

GIVE YOUR WORKING CAPITAL PLAN AN ANNUAL PHYSICAL: HOW TREASURY CAN SUSTAIN CASH FLOW IMPROVEMENTS



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Everyone understands the importance of seeing their doctor for an annual physical exam. Though we might not exactly relish having our blood drawn and our reflexes and eyes tested, we recognize that detecting problems before they become serious is the prudent thing to do for our overall health and wellbeing.

In much the same way, treasury should consider conducting a yearly checkup of its working capital management plan to determine the relative “health” of its processes. In order to sustain cash flow improvements, treasury would be well served to regularly examine any changes that have occurred to the business since plans were first put in place. The dynamic nature of business necessitates conducting periodic “health checks” in order to evaluate the vital signs of your treasury organization.

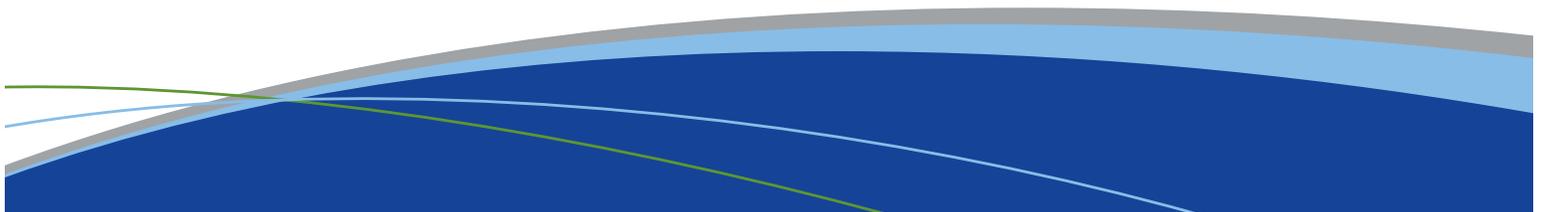
By taking the pulse of your treasury functions and how these processes are impacting your cash flow, you can begin to determine how aligned they are with your business strategies.

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MAKE ADJUSTMENTS TO YOUR PLAN FOR BETTER TREASURY HEALTH

A thorough checkup of your working capital plan can yield critical treasury insights. If you have already documented your processes, then you have a baseline of your treasury functions from which you can assess and evaluate how your plan is working. In looking carefully at any changes to these processes made since your plan was first implemented, you will be in a good position to determine what adjustments need to be made to sustain improved cash flows and refine your working capital management strategy.

When examining your existing working capital management plan, you should engage in the same process used to create the plan in the first place - define, develop and execute. By defining your current goals, you can establish where changes need to be made in your existing plans to meet new objectives. To achieve this, you should develop a process to systematically evaluate your processes, in order to see how they measure up, so you can test each process and each assumption.



Once you have identified changes that have occurred in your processes, you need to understand why they occurred. Did you lapse back into an older, less efficient process because a technology tool was too difficult to implement? Or perhaps you put a policy in place that inadvertently created unforeseen problems? For instance, to improve cash flow efficiency, a company's treasury department set a new policy that states all deposits must be made by 2 P.M. each day enterprise-wide. However, at one of the company's offices, mail delivery times have changed to 1 P.M., so rather than be late with deposits, this office decides instead to hold onto receipts until the next day. As a result, the company ends up losing one days sales outstanding (DSO) due to the new policy. By conducting a close examination of their processes, treasury is able to determine that altering this policy has the potential to improve DSO by one day at certain office locations.

A thorough examination of your treasury processes can uncover changes that have created unforeseen inefficiencies that may be diminishing the effectiveness of your working capital strategy. This will provide you with the information you need to execute appropriate changes to your plans.

DO YOU MEASURE UP AGAINST INDUSTRY BEST PRACTICES?

As you engage in periodic checkups of your treasury processes, you can gain further insights into how effective your working capital management plan is by comparing it to industry best practices. A banking partner, such as Fifth Third Bank, can share best practices for your industry that will serve as a benchmark with which to measure your processes against.

Your bank can help you examine your business segment, allowing you to extract valuable learnings which can be applied to your treasury operations. The benchmarking information can give you a starting point to analyze and evaluate areas that are ripe for improvement. You and your banking partner will still need to dig deeply into your processes, parsing out the details of your payment mix in order to determine how best to refine and enhance your plan.

Once best practices have been identified, you should think broadly about how and where these practices can be implemented within your organization to achieve maximum efficiency and improved working capital results. Your overarching goal should be to find ways to refine your working capital plan so that it becomes a highly effective tool for uncovering financial resources that can then be harnessed to grow and expand your business.

By giving your working capital plan a periodic checkup, you are better able to adapt to any type of challenge your business might encounter, be it an economic or business disruption. A refreshed plan can become an effective tool for guiding your business in meeting critical goals. A healthy working capital management plan also lets you become a setter of best practices amongst your corporate peers.

THE BEST DOCTOR DELIVERS THE BEST RESULTS

Just as none of us would consider conducting a physical on ourselves to determine the state of our health, it is equally important for treasury to turn to an expert advisor to help establish the condition of working capital management plans. Serving as a trusted advisor, Fifth Third Bank has the expertise to assist you in evaluating your treasury processes and uncovering areas that can be improved.

Having an external set of eyes take a close look at how your treasury functions are working can be invaluable when conducting a thorough review of your payables and receivables processes. Fifth Third Bank's knowledge of industry best practices and the latest solutions available, make us uniquely qualified to help you refine and update your working capital strategies so you can meet your business objectives.

**For more information please visit
www.53.com/treasurymanagement
or contact your Relationship Manager
or Treasury Management Officer.**

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