

# Working Capital Metrics: What Gets Measured Gets Managed

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# Understanding Working Capital

Working Capital Management focuses on CASH!

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## OPTIMIZING CASH

ensuring cash is deployed efficiently  
by lean and automated processes

## MAXIMIZING CASH

maximizing cash flow by improving DSO  
and DPO to grow operating cash flow

## VISIBILITY/ACCESS TO CASH

gaining visibility and access to cash through  
optimal liquidity structure and forecasting

## PROTECTING CASH

preserving cash by ensuring risk management  
policies and processes are in place

# Taking a Holistic Approach to Working Capital

## Policy, Process, Organization and Technology

### Policy:

Ensure corporate-wide Treasury/Finance policies are written, communicated and audited.

### Technology:

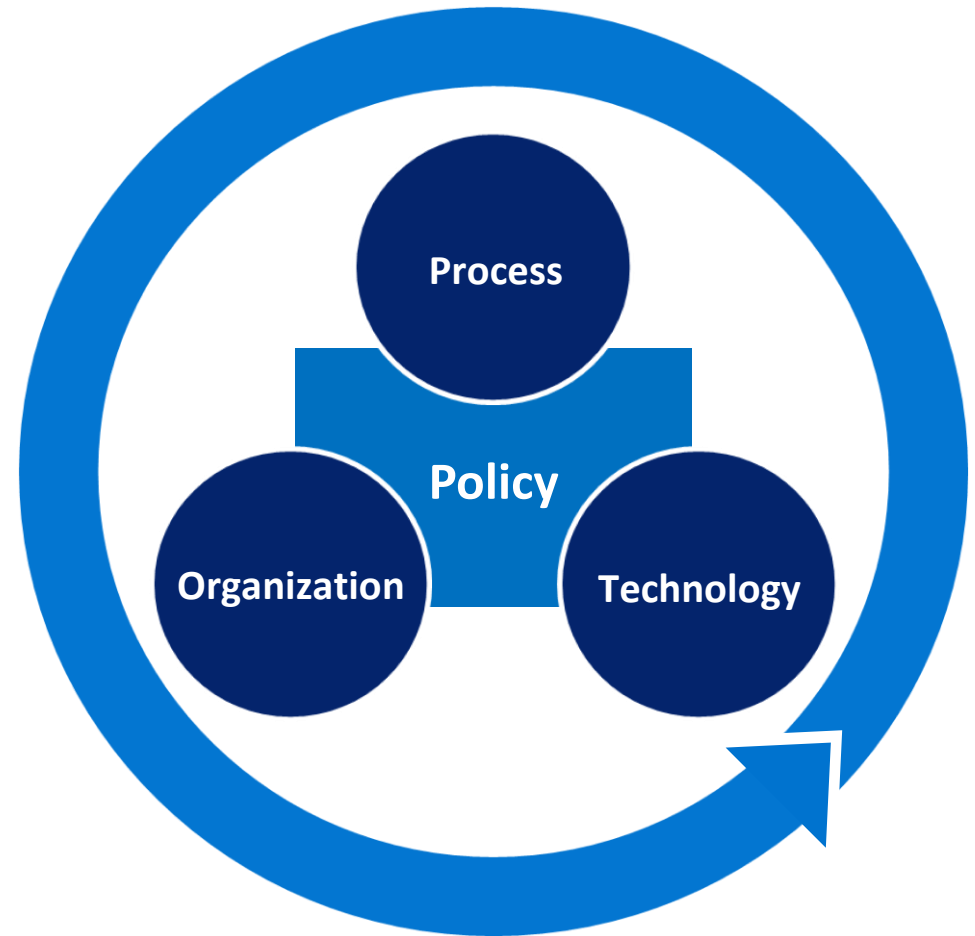
Leverage your ERP system and bank technology to attain best-in-class levels of automation.

### Organization:

Centralize functions such as Credit, Order Entry, Cash Application, Invoice Management and Payment Execution to a corporate level or Shared Service.

### Process:

Ensure streamlined, automated processes are in place with tight controls to mitigate the risk of fraud and reduce the risk of errors.



# What Are Your Corporate Goals?

- **Margins**
  - **Gross Margin**
  - **EBITDA Margin**
- **Earnings per Share (EPS)**
- **Gain Market Share**
- **Operating Cash Flow**
  - **Changes in Working Capital**
- **Cash Conversion Cycle**
  - **DSO + DIO – DPO**
- **Prevent Fraud/Tighten Controls**



- **Incremental Cash Flow**
- **Cost Reduction**
- **Tighter Controls**
- **Fewer Errors**
- **Better Reporting**

# Managing Working Capital with Cascading Metrics

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**ACHIEVING THE GOAL!**

**UNIFIED, COLLABORATIVE TEAM**

**IDEA GENERATION, CHANGE AGENTS**

**MORE PRODUCTIVE, ENGAGED TEAM MEMBERS**

**MORE EXCITED, LOYAL WORKFORCE, TALENT RETAINED**

# Working Capital Metrics

## Measure, Monitor and Reward!

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### MEASURE:

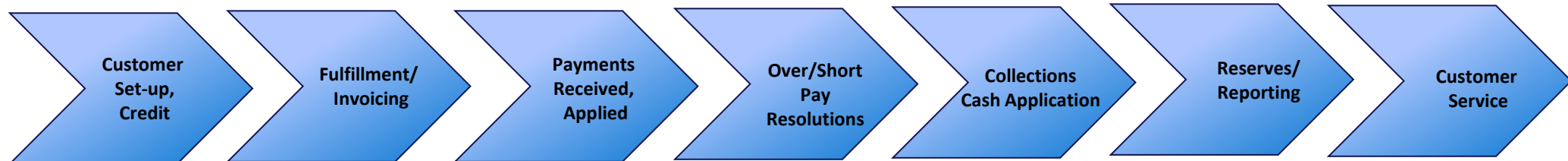
- Is performance/behavior quantifiable?
- Is measurement automated?
- Is measurement non-disruptive and cost effective?
- How many metrics will you have?

### MONITOR:

- Is measurement being tracked over time?
- Is trend data being reviewed and analyzed?
- Is performance being re-calibrated over time?
- Are new metrics needed?

### REWARD:

- What gets measured gets done and what gets rewarded gets done more!
- Are accomplishments recognized consistently and socially?
- Celebrate group success!



- # of new/existing credit apps processed
- # or % of customers being auto credit rated
- cycle time for new customer set-up
- cycle time for new customer credit reviews
- error rate for customer set-up

- EDI %
- unit cost: invoices processed
- fulfillment error rate
- invoice error rate
- utilization % of web portal

- % ACH, CTX
- % Card
- % Paper
- auto hit rate %
- unit cost: payment posting
- cash app transactions/FTE
- \$ unapplied cash
- average days late (ADD)
- % of client with non-standard terms

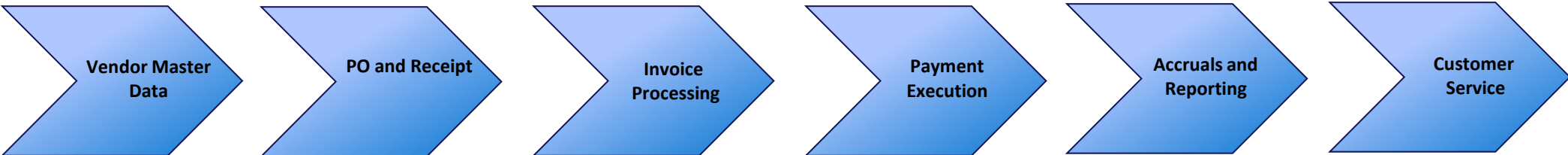
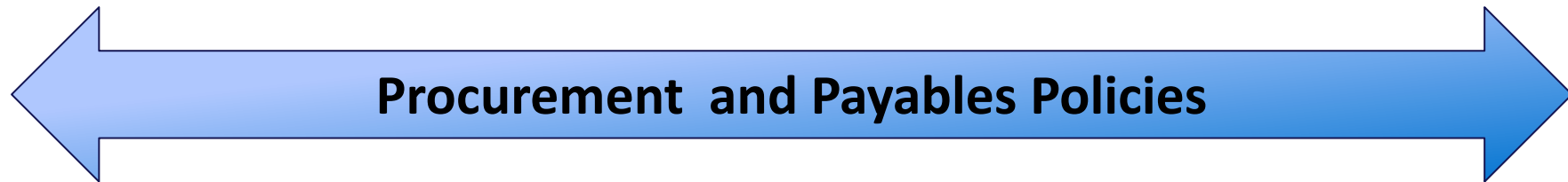
- average days deductions outstanding (DDO)
- # or % offered early pay discount
- total early pay discount amount and its effects on margin
- # or % of exceptions

- days sales outstanding (DSO)
- collection effectiveness index (CEI)\*
- unit cost: collections \$
- straight through processing (STP) %
- average days late (ADD)

- days sales outstanding (DSO)
- accounts receivable turnover rate (ART)
- bad debt to sales %
- time to close the books
- accounting accuracy

- cost to service \$
- # of disputed items
- # customer service calls
- types of customer service calls
- time to resolve

$$CEI = \frac{(\text{Beg AR} + (\text{Credit sales}/N) - \text{Ending AR})}{(\text{Beg AR} + (\text{Credit sales}/N) - \text{Current AR})} \times 100$$



- # of vendor scorecards (strategic vendors only)
- % vendor reviews
- % payment method: ACH, Card, Check, wire
- error rate for vendor set-up
- # or % of vendors offering early pay discount

- % electronic PO delivery/EDI
- % of eligible P-card spend
- # and \$ P-card transactions
- # and \$ PO transactions

- % electronic invoices
- % straight through processing vs. manual
- Invoice cycle time
- Invoices per FTE
- cost per invoice

- % electronic payments, CTX
- % payments on time
- % of available cash discounts taken
- \$ cash discounts taken vs. potential
- % of payments containing errors

- days payables outstanding (DPO)
- # or % exceptions
- forecast accuracy
- straight through processing (STP) %
- time to close the books
- accounting accuracy

- # of inquires and problems
- root cause analysis of inquires and problems
- % vendors using portal



# Treasury-Specific Metrics

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- ✓ Accuracy of Cash Forecasts
    - Investment income, Interest expense, bank fees, trustee fees, etc
  - ✓ Liquidity and Cash
    - Percent of daily cash balances vs. forecast
    - Percent of non-interest bear cash vs. total cash
    - Percent of restricted cash vs. total cash
    - Days cash available  $((\text{Cash}/\text{Sales})/365)$
    - Percent of committed credit vs. total credit available
  - ✓ Exposure Management
    - Variance to market rate at time of trade  $(\text{trade rate} - \text{market rate at time of trade})/\text{market rate}$
    - Fixed / Floating rate mix
    - Hedge percent
      - principle value of identified hedged exposures/principle value of total identified exposures
  - ✓ Debt Management
    - Short term vs. long term debt mix
    - Debt vs. Equity mix
    - All-in interest rate vs. benchmark
  - ✓ Investment Performance
    - Portfolio credit rating (weighted average credit ratings vs. stated policy target)
    - Maturity structure/schedule

# How Do We Build the Right Plan?

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