



## Six Fundamentals...for the Advanced AnalyticResults




[www.analyticresults.com](http://www.analyticresults.com)

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electronically at:  
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- Cost is MORE than price...but what's the difference?
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- Managing the Boss... and Transforming Yourself

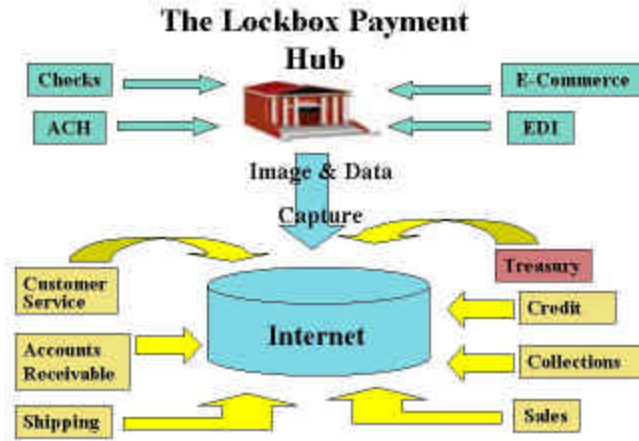


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**Lockbox Studies &  
Lockbox Modeling...  
How it Really Works**

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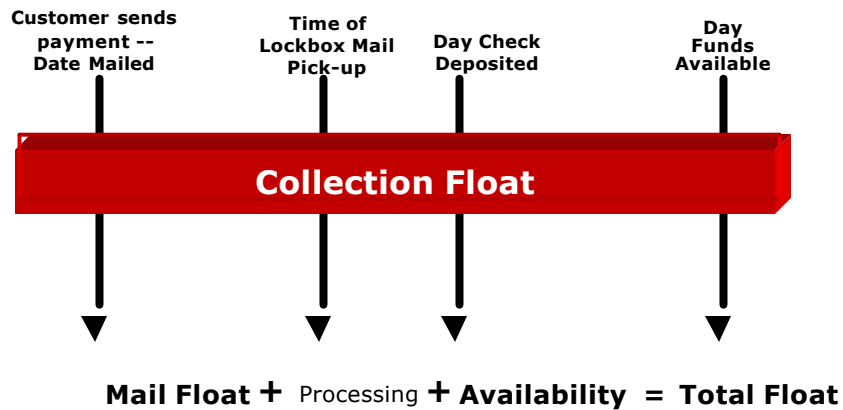
## Complexity of the Collection System



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## Measurements from the Lockbox Customer Perspective



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## Why Lockbox Mail is Different

- 1/4% - 1/2% of First Class Mail
- Normally a Window Envelope
- Unique 5-digit Zip
- Caller Box Service
- Multiple Pickups
- Weekend and Night Pickups

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## Postal Survey<sup>⓪</sup> General Methodology

- April/October Each Year
- 170 Mail Cities (Origination)
- 10 Consecutive Business Days
- 5 p.m. or Last Pickup of Day
- Mailing Agent Keeps Log
- Phoenix-Hecht as Recipient Monitors

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## Phoenix-Hecht Postal Survey Envelope



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## Postal Survey Reports.... Mail Arrival Patterns

	Mon	Tue	Wed	Thur	Fri	Week Day Total	Sat	Sun
1 AM	1.02	0.00	0.36	1.49	0.72	3.59	1.08	0.18
2 AM	0.54	0.00	0.00	0.72	0.18	1.43	2.51	0.72
3 AM	0.24	0.00	0.06	0.12	0.12	0.54	0.00	1.43
10 PM	0.12	0.06	0.00	0.12	0.00	0.30	0.00	2.09
11 PM	0.06	0.06	0.00	0.00	0.06	0.18	0.00	1.08
12 AM	1.32	0.00	0.06	0.00	0.24	1.61	0.06	0.72
<b>Total</b>	<b>5.98</b>	<b>12.07</b>	<b>19.13</b>	<b>18.65</b>	<b>17.45</b>	<b>73.28</b>	<b>13.63</b>	<b>13.09</b>

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## Collection Analysis Objectives

- Quantify Float
- Monitor Lockbox Processing
- Competitive Assessment
- Test Deposit Frequency
- Item Allocation

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## What's Needed When A Box is Studied?

- Client input
  - Data to Represent Remittance Activity
  - Assumptions
- Phoenix-Hecht Data
  - Postal Survey
  - Availability
- Software...THE Model
- The “operator” of the Model, too!!!!

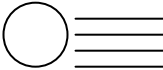
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## Sources of Remitter Data

- Sales by State (or branch or territory)
- Sales by Sending ZIP Code (3 digit)
- Customer List (80/20 rule -- top 50 ...)
- Checks & Envelopes for 30 Days/DSO period

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## Client Input

ABC Company 1708 Main Street Chicago. IL 60618	5471 January 1, 2004	
<b>PAY TO THE ORDER OF</b> <u>XYZ Company</u> <b>\$ 1331.50</b>		
<u>One thousand three hundred thirty one and 50/100</u>		
12345 678 910 11	071000031	1331.50
ABC Company 1708 Main Street Chicago. IL 60618		
<b>XYZ Company</b> <b>357 Circle Drive</b> <b>Phoenix, AZ 80855</b>		

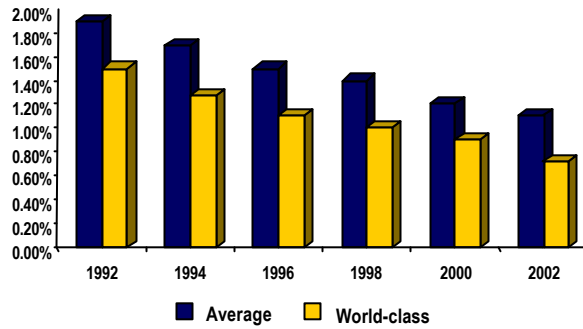
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**The Phoenix-Hecht  
Lockbox Site Selection  
Model, v. 5.27 will be  
demonstrated at this time**

**Cost is More  
Than Price...**

## Finance costs have declined significantly over the last ten years but the drivers of change are fairly consistent

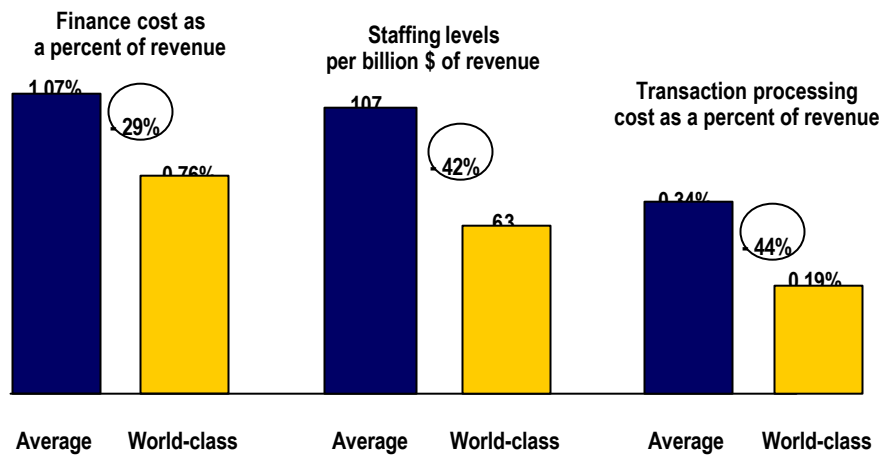
Finance cost as a percent of revenue



### Drivers of change

- Process simplification and standardization
- Leverage of new technology
- Realignment of the organization

## World-class means lower overall cost and staffing levels particularly in transaction processes

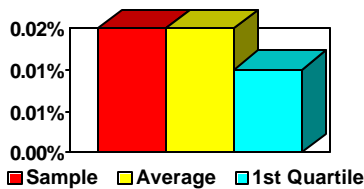


### Finance - High-level process analysis...a specific example

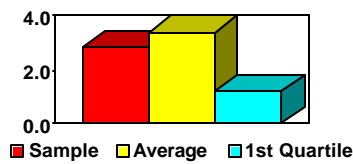
Process	\$ Gap At Average	\$ Gap At World-Class	FTE Gap At Average	FTE Gap At World-Class
Cash Disbursements	-	\$ 2.5	-	5.2
Revenue Cycle	\$ 1.2	\$ 1.8	2.0	3.0
Accounting & ext. reporting	\$ 1.0	\$ 2.0	4.0	5.0
Tax management	\$ 2.0	\$ 3.0	2.0	3.0
Planning & management reporting	-	\$ 3.0	-	1.5
Treasury management	\$ 1.2	\$ 1.8	2.0	3.0
Compliance management	\$ 2.5	\$ 5.0	1.3	2.5
Business analysis	-	-	-	-
Management and administration	\$ 2.0	\$ 3.0	2.1	3.5
<b>TOTAL</b>	<b>\$ 9.9</b>	<b>\$ 22.1</b>	<b>13.4</b>	<b>26.7</b>

## Cash Management Is An Interesting Mix of Attributes...

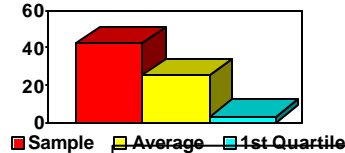
Cost as a % of revenue



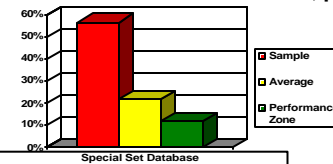
FTEs per \$ billion Revenue



Bank accounts per \$ billion of revenue

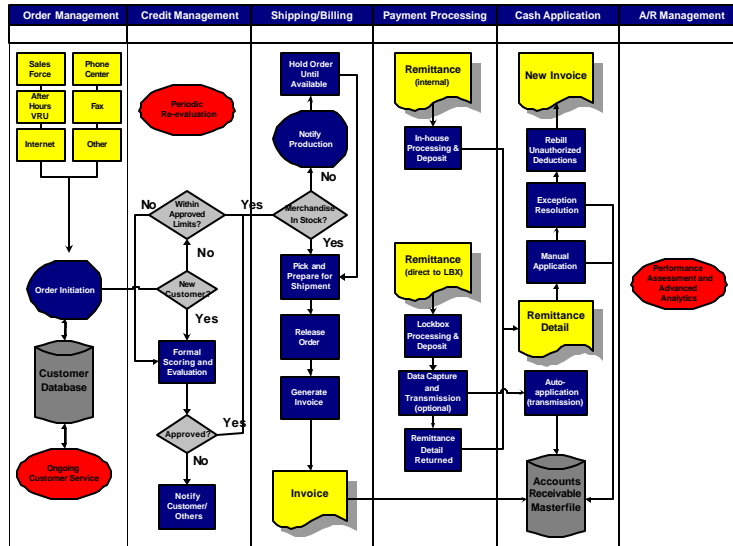


Time for Back Office Functions, per FTE



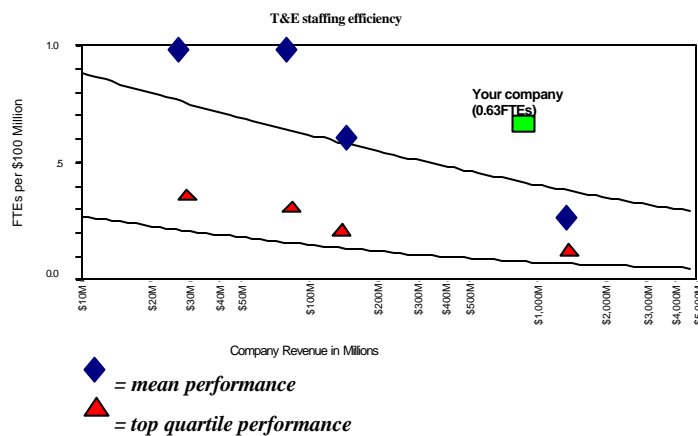
*People are performing tasks that can be transformed via technology and efficiency improvement*

## Process Flows...Find Efficiency...Now!



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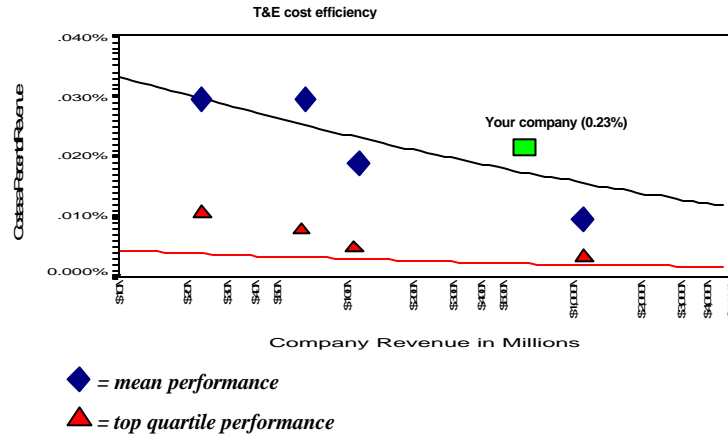
## T&E best practices help reduce staffing requirements...



Source : DecisionGauge

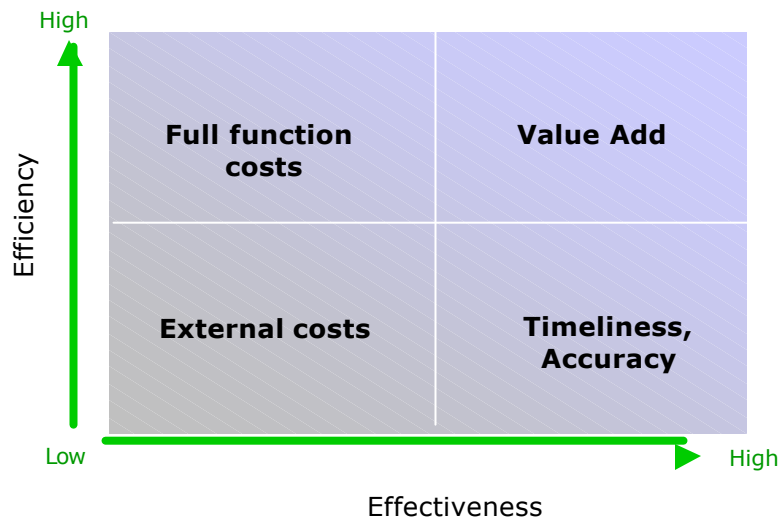
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## ...and result in a reduced T&E cost structure



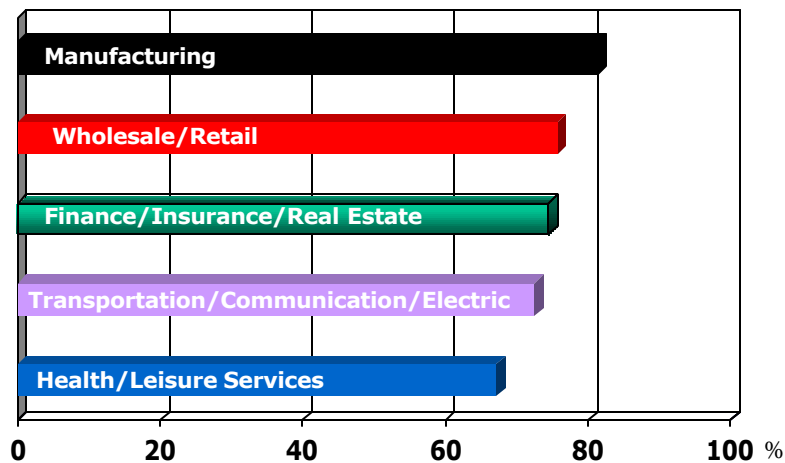
Source : DecisionGauge

## Focus On The Important



# Disbursements... Paint By The Numbers & Manage Risk!

## ~~Controlled Disbursement Usage~~



# Sample Check Clearing Report

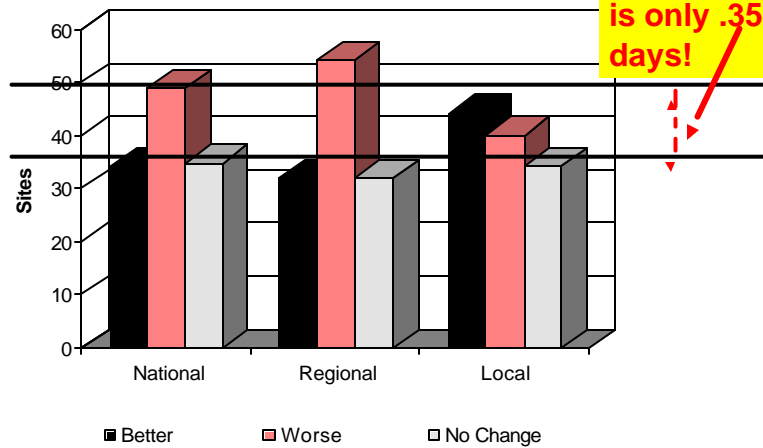
Phoenix-Hecht Clearing Study™  
 Clearing Time for Drawee Point:  
 AmSouth - Jasper AL (0622 - RCPC)

Fed District	Checks Deposited in:	Lockbox			Over-The-Counter		
		Unsmoothed	Smoothed	Difference	Unsmoothed	Smoothed	Difference
01	Boston, MA	2.00	1.85	0.15	2.60	2.60	0.00
	Portland, ME	N/A	N/A	N/A	2.60	2.60	0.00
	Manchester, NH	N/A	N/A	N/A	2.60	2.60	0.00
	Providence, RI	N/A	N/A	N/A	3.40	3.00	0.40
	Hartford, CT	2.60	2.25	0.35	2.60	2.25	0.35
02	New York, NY	2.10	1.90	0.20	2.40	2.05	0.35
	Newark, NJ	2.60	2.60	0.00	2.60	2.60	0.00
	Rochester, NY	2.60	2.60	0.00	2.60	2.60	0.00
03	Philadelphia, PA	1.90	1.95	-0.05	3.60	3.10	0.50
	Wilmington, DE	N/A	N/A	N/A	3.20	2.90	0.30
04	Cleveland, OH	1.50	1.72	-0.22	2.00	1.97	0.03
	Cincinnati, OH	2.60	2.65	-0.05	2.60	2.70	-0.10
	Pittsburgh, PA	1.40	1.40	0.00	2.60	2.60	0.00
	Columbus, OH	1.40	1.40	0.00	2.60	2.60	0.00
05	Richmond, VA	2.60	2.00	0.60	2.80	2.10	0.70
	Charleston, WV	N/A	N/A	N/A	2.60	2.60	0.00
	Baltimore, MD	3.20	3.10	0.10	3.60	3.30	0.30
	Charlotte, NC	1.40	1.40	0.00	1.40	1.80	-0.40
	Columbia, SC	N/A	N/A	N/A	2.60	2.60	0.00
	Washington, DC	2.60	2.60	0.00	2.60	2.60	0.00

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## Disbursement Survey Trends (Sites)

Disbursement Site Trends

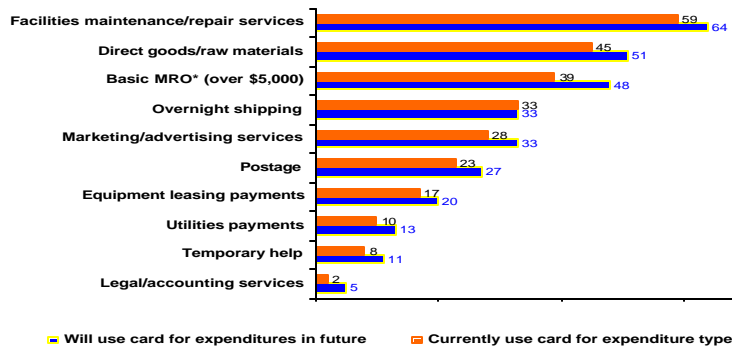


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## Examples of best practices in Cash Disbursements

Best Practices	Company	Top Performer
♦ Degree of integration of the purchasing application to the accounts payable application	Low	High
♦ Suppliers submit their invoices electronically	0%	34%
♦ Use of a procurement card for purchases (typically low \$ purchases)	0%	22%
♦ Use of a Web application to allow suppliers to obtain status updates	2%	30%
♦ Workflow cycle to process a transaction (invoice/T&E) is kept to fewer than five business days	0 day(s)	2 day(s)
♦ Percentage of travelers completing and submitting their expense reports via an online application	20%	10%
♦ Percent of expense reports requiring management approval	20%	10%
♦ % of expense reports audited for compliance (e.g., sample size)	20%	10%

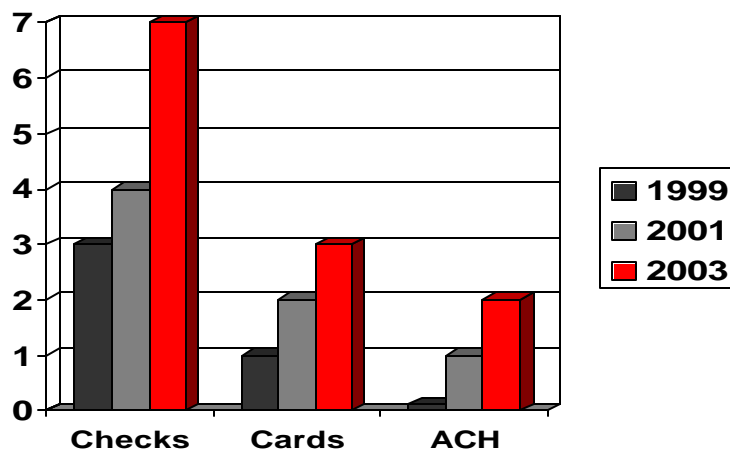
## Purchasing Card Volume and Usage



Source: Visa— National Association of Purchasing Managers Survey

## Fraud Attempts in the Three Main Payment Media are Growing Exponentially

Fraud Attempts: Checks, Cards, ACH, per Thousand Transactions



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## Key Attributes of Risk Managers

- Know the process “inside out”
- Have industry contacts
- Conduct activities in “off-hours” observations/situations
- Measure & Quantify risk exposure
- Assign probability values
- Design mitigation strategy & tactics
- Have authority...and management’s attention

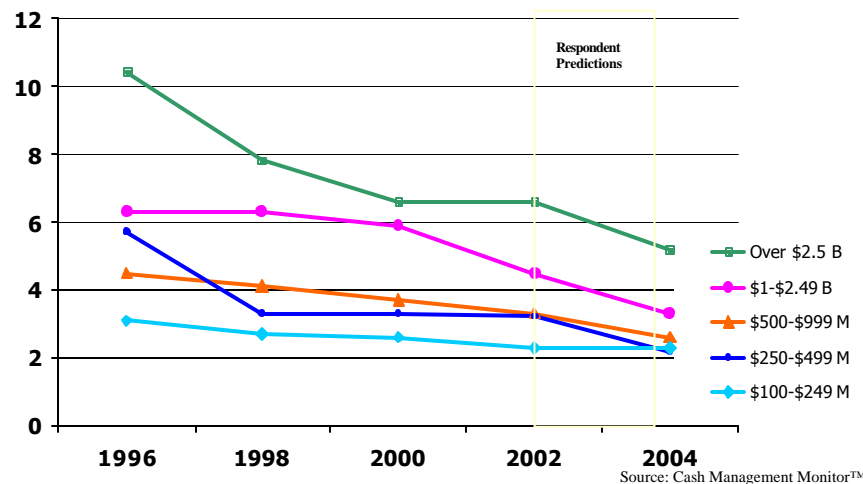
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# Bank Relationship Management... Make it Quantitative, too!

## ~~Relationship Consolidation Continues~~

Average Number of Cash Management Relationships



## 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™

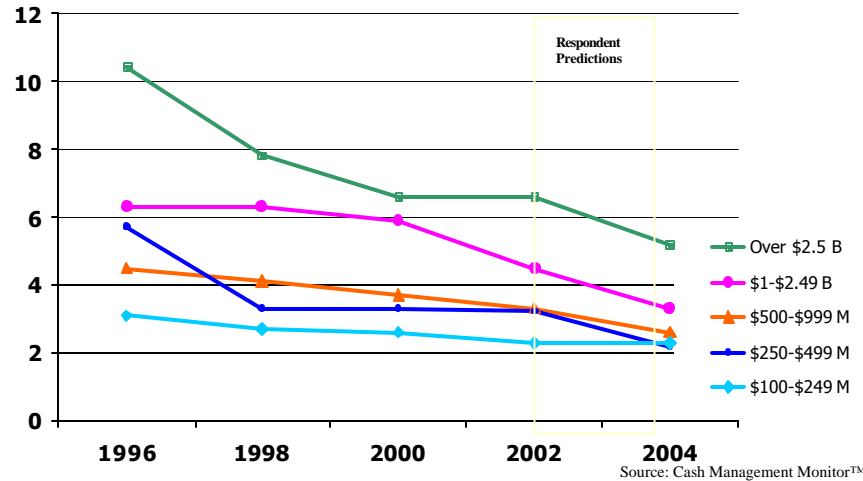
## Distribution of Quality Index Grades™

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

Source: 2002 Cash Management Monitor™

## Relationship Consolidation Continues

Average Number of Cash Management Relationships



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### Bank Report Cards – Checklist of key items for bank service agreements

- *Operating procedures*
- *Reporting requirements*
- *Performance measurement standards*
- *Liabilities and indemnification*
- *Compensation*
- *Ability to audit*
- *Notifications*
- *Authorized activities*
- *Authorized persons*
- *Document flow*

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## Bank Evaluation Card

	<i>Bank</i>	<i>Bank</i>	<i>Bank</i>	<i>Bank</i>	<i>Bank</i>	
<i>Services</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>Avg.</i>
Ctl. Disb	5	4	NA	3	NA	4.0
Whol. LBX	5	5	2	NA	4	4.0
Rtl. LBX	4	NA	5	NA	2	3.7
Wire Tr.	4	5	3	4	5	4.2
Con. ACH	5	5	5	NA	1	4.0
Bal. Rpt.	5	4	5	2	3	3.8
ST Inv.	5	4	NA	NA	NA	4.5
Acct. Stmt	5	5	5	5	5	5.0
Acct. Anal.	5	3	5	5	4	4.4
Bank Avg.	4.8	4.4	4.3	3.8	3.4	4.1

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### Bank Report Cards – Decision Framework for Bank Performance Rating

<i>Decision</i>	<i>Attribute</i>	<i>Bank Scores</i>		
<i>Attributes</i>	<i>Weight</i>	<i>Bank A</i>	<i>Bank B</i>	<i>Bank C</i>
Operating performance	3	15	12	9
Problem-solving	2	8	10	6
Innovativeness	3	12	9	6
Willingness to customize	2	8	6	4
Accuracy	2	10	10	8
Service costs/prices	1	4	3	2
Technical capabilities	3	12	12	9
Market position	1	5	4	3
Responsiveness	2	8	6	6
Flexibility	1	4	5	3
<b>Total Score</b>		<b>86</b>	<b>77</b>	<b>56</b>

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Note: Banks are ranked based on their total score (weights are assigned 1, 2 or 3 (3 is highest)).

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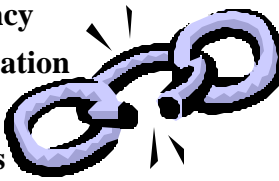
### Sample Index for Dimensioning Banking Relationships

Attribute	Talking Points	Average Distribution Weighting	Specific Weighting
Collection System Capabilities	<ul style="list-style-type: none"> <li>• Meets "best vision" needs</li> <li>• Float, timeliness, accuracy</li> <li>• Controls &amp; AR Integration</li> </ul>	19%	
Costs	<ul style="list-style-type: none"> <li>• Blue Book Ranges</li> <li>• Low problem occurrence</li> </ul>	19%	
Electronic Information Access	<ul style="list-style-type: none"> <li>• Presentation/Intuitive</li> <li>• Security &amp; Controls</li> </ul>	17%	
Credit	<ul style="list-style-type: none"> <li>• Cost</li> <li>• Availability/Covenants</li> </ul>	17%	
Strength, Soundness & Risk	<ul style="list-style-type: none"> <li>• Capital Adequacy</li> <li>• Management</li> <li>• Segmentation Position</li> </ul>	11%	
Disbursement System Capabilities	<ul style="list-style-type: none"> <li>• Timing</li> <li>• Risk Mitigation/Flexibility</li> </ul>	9%	
Partnership, Customization, Service Quality	<ul style="list-style-type: none"> <li>• Officer calibre</li> <li>• Milestone Achievement</li> <li>• Innovation "quality"</li> </ul>	8%	

**Forecasting...  
and creating other  
illusions**

## Implications For Finance: Information Must Define And Create Value

Information	Today	Tomorrow
Content	Exhaustive	Selective
Measurement	Financial	Varied
Frequency	Calendar	Event
Organization	Local	Global
Format	Paper	Electronic
Analysis	What	Why
Reporting Entity	Organization	You Name It!
Value Measure	Information	Insight



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## Attributes for successful cash (and other) forecasts:

- A method depends on....
  - type of data available
  - relative accuracy of available data
  - quality of data available
  - scale of the analysis
  - length of projection period
  - budget & time
  - tools

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## Attributes for successful cash (and other) forecasts (continued):

- A “madness” (prosecuting the method)
  - motivation
  - education
  - direction
  - risk sensitivity
  - experience
  - rewards & recognition

## So Let's Calculate:

- $F_{t+1} = aX_t + (1-a)F_t$
- SMA
- Distribution
- Ratio / Percentage of Sales
- R & D Scheduling....yes, its that easy!

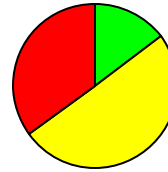
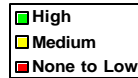
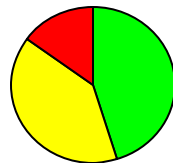
# Yet the "big story" is really this:

## Views of Forecasting

"What is your (or your subordinate) views of the priority of cash forecasting?"

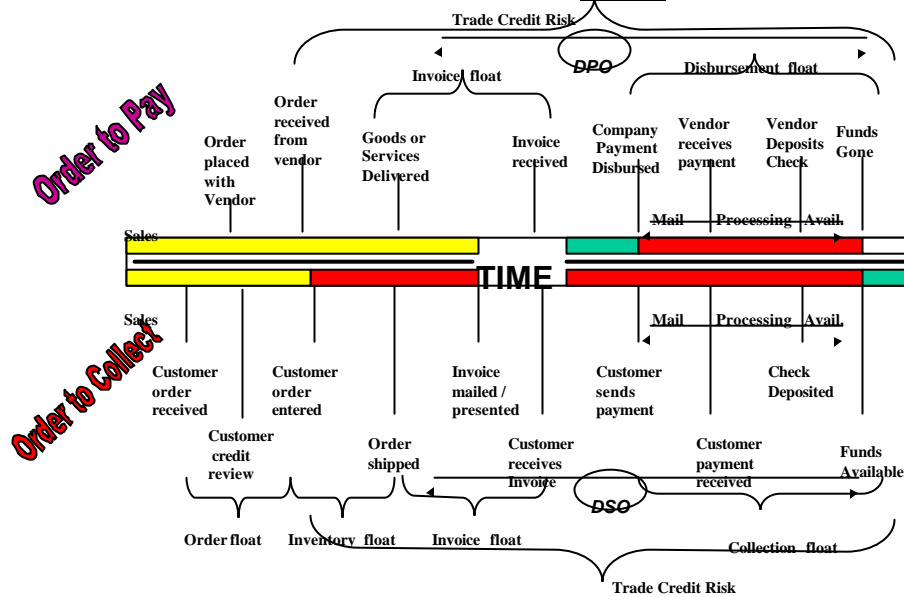
Aggregated Database:  
Senior Managers of Treasury & Finance

Aggregated Database:  
"Treasury Performers"

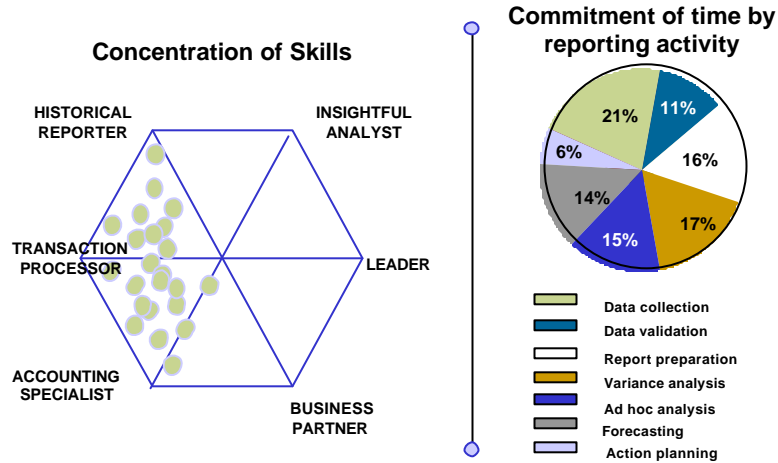


119 respondents from 604 surveyed: +/- 6% Source : DecisionGauge

# The Cash Flow Timeline is THE Focus



## Typical Practices Have Focused on Non-Value-Added Activities



## Managing the Boss... and Transforming Yourself

## Become A Quick-Change Artist

- Taking care of your career these days means managing perpetual motion
- Organizations will keep reshaping, shifting and flexing to fit our radically changing world
- Duties will be constantly realigned



Being a quick-change artist can build your reputation, while resisting change can ruin it. Take personal responsibility for adapting to change.

## See Yourself As A Service Center

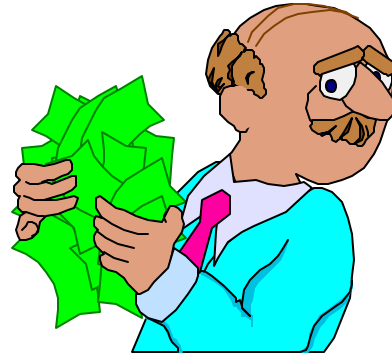
- Unless you provide the best possible service at a competitive market price (i.e., salary), you'll find it hard to stay employed
- Seek regular, direct contact with our company's leaders
- Build strong relationships



Deliver the highest quality service possible. Anticipate needs, and develop a reputation for responsiveness.

## Add Value

- It's your *contribution* that counts. Not the hours (or years) you put in
- You'll be better off if you think in terms of being paid for performance



Add enough value so everyone can see that something very important would be missing if you left.

## Manage Your Own Morale

- If attitudes go sour, the boss gets the blame
- Saddling someone else with the job of keeping you contented and upbeat at work is a slick move
- If you put someone else in charge of your morale, you disempower yourself



You're far better off to assign yourself personal responsibility for attitude control.  
Take charge of your moods

## Treasury & Finance Will Look And Work Differently

### Today

#### Brick & Mortar Organization

- Functional / business unit alignment and location
- Largely clerical
- Transaction processing focus
- Outsourcing / shared service for transaction processing
- Technical accountants
- Historical reporter

### Tomorrow

#### Virtual Finance Organization

- Boundaries blurred
- Primarily professionals and managers
- Information / decision-making focus
- Global knowledge centers
- Business integrator
- Information architect
- Strategist