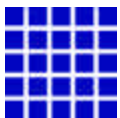
Positive Pay Utilization

Aggregate Database



- Observation: Are you using positive pay?
- Implication: Lack of awareness or indifference to risks of check fraud
- Action: Immediately implement positive pay, if not already implemented

Source : Decision **Gauge**

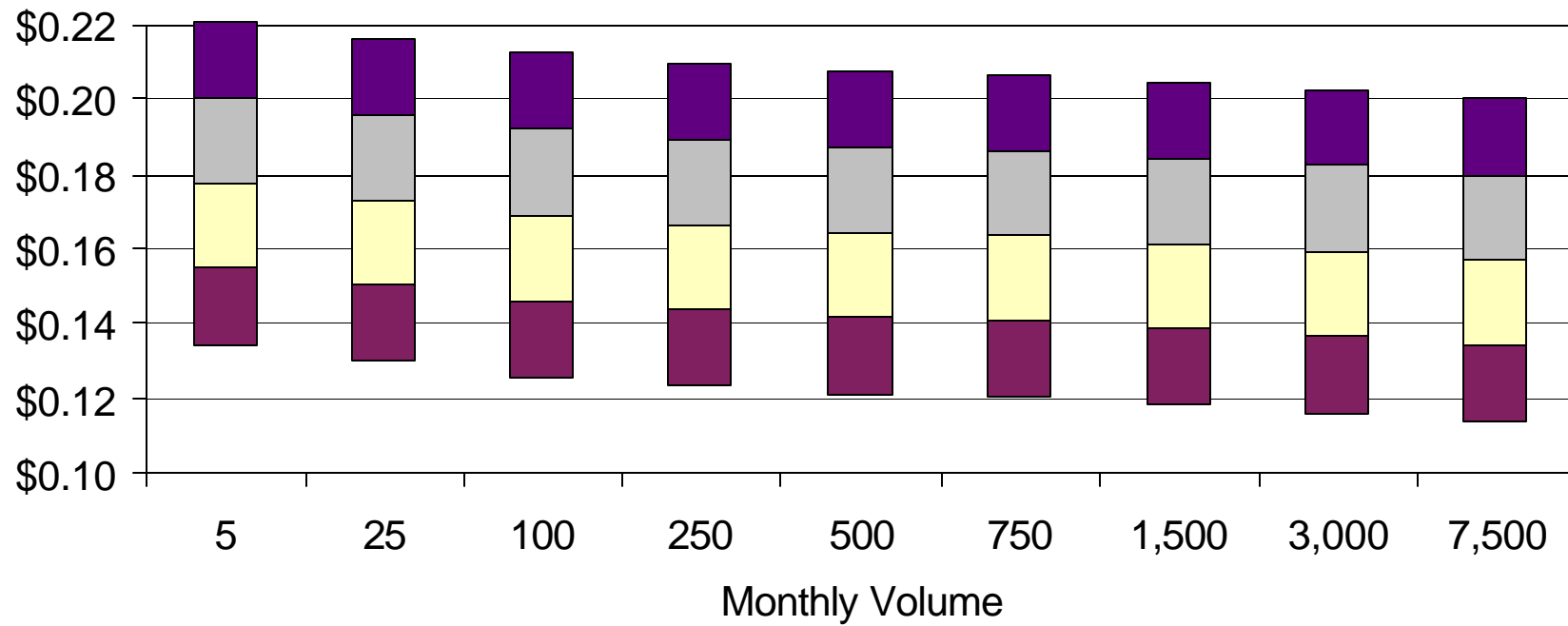


Pricing

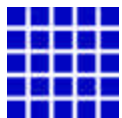
Checks Paid – Regular

Expected Price Quartiles by Volume

Price Per Unit



Source: 2002-2003 Blue Book of Bank Prices™

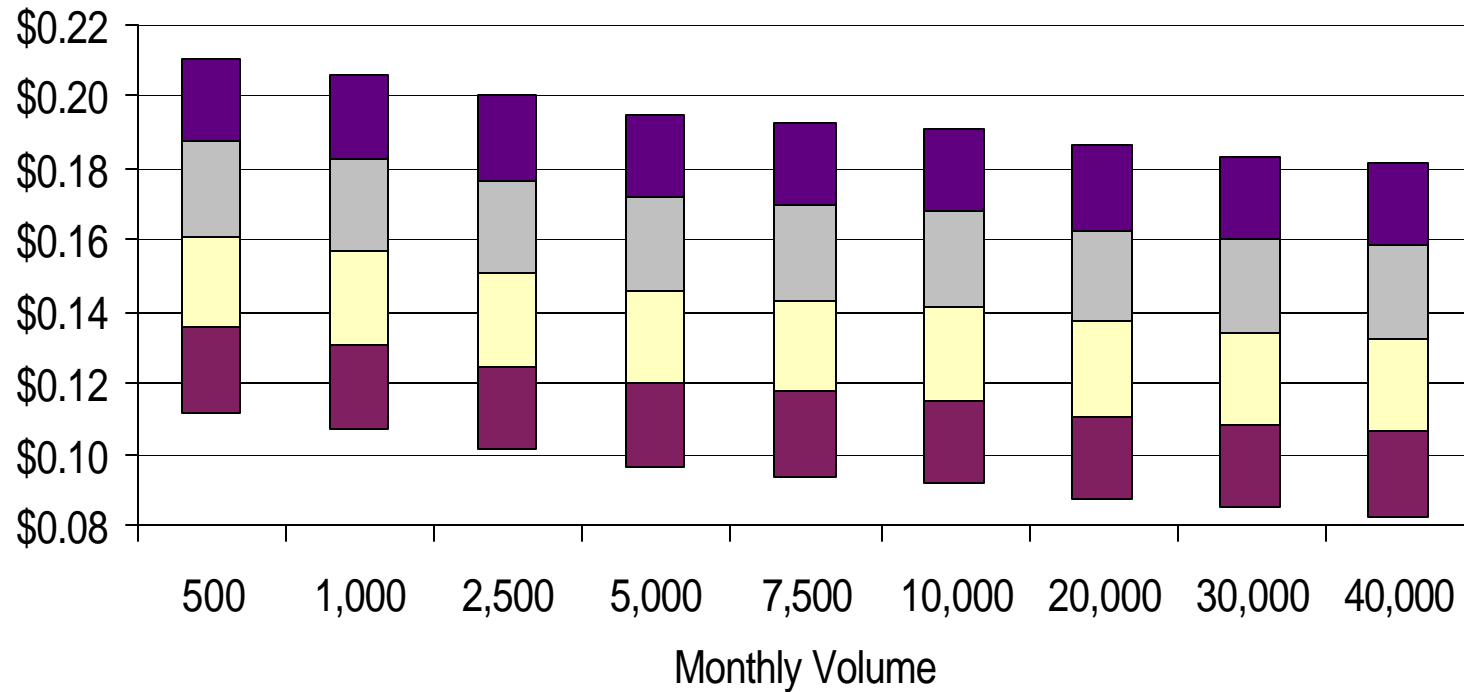


Pricing

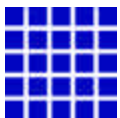
Checks Paid – Controlled Disbursement

Expected Price Quartiles by Volume

Price Per Unit



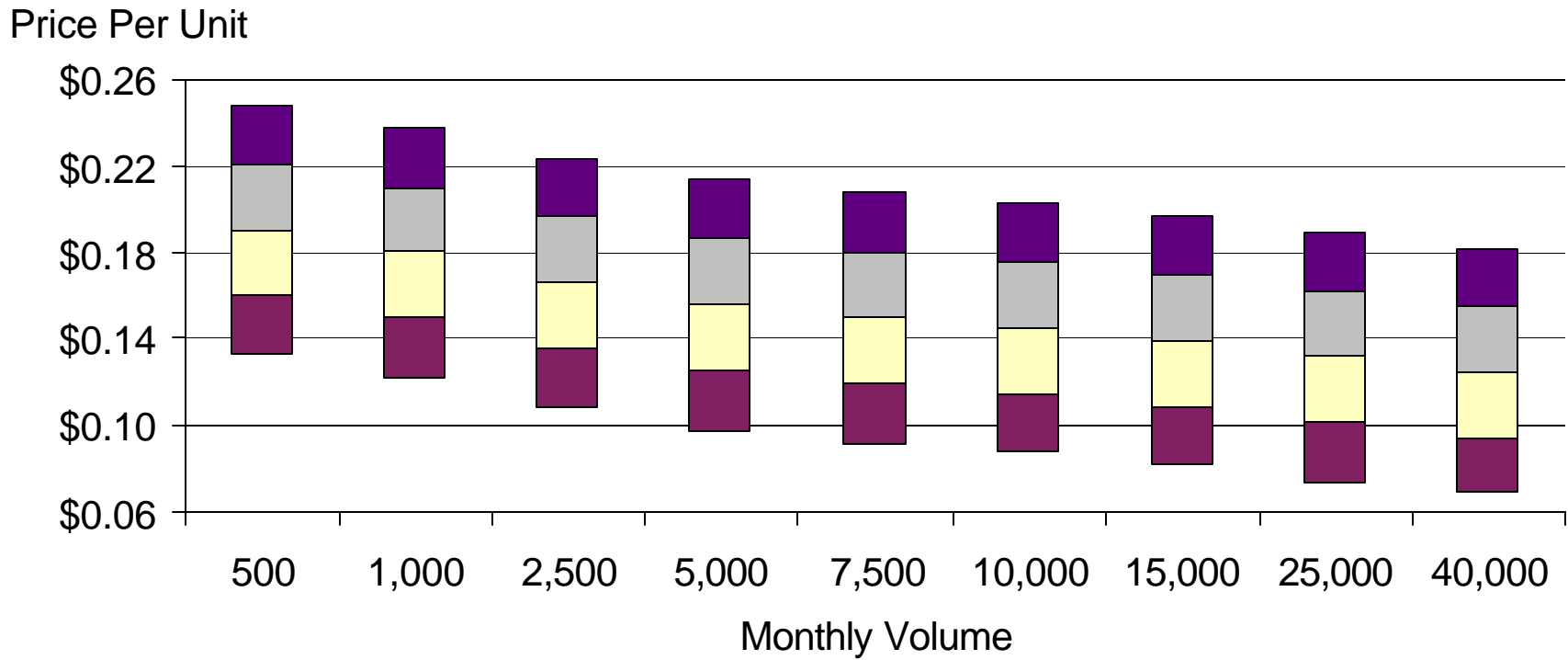
Source: 2002-2003 Blue Book of Bank Prices™



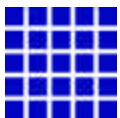
Pricing

Checks Paid – Positive Pay

Expected Price Quartiles by Volume



Source: 2002-2003 Blue Book of Bank Prices™

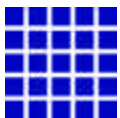


Now, please rate your Disbursements:

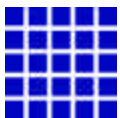
Attribute	Your 0 to 5 Rating	Weighting	Extension
Positive Pay is fully utilized		.3	
Disbursement payment media are utilized in "supply chain" approach		.1	
Stop payment data is directly input by requestor		.1	
Disbursement efforts translate to DPO / WCM metrics		.1	
Disbursement data points are utilized for forecasting		.1	
"Process" costs and controls are balanced		.2	
Pricing for services at or below industry standards		.1	
TOTAL			

Summary Score.

Enter here and plot on the spider grid axis line: "Disbursements"

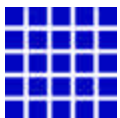


Funding / Investing

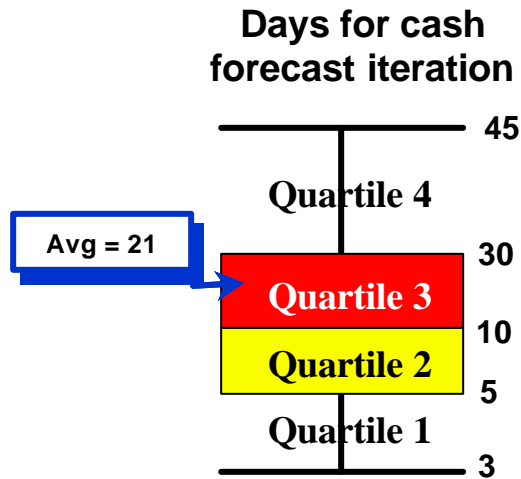


“Funding & Investing” has five attributes that, when combined, indicate performance:

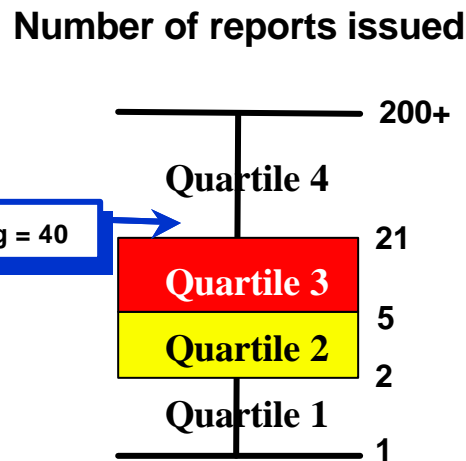
- Cash Visibility & Forecasting
- Target WCM metrics...and COD/ROI targets
- Lines & Loans, placements and purposes match liquidity needs and reasons
- Interest rate (both ways) risks are known and quantified...and appropriately hedged
- Credit (type & to customers) and Investment (type & to broker) policy updated and in compliance



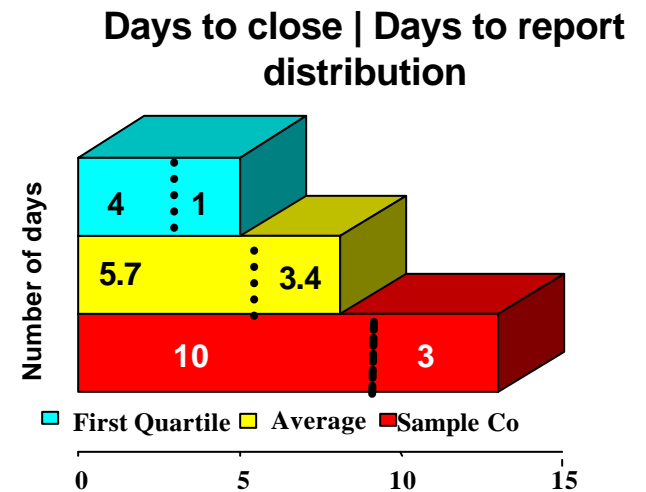
Delivery of key financial data to support effective business decision making cannot be hampered



- Allows only 5 outdated snapshots of business during peak revenue cycles
- Top performers have mastered selective intra-day detail

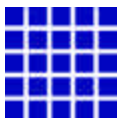


- Excessive reports do not solve the mission critical challenge of providing key forward-looking business insight
- Top performers have implemented a focused report structure that harnessing the 'right' information

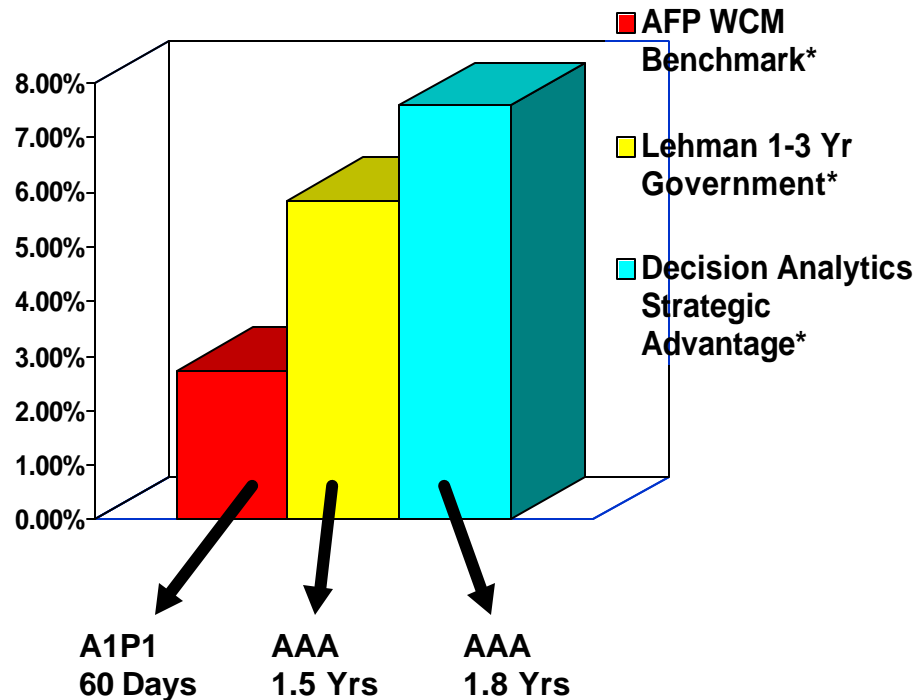


- Elongated close and reporting cycle does not solve the mission critical challenge of providing key forward-looking business insight
- Top performers have innovated process and used enabling technology to provide business information quickly

Source : Decision **Gauge**



The data, and the results, support a well managed effort in ANYONE'S investment practices...

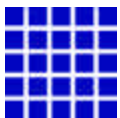


*as of September 2002

Tips from the best performers:

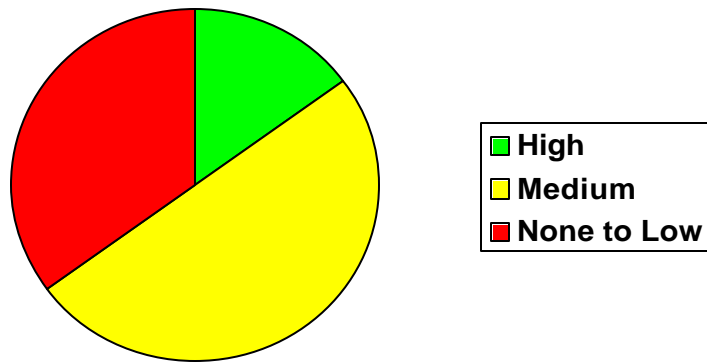
- Don't confuse maturity with duration!
- Use AVERAGE credit in the portfolio
- Sectors, Sectors, Sectors.... There's more performing sectors out there than governments!

Source : Decision Analytics
www.decisionanalytics.com

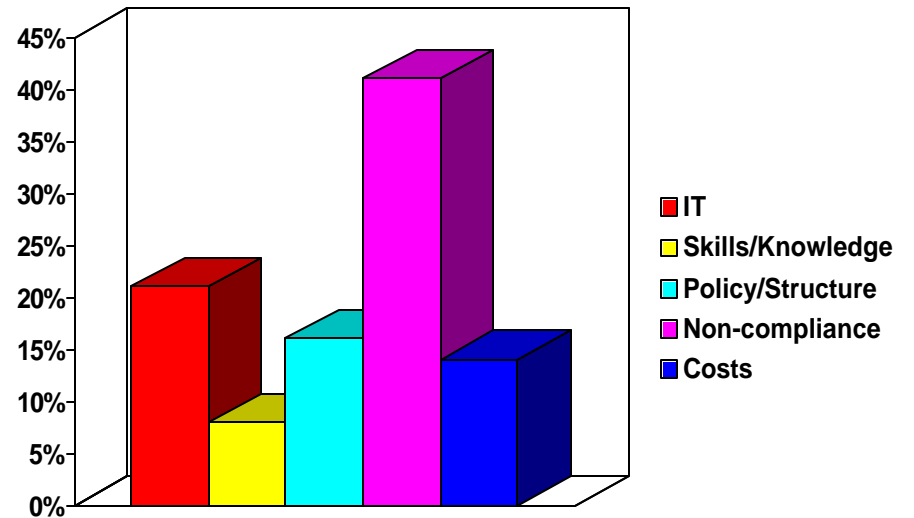


Cash “visibility” remains a challenge for many....

Aggregated Database

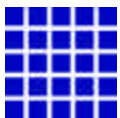


Is all of the company’s cash visible to you at HQ?

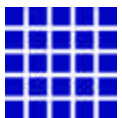
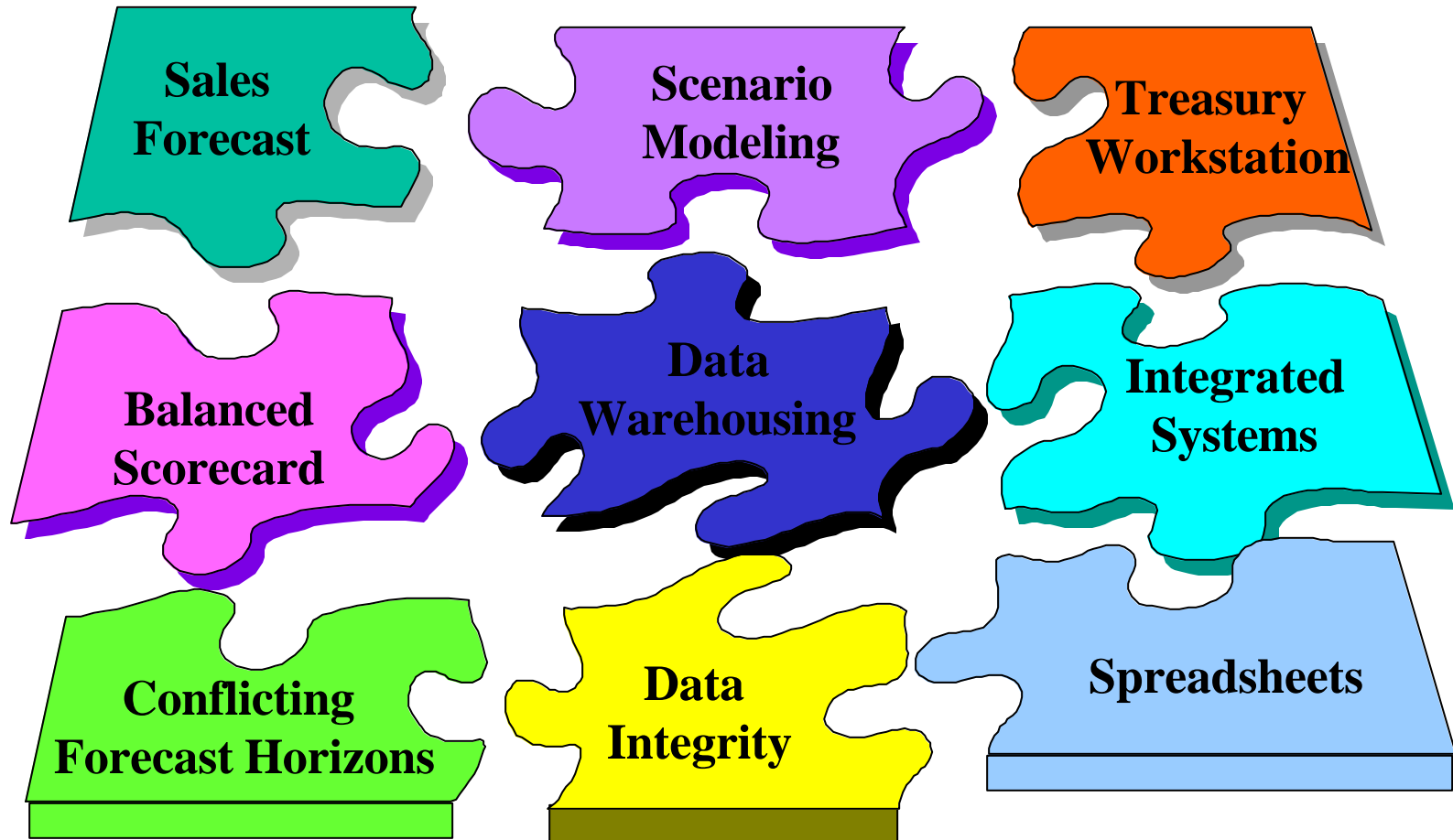


For what is NOT visible, what’s the root cause of why cash is not visible?

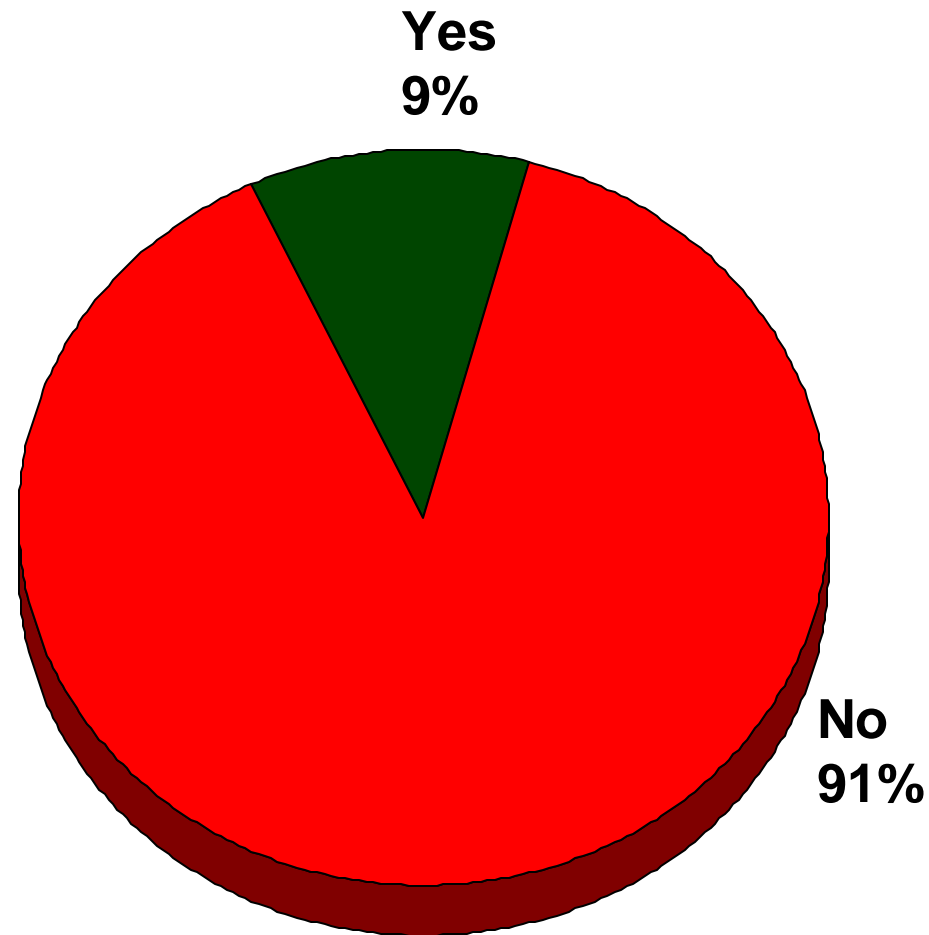
Source : Decision **Gauge**



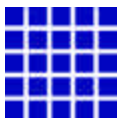
... so most companies' efforts are poorly coordinated



We have reviewed our investment policy within the last six months



Source : Decision **Gauge**

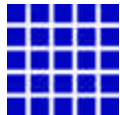


Now, please rate your Funding / Investing effort:

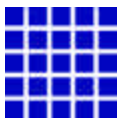
Attribute	Your 0 to 5 Rating	Weighting	Extension
Cash positions are known and cash is “visible” & forecasted		.3	
Credit & Investment vehicles match needs and purposes		.2	
Horizon goals are known and placements are tracked to goals		.1	
BOTH credit AND investment policy exists and has been updated		.2	
WACC is down 15% or more over last year, or you are at least at the AFP B-mark on ROI...and you BOTH care and can prove it!		.2	
TOTAL			<input type="text"/>

Summary Score

Enter here and plot on the spider grid axis line: “Fund/Invest”

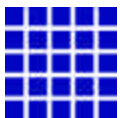


Operational Excellence



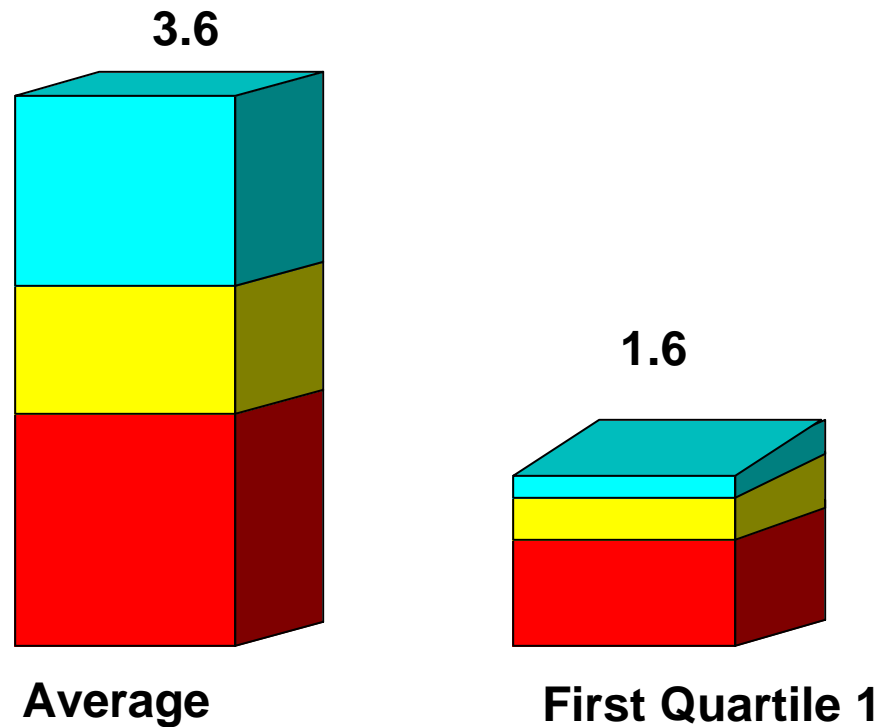
Operational Excellence has five attributes that, when combined, indicate performance:

- People Management
- Performance / Quality Measurement
- Bank Relationship Management
- Overall Cost Management
- Integration of Functions



“Back-Office” Processing Drives Treasury Staffing

FTEs Per \$ 500 Million Of Revenue

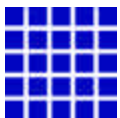


■ Cash Management

■ Treasury Management

■ “Interface” Functions

Source : Decision **Gauge**



29 Steps to Improve Treasury Performance

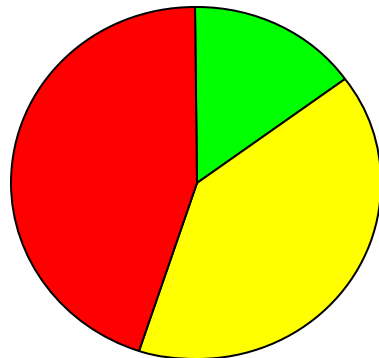
© 2002 Phoenix-Hecht & AnalyticResults



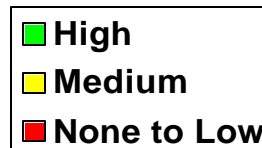
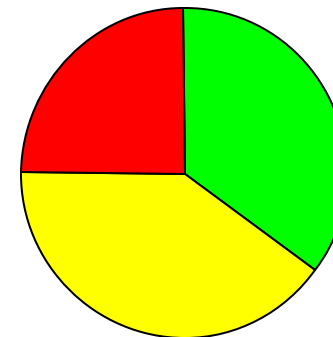
Treasury & Finance still lags other areas of the company....

My manager has the people skills needed for our area...

Aggregated Database:
Treasury & Finance



Aggregated Database:
Sales, Production & IT



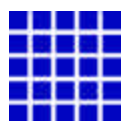
Source : Decision **Gauge**



Credit Influence

	Upper-Middle	Large Corp
Have any credit banks reduced or withdrawn credit commitments in the last year?	15.4%	38.6%
If your credit banks reduced or withdrew credit commitments, have you moved cash management services?	16.5%	33.5%

Source: 2002 Cash Management Monitor™



Main Reason that Determines Company's Most Important Cash Management Bank

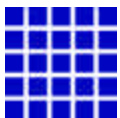
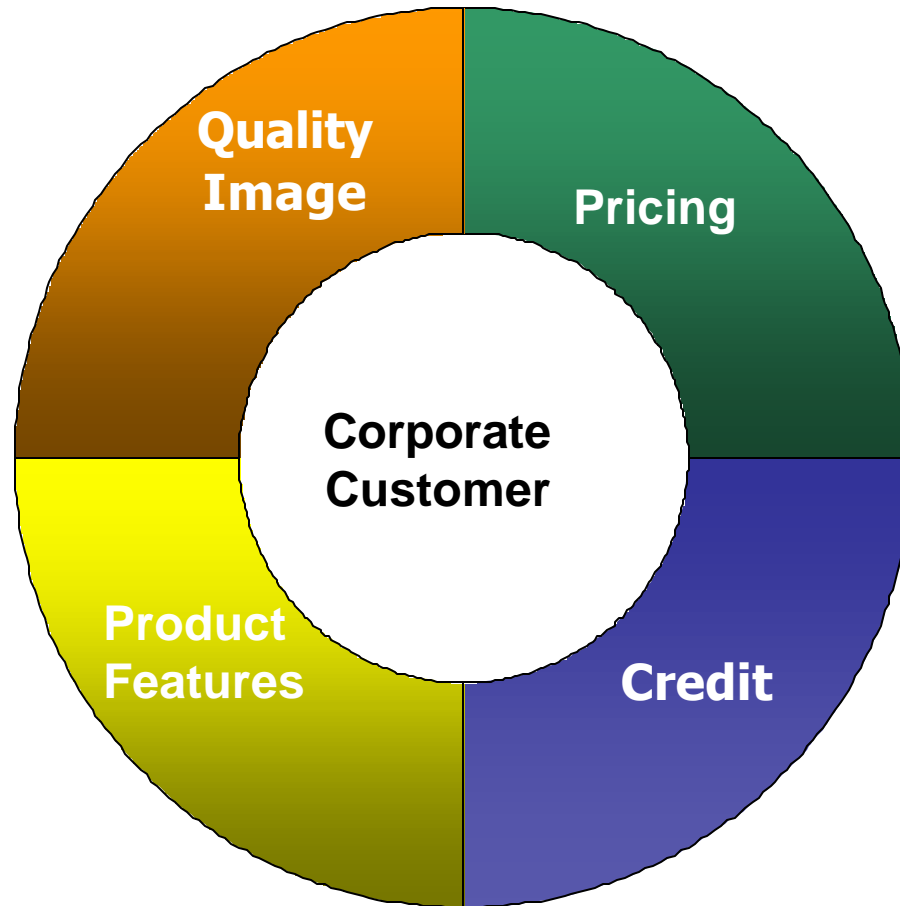
Large Corporate	2000	2002	Diff
Most important credit bank	13.9%	20.9%	7.0%*
Our major concentration bank	36.7	34.7	(2.0)
Provides the greatest number or volume of services	27.3	22.9	(4.4)*
Our primary lockbox bank	4.6	4.9	0.3
Our primary disbursement bank	7.2	7.0	(0.2)
In the most important geographic location	6.1	4.4	(1.7)
Most competitively priced	4.2	5.2	1.0

*Statistically significant change

Source: 2002 Cash Management Monitor™

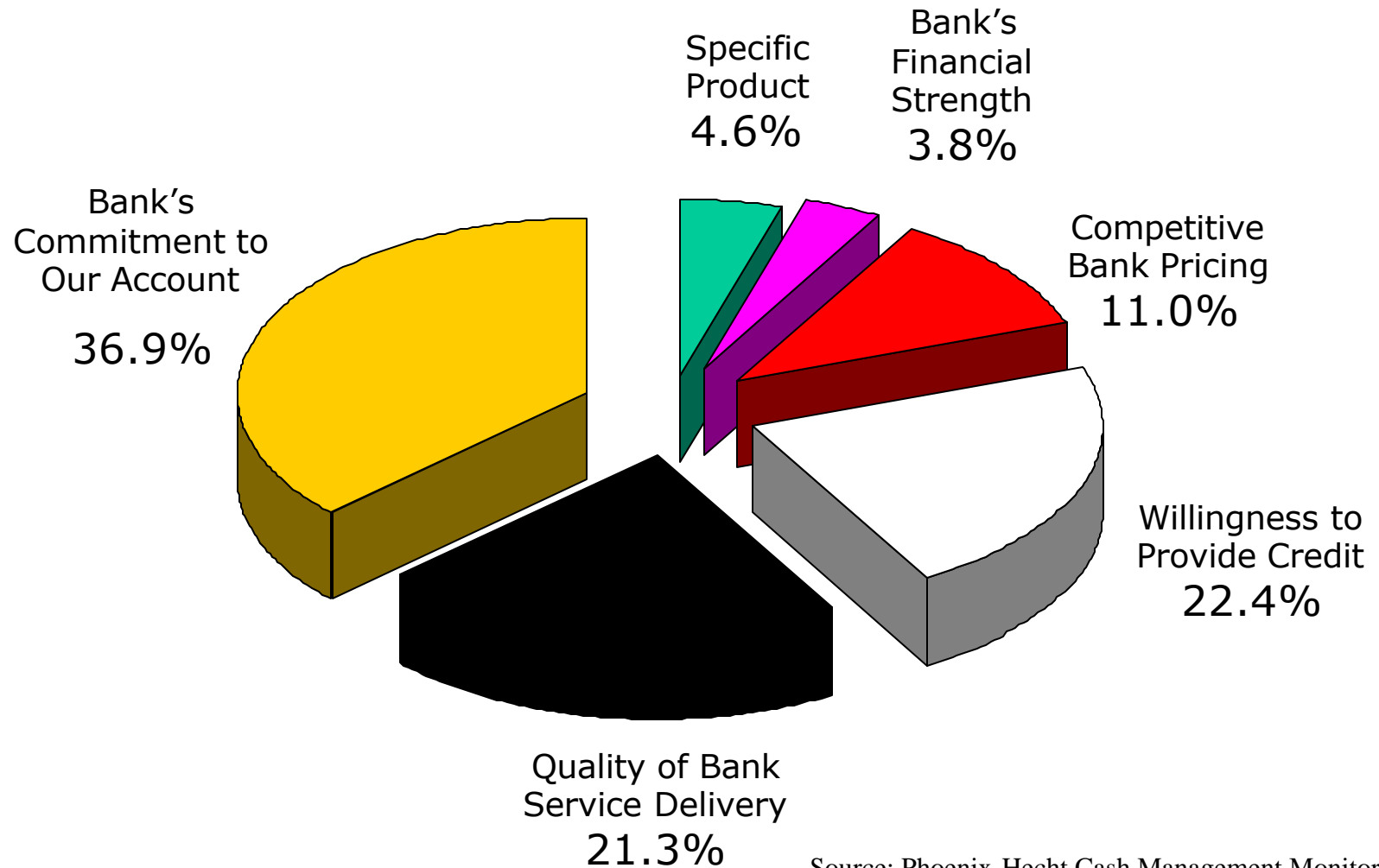


Influencing Dimensions to the Cash Management Relationship

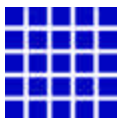


Quality and Commitment Matters

Annual sales over \$100 million



Source: Phoenix-Hecht Cash Management Monitor™



29 Steps to Improve Treasury Performance

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Distribution of Quality Index Grades™

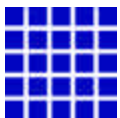
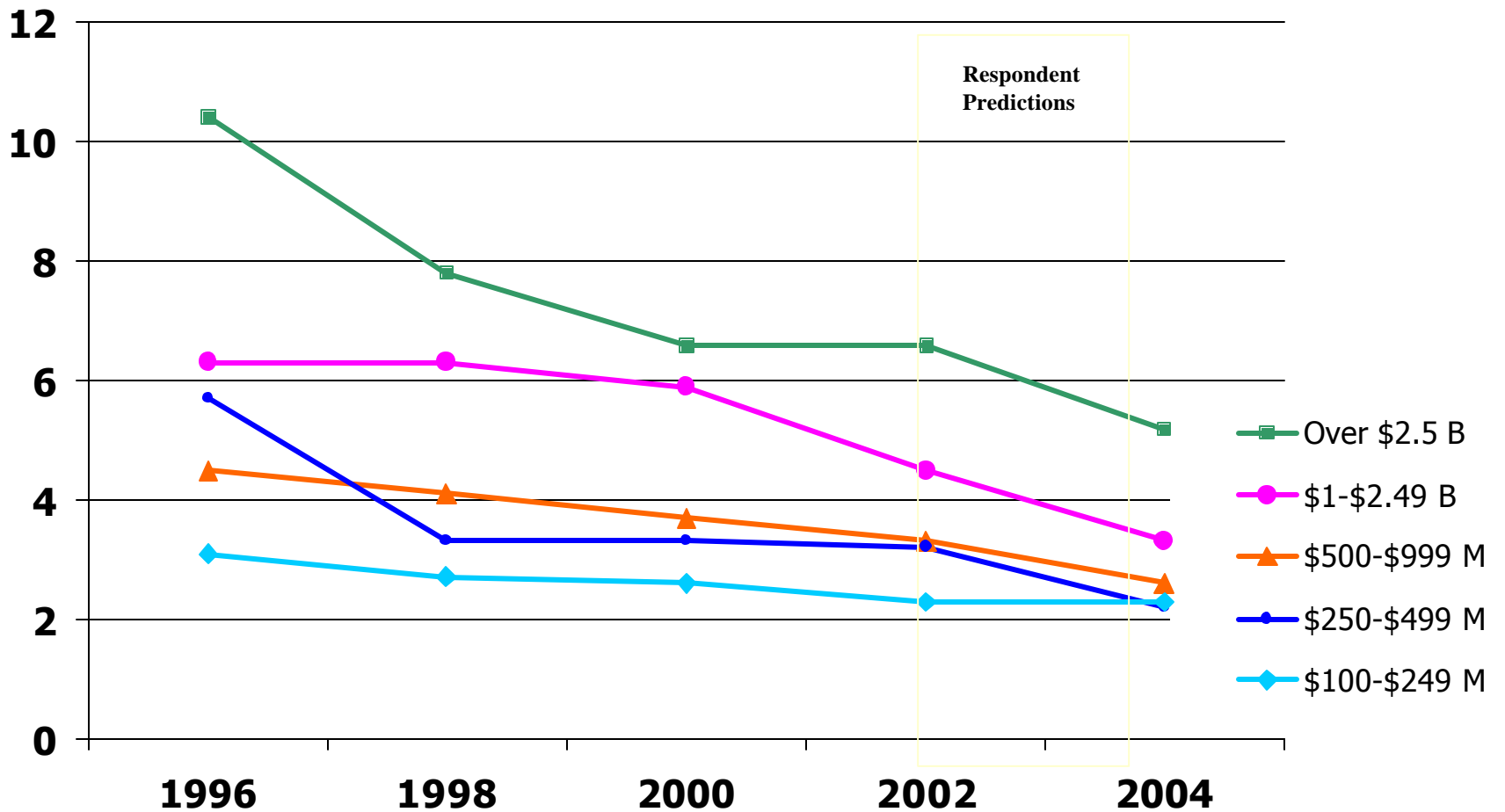
Grade	Middle Market	Upper Middle Market	Large Corporate Market
A+	23%	15%	17%
A	19%	20%	17%
B	43%	38%	40%
C	8%	10%	10%
D	7%	17%	16%

Source: 2002 Cash Management Monitor™

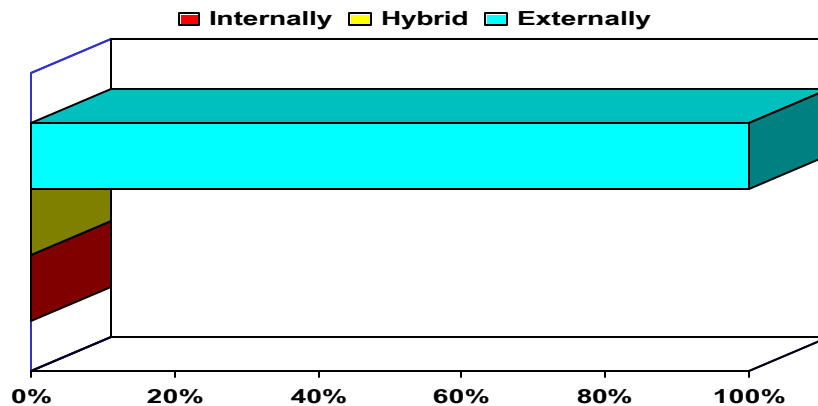


Relationship Consolidation Continues

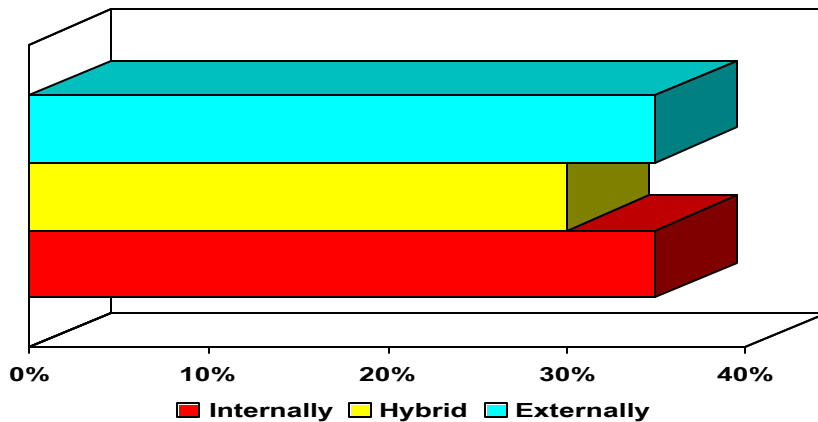
Average Number of Cash Management Relationships



Treasury Systems and IT



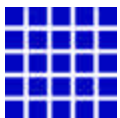
Sample Company



Aggregated Database

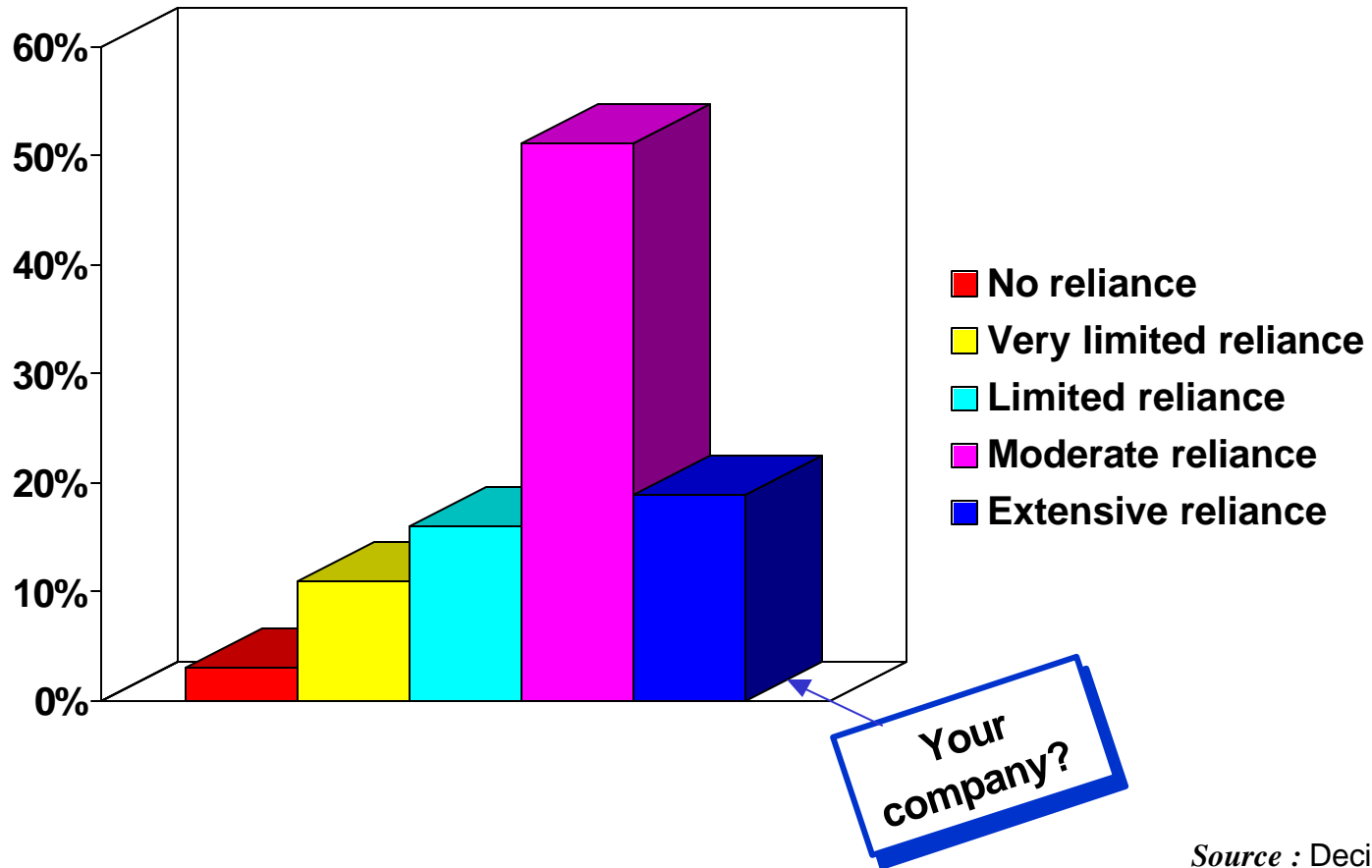
- ❖ **Observation:**
Sample Company reported 100% of treasury's technology systems are developed externally, and not integrated
- ❖ **Implication:**
Lack of IT support for treasury
- ❖ **Action:**
Review business requirements with IT and get optimum level of IT support

Source : Decision **Gauge**

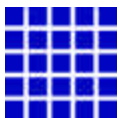


Spreadsheets remain a critical analytical tool and a data repository...

Reliance on spreadsheets

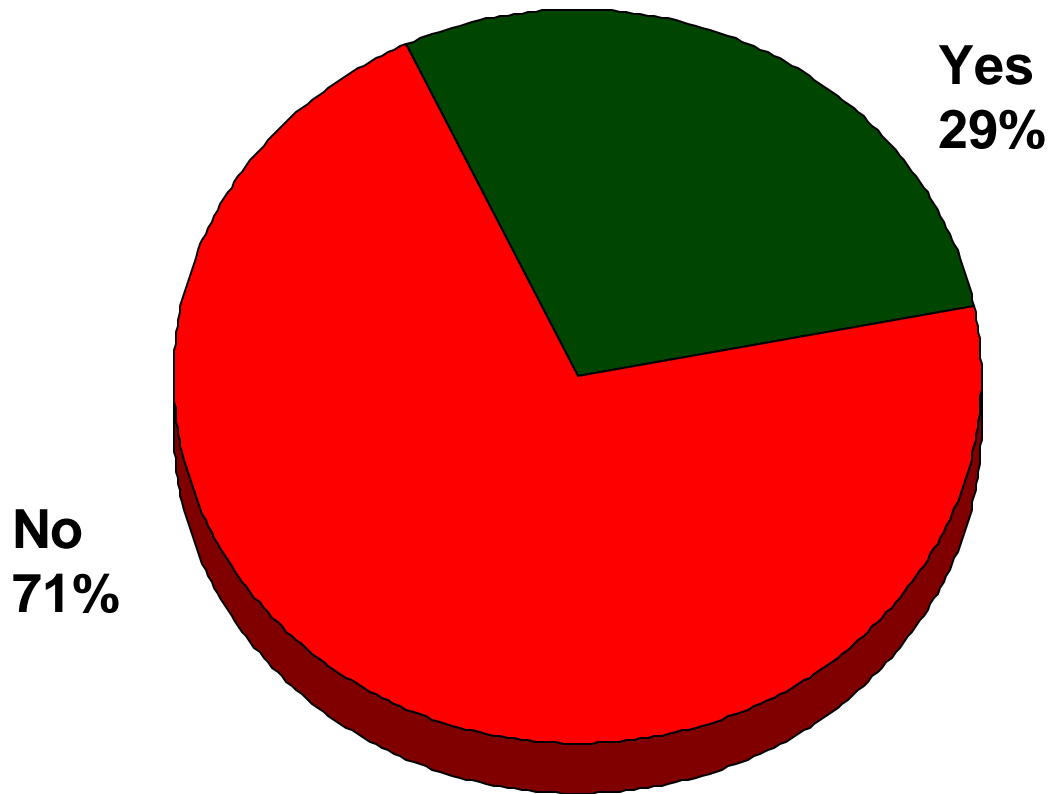


Source : Decision **Gauge**

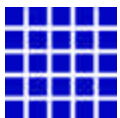


Does your company use a “bank report card?”

Existence of a formal, documented bank report card



Source : Decision **Gauge**

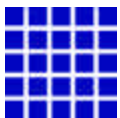


Now, please rate your Operations:

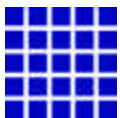
Attribute	Your 0 to 5 Rating	Weighting	Extension
Performance reviews, including yours, are timely, fact-based & fair		.1	
Performance & Quality are measured and managed, e.g. bank report cards		.2	
Banking managed as RELATIONSHIP		.2	
Cost of the function/s are known and managed to targets		.2	
Treasury & Finance integrated with other areas, or moving toward integration		.3	
TOTAL			

Summary Score

Enter here and plot on the spider grid axis line: "Operational Excellence"

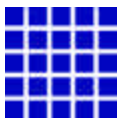


Business Partnering



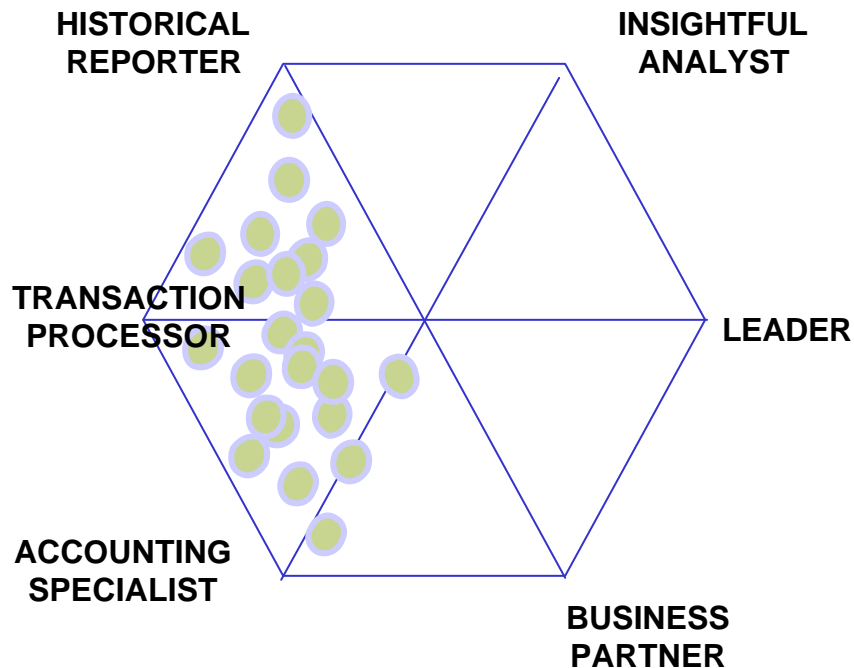
Business Partnering has these five attributes:

- Benchmarking is used as a management tool
- Cross functional teams & six sigma improvement approaches are utilized
- Influential SME role in product development or corporate restructurings, or business changes/improvements, e.g HIPAA
- Corporate Standards & Accountability -- Treasury has an opportunity for leadership!
- Planning

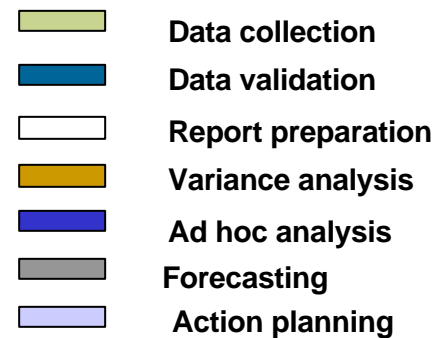
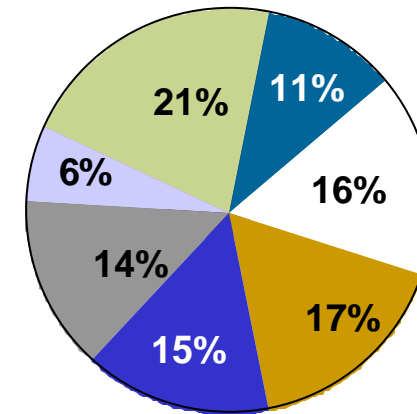


Typical Practices Have Focused on Non-Value-Added Activities

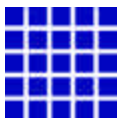
Concentration of Skills



Commitment of time by reporting activity



Source: DecisionGauge

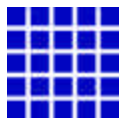
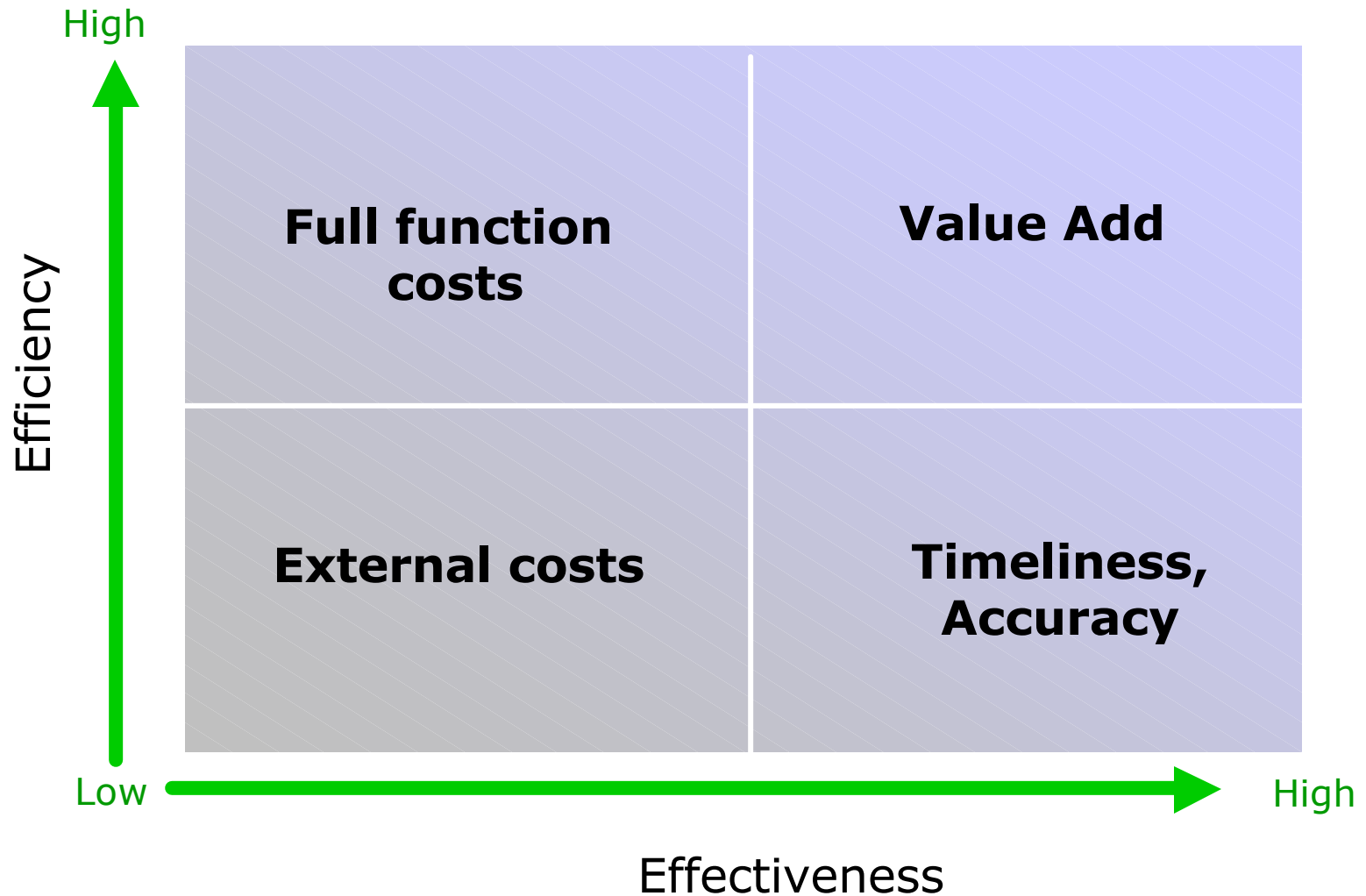


29 Steps to Improve Treasury Performance

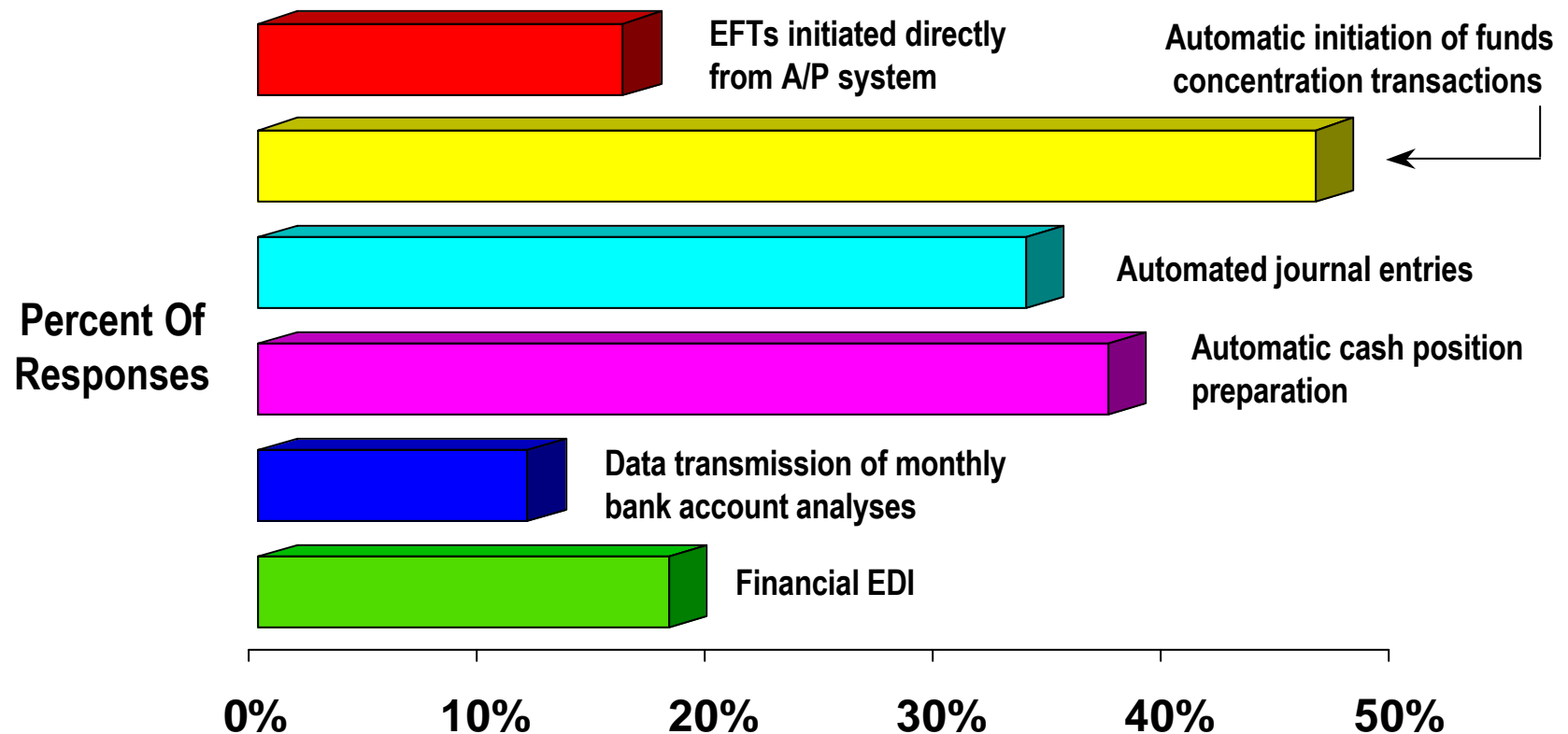
© 2002 Phoenix-Hecht & AnalyticResults



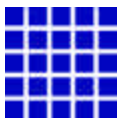
Focus On The Important



Limited Use Of Best Practices in Treasury Impedes Treasury's Effectiveness



Source : Decision **Gauge**, (updated from initial Hackett Benchmarking/solutions)



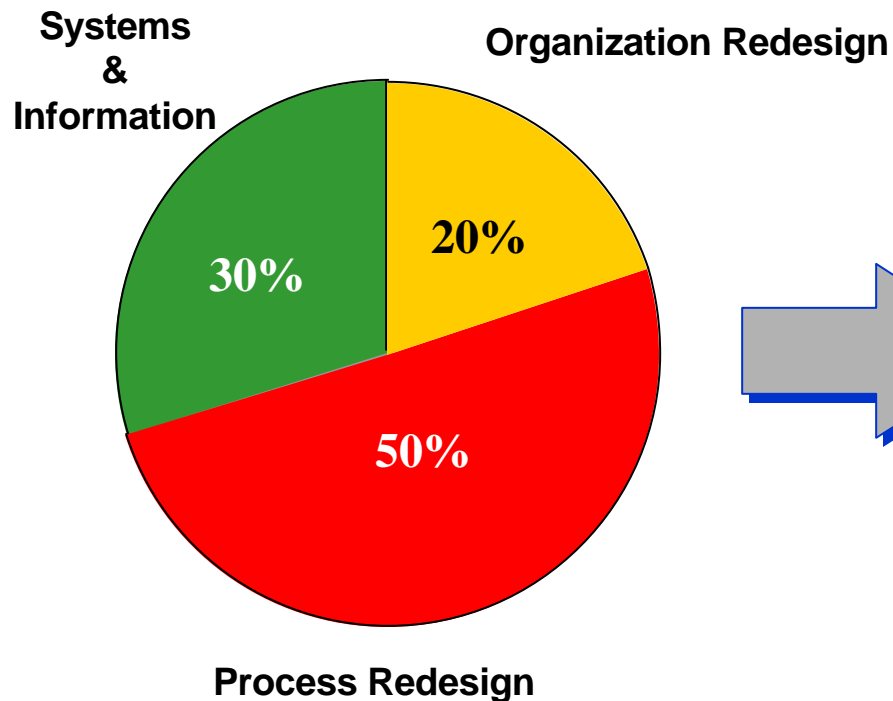
29 Steps to Improve Treasury Performance

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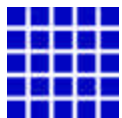
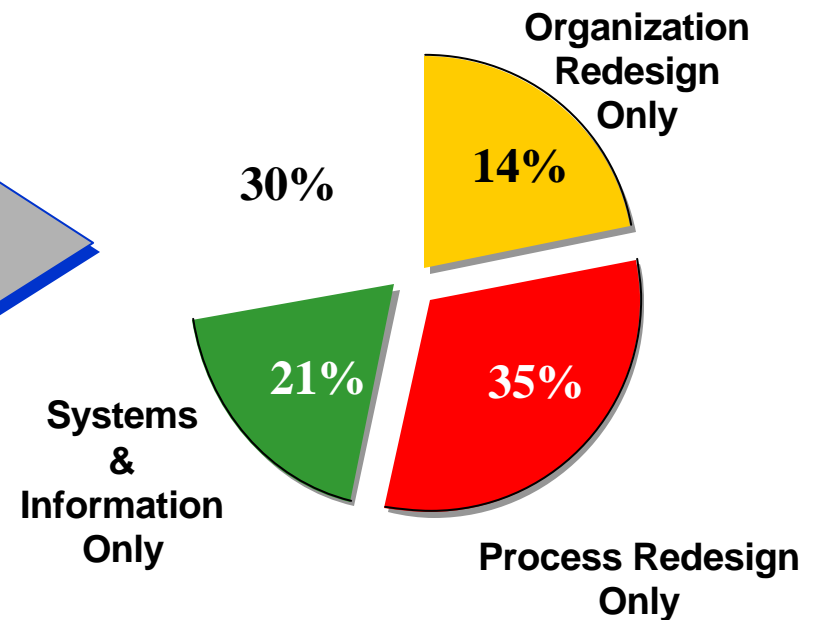


As historical results reveal maximum value will not be achieved through fragmented efforts

Coordinated Efforts

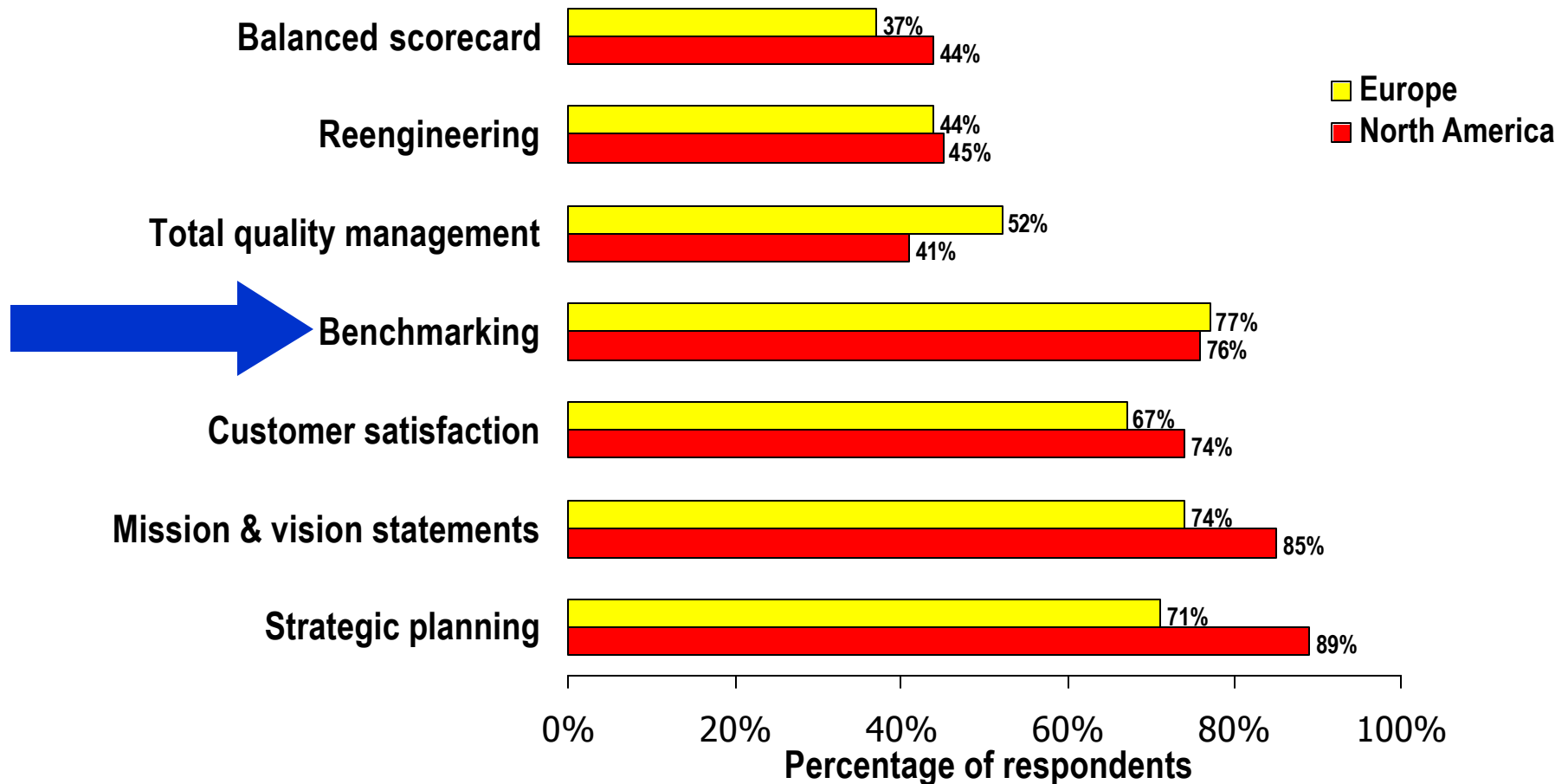


**Fragmented Efforts -
Approximately 30% Of Benefits
Are Lost**



Benchmarking continues to be a key management tool and technique

Management tools and techniques

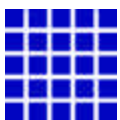


*From a recent study of 475 Companies by Bain & Co.

29 Steps to Improve Treasury Performance

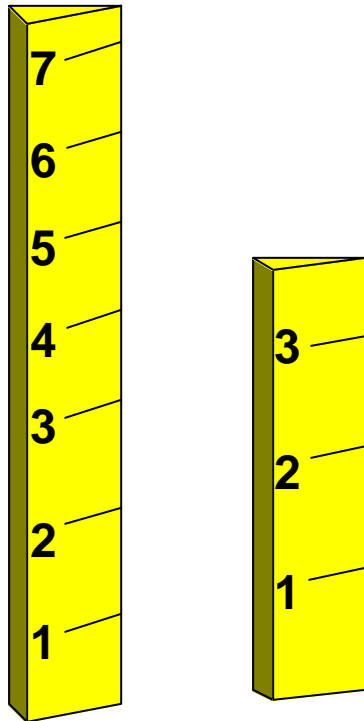
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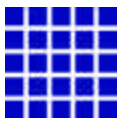
Benchmarking Highlights Potential Areas For Improvement

Benchmarking



Best Practices

- ◆ Automatic initiation of funds concentration transactions
- ◆ EFTs initiated directly from A/P system
- ◆ Automated journal entries
- ◆ Automatic cash positioning
- ◆ Internet / Intranet
- ◆ Financial EDI



Plans and Intentions

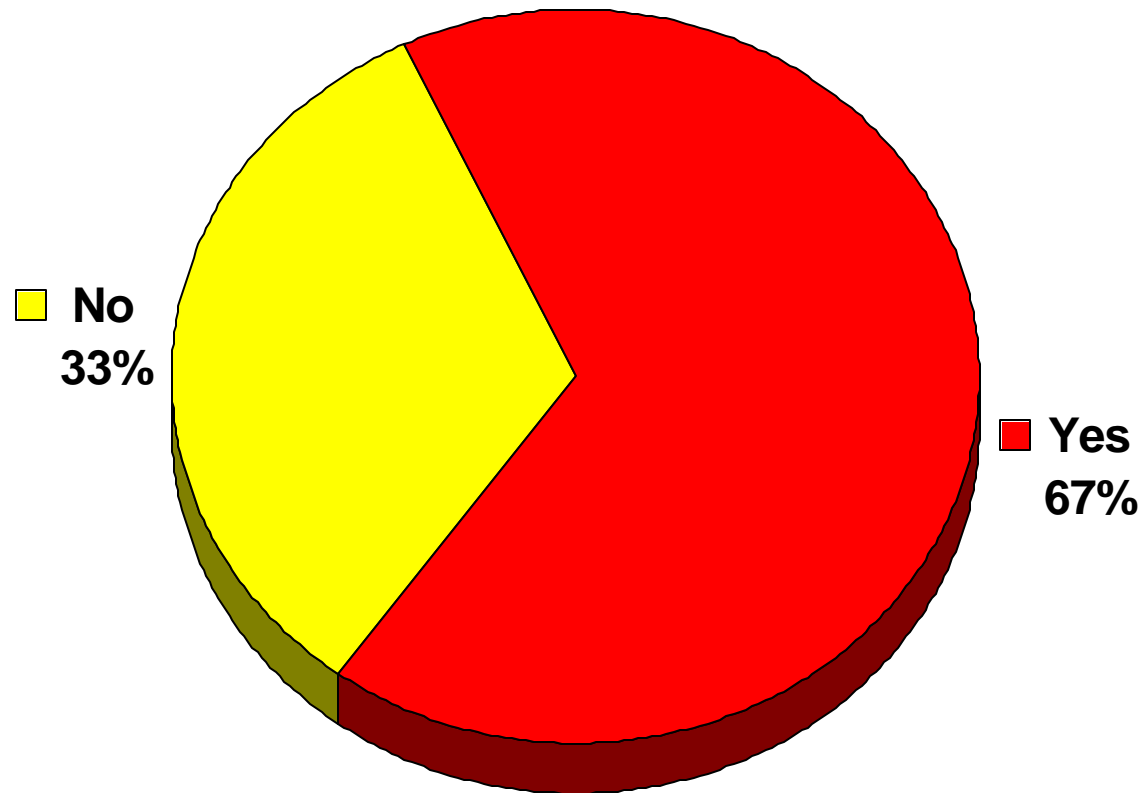
Scale 1-5 with 5 = Very Important	Large Corporate	Upper-Middle Market
Add or Change a Controlled Disbursement Site	2.35	2.03
Add or Change ACH Bank	2.18	1.96
Add or Change Lockbox Locations	2.77	2.27
Initiate Internet-based Consumer Bill Payment	2.20	2.02
Expand e-commerce with Suppliers	2.83	2.56
Expand e-commerce with Corporate Customers	2.90	2.52
Expand e-commerce with Consumers	2.35	2.16
Do a Treasury Review	3.04	2.66
Add or change a Bank for International Services	2.40	1.99

Source: Phoenix-Hecht Cash Management Monitor TM

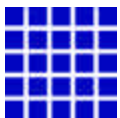


Does your company have a documented strategic TREASURY plan?

Do you have a formal, documented strategic plan?



Source : Decision **Gauge**

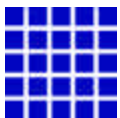


Now, please rate your efforts in Business Partnering:

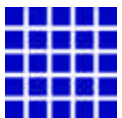
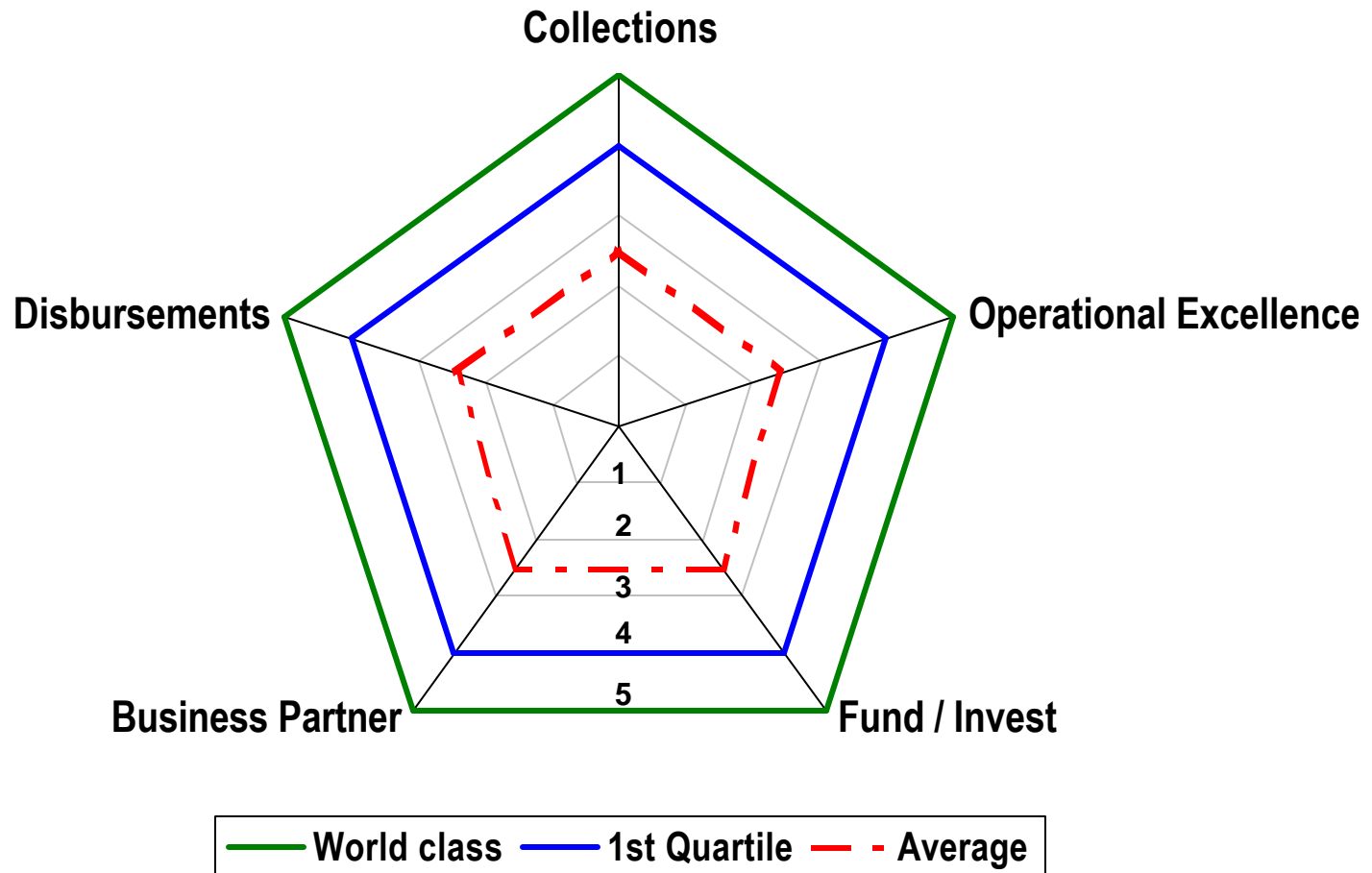
Attribute	Your 0 to 5 Rating	Weighting	Extension
Six-Sigma, or six-sigma like approaches are used for continuous process improvement		.1	
Treasury plays a Subject Matter expert role whenever technology, product or customer process changes are made		.2	
Treasury & Finance is viewed as a leader, and model for transparency		.2	
Benchmarking is actively used as a management tool		.2	
A Treasury Plan, or a Finance Area Plan, exists, is tracked and is met		.3	
TOTAL			<input type="text"/>

Summary Score

Enter here and plot on the spider grid axis line: "Business Partnering"



Please plot your five summary scores from each dimension rating page...
and connect the dots

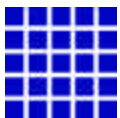


The 29th Attribute...

Do you know how valuable you are?

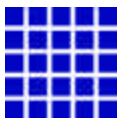
So let's get even better!

- Treasury knows all components of the cash flow timeline and the company's operations
- Treasury sees the daily effect, and the result, of the company's business model and cycle
- Treasury can do the math!
- Treasury protects the company's #1 asset (after its people)...cash!
- Treasury enables every other business function

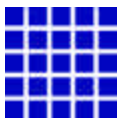
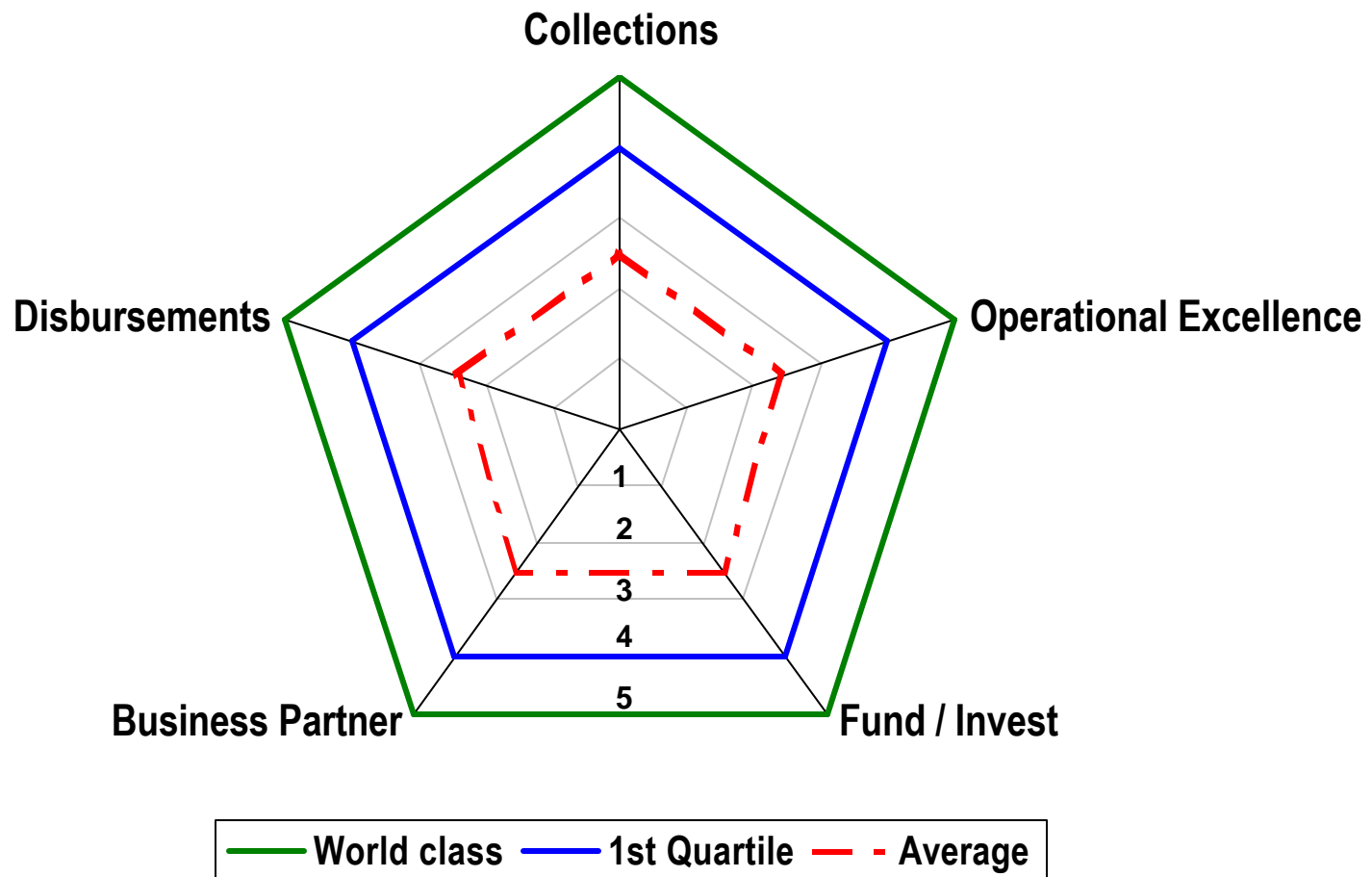


Treasury's Challenges are to Now Possess Significantly Different Skills and Lead!

- **Working Capital Guru!**
- **Flexible, creative problem-solvers**
- **Customer service and advocacy**
- **Strong ability to exploit technology**
- **Ability to see the vision, take initiative and lead change**
- **Cross-business and multi-disciplinary skills**
- **Global business-process capability**
- **Strong team-building and interpersonal skills**
- **LEADERSHIP, LEADERSHIP, LEADERSHIP**

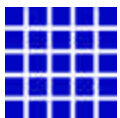


Here's an extra page, to see how your score improves a few months from now...



For more information...

- Essentials of Cash Management, Association of Financial Professionals, Bethesda, MD. 2000. www.afponline.org
- Corporate Cash Management Handbook, Richard Bort, ed. RIA, Carol Stream, IL. Updated 2002. www.riahome.com
- Phoenix-Hecht, Research Triangle Park, NC. www.phoenixhecht.com
- CFO Magazine, CFO Publishing Corp., Boston, MA. www.cfo.com
- Gartner Group, Boston, MA. www.gartner.com



29 Steps to Improve Treasury Performance



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Addenda Information

