# Managing a Corporate Treasury Department

## Session 2: Transitioning to the Modern Treasury

A Presentation to the
NY Cash Exchange

by

Bruce C. Lynn, CTP

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THE FINANCIAL EXECUTIVES CONSULTING GROUP, LLC

# Session 2 Agenda

- Breaking the ties that bind
- What does the other company do?
- The survey says.....
- Problems and opportunities
- Treasury Do’s & Don’ts
- Implementing a transition plan
- Q & A

# Breaking the ties that bind

- Quick review
  - Session 1 – The "perfect" treasury
    - More planning, less processing; treasury is in the liquidity business
    - Fewer "moving parts", more integration
    - Less "float", more flows (cash, accounting, information)
- Bottom Line: Change is hard
  - Change is not free & has a cost
  - Change introduces risk, but can generate rewards
  - Doing nothing is really not an option given:
    - The demise of "covenant lite" credit facilities endangers access to external liquidity sources (i.e. "the market")
    - Slow (no?) growth environment which has impacted corporate operating cash flows (i.e. more dependant on internal source of liquidity?)

# What do the other companies do?

- Reaching any goal requires a series of risk / reward decisions. Ask:
  - What are my peers' goals?
  - How do I know if I am doing a good job (metrics?)
  - How much risk am I willing to take?
- Setting goals via "benchmarking" can help
  - 6th annual survey conducted by the FECG looked at 25 treasury issues
  - Each company asked to rank 25 questions
    - 1 = most important
    - 5 = least important

# The survey says…..

- Sales size among 275 respondents
  - Small : 77% sales under $1Bn
  - Large: 23% sales greater than / equal to $1Bn
- Respondents
  - At large : 50% were CFO, Treasurer, AT, VP Finance
  - At small : 58% were CFOs
- No longer have to be big to be global
  - 25% of companies with Sales < 1BN billed more than 10% of their sales in non USD
- Managing capital structure is key
  - 28% of “smalls” below investment grade
  - 23% of “bigs” below investment grade

# The survey says…..

- Companies are becoming more sophisticated
  - 32% of smalls hedge their market exposure
  - 75% of bigs hedge
  - Favorite Hedges: Forward or SWAP
- Multiple "platforms" (GL, ERP) in use
  - 50% at large companies
  - 19% of small companies (better)
- Implications
  - Operational risk issues ?
  - "Cloudy" view when managing liquidity?

# The survey says….(2)

- Resources within Treasury are limited (mostly)

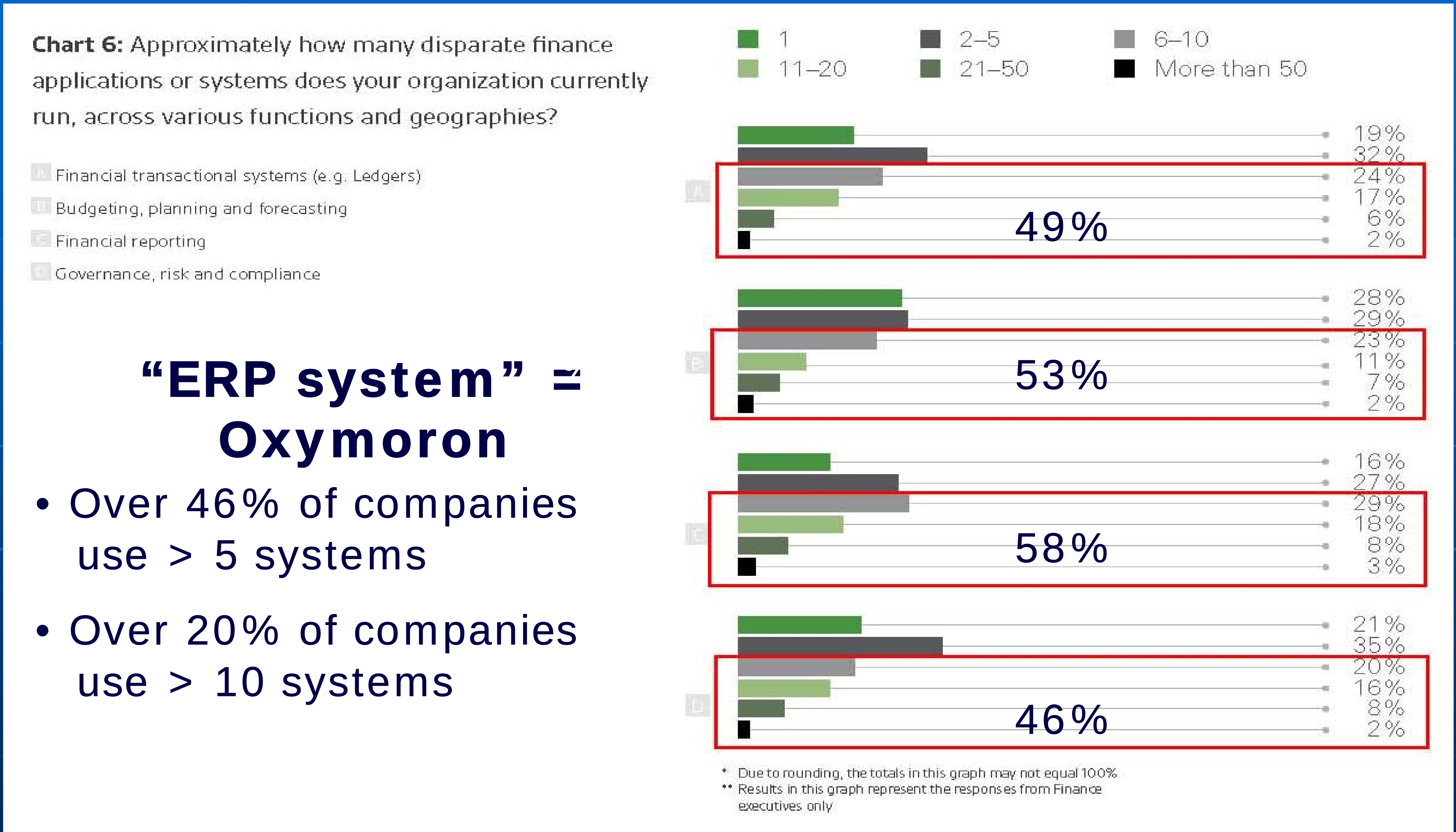
| FTE | Small * | Large * |
|---|---|---|
| 1 to 3 FTE | 41% | 30 |
| 3 to 5 FTE | 7 | 22 |
| 5 to 7 FTE | 3 | 22 |
| > 7 FTE | 2.5 | 26 |

- * Totals < 100%.
- Some treasury functions performed outside of " treasury" potentially doubling effort

- Technology still depends on old "systems"

| % Mostly / solely dependant on Email, Spreadsheets, Bank Web Systems | Sales > 500MM |
|---|---|
| Reporting | 49 % |
| Cash Mgt – Collecting, Positioning, Transfers, forecasting | 42 |
| Debt / Inv. Mgt – Track principal, interest accruals, covenant | 51 |
| Bank Relationship Management | 41 |
| Risk Mgt | 44 |

# Another survey says....(3)




**"ERP system" = Oxymoron**

- Over 46% of companies use > 5 systems
- Over 20% of companies use > 10 systems

Source: "Empowering Modern Finance, Accenture 2014

# The survey says....(4)

| Too many “moving parts” (treasury systems) at larger companies? | Sales > 500MM | Sales < 500MM |
|---|---|---|
| Bank systems | 70 | 61 |
| Treasury Workstations | 35 | 14 |
| Investment Portal | 36 | 14 |
| Report Writer | 55 | 23 |
| Other 3rd party systems (ERP) | 87 | 71 |

- Implications
  - Reliance on many, older systems (spreadsheets) does not generate “global visibility” for liquidity or risk.
  - Too many systems focused on profitability than liquidity ➔ Treasury less important?

# The survey says....(5)

- Banking structures still too large?

| # Banks in Use | Domestic % | | International % | |
|---|---|---|---|---|
| | Sales < 500MM | Sales > 500MM | Sales < 500MM | Sales > 500MM |
| < 10 | 97 | 78 | 98 | 71 |
| 10 – 15 | 2 | 4 | | 6 |
| 15 – 20 | | 3 | | 4 |
| > 20 | | 12 | | 15 |
| Not sure | | 2.5 | 1 | 4 |

- 10 banks or less "works", but still too many?
- Will lack of credit drive a relationship change?
- "Best" strategy – fewer banks or fewer bank accounts?

# The survey says….(5)

| 2014 rank | Most Important Top 5 of 25 Issues | 2015 Rating (1 = most Important) |
|---|---|---|
| 1 | Improve cash forecasting capability | **2.4** |
| 2 | Improve liquidity across business units | **2.5** |
| 5 | Optimize capital structure | **2.7** |
| | Act as Internal consultant | **2.9** |
| | Play a more active role in risk management | **3.0** |

- Forecasting most important due to more uncertainty in 2015 ?
- Top 2 issues are all about “liquidity”

# The survey says….(6)

| 2014 Rank | Least Important Issues | Rating (5 = least Important) |
|---|---|---|
| 3 | Benchmark Treasury Capabilities | **3.6** |
| | Upgrade Treasury systems | **3.6** |
| 2 | Identify market exposures | **3.7** |
| 4 | Require External Training | **3.7** |
| 1 | Reduce Number of banking relationships | **3.8** |

- Will managing most important be impeded by the least important ?
- Will demand for treasury resources exceed supply?

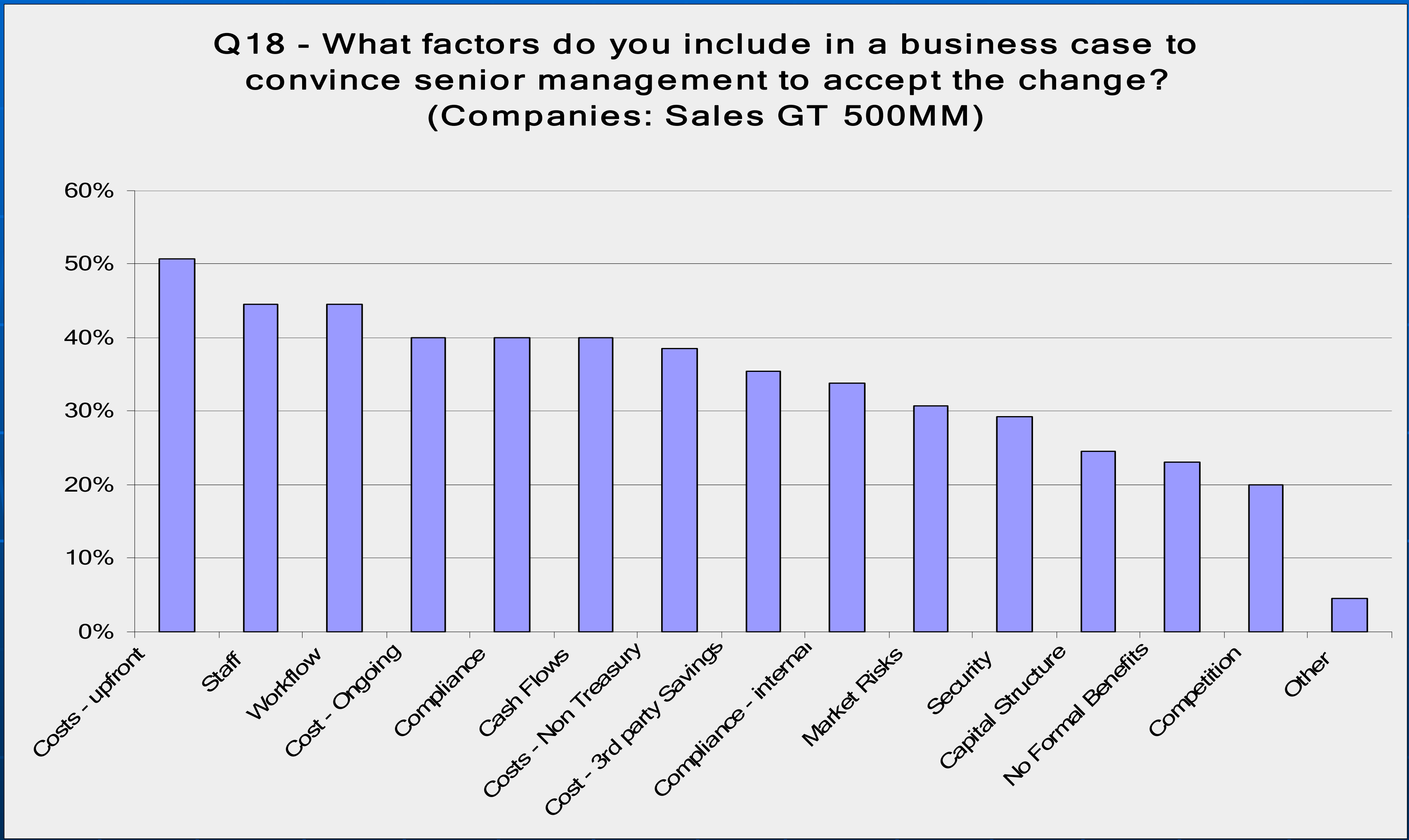
# Problems and opportunities

- Problem 1 - Can top 5 issues be completed without attempting the bottom 5?
  - Reporting – means communicating common goals and performance
  - Strategic planning – moving away from transactional thinking will yield better results
  - Risk Management – no one can accurately predict the future but failure to try is not an answer either
- Problem 2 – Cash forecasting is not being rewarded
  - Cash forecasting – Most important issue, but only 7% of companies had initiated or completed a program in the last 12 months
  - Working Capital – 2nd most important issue but only 1% of companies responding had a program in place
  - Possible reasons
    - Incentives – company focused on profitability, not liquidity?
    - Integration – multiple financial systems increase “friction” among lines of business / financial staff
- Problem 3 – How does treasury demonstrate “value”?
  - Future costs / market risks are difficult to measure
  - Financial statements measure historic events
  - What are best metrics of liquidity? Risk? (46% have no metrics)

# Problems and opportunities (2)

- Bottom line
  - Size by itself is not important in determining importance of issues
  - Issues of forecasting and working capital (i.e. operating cash flow) are key
  - Least important issues maybe preventing implementation of the most important (need for more resources?)
  - Technology alone is NOT the solution
  - Neglecting key issues can:
    - Make treasury less “visible” and valuable
    - No value = Restricted career options

# Problems and opportunities (3)



# Treasury Do's & Don'ts (1)

1. **Do your diagnostic homework**
    - Only start serious discussions with banks or other vendors if you fully understand current practices;
        - Identify key needs/opportunities
        - Define project scope/objectives
        - Set measurable goals
2. **Do be realistic**
    - Change requires an organization to tackle twice as much work
        - How much time/effort treasury staff can devote to a special project in addition to their normal jobs?
        - Be prepared to change the changes
3. **Do exchange ideas with your peers who have addressed the same issues**
    - From other companies
    - From associations (e.g. via AFP, FEI, AICPA, etc)
    - From networking resources (e.g. FENG)

# Treasury Do's (2)

**4. Do seek answers to business issues**

- The answers will not always be in treasury
- Forecasting requires two way communication with the "owners" of the cash receipts or disbursements
- Email is so 20th century – seek out interactive planning and forecasting tools

**5. Do become a planner not a processor**

- Career choices are limited – how many Treasurers, VPs, CFOs process?
- Understanding strategy is important regardless of company size or complexity

# Treasury Don’ts (3)

1. **Don’t forget - a bank or vendor’s primary objective is to sell**
   - When seeking change will their standard product (technology, bank service) fit your need?
   - Should I get a “bespoke” version in order to have a perfect fit for my company?
2. **Don’t rely solely on an RFP “process”**
   - Focus on an the end result and see how much creative effort the banks/vendors are prepared to make to respond to your needs.
3. **Don’t set unrealistic completion dates**
   - Treasury projects may not be high priority for everyone, e.g. IT, legal, unit controllers.

# Treasury Don’ts (4)

## 4. Don’t be afraid to change

- As companies grows so does its need for change
  - For small companies - the larger the company the more there is a need for a treasury.
  - For mid size companies – Treasury needs to learn the business.
  - For larger companies – centralization is not enough: forecasting is key
- Keep it simple: Ex: hedging, bank account structure

## 5. Don’t forget to measure the rewards from change; make it part of the plan

- To the business unit – lower operating expenses
- To the company – less borrowing / expenses
- To both – less risks or errors; greater certainty about the future

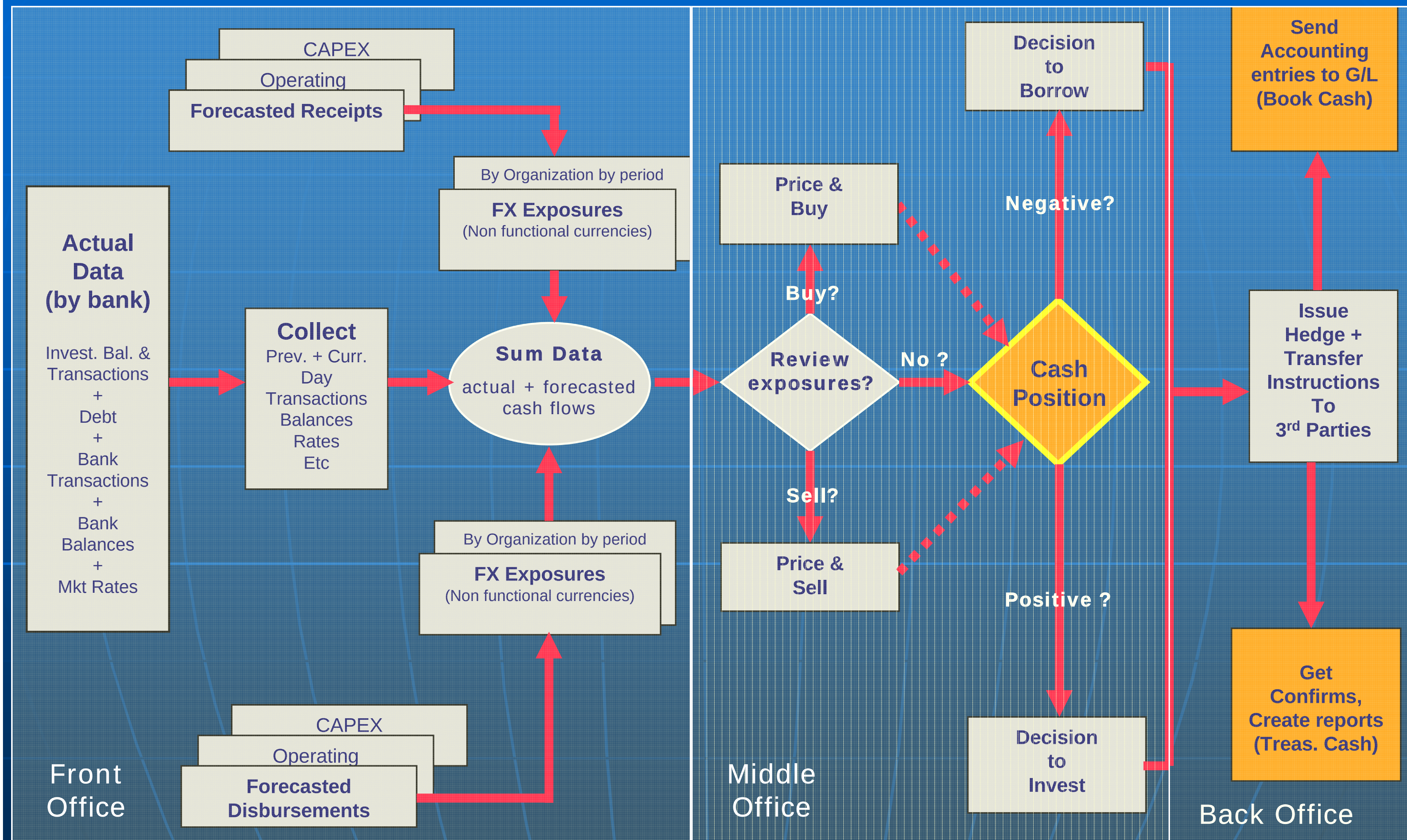
# Implementing a transition plan

- Start by catalog treasury's strengths
  - Staff – a "few good men/women?"
  - Assets managed – how much? How many counterparties
  - Trusted Advisor – banks, business units, etc
- How should treasury view its value added ?
  - Efficient processor ?
  - Skillful planner / forecaster of cash?
  - Technical expert concerning – GAAP, Tax, SARBOX, etc?
  - Skillful negotiator with 3rd parties (e.g. banks)?
  - Ability to control financial risks?
- Be honest / realistic about weaknesses
  - Staff – too junior? Unfamiliar with company businesses?
  - Information out of date / incomplete?
  - Technology out of date?

# Transition Plan (2)

- Assess current situation
  - The problem is never black & white and the solution is not a “treasury thing”; it is a team (i.e. task force) thing
  - Resist the “solution du jour” from vendors
- Establish goals that are:
  - In sync with company’s profitability plans
  - In sync with business users / suppliers of cash
  - Identify what:
    - MUST stay – market forces at work?
    - MUST go – internal constraints (but which ones?)
    - COULD go?
- When transitioning, track outputs from the 4 “flows”
  - Work flows
  - Information flows
  - Cash flows
  - Accounting flows

# Transition Plan: Managing the “Flows” (3)



# Transition plan (4)

- A good plan focuses on benefits to the users
  - Tangible vs. non tangible benefits
  - What is the cost of quality?
- Building a business case for change
  - Cash flow benefits vs risk – function of balances, amounts, speed, opportunity.
    - Operating cash flows – from A/R, A/P, payroll, taxes, etc
    - Financial cash flows – borrow, investing, rates, maturity
    - Volatility?
  - Transaction benefits – services / prices / performance
    - Bank service costs – paper vs electronic? FDIC?
    - In house processing has a cost – compare to bank
  - Staff utilization – tasks, work flows and hours worked
    - Treasury is only a part
    - Non treasury (local controllers, tax, audit, etc)
    - What is NOT getting done?

# Transition plan (5)

- Link treasury plans to corporate planning process:
  - P & L – bank fees, net interest expense, tax
  - Balance sheet – level of cash, working capital, LT debt
  - Risk management
    - Business units responsible for amount of funds;
    - Treasury responsible for cost of funds (i.e. immunize business units from rate swings)
    - Gains / losses, CTA accounts, % in non functional currencies, interest margins
  - Set up “contracts” with other company units
    - Business units - operating profits at set FX rates
    - Financial units – controls (auditors), tax credits (Tax)
- Establish metrics based on clearly defined values
  - Liquidity
  - Risk
  - When is as important as how much

# Transition plan (6)

- Top 10 tasks to transition from "processor" to "planner" (ranked easy to hardest)
  1. Rationalize bank network
  2. Set target balances at banks
  3. Re-bid bank services to obtain market prices
  4. Work with other financial units to establish joint goals
  5. Upgrade treasury technology

# Transition plan (7)

6. Set up pooling or netting arrangement at international locations
7. Create in-house bank
8. Obtain analytical tools to measure risk
9. Imbed performance measures into corporate planning processes
10. Work with business units as "internal consultants"

# Q & A

- FECG Contact Information
  - www.thefecg.com
- Bruce Lynn
  - Phone: 203-655-4806
  - Email: blynn@thefecg.com