

# **Re-engineering the Corporate Treasury**

**University of North Carolina  
Keenan-Flagler School of Business**



**AnalyticResults**

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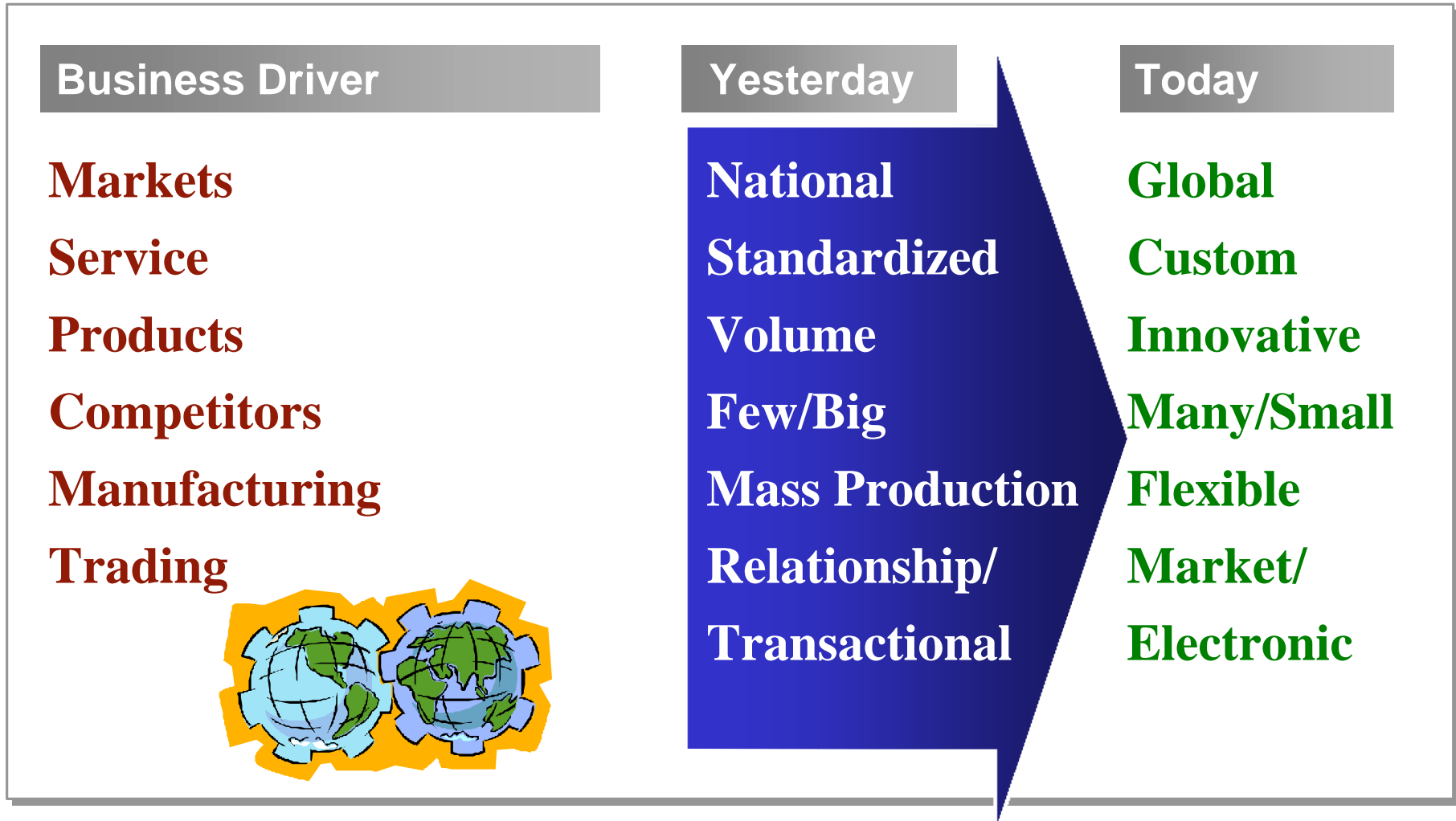
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# The New World Order

- **Collapse of Berlin Wall**
- **Openness among countries**
- **European Community**
- **Era of competition**
- **New enterprise**
- **WWW**
- **“Fast-cyclic” economies**
- **Terrorism: Physical, Psychological, Cyber & More....**



# Business Conditions are Rapidly Shifting



# Reengineering's Unfortunate Premise:

Nothing is simple anymore

Now, whatever we do is not enough

Everything is in question

Everyone must change



# Introduction & Agenda

## Included in this presentation:

- Reengineering from a business person's point of view
- Reengineering theory
- Actual examples

# Reengineering

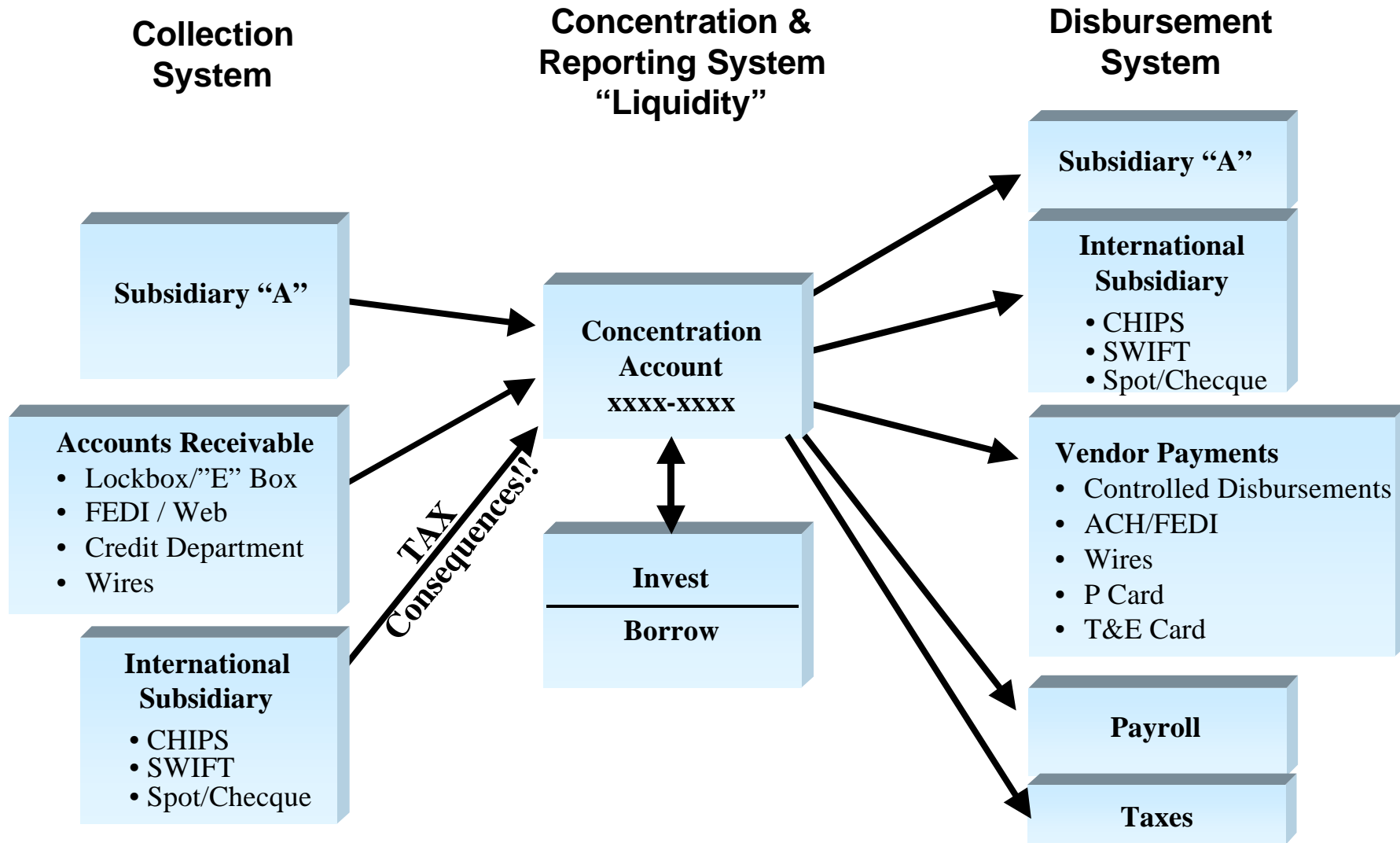
- Defined....

*“The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service and speed”*

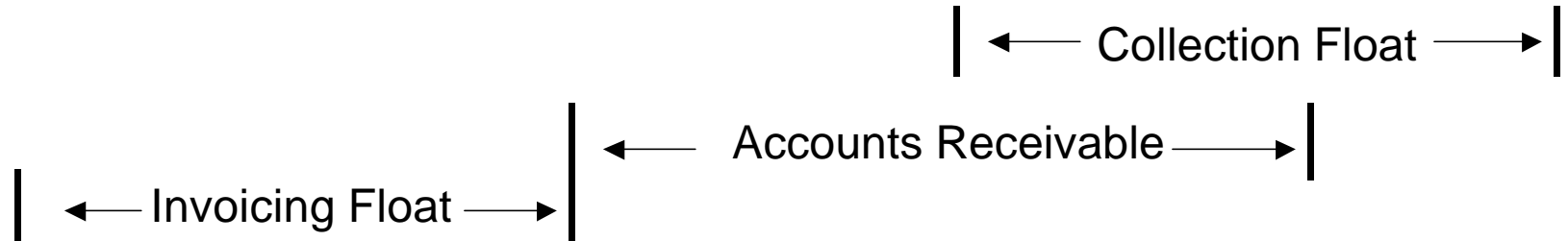
# Reengineering

- A business process is an interrelated series of activities that convert business inputs into business outputs.
  - **Value-added activities**
  - **Hand-off activities**
  - **Control activities**

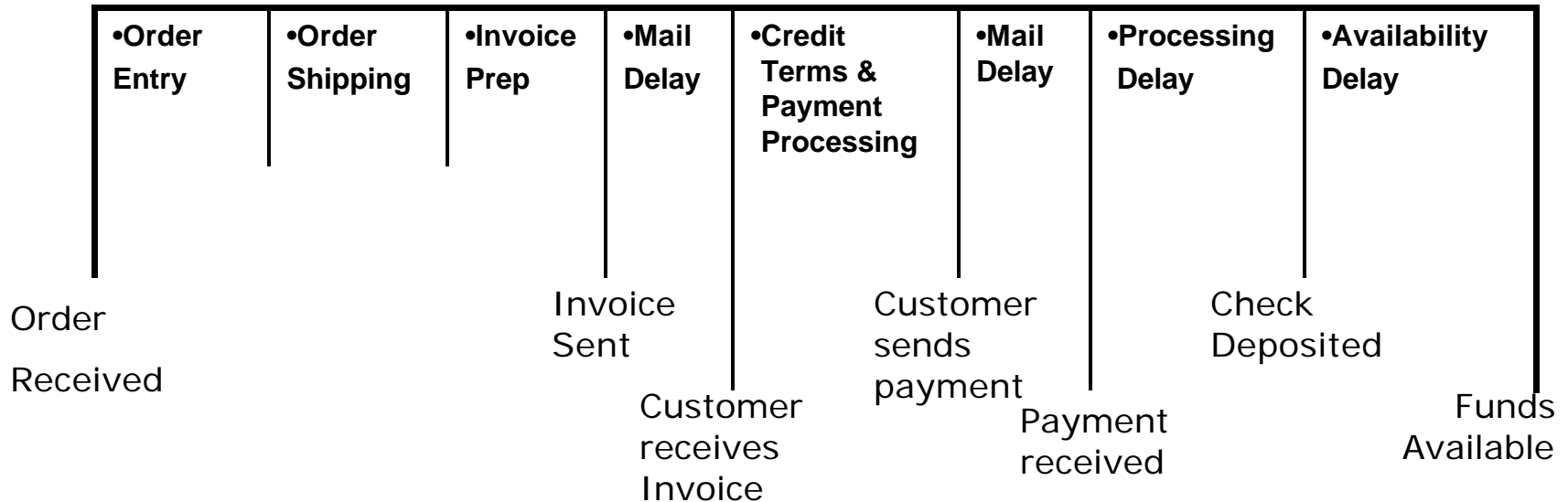
# The Default Treasury Design... a Funds Flow Diagram



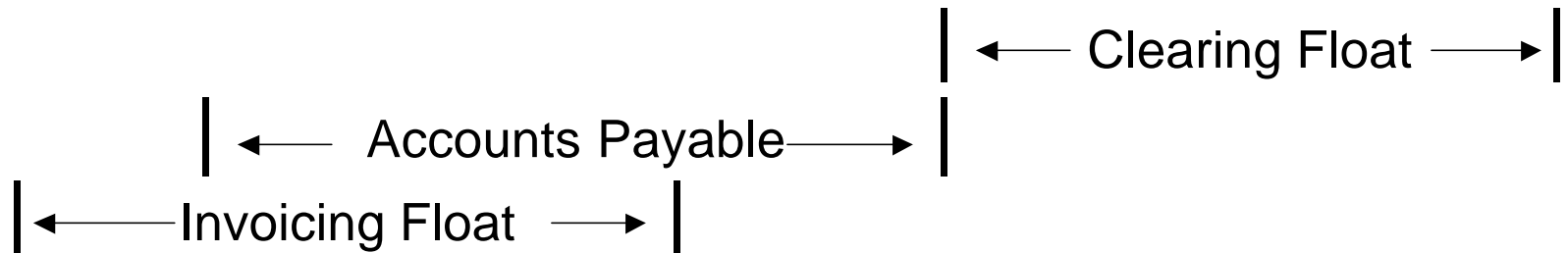
# Receivables Timeline



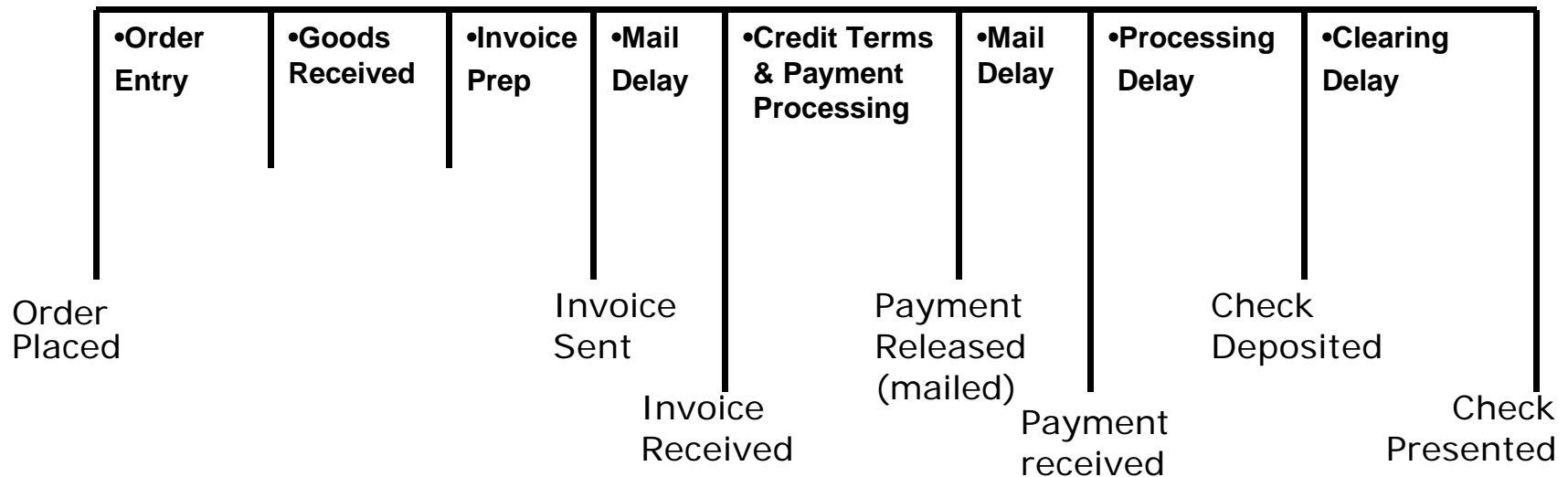
## Receivables Time Line



# Payables Time Line



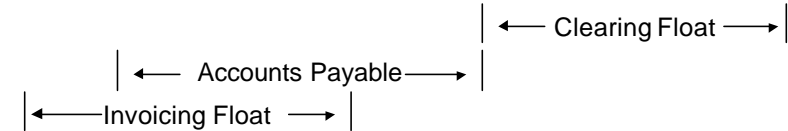
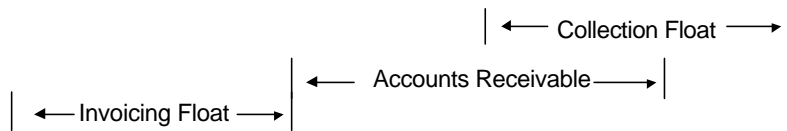
## Payables Time Line



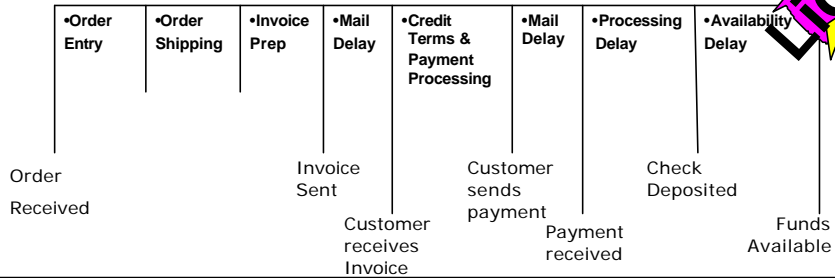
# Its REALLY Seeing the Bigger Picture!

## Receivables Timeline

## Payables Time Line

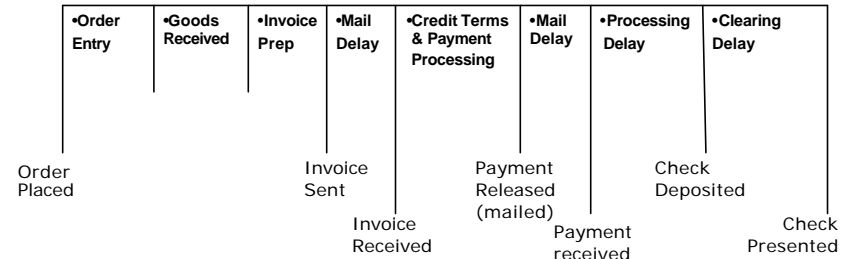


### Receivables Time Line



Re-engineering Corporate Treasury 10  
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### Payables Time Line

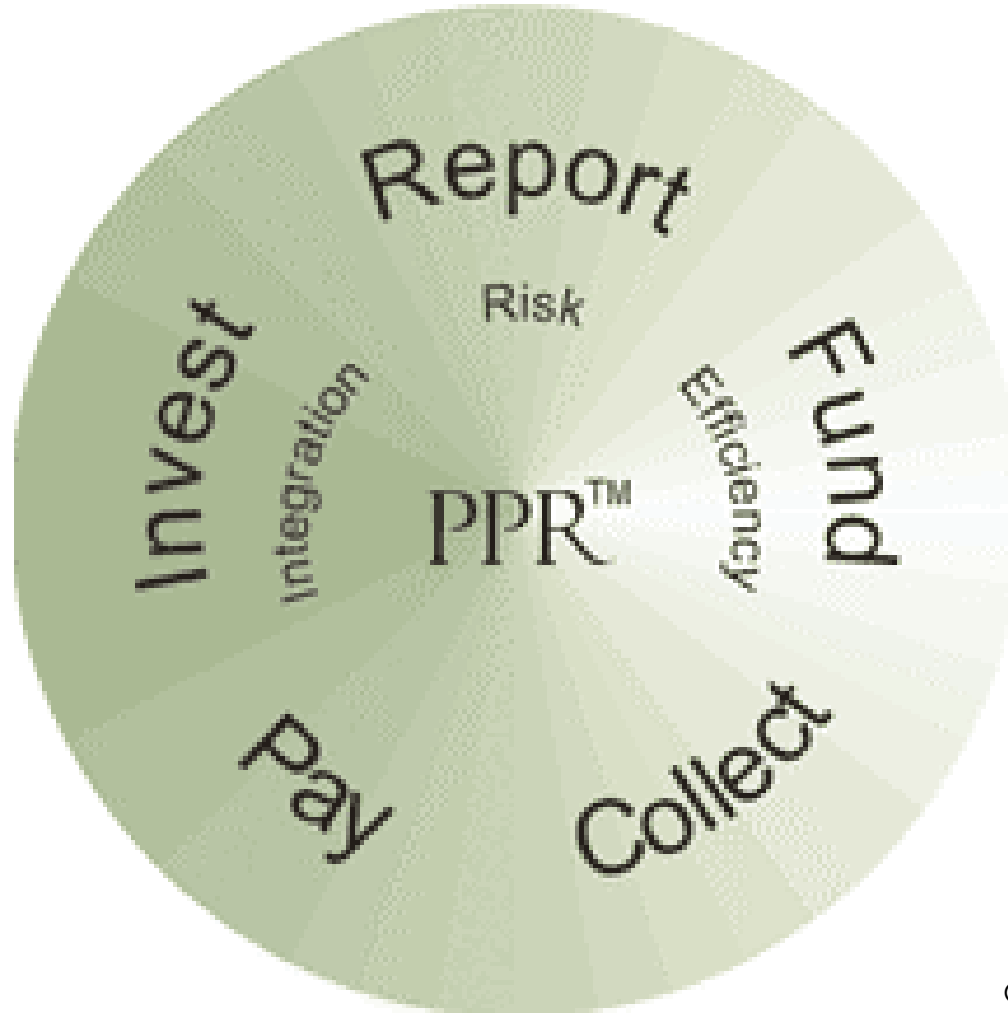


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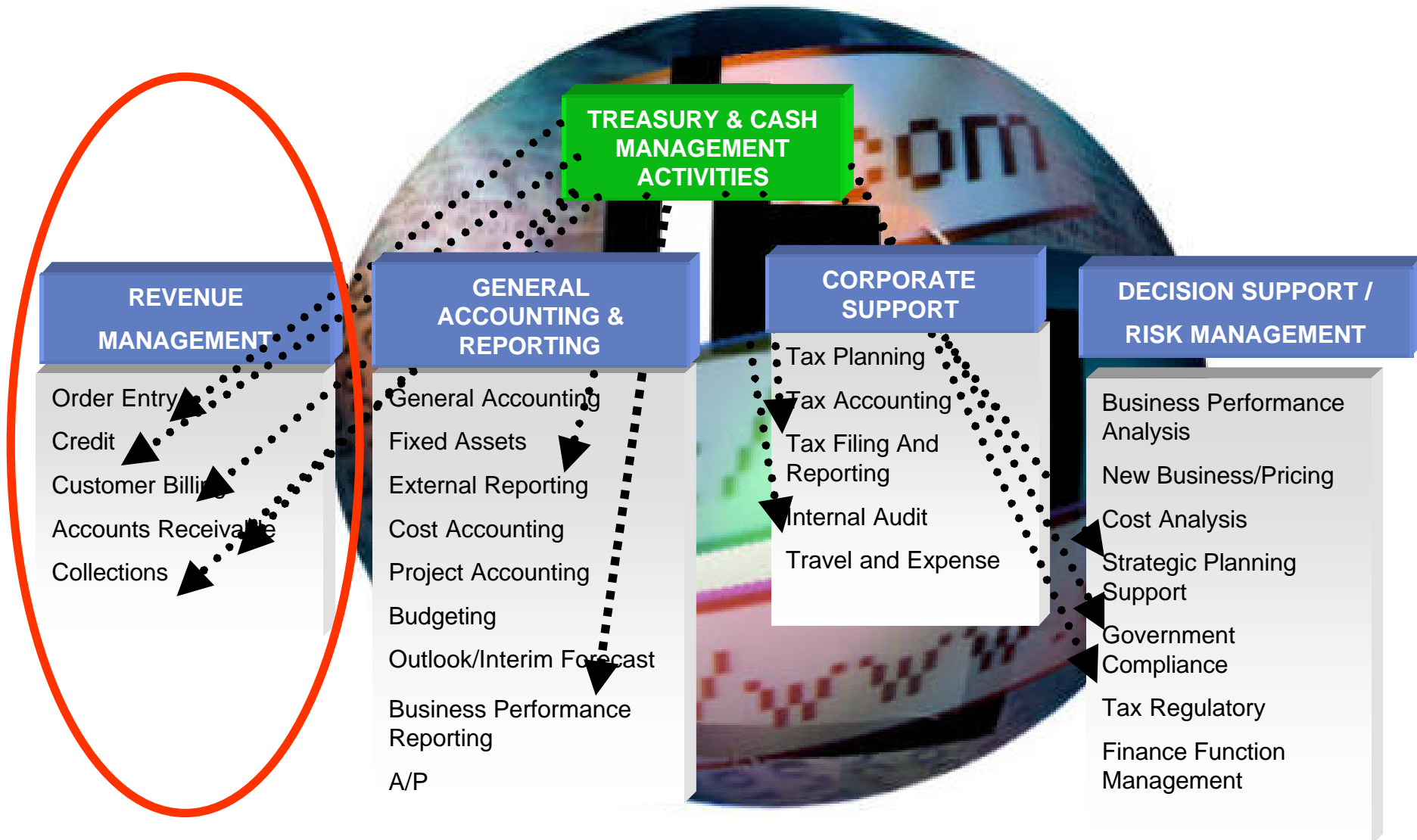
**Its the Process!**

Can we even change our view of this process, from linear....to something different!?

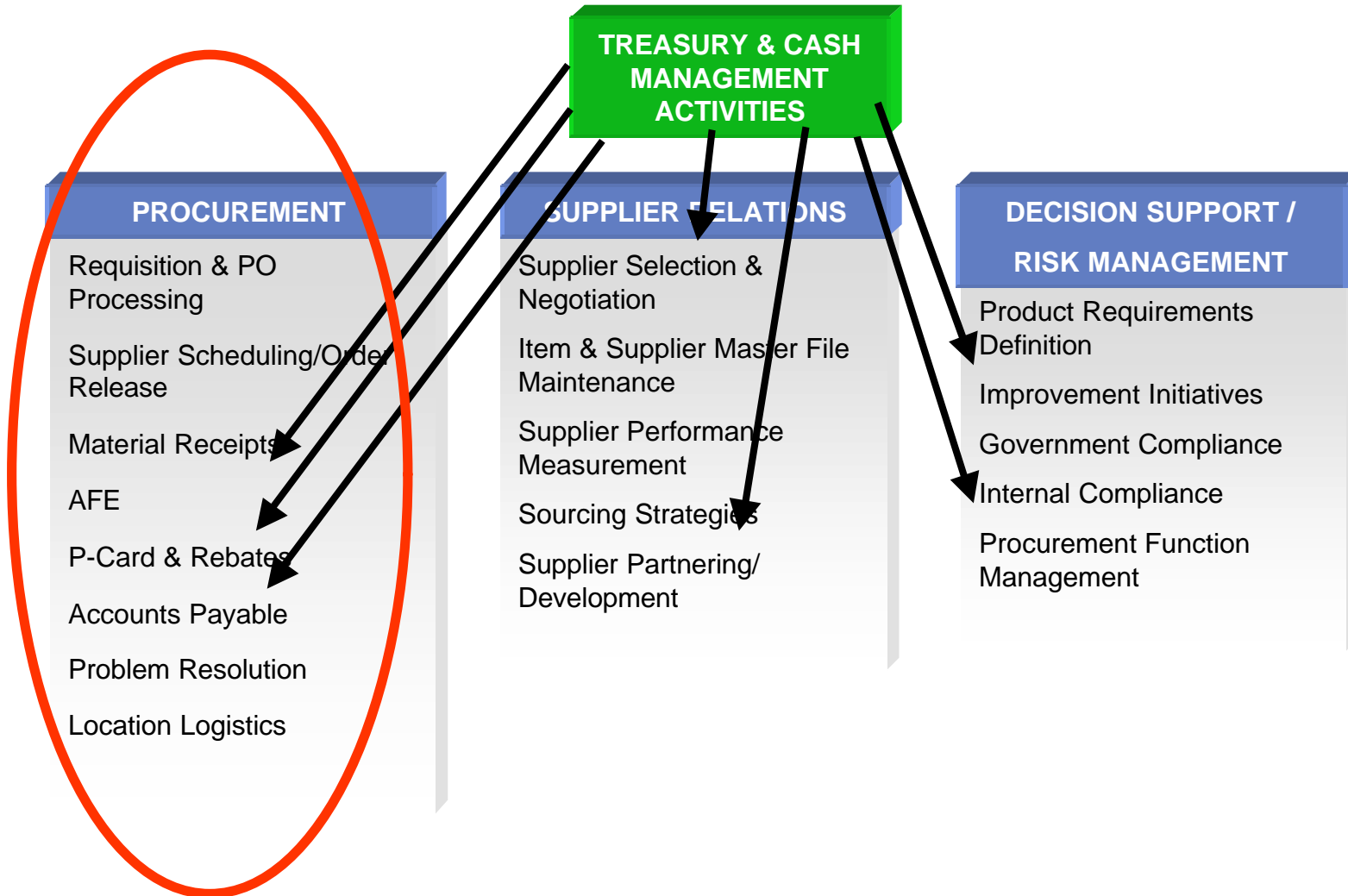


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# For Collections....Another Take on Reengineering the process...."the world"

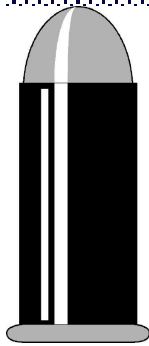


# In Extended Business Models, Treasury Also Plays an Integral Role



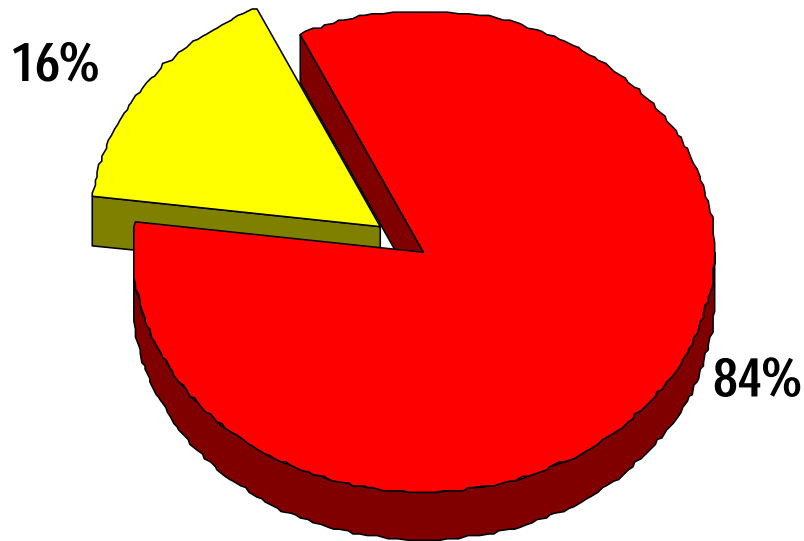


**So now its ERP as  
the process'  
“silver bullet”**



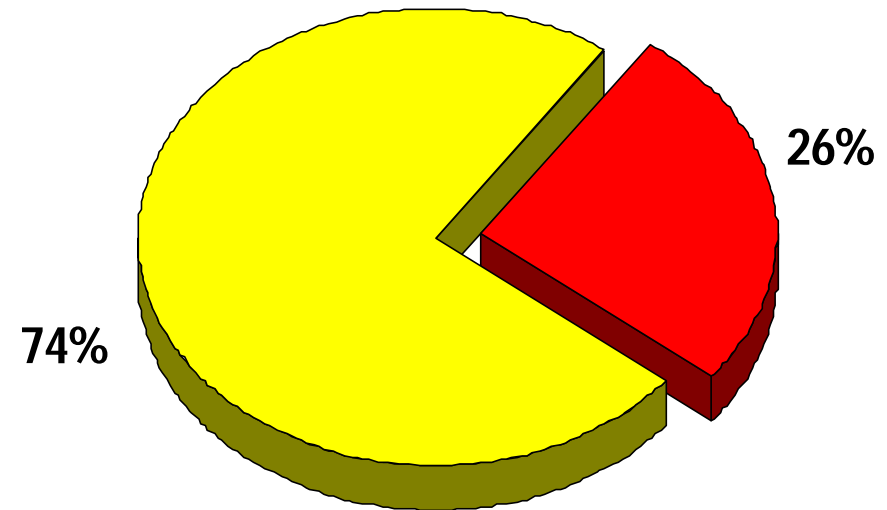
# While Many Companies Have ERPs, Most Have Not Begun To Leverage The Power It Offers

Percentage of Companies in Hackett Database with ERPs



- Have ERP Applications
- Do Not Have ERP Applications

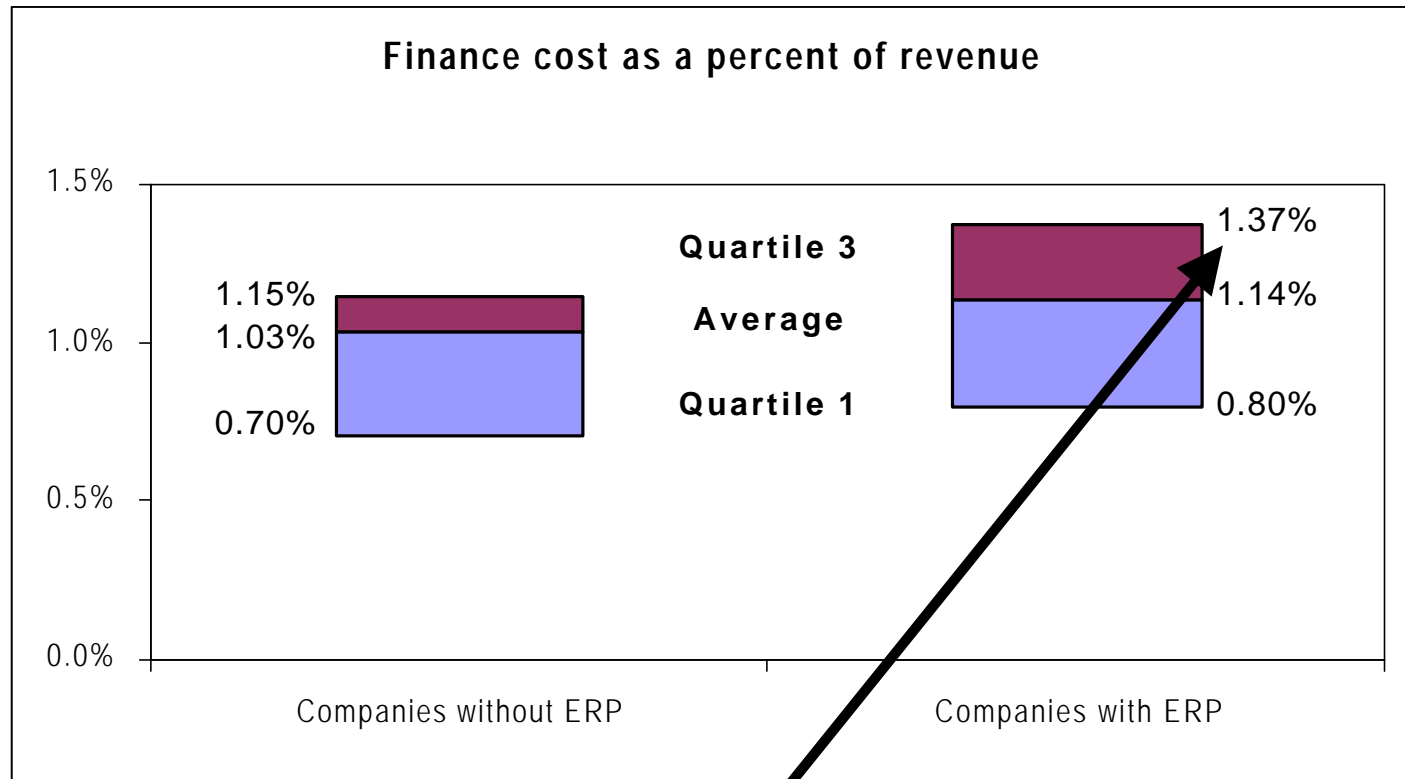
Percentage Functionality Leveraged Across ERPs



- Leveraged
- Not Leveraged

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# Very Few Companies Are Realizing A Tangible Return On Their ERP Investment



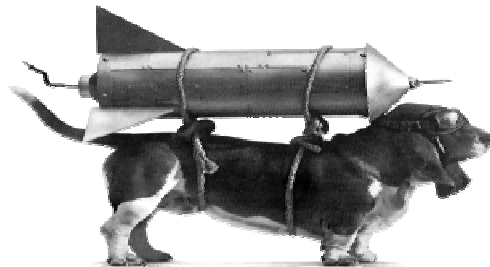
**A \$ 1B Company spends \$ 2.5MM more to run finance, IF they have ERP!**

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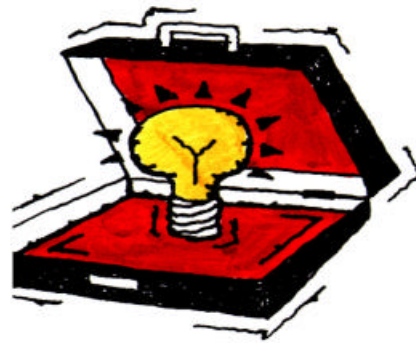
# ERP -- Putting speed on an inefficient process?

- ERP & Transaction processing
  - Upside: highly effective in reducing cost and improving quality in transactional processes
  - Downside: cost focus is not appropriate for all activities; probably damaged analytical capabilities and customer service, time and attention to implement

**ERP Yielded Expensive Means To Look-Up Information!**

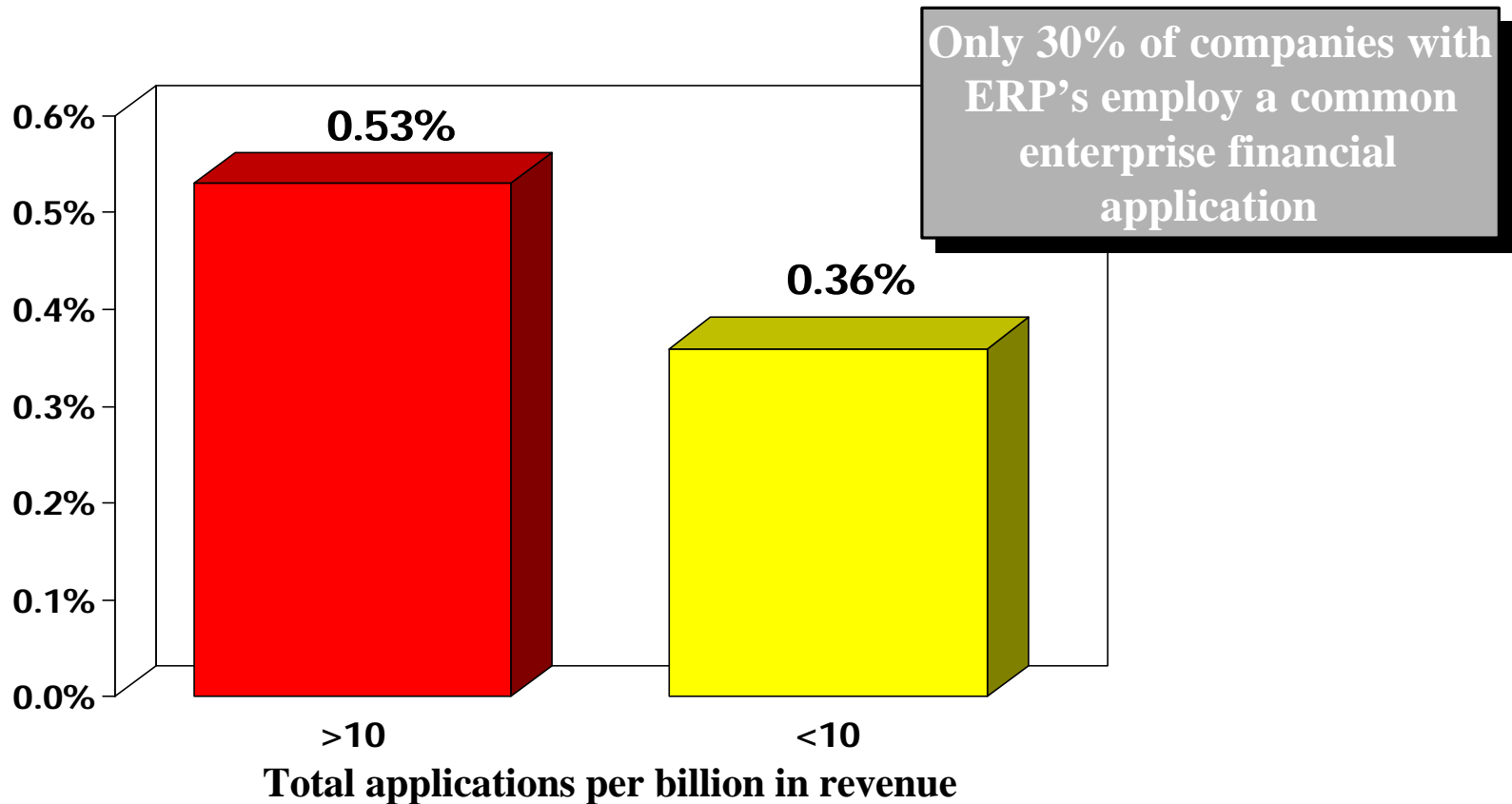


**Benchmarking does  
hold some clues....**



# Greater Use Of Standards And Less Application Complexity Have Lower Finance Costs

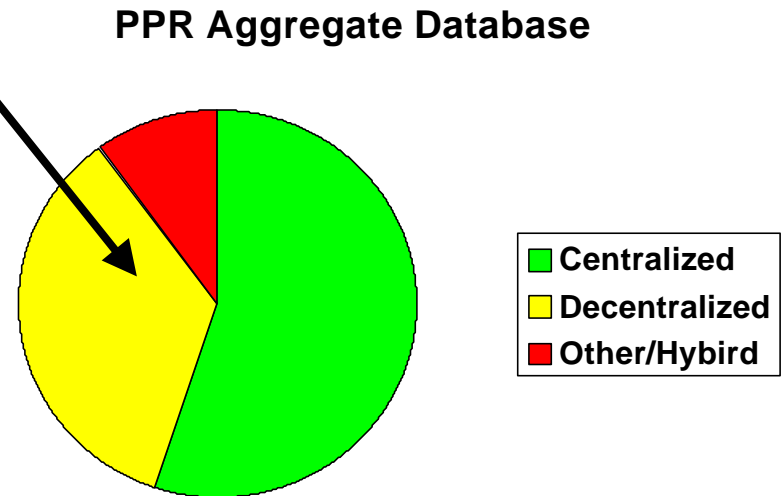
## Transaction processing cost and application complexity



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# Cash and Treasury Work Distribution

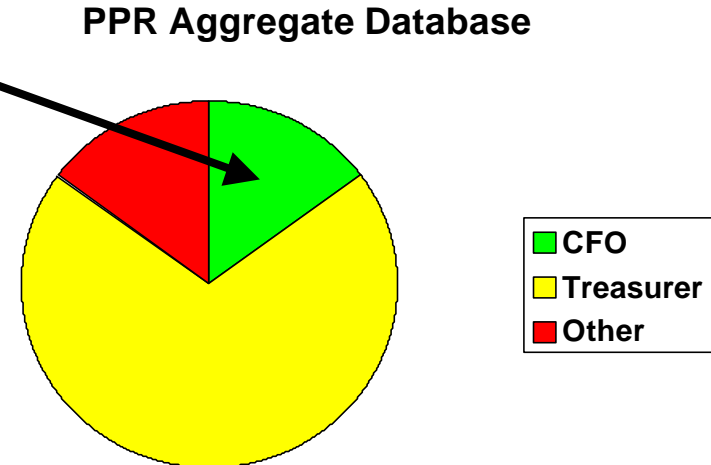
- Sample Company reports a decentralized structure where not all cash and treasury management functions are managed from headquarters
- Implication: When treasury is not managed from headquarters, there are issues of control, reporting, and integration and the possibility that work efforts are being duplicated
- Action: Ensure optimal performance by centralizing all functions and conforming with the best practice of more than 50% of PPR™ respondents



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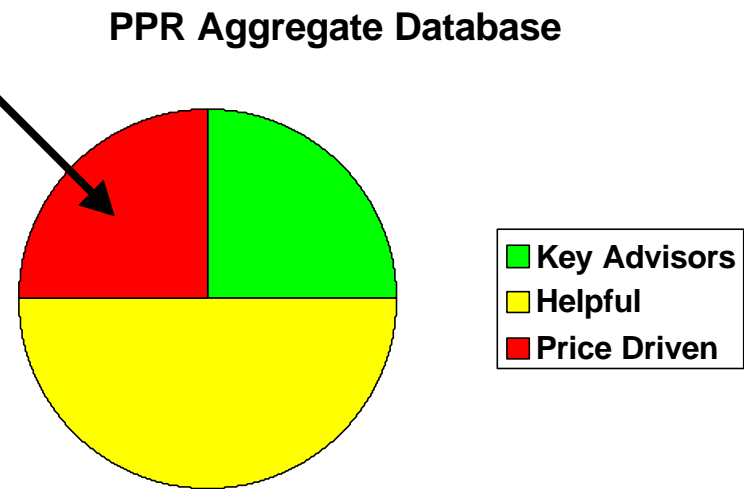
# Cash and Treasury Reporting Relationship

- At Sample Company cash & treasury management reports to the CFO
- Implication: A direct reporting relationship to the CFO means the corporation has a decided focus on working capital management, a best practice
- Action: Leverage relationship to support action on high value projects



# Primary Banking Relationship Driver

- Sample Company reports that relationships with cash and treasury management banks are “price driven”
- Implication: Value added services are potentially being valued at commodity prices
- Action: Implement bank scorecard or other service quality tracking mechanisms and demonstrate to key banks the value of the Sample Company healthcare relationship



# Use of Outsourcing (Including Lockbox)

Berkeley average number of processes outsourced = 1.6

❖ **Observation:** Group reports little use of outsourcing.

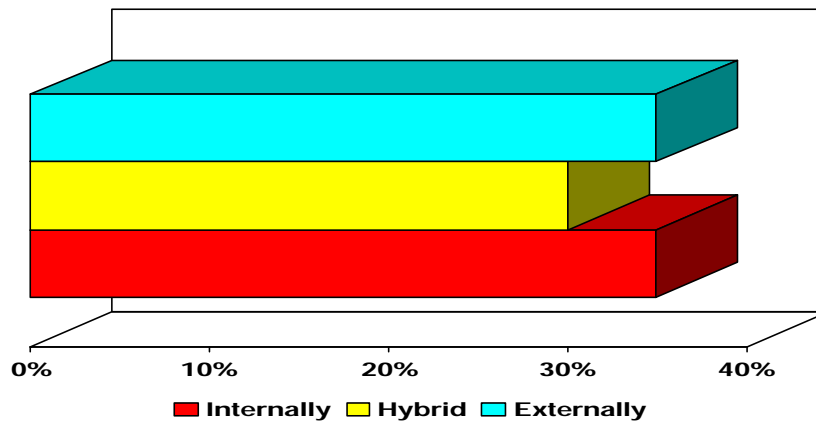
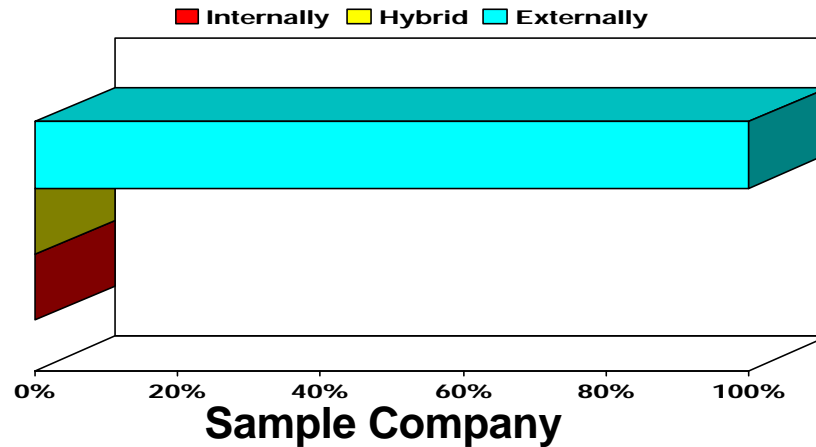
*There is an emerging correlation between outsourcing or managing outsourcing in treasury and overall treasury effectiveness*

❖ **Implication:** Group has major opportunity to increase effectiveness

❖ **Action:** Evaluate outsourcing opportunities



# Systems and IT



PPR Aggregate Database

❖ Observation: Sample Company reported 100% of treasury's technology systems are developed externally

❖ Implication: Lack of IT support for treasury

❖ Action: Review business requirements with IT to ensure optimum level of support

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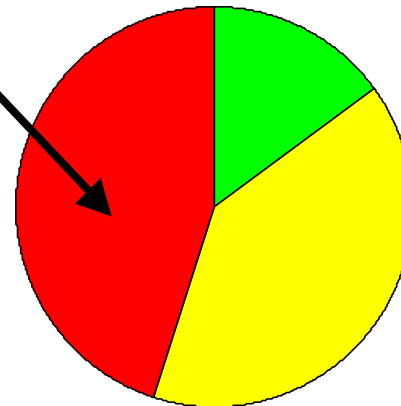
# Linkages to Other IT Systems

❖ Sample Company reports that its linkages of treasury systems to other systems is “none to low”

❖ Implication: Integration with enterprise functions is being done on a manual basis or through application file transfer increasing the possibility of data input error, data truncation, or inability to realize payment discounts or apply cash

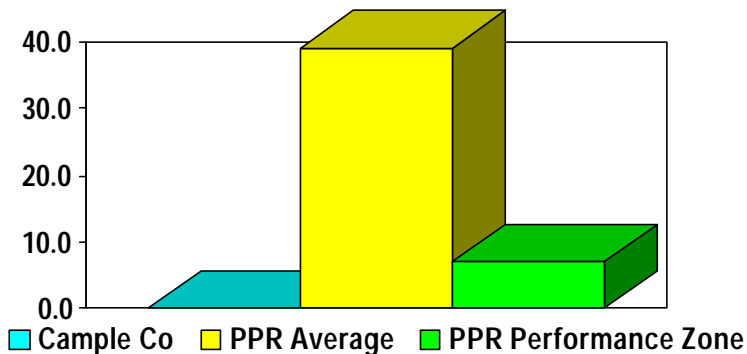
❖ Action: Review IT interfaces to develop business case for systems integration

PPR Aggregate Database

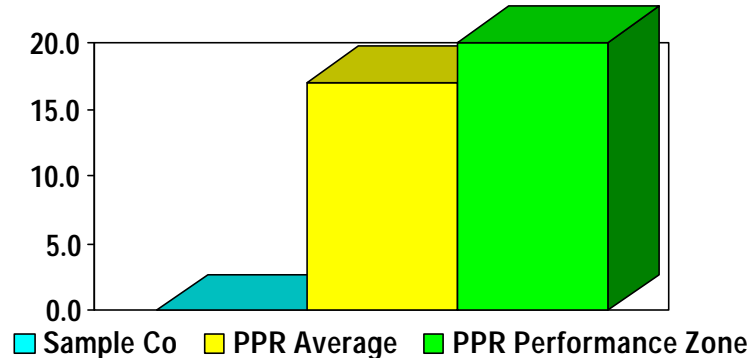


# Time Utilization

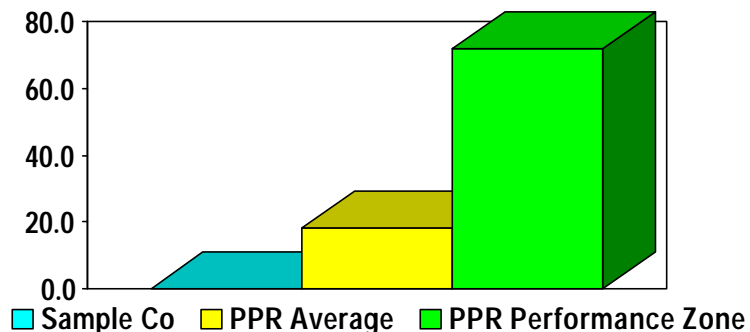
Account Maintenance



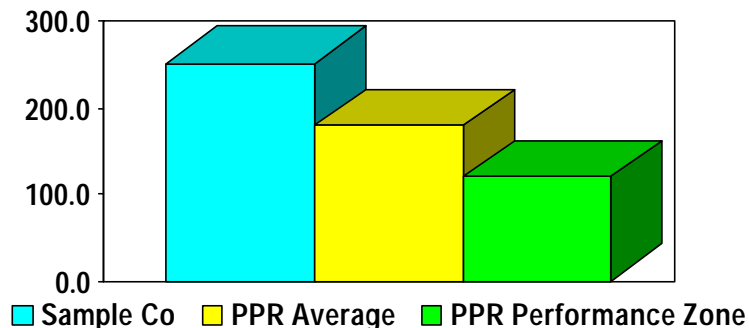
Cross Functional Teams / ERP



Cross Functional Teams New Product



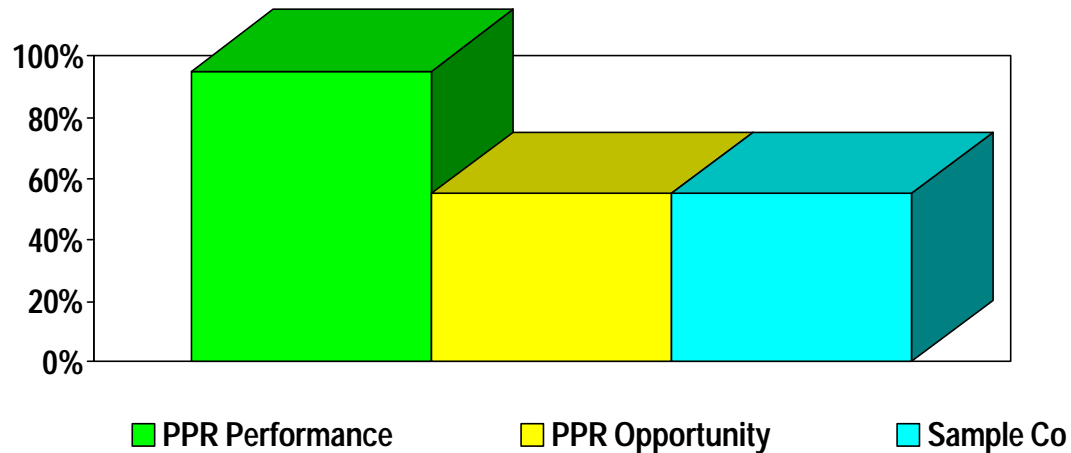
Research & Investigations



❖ **Observation:** Sample Company reports more time spent in performing research & investigation tasks than the database average, let alone the high performers and then not surprisingly, less time on business partnering

# Cash Flow Forecasting

PPR Aggregate Database



❖ Observation: Sample Company is about average in its timing horizon in preparing cash forecasts

❖ Action: Review forecasts for accuracy and value, and integration for working capital management

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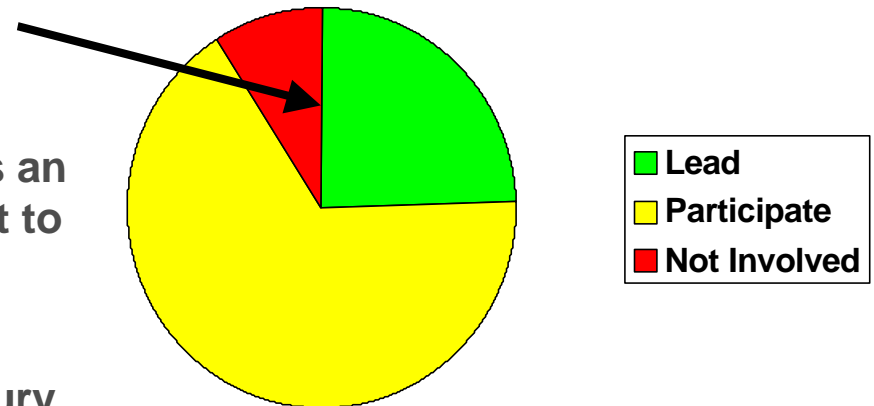
# Treasury as Team Player

❖ Sample Company reports that its treasury group is not involved in projects, company wide, to improve performance or reduce costs

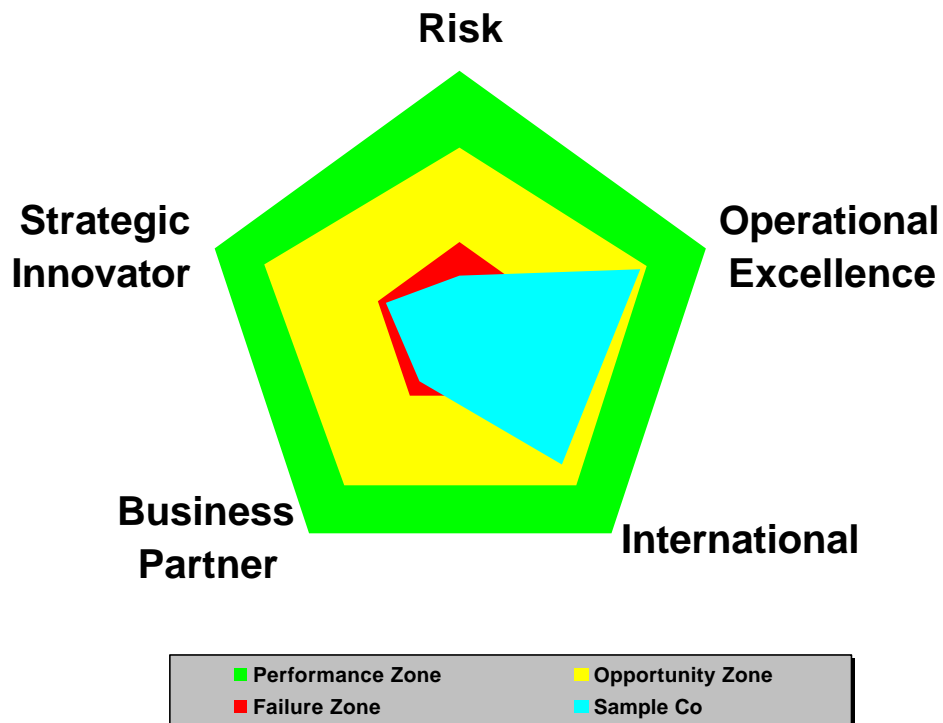
❖ Implication: Treasury is not seen as an important function or is perceived not to be a team player

❖ Action: Survey company wide initiatives and identify ways for treasury to participate and add value

PPR Aggregate Database



# Sample Company PPR™ Performance Areas



- Chart Interpretation:

The further from center, the better the score

- Perfection is outer edge
- Performance Zone (green) is next closest, etc.
- Red indicates need for immediate attention

- Summary Observations:

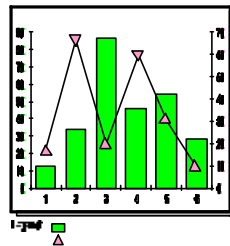
- Sample Company employs many of the best practices which characterize operational excellence and has opportunities for improvement in risk and business partnering

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# Real Reengineering Provides A Balanced Set Of Deliverables That Establishes A Roadmap For Business Transformation Deployment

## Establish Baseline

Benchmarking  
Performance Metrics



Current Organization  
Definition and Baseline  
(Detailed FTE Analysis)

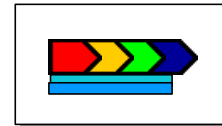


Best Practice Review  
and Site Visits

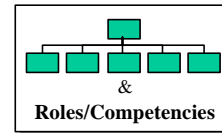


## Strategy and Vision

Process Model



Organizational  
Design



Architecture  
Plan;  
Infrastructure

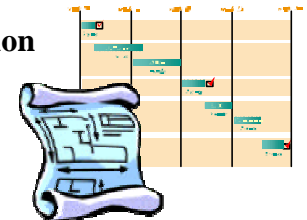


Governance and  
Service Delivery  
Models

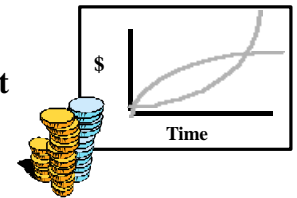


## Implementation

Integrated  
Action  
Plan; Migration  
Plan



Business Case  
& Cost/Benefit  
Analysis



“Quick-Win”  
Prioritization



*“ The modern CFO needs at least three arrows in his quiver that go beyond pure finance: experience in process redesign, a deep understanding of customer satisfaction and product quality, and strategic-planning talent.”*

Jerome York

# Reengineering Random Thoughts

- Demise of middle management
- Process-oriented business improvement programs
- Career ladder is gone (besides most of the rungs are gone)
  - **Also impacts our management style**
- Doing more with less

# The Changing Role of Treasury

# The Changing Role of Treasury

- Treasurer's job increased during the last ten years from funding the corporation and cash management to
  - More operational functions
  - Lead role in increasingly complex financial instruments
- Possess expertise and information critical to the decision making process

# The Changing Role of Treasury

## Perception:

- Still viewed as overhead
- Organized to run parallel with the flow of paper
- Secondary users of information
- Have to rid ourselves of the stop-light image
- Derivatives have put treasury in the spot light

# The Changing Role of Treasury

Goal: Participate as equal business partner within the organization

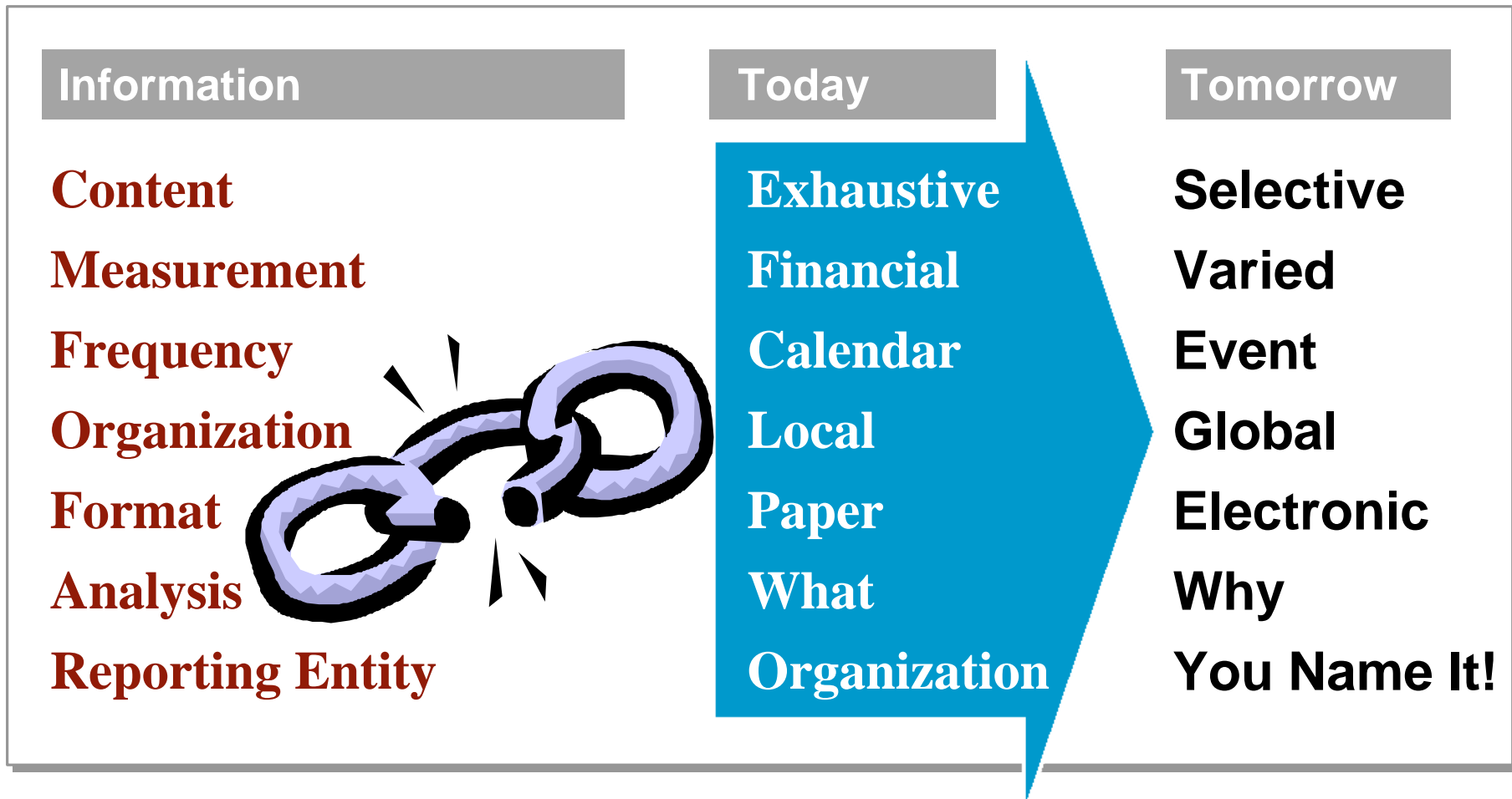
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- **Eliminate or reduce “non-value added” activities**
- **Provide timely and cost effective solutions**
- **Balance compliance, control and efficiency**

# The Changing Role of Treasury

- **Key enablers for Treasury to take a leadership role**
  - Extensive contact with other functional departments
  - Broad responsibilities for information management and delivery
  - Interpreter, educator regarding the financial impact of decision making

# Implications: Information Must Define And Create Value



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# Cash Management in the 1990's

*Old Rule* | Treasury is a profit center

# Cash Management in the 1990's

*Old Rule* Treasury is a profit center

*Theory* Focus on performance  
measures and  
compensation shifts from  
activity to results

# Cash Management in the 1990's

*Old Rule* Treasury is a profit center

*Theory* Focus on performance measures and compensation shifts from activity to results

*New Rule:* Treasury is a service department

# Cash Management in the 1990's

*Old Rule* | Manage dollar float

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*Old Rule* | Manage dollar float

*Theory:* | Business transformation enabled by information is required to succeed in new business environment

# Cash Management in the 1990's

*Old Rule* | Manage dollar float

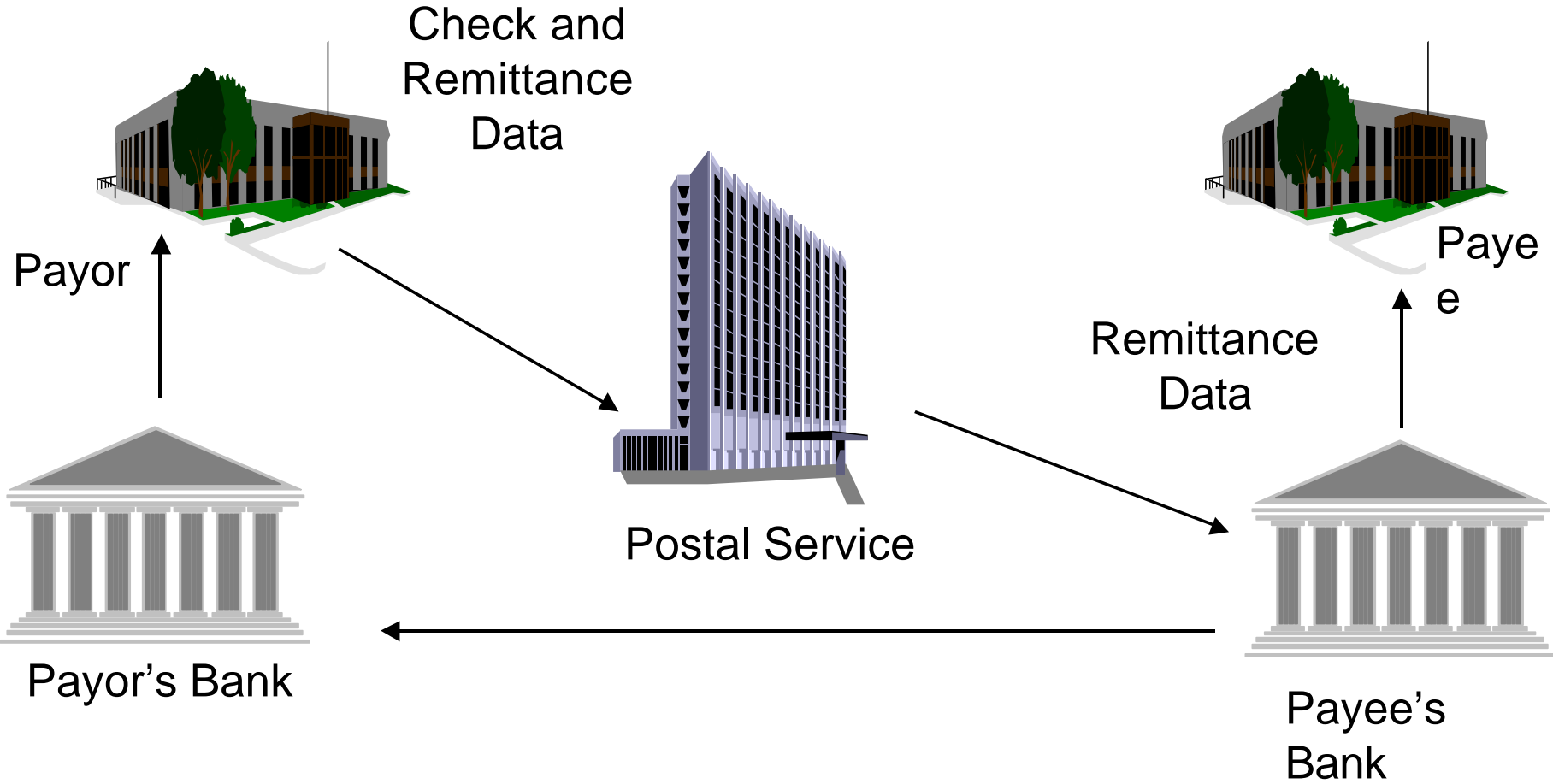
*Theory* | Business transformation enabled by information is required to succeed in new business environment

*New Rule* | Manage information float

# Disbursements

*Old Rule* | Payment and remittance  
information  
must travel together

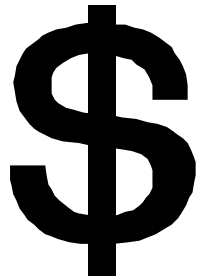
# Existing Payment System



# Disbursements

*Old Rule:* Payment and remittance information must travel together

*Theory:* Processes have multiple versions:  
the end of standardization



Data

Pay to the order of..

---

Remittance detail

Check

Stub

# Revised EDI/EFT Definition



Document

Pay to the order of..

---

Remittance detail

# Document Delivery

---

## Method of Delivery

- **820 (CTX)**
- **E-Mail**
- **Fax**
- **US Mail**

## Example

- **EDI Capable Vendors**
- **T & E Payments**
- **Small Vendors**
- **Other**

# Disbursements

*Old Rule* | Payment and remittance information must travel together

*Theory* | Processes have multiple versions-  
the end of standardization

*New Rule* | Payment and remittance information should be transmitted efficiently

# Cash Application

*Old Rule:* Labor intensive; Sequential process; Task oriented

# Cash Application

*Old Rule*

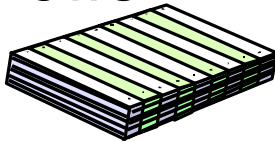
Labor intensive; Sequential process; Task oriented

*Theory*

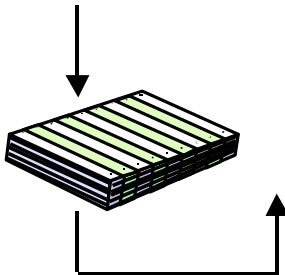
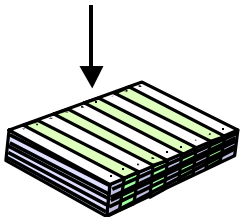
Identify and abandon the outdated rules and assumptions that underlie current business operations

# The “Old” Rules

## Document Flows



Lockbox Data received from the bank



**Two full time administrators sort Lockbox information, add additional invoice or other information.**

**Three full time administrators check information, correct errors, review short payments and other discrepancies.**

**Two full time data entry clerks enter all data from invoices and remittance detail into system**

# Cash Application

*Old Rule*

Labor intensive; Sequential process; Task oriented

*Theory*

Identify and abandon the outdated rules and assumptions that underlie current business operations

*New Rule*

Capture cash application data at point of purchase, automate all reconciliation, manage exceptions

# Case Studies



# **General Motors Corporation - Global Value Chain Performance Measurement**

## **Background**

**General Motors is the world's largest manufacturer of cars and trucks. The growing globalization of the economy created an opportunity to leverage product development, purchasing, global manufacturing capability and other key business processes on a global basis. The business performance measurement process, however, was primarily based on independent, legal-entity-based business units. Consequently, senior management relied mostly on ad hoc reporting and analysis to measure the impact of strategic market investments, global supply chains, and product investments. The project objective was to develop a global management reporting process to measure the financial performance of global processes, products, and markets**

## **Approach**

**The team determined global best practices by benchmarking large multi-nationals. Incorporating the best practices results, they developed a vision and business case to meet General Motors' global requirements:**

- Global product line profitability and return on assets invested**
- Country profitability by product and return on assets invested**
- Global process cost**
- Model to enable optimization of tax and duties**
- Identification of global profit chain cost from source plant to point of sale**

**They then developed process and systems to implement the vision into the business planning and reporting process, including the use of capital and the cash flows from sales and operations.**

## **Results Achieved**

**A single global integrated process to report product, country, and process treasury and financial results. Dramatic improvements were achieved in cash visibility, quality, cost and timeliness, compared with the results under the previous ad hoc reporting.**

# General Motors Corporation - Driver Based Forecasting System



## Background

General Motors is the world's largest manufacturer of cars and trucks. As part of an overall transformation of the company's planning process, General Motors required the ability to (1) more accurately and efficiently forecast future business results, (2) analyze performance measures, and (3) model the effect of changes in tactics or strategies on business results. The project objective was to design and implement a process to accurately model and forecast the business based on operational drivers.

## Approach

Team proceeded through a four-step best practice model of driver based forecasting:

- **Driver Tree Development:** The purpose of developing a driver tree is to establish a framework for modeling performance.
- **Key Driver Identification:** Establish and prioritize a list of initial key drivers.
- **Statistical Analysis:** Statistical analysis to establish driver relationships, equations and non-intuitive data relationships.
- **Forecast Modeling:** Implemented forecast model in multi-dimensional database system.

## Results Achieved

Initial results from the pilot have confirmed the business case, which is currently being rolled out:

- The resources and cost of forecasting have decreased
- Forecast accuracy has improved
- New performance measures have been implemented

# Western-Southern Life



Western-Southern Life®

## Background

Founded in 1888, Western-Southern is an insurance company that maintains more than 200 offices and operates in 22 states. At the time of the project, Western-Southern was changing in its business focus from life insurance to new annuity lines. Most of the company's income was derived from investing the accumulated asset base, and newer products actually had a negative impact on profitability. The company was also preparing for an IPO, creating increased pressure for market growth. The company's new president wanted to create a new image for Western-Southern. The project objective was to reposition the business and revisit business objectives.

## Approach

The treasury team facilitated performance measurement at Western-Southern, creating almost 30 scorecards for the business. They also updated the planning cycle process, with an emphasis on scenario planning, and implemented an Essbase delivery system.

## Results Achieved

As a result of the project, Western-Southern realized the following benefits:

- Planning cycle shortened by 30%+
- Cash forecasting improved to 99% accuracy across three time-horizons
- New delivery system implemented, reducing costs
- Management team aligned around new business objectives

# ***Sprint Corporation - Decision support services, capability assessment, visioning, and improvement***



## **Background**

**Sprint Corporation is the third largest long-distance telephone provider in the United States. The Finance organization was struggling with placing structure and consistency around decision support analysis and business planning. Decision support tools, tasks, and economic principles were redundantly performed and inconsistently applied. Hundreds of significant business cases were conducted annually but no standard decision support and analysis framework existed. Project follow up and post mortem analysis rarely occurred. The project objective was to (1) identify and detail existing decision support services performed by the Finance organization, and (2) identify, design, and detail the desired vision and end state decision support services to be provided by the Finance organization .**

## **Approach**

**Though facilitated workshops, the Team identified and detailed current and desired state decision support services. They developed definitions and future state visions for each of the desired state services including inputs, outputs, deliverables, work steps, and skill set requirements. They ranked decision support services based on value, ease of implementation, and gap between current and desired state.**

## **Results Achieved**

**The project achieved implementation of several new decision support services, including portfolio analysis, new business case analysis, and project post mortem. In addition, the project led to the development of a common decision support language and consistent awareness of decision support capability provided by the Finance organization.**

# ***IDX Corporation - Operational Planning Process Redesign***



## **Background**

**IDX provides healthcare software solutions to more than 2,065 customer sites with systems deployed to serve over 118,000 physicians. Senior Management perceived their planning process to be ineffective in moving the company towards its vision and objectives and to be consuming an inordinate amount of resources. The project objective was to streamline the planning process and improve operational performance through a more effective planning process.**

## **Approach**

**The Team's approach included:**

- Redesigning the tactical and financial planning process.**
- Working closely with operational managers in the development of their operational and financial plans**
- Generating a framework to assist the company with resource allocation among their portfolio of products and services**
- Conducting interviews with more than 10 companies to gain additional insight and validate findings**

## **Results Achieved**

**The project optimized resource allocation to provide focus to the primary product/service generators and provided management with insight into key performance drivers of the Company.**



## **Situation**

BellSouth Corporation is a telecommunications company located in the southeast United States with approximately 80,000 employees and \$30 billion in annual revenues. They are in the process of creating a shared service center for all 25 subsidiaries. The shared service center will process all transactions for the Employee Services and Financial Services groups. BellSouth has selected Ceridian Time & Attendance, PeopleSoft Human Resources and Payroll, and the Oracle Financials (AP, PA, FA, GL, SSE, Cash Management) to support the business processes.

## **Project Objective**

The primary business objectives were to reduce total cost per transaction, increase quality of the transactions, implement a common financial language, a common application and technical architecture. The Team was engaged to manage and perform the design, construction, testing and transition of the Oracle Applications and the integration components.

## **What They Did**

- Develop project approach
- Developed an application integration strategy, system architecture and a project roll out strategy for AP, PA, FA, GL, SSE and Cash Management.
- Established clear technical strategy and integration guidelines
- Performed detail design review for all touchpoints (between Oracle modules and legacy systems)
- A clear technical strategy and integration guidelines
- Identification and sign-off of all the application touchpoints
- Detailed design review for each touchpoint
- Identification of business and technical owners for each end of the touchpoint
- Thorough integration with all treasury touchpoints, e.g., banking relationships, unit and services costing, cash position reporting & integration

# Summary

# Solution Components - Finance



## Financial Shared Service Center

- Business service focused
- Performance efficiency and customer service driven
- Financial transaction processing
  - Disbursements accounting
  - Revenue accounting
  - General ledger accounting
- Regionalized national centers of excellence



## Business Decision Support

- Regional business decision support capability to forecast and analyze business results and the impact of changes on financial and operational performance
- Streamlined forecasting and planning processes
- Enhanced financial business information accessibility
- On-line analytical processing (OLAP) tools



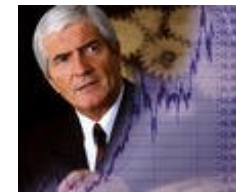
## Financial Transaction Processing

- Cost efficient and effective
- Seamless with business operations
- Streamlined processes (eliminate non-value activity)
- Integrated financial systems
- Transaction automation and e-business tools



## Control and Risk Management

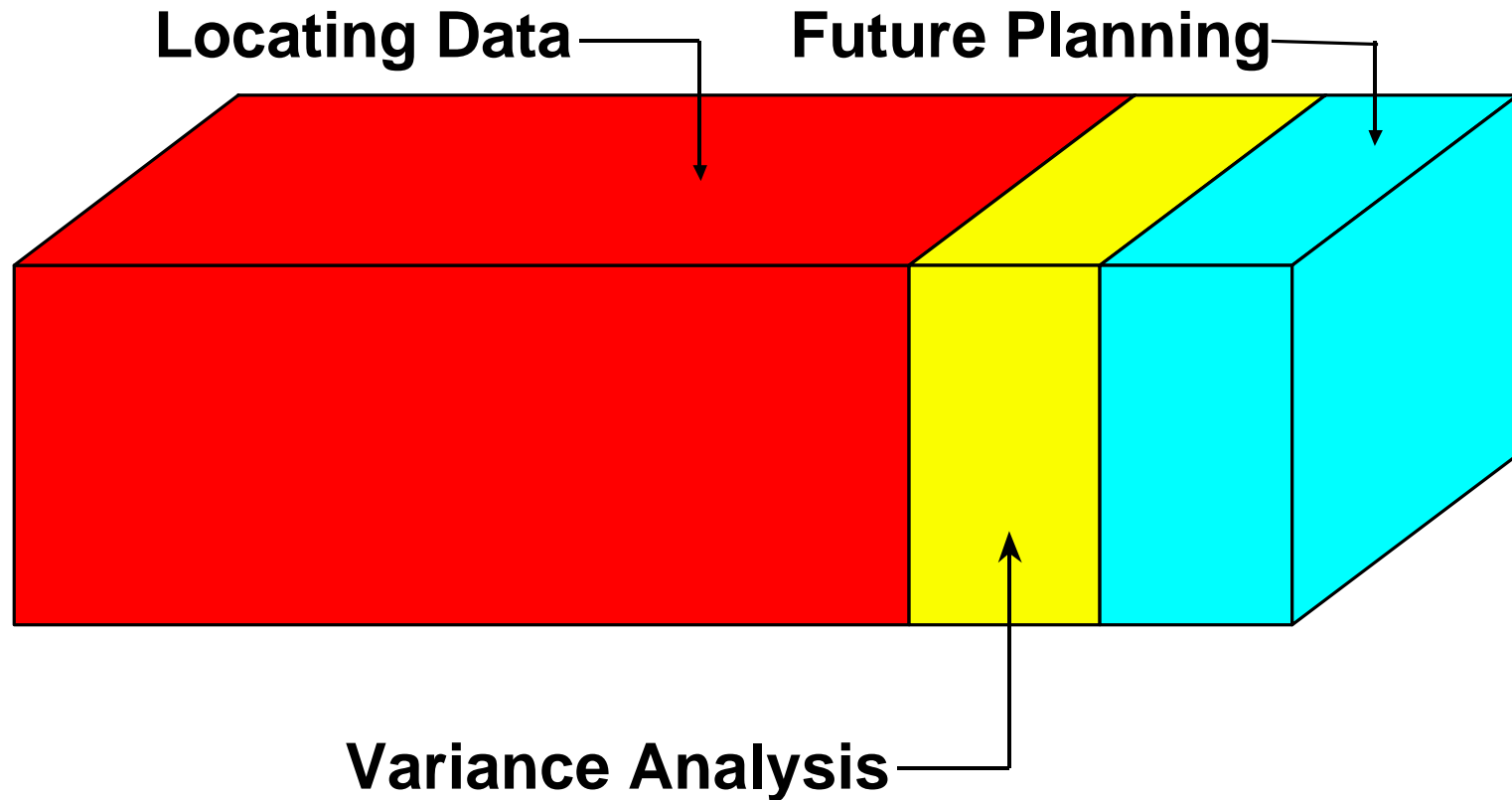
- Streamlined month-end financial closing
- Timely P&L and relevant information reporting
- Cash management and treasury services
- Effectively balanced internal controls



## Performance Management

- Link regional operational goals to corporate objectives
- Develop regional performance measurement scorecards
  - Financial performance
  - Operational performance
  - Brand equity and loyalty
  - Customer profitability and satisfaction
- Internally and externally focused
- Leading and lagging indicators

# Too Little Time Is Left To Glean Insight And Plan For The Future



# Treasury & Finance Professional Must Possess Significantly Different Skills

- Flexible, creative problem-solvers
- Customer service and advocacy
- Strong ability to exploit technology
- Ability to see the vision, take initiative and lead change
- Cross-business and multi-disciplinary skills
- Global business-process capability
- Strong team-building and interpersonal skills



# **Re-engineering the Corporate Treasury**

**University of North Carolina  
Keenan-Flagler School of Business**



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