Working Capital Metrics: What Gets Measured Gets Managed

Janine Durbin
Director; Working Capital Advisor
Phone: 312.992.5185
E-Mail: janine.m.durbin@baml.com
Understanding Working Capital
Working Capital Management focuses on CASH!

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

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!**

**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!
Order-to-Cash

Credit, Collection, Receivables Policies

Customer Set-up, Credit
- # of new/existing credit aps 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 = (Beg AR + (Credit sales/N) – Ending AR)/(Beg AR + (Credit sales/N) – Current AR) x 100
Procure-to-Pay

Procurement and Payables Policies

Vendor Master Data
- # 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

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

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

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

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

Customer Service
- # of inquires and problems
- root cause analysis of inquires and problems
- % vendors using portal
Treasury-Specific Metrics

✓ 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 ((Cash/Sales)/365)
  ▪ Percent of committed credit vs. total credit available

✓ Exposure Management
  ▪ Variance to market rate at time of trade (trade rate – market rate at time of trade)/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?

1. Choose Metrics and Communicate to the Team
2. Track Progress and Share with the Team
3. Re-Calibrate, Feedback Loop
4. Reward Achievements and Celebrate Success
5. Keep Incentives Interesting and Attainable
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