

Association for  
Financial Professionals®

# AFP Treasury Benchmarking Program 2012 Survey



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**Association for  
Financial Professionals®**

The Association for Financial Professionals in Bethesda, Maryland, supports more than 16,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.

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## About the Research

Improved business performance is an ongoing goal of most, if not all, organizations. With competition reaching new heights, companies are seeking new and better ways to enhance their efficiency and effectiveness and to improve levels of performance. One such method is benchmarking.

Benchmarking the practices and performance of one organization against those of others can be a powerful tool. Its value lies in learning from the success of others and leveraging that knowledge in order to modify actions or behavior to improve organizational performance.

Since 2008, the Association for Financial Professionals (AFP) and the IBM Corporation have partnered on the *AFP Treasury Benchmarking Program*. The program's goal remains simple: providing benchmark data to financial professionals so they can compare the performance of their organizations' treasury operations against that of their peers. In 2012, PNC continued its support of this valuable research about the finance profession by underwriting the fifth annual *AFP Treasury Benchmarking Program* survey.

This survey report highlights important treasury operations issues that have a direct impact on today's organizations. It examines a number of metrics to help financial professionals optimize their organizations' treasury operations. The report's summary of key findings supplements the customized peer reports that participating organizations received in exchange for their participation in the benchmarking program.

The survey results can have important practical applications for your organization. This report will allow you to compare your organization's performance against the overall survey sample as well as against the top performers. As a result, we believe this report will help you identify opportunities for improvement in your organization's treasury operations.

Remember, simply comparing your metric results to those of other organizations is not benchmarking. It is not the metric itself that is the driver of change; rather, it is the practice or process that *produces the desired level of performance* that is the driver of change.

The objectives of the 2012 survey of the *AFP Treasury Benchmarking Program* were:

- To determine performance levels achieved by all survey participants
- To define the world-class (80th percentile) benchmark targets
- To analyze performance levels by peer groups
- To provide a basis of comparison for your business entity's performance in order to identify performance gaps and evaluate opportunities for improvement

This report provides a starting point for understanding critical aspects of treasury operations by presenting data on cost, full-time equivalents (FTE), cycle time and service delivery related to bank relationships. It looks at key treasury benchmark data with both the median and the 80th percentile responses for three types of peer groups based, respectively, on annual revenue, industry and ownership type. Treasury benchmark data is also compared with the responses given to qualitative questions asked in the 2012 survey.

As with the previous four surveys, responses to the 2012 survey from AFP members were supplemented by responses from alumni members of The Financial Executives Networking Group (The FENG). AFP thanks all 715 survey respondents for the investment of their time in contributing to this important research. The enthusiastic participation of these financial professionals played an important role in the success of this year's survey. AFP also thanks its partners in this survey program: the IBM Corporation which provided critical technical support and benchmarking expertise and PNC for its underwriting support.

A glossary of terms associated with the project can be found at the end of this report. We welcome your thoughts on the 2012 survey of the *AFP Treasury Benchmarking Program*.

Please direct any comments or questions to [Research@AFPonline.org](mailto:Research@AFPonline.org)

## Introduction

Large gaps continue to separate the median organization (50th percentile) from benchmark peers (80th percentile). In terms of full-time equivalents (FTEs) and cost of operations, for instance, this means a typical organization—normalized to adjust for size using annual revenue—often operates at levels several multiples higher than does the benchmark company. Financial professionals who draw on these data to focus on improvements in their organization can begin to move their treasury operations closer to peak performance.

While performance data is provided in charts and tables for ease of reference, the report also discusses broader trends and provides takeaways that may help financial professionals advance their strategic management of treasury operations. After all, evaluating and improving a treasury department's performance requires detailed understanding of the inputs, outputs and throughput of the function.

But cost and efficiency metrics are not the only measures of success for treasury departments. The 2012 survey asked financial professionals about other process measures – such as cycle times and transaction volume – and important inputs, including an organization's own measures of success as well as the support treasury receives from senior management. That last factor should not be underestimated: management support for treasury, in investments in technology and in human capital, is associated with higher efficiency levels in organizations where such support is at least equivalent as that for other departments than in organizations where such support for treasury is lacking. Indeed, accounting for organizational factors like management support is an integral part of the process of benchmarking treasury operations.

The breadth/range of the function is no less important. Results from the 2012 survey underscore once again how treasury's organizational footprint has grown in recent years through its expanded leadership role across many financial functions and its mandate. The survey reveals that in over half of organizations treasury's role is currently broader than it was five years ago. Treasury's expanded role has consequences for operational performance, some of which may surprise. Global trade activity has a significant influence on treasury performance metrics as well. To be sure, organization size, industry and ownership type also account for many differences in operational outcomes. We hope that the 2012 benchmarking data presented in this report can bring greater focus to opportunities for improvement within treasury operations. Financial professionals will find many angles into the performance of treasury operations in the pages that follow.

## Key Treasury Benchmarks and Metrics

### Full-Time Equivalent (FTEs)

#### FTEs: Total Treasury Operations

The typical organization has 4.35 full-time equivalents (FTEs) in its treasury operation for every \$1 billion in annual revenue that the organization generates. The benchmark organization has 1.46 FTEs in its treasury operation.

The number of FTEs deployed to serve treasury operations differs (on a normalized basis) by organization size. The typical organization with annual revenues between \$500 million and \$999 million has 5.96 FTEs per \$1 billion of annual revenue, while those organizations with annual revenues between \$5 billion and \$10 billion have 1.29 FTEs per \$1 billion of annual revenue. Privately held companies have a significantly greater number of FTEs on a normalized basis than do publicly traded ones, as do companies in the following industries: financial/insurance, government, and services. Industries that typically have fewer FTEs to support treasury operations are: energy, transportation/warehousing, retail/wholesale and manufacturing.

#### FTEs: Cash Management Activities

The typical organization uses 1.20 FTEs for every \$1 billion in annual revenue to perform cash management activities while the benchmark organization uses 0.42 FTEs.

The typical organization with annual revenues between \$500 million and \$999 million has 2.05 FTEs per \$1 billion of annual revenue (on a normalized basis) to conduct “manage cash” processes versus 0.43 FTEs at organizations with annual revenues between \$5 billion and \$10 billion. Privately held companies have significantly more FTEs on a normalized basis than do publicly traded ones, as do companies in the following industries: services and financial/insurance. Industries typically with fewer FTEs to support “manage cash” processes include transportation/warehousing, energy and information/communications.

#### FTEs: Debt and Investments

The typical organization uses 0.76 FTEs for every \$1 billion in annual revenue to manage debt and investments while the benchmark organization uses 0.24 FTEs in serving the function.

The typical organization with annual revenues between \$500 million and \$999 million has 1.13 FTEs per \$1 billion of annual revenue (on a normalized basis) to manage debt and investments, while organizations with annual revenues between \$5 billion and \$10 billion use 0.22 FTEs per \$1 billion of annual revenue for the same function. Privately held companies have significantly more FTEs on a normalized basis than do publicly traded ones. Organizations in the following industries also tend to use more FTEs: finance/insurance, government and services. The industry that typically has fewer FTEs to handle the management of debt and investments is transportation/warehousing.

#### FTEs: In-House Bank Accounts

The typical organization uses 0.72 FTEs for every \$1 billion in annual revenue to manage in-house bank accounts. The benchmark organization uses 0.17 FTEs to serve the same function.

The typical organization with annual revenues between \$500 million and \$999 million has 1.62 FTEs per \$1 billion of annual revenue (on a normalized basis) to manage in-house bank accounts versus a median of 0.18 FTEs for organizations with annual revenues between \$5 billion and \$10 billion. Privately held companies have significantly more FTEs on a normalized basis than do publicly traded ones, as do companies in the following industries: governments, finance/insurance and services. Industries that typically have fewer FTEs to handle the management of in-house bank accounts are transportation/warehousing and energy.

### **FTEs: Financial Risks**

The typical organization uses 0.60 FTEs for every \$1 billion in annual revenue to manage financial risks while the benchmark organization uses 0.21 FTEs to perform the function.

The typical organization with annual revenues between \$500 million and \$999 million has 0.99 FTEs per \$1 billion of annual revenue (on a normalized basis) to manage financial risks, while organizations with annual revenues between \$5 and \$10 billion use 0.24 FTEs per \$1 billion of annual revenue to perform the same function. Privately held companies have significantly more FTEs on a normalized basis than do publicly traded ones. Companies that rely on a greater number of FTEs to manage financial risks include those in finance/insurance, government and services. Industries that typically have fewer FTEs managing financial risks are energy, information/communications and retail/wholesale.

### **FTEs: Treasury Policies and Procedures**

The typical organization uses 0.51 FTEs for every \$1 billion in annual revenue to manage treasury policies and procedures while the benchmark organization uses 0.17 FTEs for the same functional area.

As with overall treasury function staffing, the amount of human resources deployed to manage treasury policies and procedures differs (on a normalized basis) by organization size. The typical organization with annual revenues between \$500 million and \$999 million employs 0.85 FTEs per \$1 billion of annual revenue (on a normalized basis) to manage treasury policies and procedures, while organizations with annual revenues between \$5 billion and \$10 billion employ 0.21 FTEs per \$1 billion of annual revenue for the same function. Privately held companies employ significantly more FTEs on a normalized basis than do publicly traded ones. In addition, industries that tend to have a greater number of FTEs dedicated to the management of treasury policies and procedures are government and finance/insurance. Industries that typically have fewer FTEs to support treasury policies and procedures processes are transportation/warehousing, retail/wholesale and energy.

### **Throughput**

The median number of cash receipts processed annually per “manage cash” FTE is 16,667; at the 80th percentile 333,333 cash receipts are processed per FTE.

There is a direct correlation between the size of the organization (as measured by revenue) and the transaction volume processed per FTE. The larger the organization, the higher the number of cash receipts processed per FTE. Organizations with annual revenues between \$500 million and \$999 million typically process 55,000 cash receipts per “manage cash” FTE, with the median number of cash receipts jumping to 225,000 for organizations with annual revenues between \$5 billion and \$10 billion.

The typical organization reconciles 25.0 bank accounts per “manage cash” FTE (manage cash includes concentration, lockbox, disbursement, trust and fiduciary), while top-performing organizations reconcile 99.2 bank accounts per “manage cash” FTE. The typical organization with annual revenues between \$500 million and \$999 million reconciles 26.3 bank accounts per “manage cash” FTE compared to the 30.7 bank accounts per “manage cash” FTE for a typical organization with annual revenues between \$5 billion and \$10 billion. Industry segments in which organizations reconcile a greater number of bank accounts per “manage cash” FTE are energy and finance/insurance while government, information/communications and manufacturing organizations tend to reconcile fewer accounts per FTE.

## Cycle Times

The typical organization takes two days to resolve bank account discrepancies, while the benchmark organization takes one day. While there is some variation in cycle times by organization size, there is no correlation between the two. The only industry segment that takes a greater amount of time to resolve bank account discrepancies is government (3.0 days).

The typical organization develops a short-term cash flow forecast in 4.0 hours; in comparison, top performers accomplish this task in only 1.0 hour. The one industry segment that needs more time to develop a short-term cash flow forecast is energy (5.0 hours) while organizations in government (2.0 hours), finance/insurance (3.0 hours), transportation/warehousing (2.8 hours), retail/wholesale (3.0 hours) and services (3.0 hours) typically need less than the median amount of time.

The typical organization needs 1.5 hours to concentrate/physically pool cash and to establish the daily position, with the benchmark performance at one hour. The time needed to concentrate/physically pool cash and to establish the daily positions tends to increase the larger an organization is and was highest (at 2.0 hours) at energy, information/communications, manufacturing, and transportation/warehousing companies.

## Costs

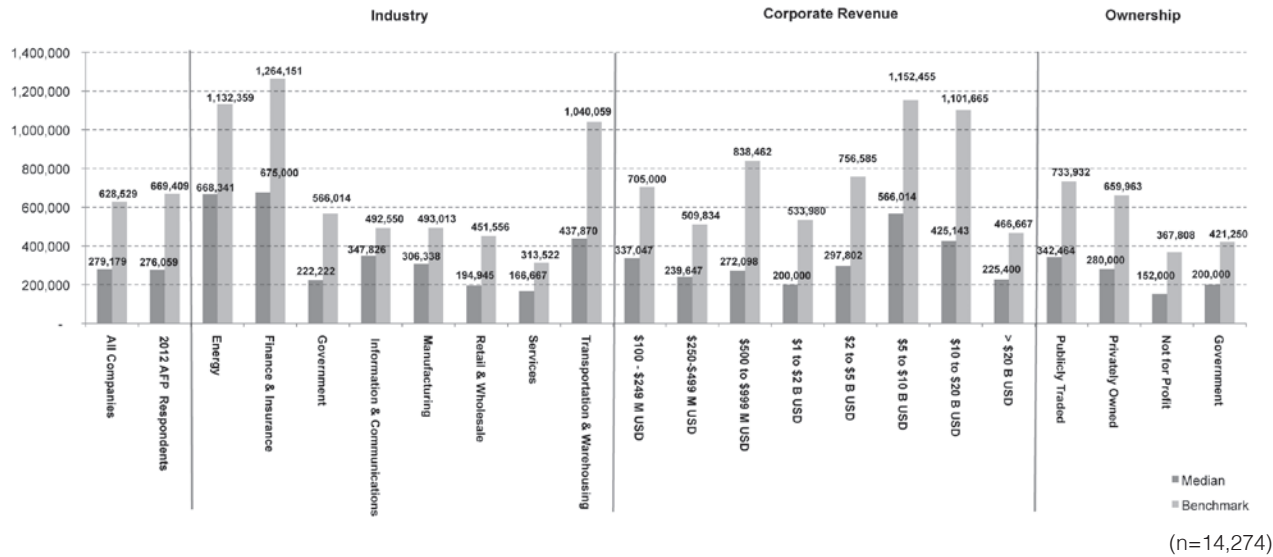
The median total cost of treasury operations is \$0.98 per \$1,000 of annual revenue, but drops to \$0.24 per \$1,000 of annual revenue at the benchmark firm. The typical organization with annual revenues between \$500 million and \$999 million has a total treasury operations cost of \$0.98 per \$1,000 of annual revenue. The benchmark organization's treasury operations cost is \$0.41 per \$1,000 of annual revenue. The metrics drop to \$0.17 and \$0.16 per \$1,000 of annual revenue at organizations with annual revenues between \$10 billion and \$20 billion.

## Data Tables

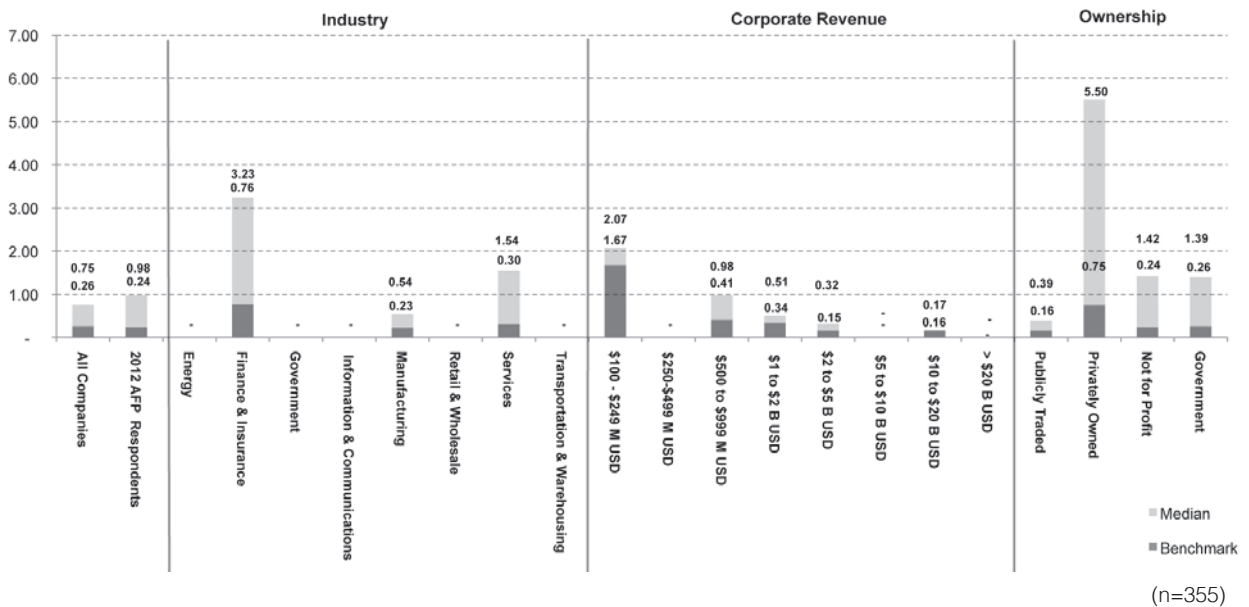
The following section provides a detailed summary of survey responses to the *AFP Treasury Benchmarking Program*. Where applicable, summary data is presented with both the median and the 80th percentile for the overall survey data and is cross-tabbed by industry, annual revenue, and ownership type of the responding organizations.



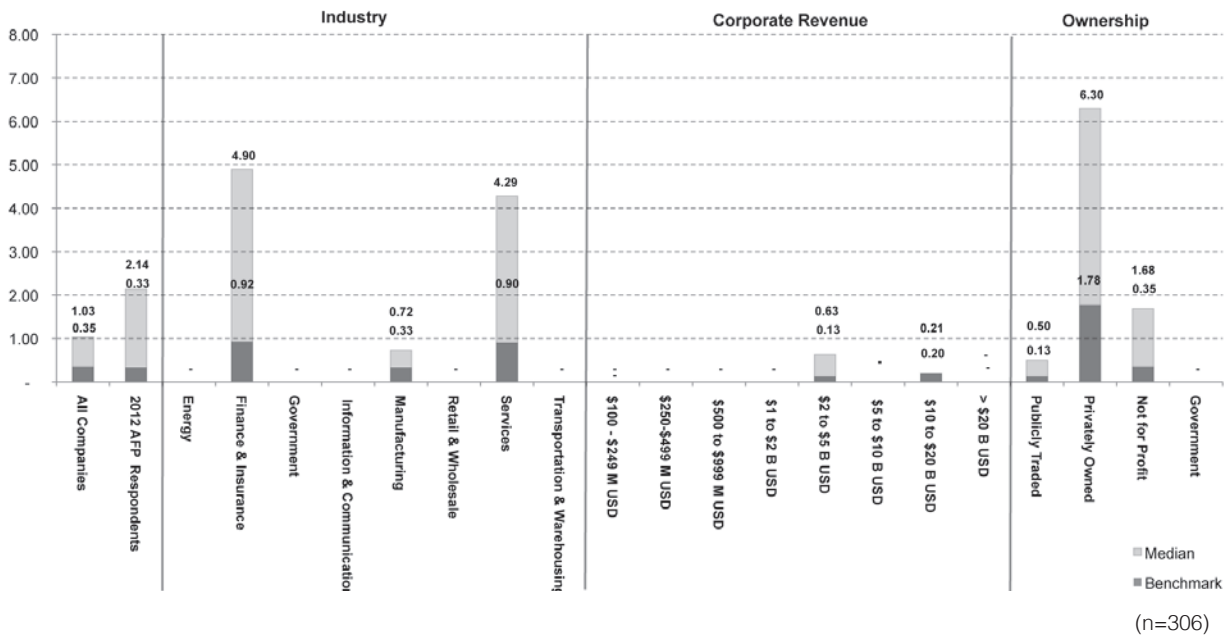
## Total revenue per business entity employee



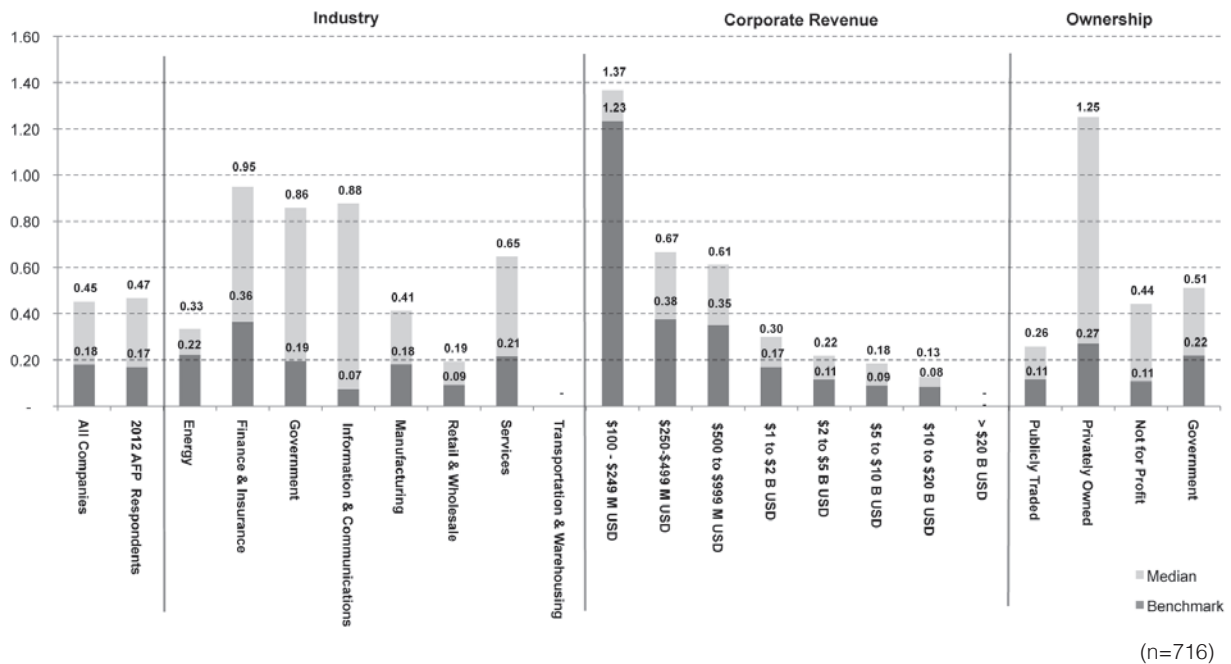
## Total cost of treasury operations per \$1,000 revenue



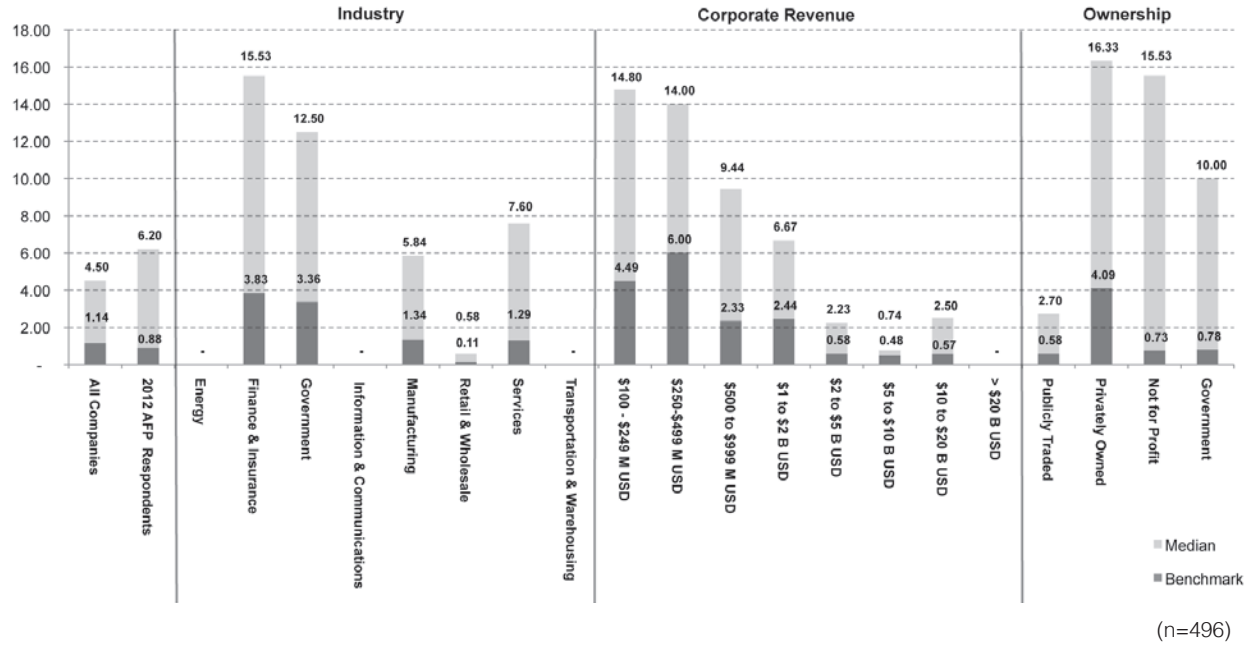
## Total cost of treasury operations per \$1,000 cost of continuing operations



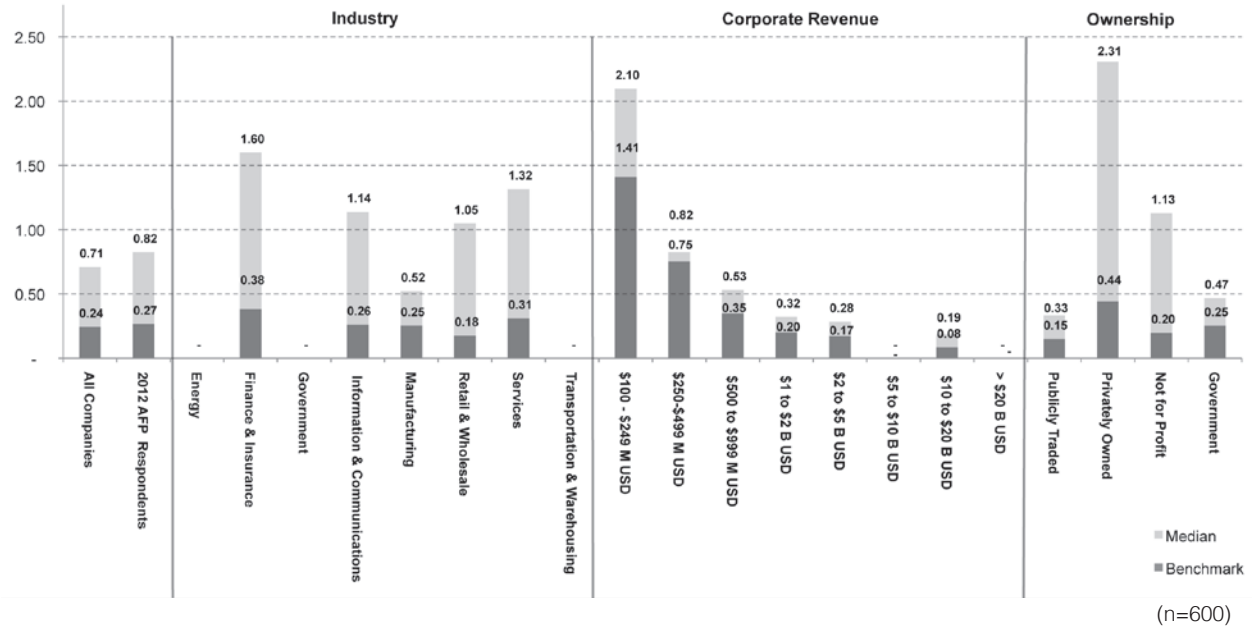
## Personnel cost (including benefits) of treasury operations per \$1,000 revenue



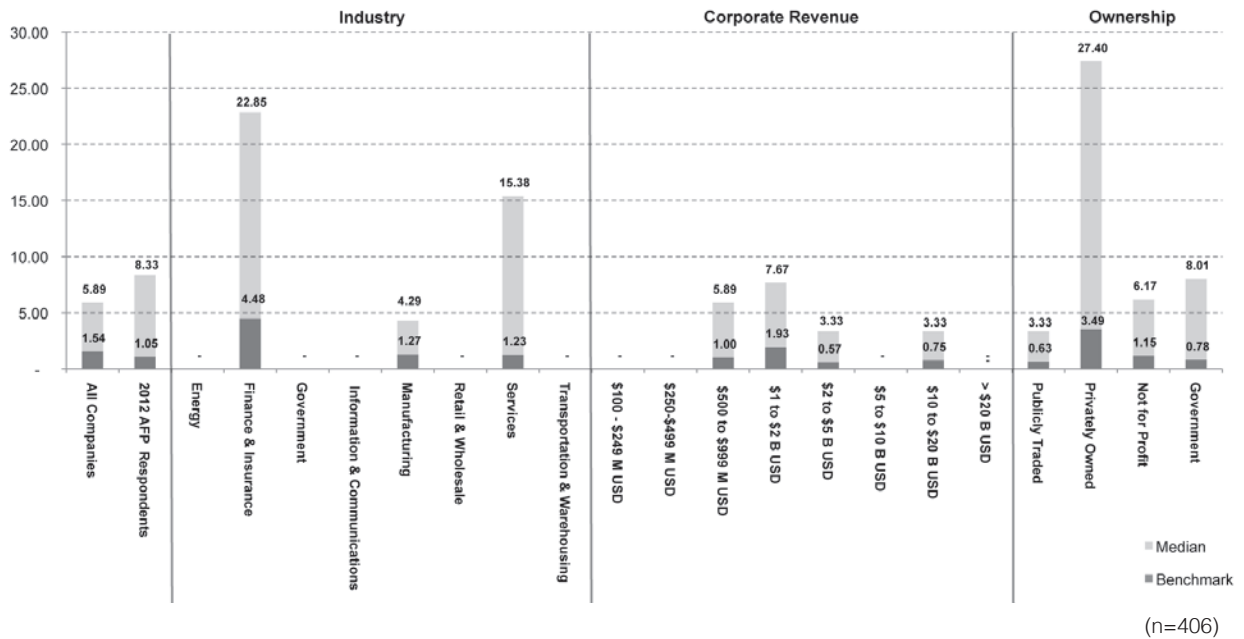
## Personnel cost (including benefits) of treasury operations per \$1,000 cost of continuing operations



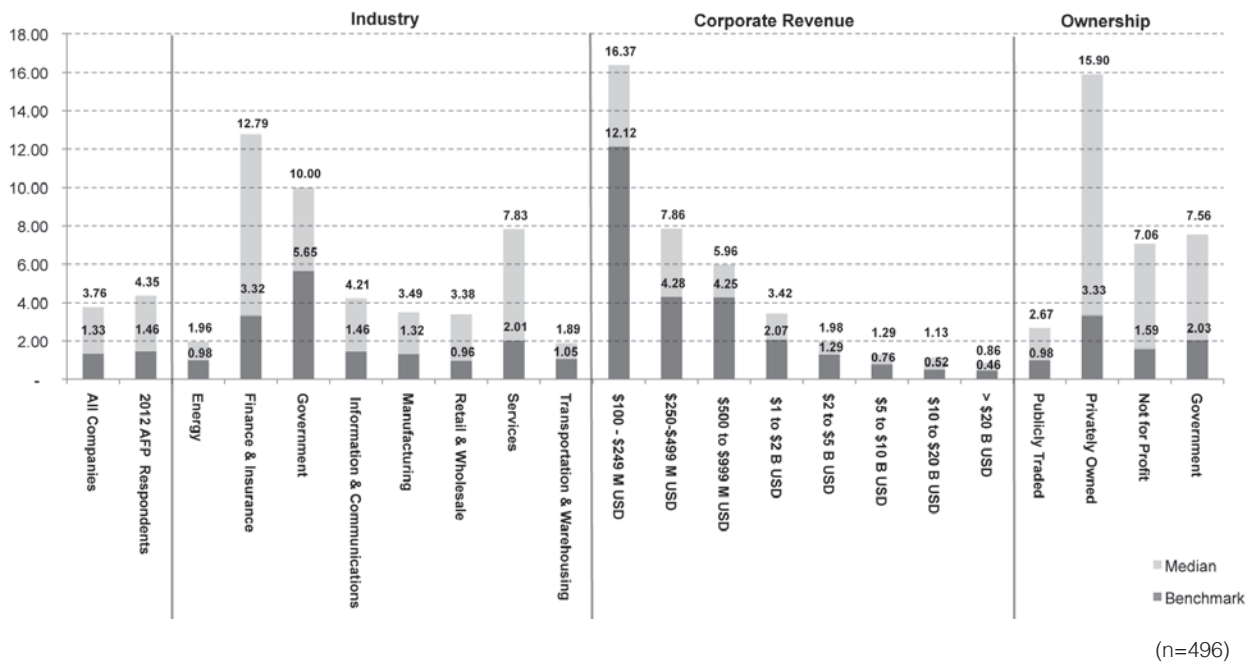
## Systems cost of treasury operations per \$100,000 revenue



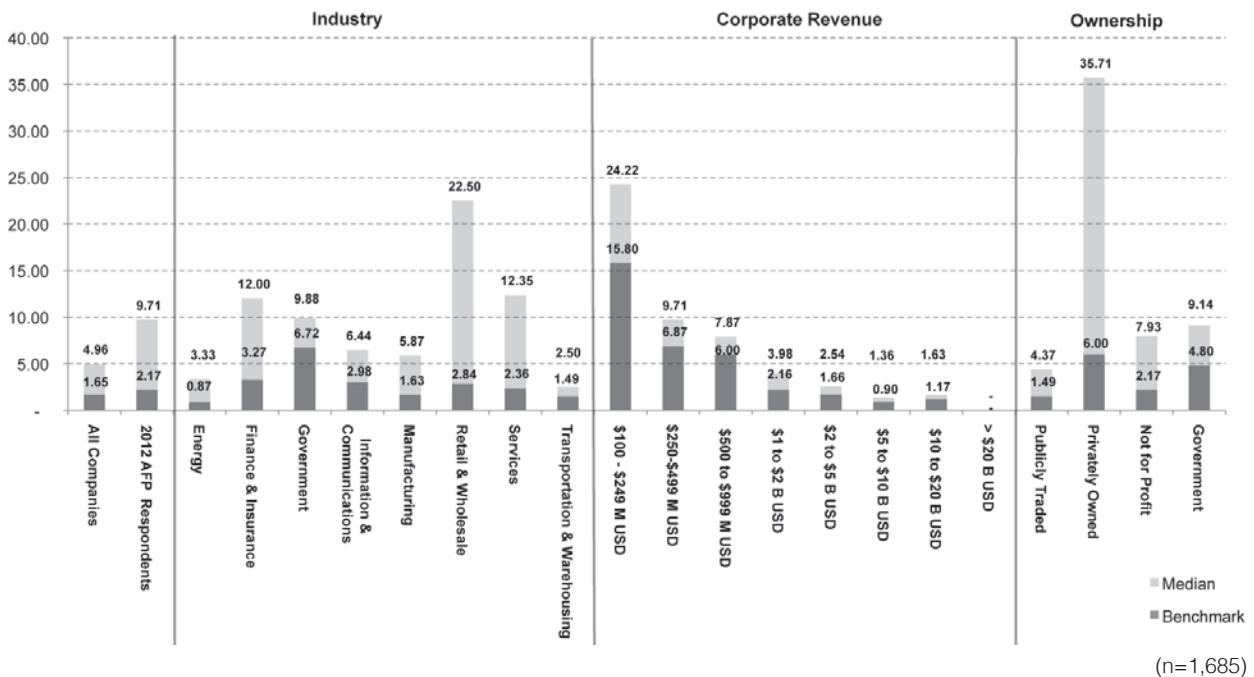
## Systems cost of treasury operations per \$100,000 cost of continuing operations



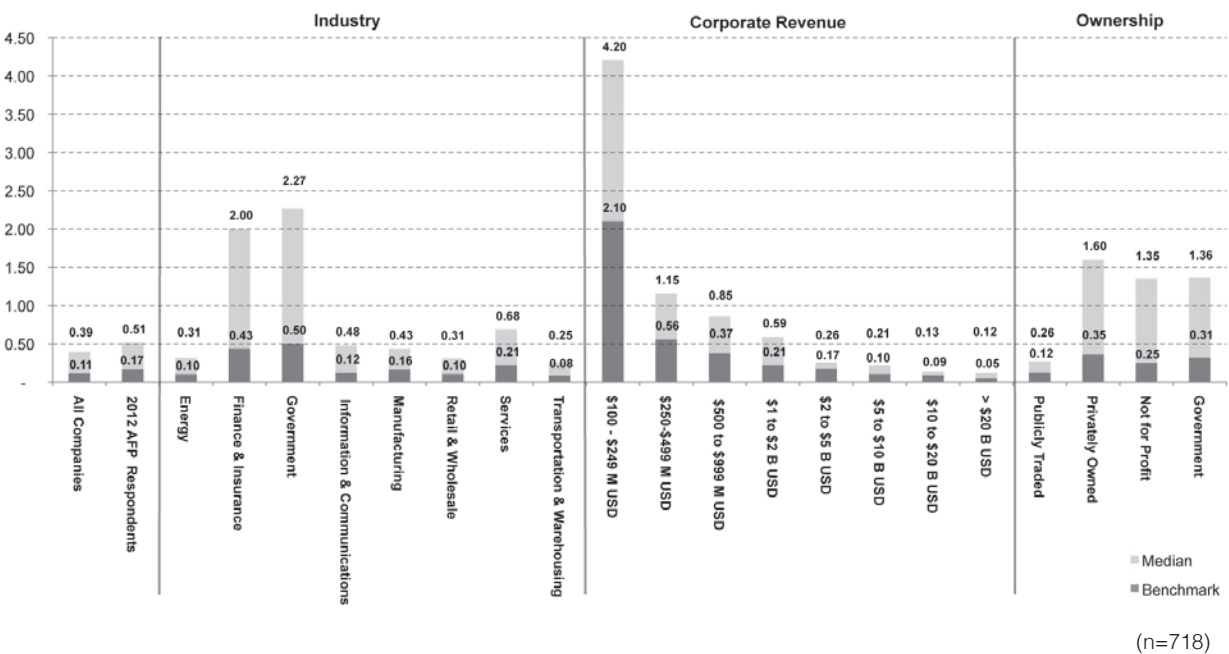
## Number of FTEs for treasury operations per \$1 billion revenue



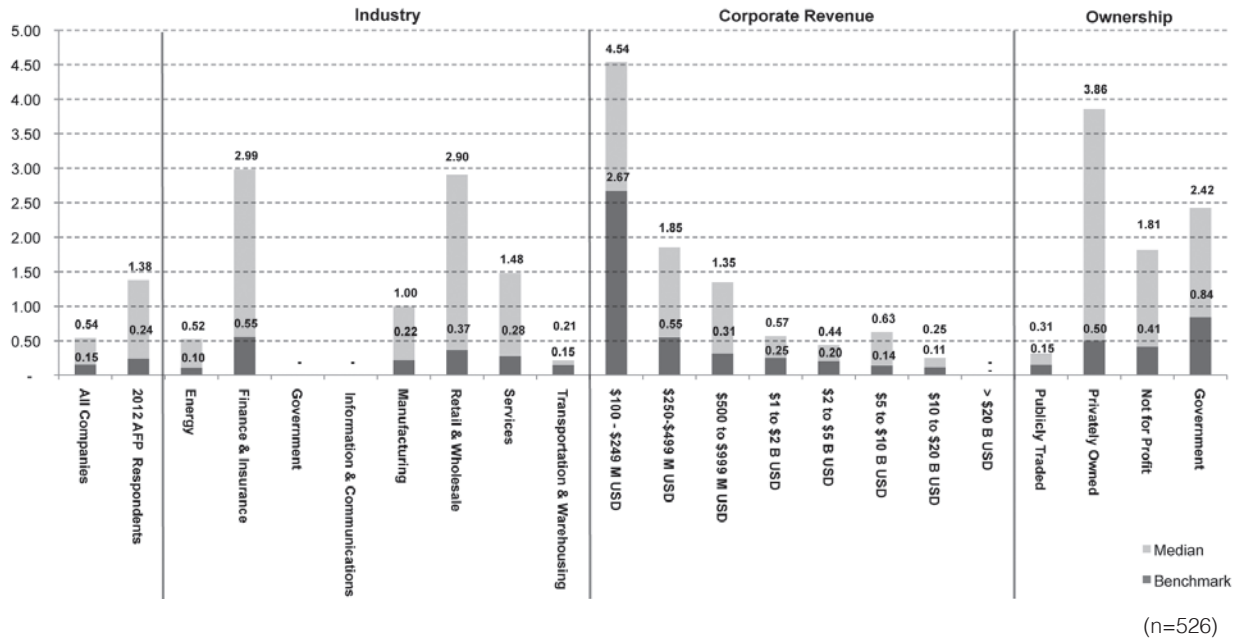
## Number of FTEs for treasury operations per \$1 billion cost of continuing operations



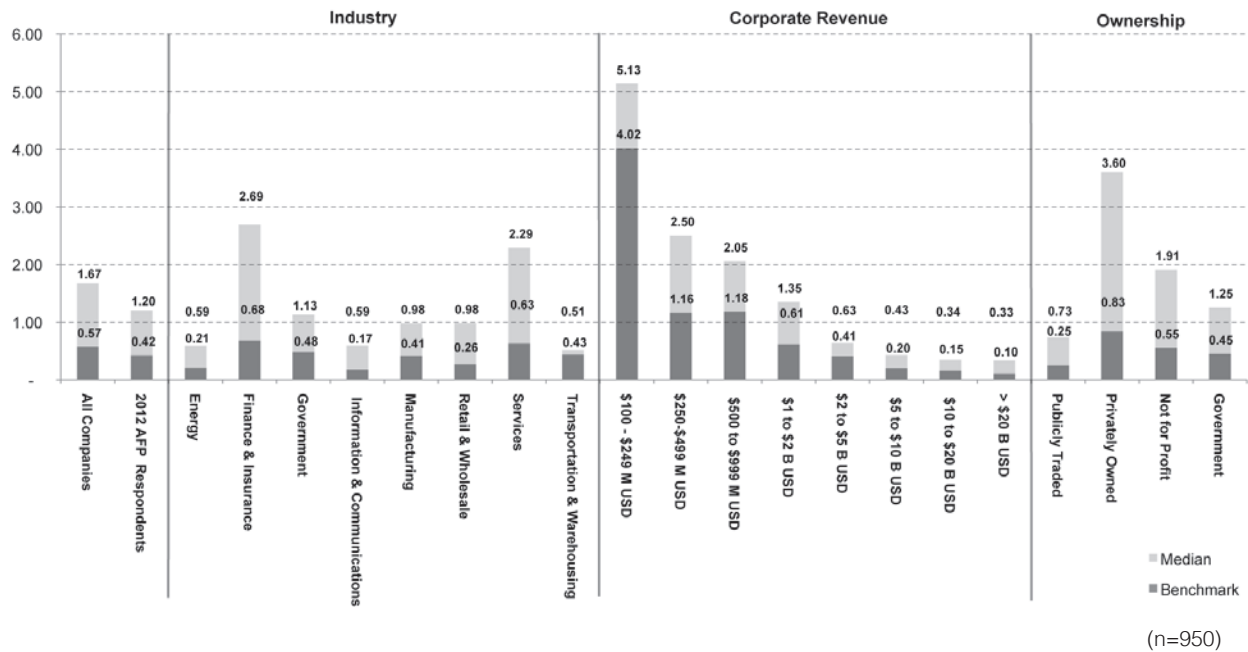
## Number of FTEs for the process “manage treasury policies and procedures” per \$1 billion revenue



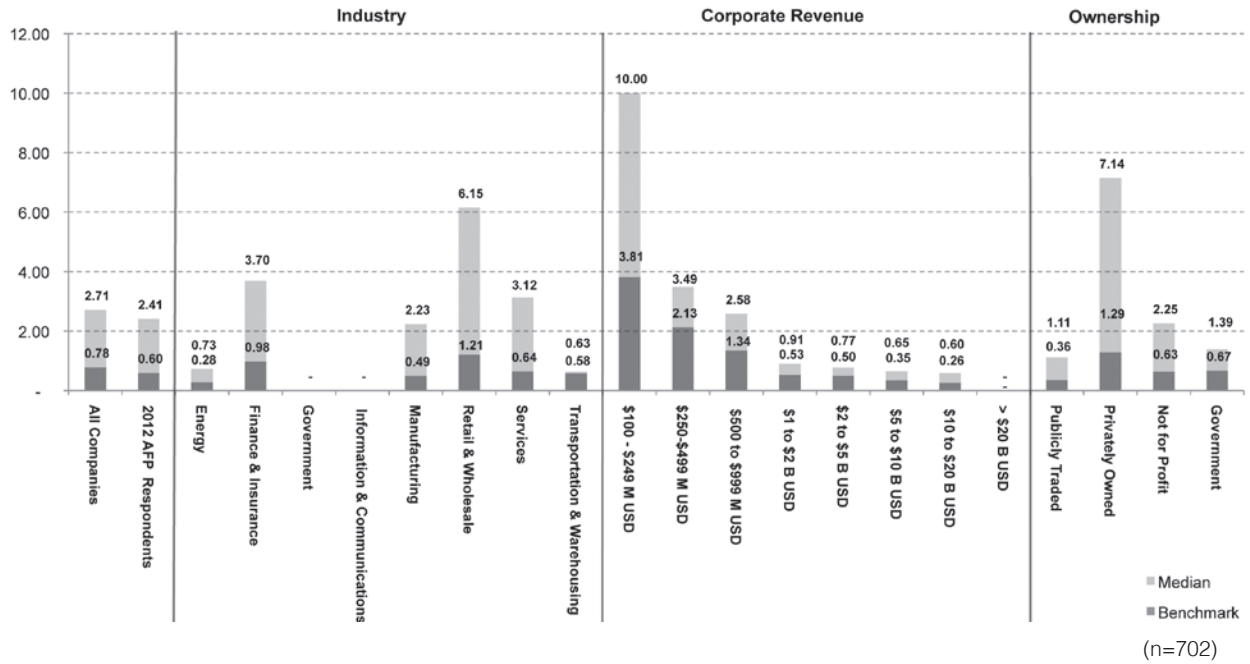
## Number of FTEs for the process “manage treasury policies and procedures” per \$1 billion cost of continuing operations



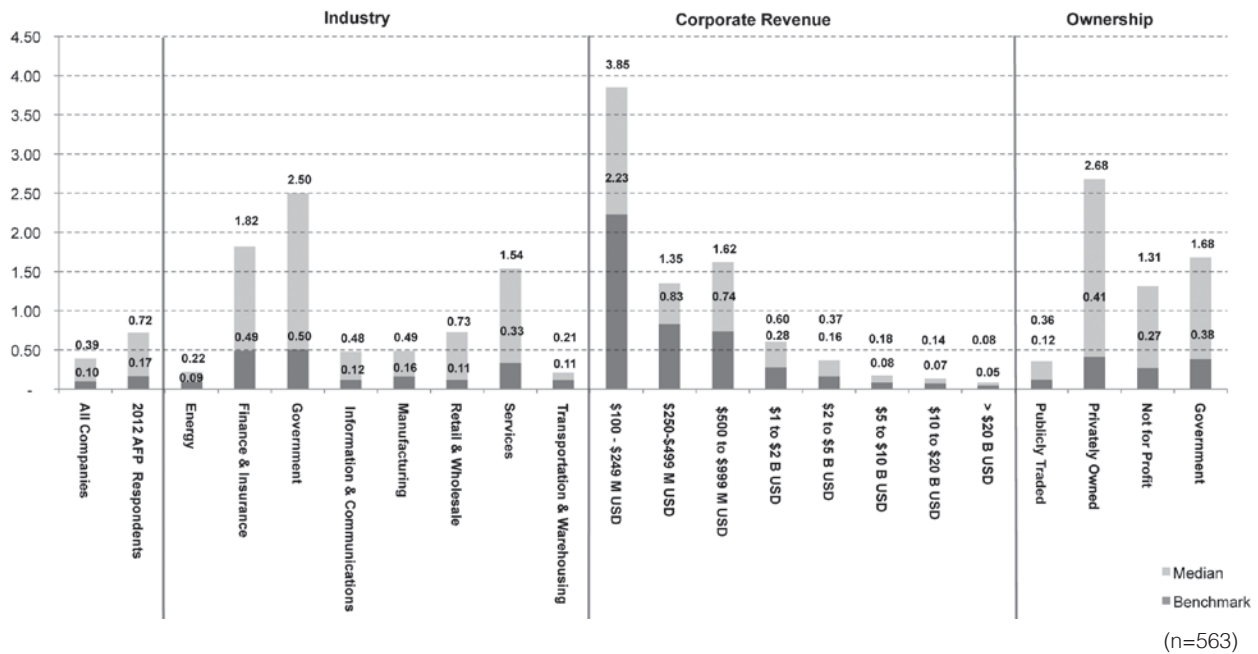
## Number of FTEs for the process “manage cash” per \$1 billion revenue



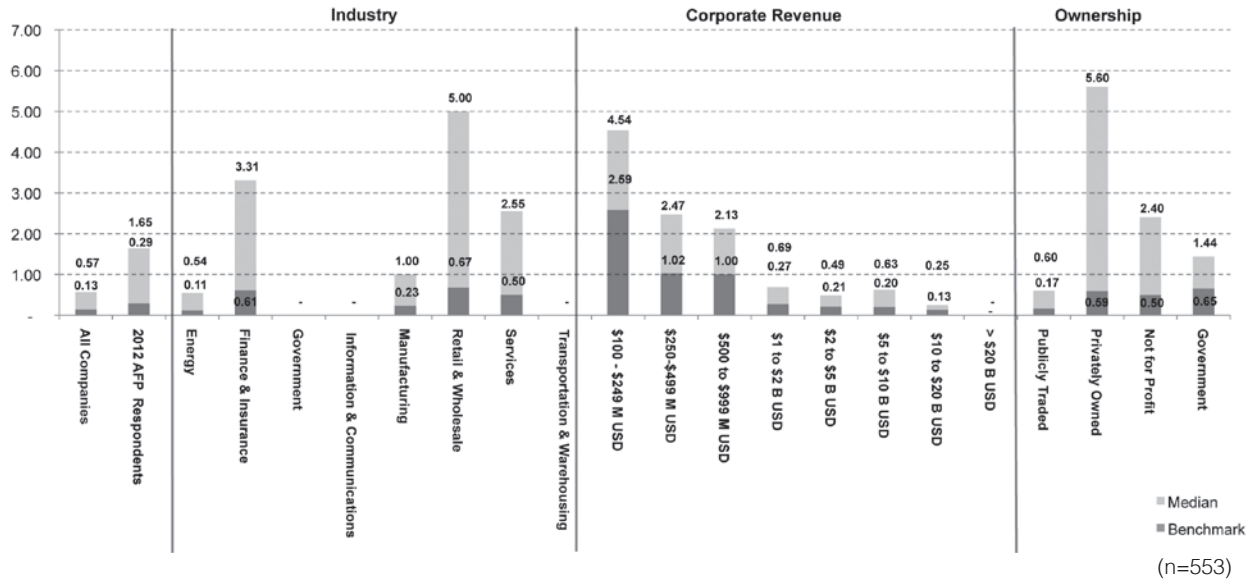
## Number of FTEs for the process “manage cash” per \$1 billion cost of continuing operations



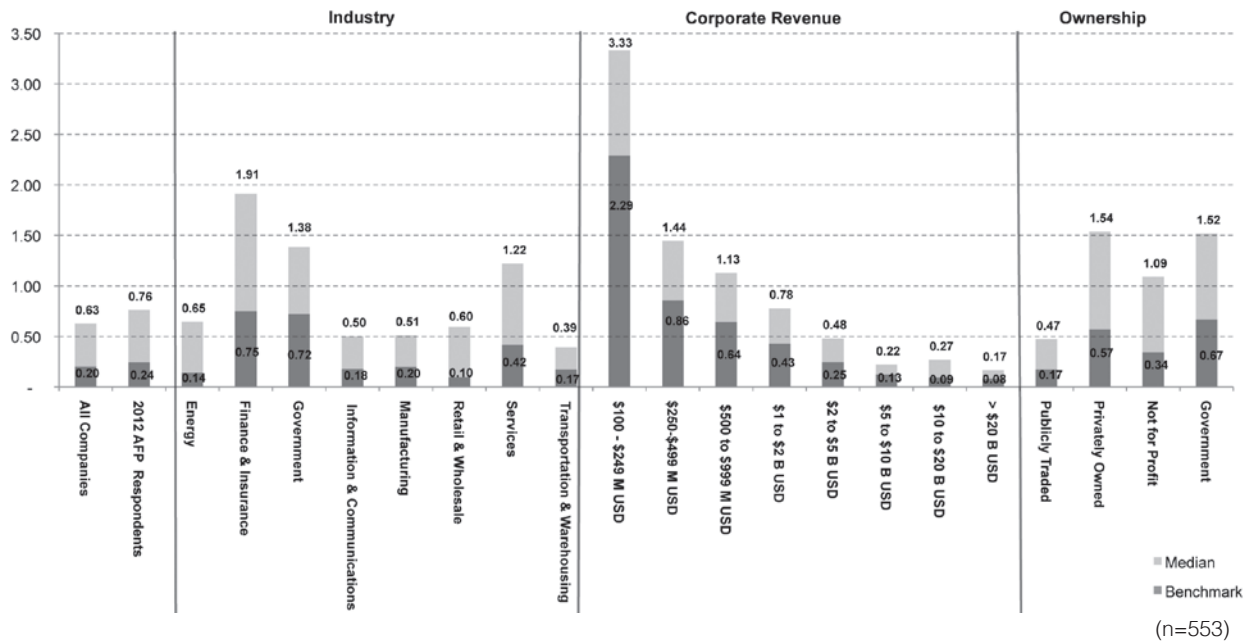
## Number of FTEs for the process “manage in-house bank accounts” per \$1 billion revenue



## Number of FTEs for the process “manage in-house bank accounts” per \$1 billion cost of continuing operations

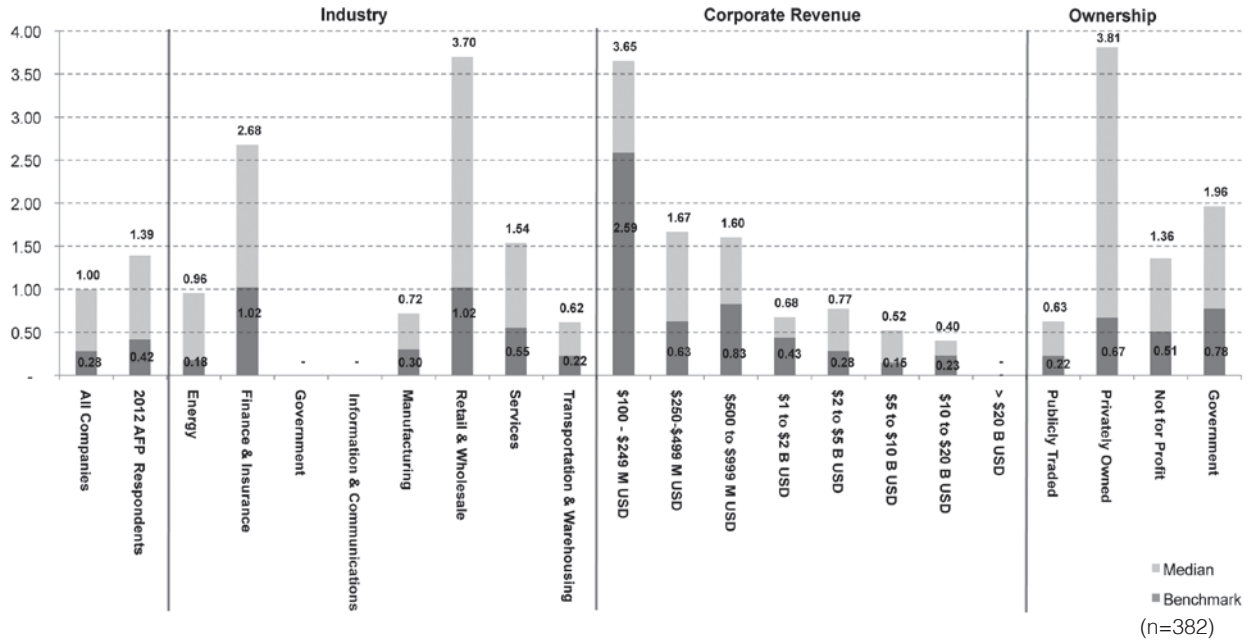


## Number of FTEs for the process “manage debt and investments” per \$1 billion revenue

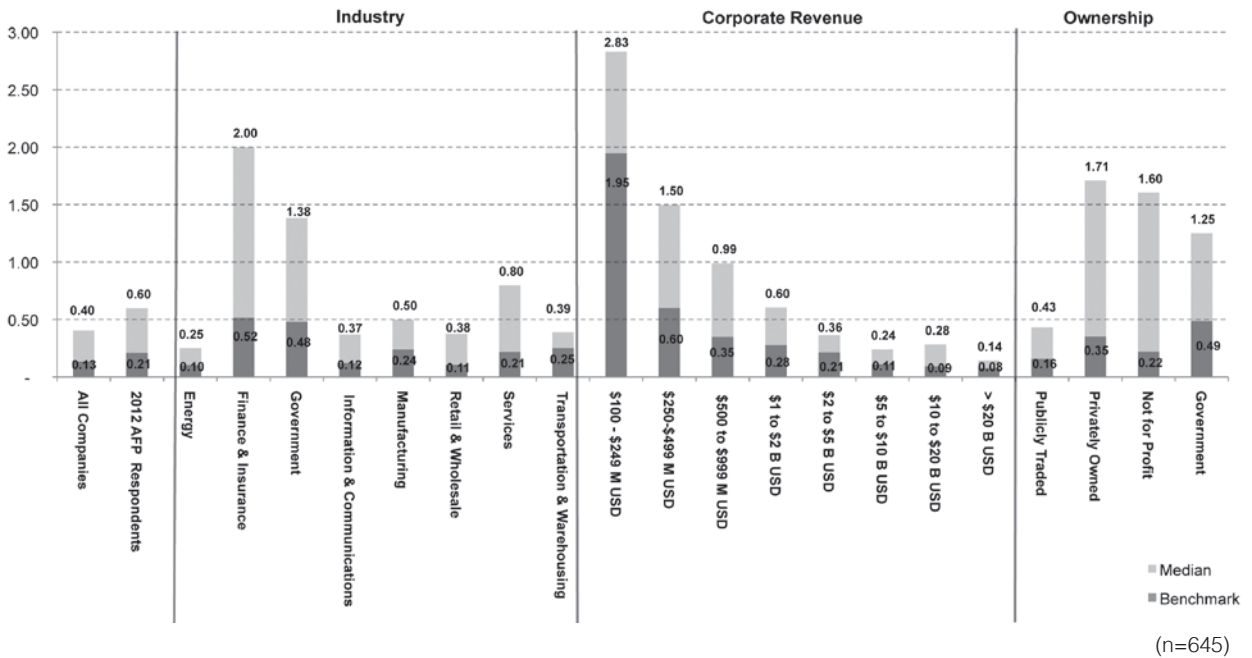




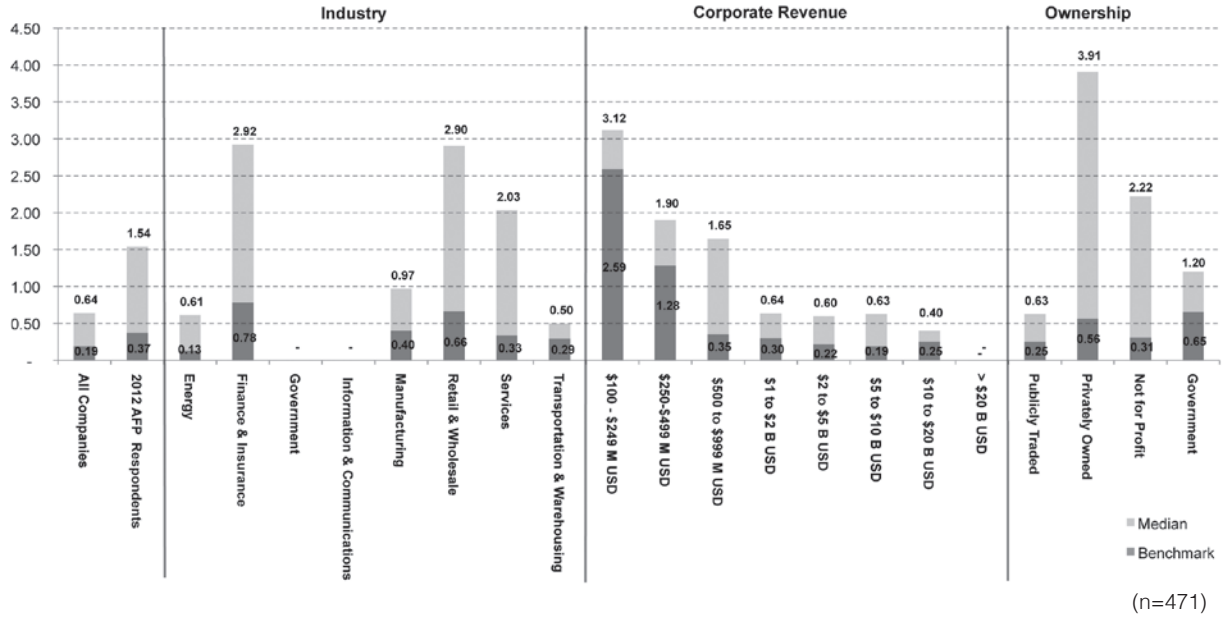
## Number of FTEs for the process “manage debt and investments” per \$1 billion cost of continuing operations



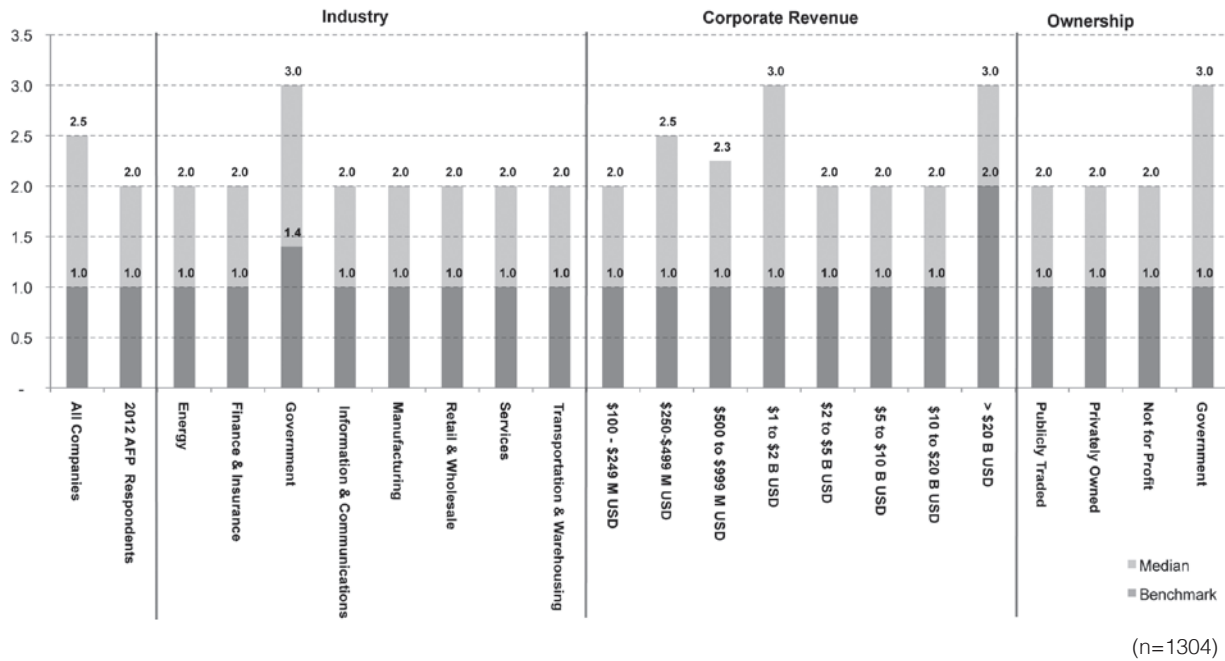
## Number of FTEs for the process “manage financial risks” per \$1 billion revenue



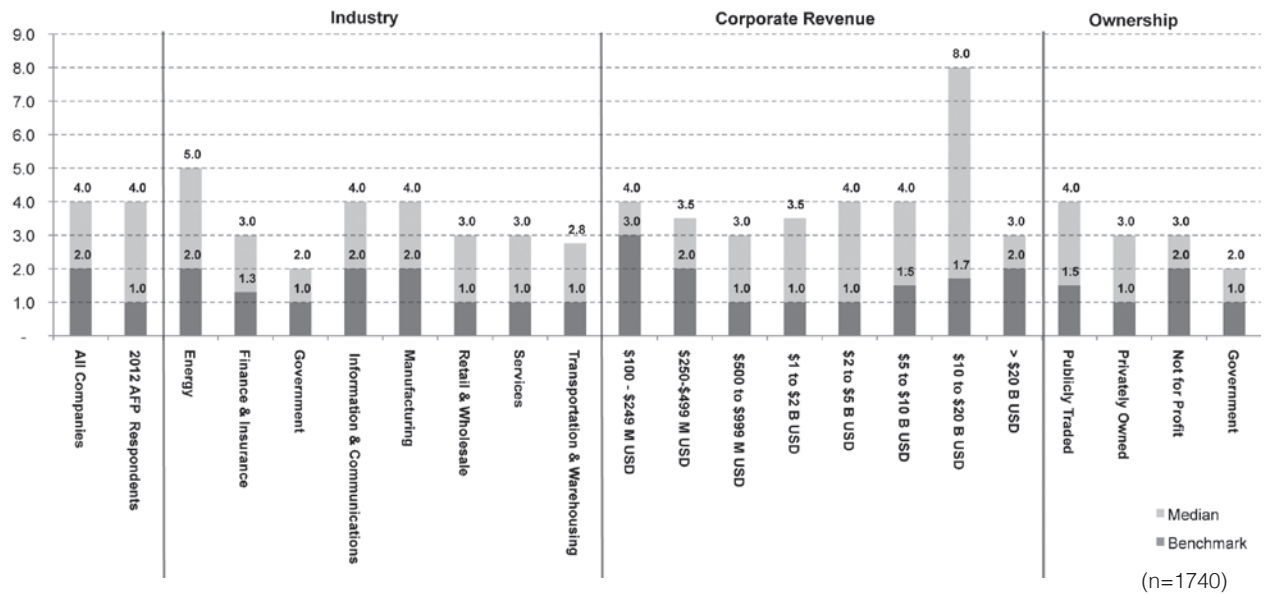
## Number of FTEs for the process “manage financial risks” per \$1 billion cost of continuing operations



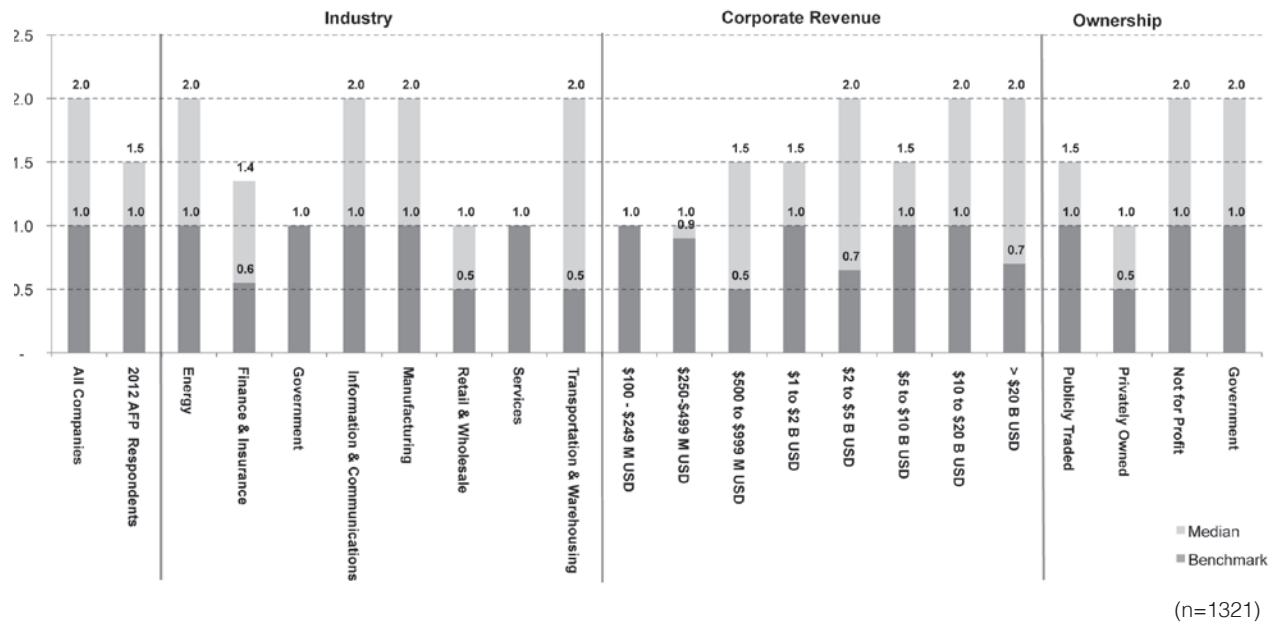
## Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved



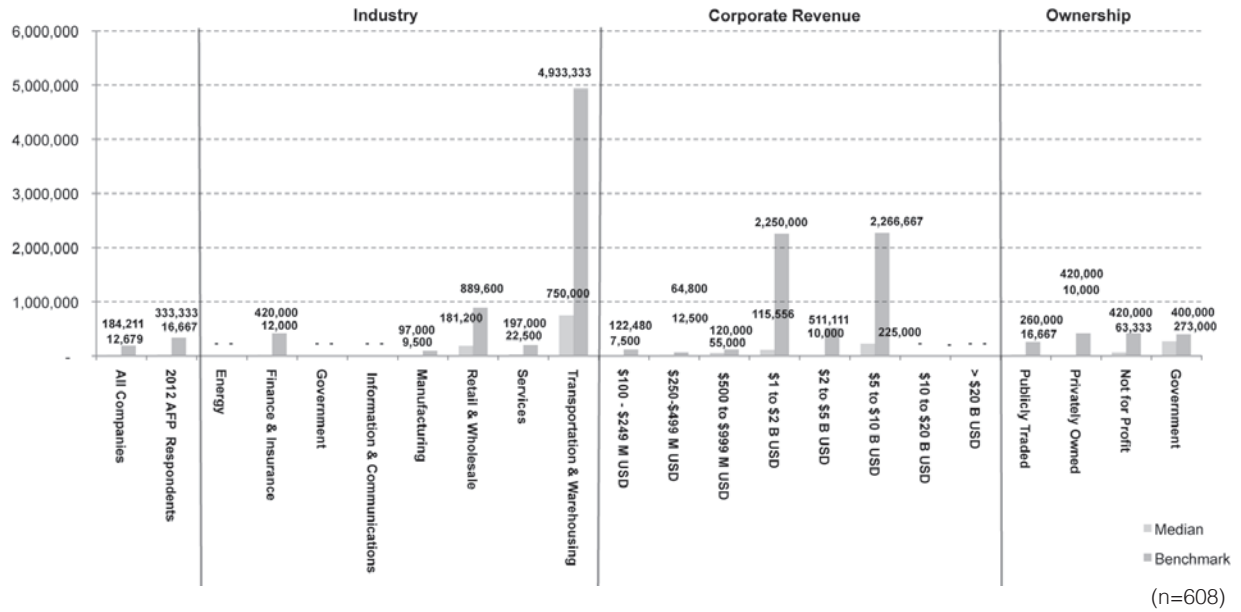
## Cycle time in hours to develop a short-term cash flow forecast



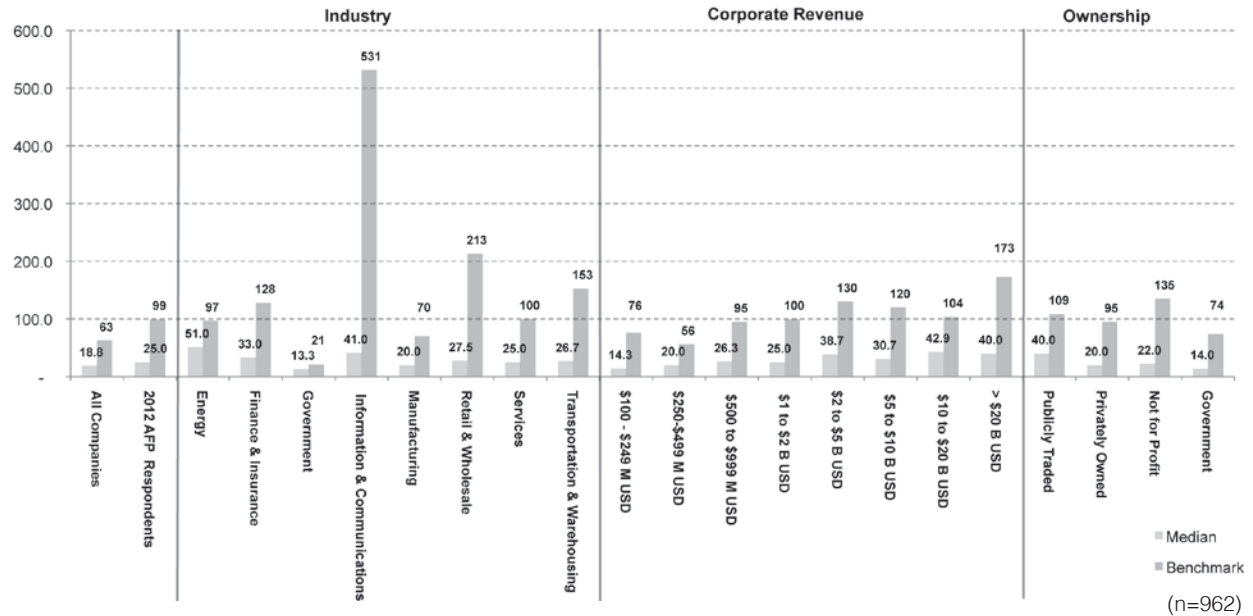
## Cycle time in hours to concentrate/physically pool cash and establish a daily cash position



## Total annual number of cash receipts processed per “manage cash” FTE



## Number of bank accounts reconciled per “manage cash” FTE (including concentration, lockbox, disbursement, trust and fiduciary)



## Measures of Success

Organizations have different views on what constitutes a “successful” treasury operation. A large majority of organizations link the success of their treasury operations to decreased expenses and increased efficiency. Others are more interested in improving throughput and/or decreasing cycle time as a key target.

For 79 percent of organizations, a key metric of success for their treasury operations is reducing banking expenses. Nearly three-quarters of organizations cite the ability of treasury to improve efficiency as a factor when determining the success of treasury, while two-thirds of organizations closely track treasury’s ability to reduce borrowing costs.

But treasury department success is not just about reduced costs/increased efficiency. Many organizations also closely watch the effectiveness of the treasury function in meeting its objectives. Fifty-three percent of organizations look at the success of treasury’s ability to manage risk, while half of organizations track the ability of treasury to meet or exceed liquidity targets. Other determinants of a successful treasury operation include:

- Providing capital structure support (cited by 39 percent of survey respondents)
- Reducing cycle times (35 percent)
- Generating income (30 percent)

### Measures of Success for Treasury Departments

(Percent of Organizations)

	All	Under \$500 million	\$500 million-\$1 billion	\$1-5 billion	Over \$5 billion	Publicly Traded	Privately Held
Reduced banking expenses	79%	74%	75%	83%	82%	79%	75%
Improved efficiency	71	68	75	71	75	73	66
Reduced borrowing costs	65	53	72	69	75	75	58
Risk management effectiveness	53	41	64	52	67	62	41
Meeting/exceeding liquidity targets	50	47	44	50	59	54	51
Capital structure support	39	28	42	43	49	49	32
Reduced cycle times	35	36	42	30	37	30	42

There is a significant relationship between the expectations for treasury by management and key treasury metrics. For example, organizations that measure their treasury departments’ success in improving efficiency typically boast treasury departments with fewer FTEs and lower costs for treasury operations (both on a normalized basis) while still matching cycle times achieved by treasury operations that are not held to the same standard. But organizations that measure their treasury operation success via improved cycle times do not necessarily report having shorter cycle times.

Although perhaps counterintuitive, organizations that desire their treasury departments to reduce banking expenses and reduce borrowing costs are likely to employ a greater number of FTE in their treasury operations than other organizations. One reason for this may be that as departments look at tangible expenses, they justify their FTE offset by decreasing their overall cost structure to justify headcount. One example of this is taking advantage of technology advances in bank fees. As the cost of technology decreases over time, bank fees reliant upon technology should decrease as a result assuming the banking providers are sharing the decreased costs.

## Relationship Between Measures of Success and Key Treasury Metrics

(Organizations with Annual Revenues Greater than \$500 Million)

Number of FTEs for treasury operations per \$1 billion in annual revenue	Total cost of treasury operations per \$1,000 in annual revenue	Number of FTEs for the process "manage treasury policies and procedures" per \$1 billion in annual revenue	Number of FTEs for the process "manage cash" per \$1 billion in annual revenue	Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved	Cycle time in hours to develop short-term cash flow forecast
Reducing bank expenses is not a measure of success					
2.00	\$0.37	.24	.60	1.00	3.50
Reducing bank expenses is a measure of success					
2.52	\$0.30	.35	.82	2.00	4.00
Improved efficiency is not a measure of success					
2.73	\$0.70	.25	.85	2.00	4.00
Improved efficiency is a measure of success					
2.35	\$0.28	.34	.65	2.00	4.00
Reduced borrowing cost is not a measure of success					
2.09	\$0.25	.35	.73	2.00	4.00
Reduced borrowing cost is a measure of success					
2.52	\$0.38	.32	.80	2.00	4.00
Risk management effectiveness is not a measure of success					
2.20	\$0.42	.36	.72	2.00	3.00
Risk management effectiveness is a measure of success					
2.85	\$0.29	.31	.77	2.00	4.00
Meeting/exceeding liquidity targets is not a measure of success					
2.67	\$0.32	.25	.83	2.00	3.50
Meeting/exceeding liquidity targets is a measure of success					
2.27	\$0.35	.35	.63	2.00	4.00
Capital structure support is not a measure of success					
2.73	\$0.29	.39	.76	2.00	3.00
Capital structure support is a measure of success					
2.27	\$0.44	.25	.76	2.00	4.00
Reduced cycle times is not a measure of success					
2.23	\$0.29	.29	.76	2.00	3.00
Reduced cycle times is a measure of success					
2.92	\$0.48	.36	.73	2.00	4.00
Generating income is not a measure of success					
2.67	\$0.32	.25	.83	3.50	2.00
Generating income is a measure of success					
2.27	\$0.35	.35	.63	4.00	2.00

## Mandate of Treasury

In a majority of organizations, treasury has taken on a number of additional functions over the past five years. Fifty-five percent of organizations have expanded their treasury's mandate over the past five years versus five percent that have narrowed the focus

of their treasury operations during the same time frame. An expansion of treasury's mandate is more likely to have occurred in larger organizations, particularly those with annual revenues greater than \$1 billion.

## Size of Treasury's Mandate Relative to Five Years Ago

(Percentage Distribution)

	All	Under \$500 million	\$500 million-\$1 billion	\$1-5 billion	Over \$5 billion	Publicly Traded	Privately Held
Broader	55%	45%	50%	65%	58%	56%	54%
About the same	40	49	35	33	38	39	40
Narrower	5	6	15	3	4	5	6

Treasury operations that *have* taken on additional treasury responsibilities have done so with a normalized cost structure that barely differs from that in departments that have not seen a significant change in structure in recent years. The median total cost of treasury operations per \$1,000 of annual revenue at organizations that have broadened the scope of treasury over the

past five years was \$0.32 versus \$0.28 at organizations that have not significantly altered the role of treasury. At the same time, treasury departments with expanded mandates have larger staffs (on a normalized basis) than those that have not changed their scope of work. Further, expanded treasury operations typically take an additional hour to develop a cash flow forecast.

## Relationship Between the Change in Treasury's Mandate and Key Treasury Metrics

(Organizations with Annual Revenues Greater than \$500 Million)

Number of FTEs for treasury operations per \$1 billion in annual revenue	Total cost of treasury operations per \$1,000 in annual revenue	Number of FTEs for the process "manage treasury policies and procedures" per \$1 billion in annual revenue	Number of FTEs for the process "manage cash" per \$1 billion in annual revenue	Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved	Cycle time in hours to develop short-term cash flow forecast
Broader 2.67	\$0.32	.29	.84	2.00	4.00
About the same 2.03	\$0.28	.36	.53	2.00	3.00
Narrower 3.97	\$0.41	.38	1.54	1.50	3.00

The result of the changes to treasury's mandate is a treasury function that covers a larger number of areas. At least two-thirds of survey respondents indicated that 18 function areas are currently within the scope of their organization's treasury function.

In each case, treasury either acts as the functional lead or at least supports a function that is managed by another department. These functional areas, listed in descending order are:

Functional areas treasury leads or supports	Percent of survey respondents
Cash flow forecasting	99 percent
Bank relationship management	99 percent
Borrowing: short-term	94 percent
Working capital management (e.g., A/R, A/P, inventory)	94 percent
Borrowing: long-term (capital funding/sourcing)	93 percent
Investing: short-term	92 percent
Risk management: financial	91 percent
Financial planning & analysis	90 percent
Investing: long-term	89 percent
Act as an internal financial consultant	86 percent
Business continuity planning	84 percent
Counterparty risk analysis	82 percent
Enterprise risk management	82 percent
Global treasury management	81 percent
Accounting/SEC compliance	79 percent
Merger & acquisition	74 percent
Technology implementation/management	74 percent
Leasing	69 percent



The typical organization responding to the 2012 survey of the *AFP Treasury Benchmarking Program* places treasury in a leadership role in 10 of the 22 treasury and finance areas defined in the survey. In at least half of organizations, the treasury group takes the lead in bank relationship management (cited

by 94 percent of survey respondents), cash flow forecasting (83 percent), short-term investing (82 percent), short-term borrowing (81 percent), long-term investing (73 percent), global treasury management (72 percent) and financial risk management (52 percent).

## Treasury Role in Key Financial Functions

(Percentage Distribution of Organizations)

	Leads	Participates, but does not lead	No significant role
Cash flow forecasting	83%	17%	-
Bank relationship management	94	5	1
Borrowing: short-term	81	13	6
Working capital management (e.g., A/R, A/P, inventory)	42	52	6
Borrowing: long-term (capital funding/sourcing)	76	17	7
Investing: short-term	82	10	8
Risk management: financial	52	39	9
Financial planning & analysis	25	65	10
Investing: long-term	73	16	11
Internal financial consultant to other department's business units and/or affiliated companies	35	51	14
Business continuity planning	20	64	16
Counterparty risk analysis	42	40	18
Enterprise risk management	23	59	18
Global treasury management	72	9	19
Accounting/SEC compliance	15	64	21
Merger & acquisition	11	63	26
Technology implementation/management	13	61	26
Leasing	25	44	31
Insurance	40	25	35
Retirement/pension plan management	21	43	36
Investor relations	27	30	43
Employee benefit management (non-retirement)	7	41	52

## Treasury Role in Key Financial Functions

(Percent of Organizations in which Treasury Leads/Participates but does not lead)

	Under \$500 million	\$500 million- \$1 billion	\$1-5 billion	Over \$5 billion	Publicly Traded	Privately Held
Cash flow forecasting	79%/20%	81%/19%	87%/13%	83%/17%	81%/18%	85%/15%
Bank relationship management	89/9	89/11	98/2	97/3	96/4	93/7
Borrowing: short-term	74/18	87/13	86/9	83/14	87/9	79/15
Working capital management (e.g., A/R, A/P, inventory)	52/41	32/60	37/59	38/54	33/60	56/41
Borrowing: long-term (capital funding/sourcing)	69/22	81/19	81/12	78/17	81/13	76/18
Investing: short-term	69/15	87/8	92/5	87/9	88/6	73/14
Risk management: financial	50/36	49/46	55/39	54/43	56/34	54/40
Financial planning & analysis	43/51	23/68	15/74	8/76	10/77	38/55
Investing: long-term	63/19	81/17	82/12	73/17	79/11	66/18
Internal financial consultant to other department's business units and/or affiliated companies	42/39	30/49	34/58	26/64	28/60	38/47
Business continuity planning	24/56	11/53	13/78	28/61	68/21	19/60
Counterparty risk analysis	35/33	41/49	44/43	50/44	48/40	38/40
Enterprise risk management	28/55	30/43	21/62	16/66	20/65	29/52
Global treasury management	64/8	81/8	75/7	76/14	80/11	73/8
Accounting/SEC compliance	30/53	14/60	6/76	6/66	4/76	25/52
Merger & acquisition	17/54	17/54	8/72	1/70	7/79	16/58
Technology implementation/management	16/58	8/57	13/67	12/59	9/62	15/61
Leasing	28/38	22/46	27/44	21/52	23/49	31/42
Insurance	41/34	39/25	37/18	42/24	46/18	41/29
Retirement/pension plan management	10/42	14/43	20/43	30/45	19/43	22/47
Investor relations	29/24	22/28	32/32	20/36	17/38	29/21
Employee benefit management (non-retirement)	12/41	5/41	3/44	6/36	3/35	11/49

There is a strong negative relationship between the number of treasury/finance functions in which the treasury department leads and the resources used by the department. The typical treasury department that takes the lead in at least 12 of the treasury/finance functions listed in the current survey employs 2.04 FTEs per \$1 billion of annual revenue and spends \$0.51 per \$1,000 of annual revenue to run treasury operations.

This compares with 2.76 FTEs and \$0.14 in total costs for treasury departments that lead in seven or fewer function areas. While treasury departments that do take the lead role in a greater number of treasury/finance functions typically take an extra hour to develop a short-term cash flow forecast, there is no difference in the median time needed to resolve a discrepancy discovered during bank account reconciliation.

### Relationship Between the Number of Functions Treasury Leads and Key Treasury Metrics

(Organizations with Annual Revenues Greater than \$500 Million)

Number of FTEs for treasury operations per \$1 billion in annual revenue	Total cost of treasury operations per \$1,000 in annual revenue	Number of FTEs for the process "manage treasury policies and procedures" per \$1 billion in annual revenue	Number of FTEs for the process "manage cash" per \$1 billion in annual revenue	Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved	Cycle time in hours to develop short-term cash flow forecast
Leads in 7 or fewer function areas 2.76	\$0.14	.46	.84	2.00	3.00
Leads in at least 12 function areas 2.04	\$0.51	.23	.63	2.00	4.00

## Global Trade

Fifty-seven percent of the participants in the 2012 survey of the *AFP Treasury Benchmarking Program* report that their organizations generate at least some percentage of their revenue outside of their home country. For those organizations that do generate revenue outside of their home country, the median percentage of revenue generated internationally is 33 percent.

Treasury departments in organizations that generate

more than ten percent of their revenue outside of their home country have total treasury operation costs that are nearly 60 percent higher than those that generate an overwhelming majority of revenue in the home country: \$0.43 versus \$0.27 per \$1,000 of annual revenue. Still, there is no discernible statistical relationship between the percentage of revenue generated outside of the organization's home country and the normalized number of *FTEs* utilized to deliver treasury services.

### Relationship Between Revenue Generation Outside of Home Country and Key Treasury Metrics

(Organizations with Annual Revenues Greater than \$500 Million)

Number of FTEs for treasury operations per \$1 billion in annual revenue	Total cost of treasury operations per \$1,000 in annual revenue	Number of FTEs for the process "manage treasury policies and procedures" per \$1 billion in annual revenue	Number of FTEs for the process "manage cash" per \$1 billion in annual revenue	Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved	Cycle time in hours to develop short-term cash flow forecast
2.50	\$0.27	.35	.64	2.00	3.00
2.52	\$0.43	.33	.83	2.00	4.00

Organizations that generate revenue outside of their home countries very likely have generated a greater percentage of revenue internationally compared to the "international revenue" generated five years earlier. Fifty-eight percent of respondents from organizations

that generate revenue outside of their home countries have generated a larger percentage of revenue internationally relative to that of five years ago. The percentage of revenue generated outside of the home country has declined at only six percent of organizations.

### Change in the Percentage of Revenue Generated Outside of the Home Country Relative to Five Years Ago

(Percentage Distribution of Organizations that Generate Revenue Outside of their Home Country)

	All	Under \$500 million	\$500 million-\$1 billion	\$1-5 billion	Over \$5 billion	Publicly Traded	Privately Held
Increased	58%	52%	69%	60%	55%	60%	57%
About the same	37	43	28	37	35	34	38
Decreased	6	5	3	3	10	6	5

Organizations that have experienced a marked increase in the percentage of revenue generated outside of their home country over the past five years tend to have a higher total cost of treasury operations and utilize a greater number of FTEs to deliver treasury services (both on a normalized basis) compared to organizations that have not experienced an increase in non-home country revenue. The median total costs for treasury operations was \$0.44 per \$1,000 of annual revenue for organizations

that have experienced an increase in the percentage of revenues generated outside of the home country versus a normalized cost metric of \$0.27 for organizations that have not. Similarly, organizations that have expanded their revenue generation outside of their home country have a median 3.33 FTEs per \$1 billion of annual revenue versus 2.25 FTEs at organizations that have not experienced a marked increase in non-home country revenue over the past five years.

### Relationship Between a Change in the Percentage of Revenue Generated Outside of the Home Country and Key Treasury Metrics

(Organizations with Annual Revenues Greater than \$500 Million)

Number of FTEs for treasury operations per \$1 billion in annual revenue	Total cost of treasury operations per \$1,000 in annual revenue	Number of FTEs for the process "manage treasury policies and procedures" per \$1 billion in annual revenue	Number of FTEs for the process "manage cash" per \$1 billion in annual revenue	Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved	Cycle time in hours to develop short-term cash flow forecast
No significant change in revenue generated outside of home country					
2.25	\$0.27	.32	.62	2.00	3.00
The percentage of income earned outside of the home country has increased					
3.33	\$0.44	.33	.91	2.00	4.00

Nearly half of organizations have increased the percentage of purchases made outside of their home country over the past five years.

### Change in the Percentage of Purchases Made Outside of the Home Country Relative to Five Years Ago

(Percentage Distribution of Organizations that Generate Revenue Outside of their Home Country)

	All	Under \$500 million	\$500 million-\$1 billion	\$1-5 billion	Over \$5 billion	Publicly Traded	Privately Held
Increased	49%	36%	57%	53%	51%	50%	46%
About the same	46	58	39	45	41	45	50
Decreased	5	6	4	2	8	5	4

As in the case of the percentage of revenue generated outside of the organization's home country, organizations that are incurring a greater percentage of purchases outside of their home country have higher total treasury costs and utilize a greater number of FTEs to deliver treasury operations (both on a normalized basis) relative to organizations that have not

seen a change in the percentage of purchases incurred outside of their home country. The median total cost of treasury operations per \$1,000 of annual revenue is \$0.42 among organizations that have increased their out of home country purchasing versus \$0.29 for those that have not made a change. The FTEs comparables are \$2.85 versus \$2.44.

### Relationship Between a Change in the Percentage of Purchases Incurred Outside of the Home Country and Key Treasury Metrics

(Organizations with Annual Revenues Greater than \$500 Million)

Number of FTEs for treasury operations per \$1 billion in annual revenue	Total cost of treasury operations per \$1,000 in annual revenue	Number of FTEs for the process "manage treasury policies and procedures" per \$1 billion in annual revenue	Number of FTEs for the process "manage cash" per \$1 billion in annual revenue	Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved	Cycle time in hours to develop short-term cash flow forecast
No significant change in the percentage of purchases incurred outside of home country					
2.44	\$0.29	.33	.64	2.00	3.50
The percentage of purchases incurred outside of the home country has increased					
2.85	\$0.42	.31	.83	2.00	4.00

## Management Support for Treasury Resources

A common complaint from financial professionals is that their organizations' treasury organizations do not have access to the same level of resources made available to other departments – such as marketing, sales and research and development – within the organization. Despite that perception, a majority of survey respondents indicate that their organizations'

executive management supports technology investments equally in treasury as in other departments within the organization. Thirty percent of survey respondents report, however, that executive management is less willing to make technology investments to support treasury than they do to support other departments.

### Level of Executive Managements' Support to Make Technology Investments in Treasury Relative to Other Departments

(Percentage Distribution)

	All	Under \$500 million	\$500 million-\$1 billion	\$1-5 billion	Over \$5 billion	Publicly Traded	Privately Held
More supportive	12%	14%	3%	8%	17%	14%	9%
Equally supportive	58	56	57	60	60	60	52
Less supportive	30	30	40	32	23	26	39

Organizations in which executive management gives treasury an equal level of support for technology investments relative to other departments tend to have lower total costs for their treasury operations and employ fewer treasury FTEs (both on a normalized basis) than do organizations in which treasury does not receive an equal level of support. The median total cost of treasury operations per \$1,000 of annual revenue was \$0.32 at

organizations where treasury receives equal support for technology investments versus \$0.43 at organizations where treasury receives less support. Similarly, organizations where treasury receives equal support for technology investments have 2.23 FTEs per \$1 billion of annual revenue in treasury versus 2.73 FTEs in organizations where treasury receives less management support for technology investments.

### Relationship Between Management Support for Technology Investments and Key Treasury Metrics

(Organizations with Annual Revenues Greater than \$500 Million)

Number of FTEs for treasury operations per \$1 billion in annual revenue	Total cost of treasury operations per \$1,000 in annual revenue	Number of FTEs for the process "manage treasury policies and procedures" per \$1 billion in annual revenue	Number of FTEs for the process "manage cash" per \$1 billion in annual revenue	Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved	Cycle time in hours to develop short-term cash flow forecast
Equally supportive 2.23	\$0.32	.30	.72	2.00	4.00
Less supportive 2.73	\$0.43	.25	.83	2.00	4.00

Executive management is even more likely to support their treasury departments equally with other departments when investing in human capital, including investments in staff training, certification and education. Two-thirds of survey respondents indicate that treasury receives an equal level of management

support for training and education to support their teams. Nearly a quarter of survey respondents report that they have greater difficulty in receiving management support for human capital investment requests relative to other departments.

### Level of Executive Managements' Support to Make Human Capital Investments in Treasury Relative to Other Departments

(Percentage Distribution)

	All	Under \$500 million	\$500 million-\$1 billion	\$1-5 billion	Over \$5 billion	Publicly Traded	Privately Held
More supportive	10%	11%	3%	8%	16%	9%	10%
Equally supportive	66	63	82	69	60	71	59
Less supportive	24	26	15	23	24	20	31

As in the case of technology investment, organizations in which executive management gives treasury an equal level of support as it does for other departments for human capital investments tend to utilize fewer FTEs (on a normalized basis) in their treasury operations, but have higher relative total costs for those operations than do organizations where treasury does not receive an equal level of support. Organizations that provide an equal level of support

for treasury's request for human capital investments have 2.20 FTEs per \$1 billion of annual revenues in treasury versus 2.50 FTEs in organizations where treasury receives less management support for human capital investments. The median total cost of treasury operations per \$1,000 of annual revenue was \$0.37 at organizations where treasury receives equal support for technology investments versus \$0.23 at organizations where treasury receives less support.

### Relationship Between Management Support for Human Capital Investments and Key Treasury Metrics

(Organizations with Annual Revenues Greater than \$500 Million)

Number of FTEs for treasury operations per \$1 billion in annual revenue	Total cost of treasury operations per \$1,000 in annual revenue	Number of FTEs for the process "manage treasury policies and procedures" per \$1 billion in annual revenue	Number of FTEs for the process "manage cash" per \$1 billion in annual revenue	Cycle time in days from the time a discrepancy is discovered during bank account reconciliation until the discrepancy is resolved	Cycle time in hours to develop short-term cash flow forecast
Equally supportive 2.20	\$0.37	.25	.69	2.00	4.00
Less supportive 2.50	\$0.23	.33	.83	2.00	3.50



## Conclusions

What does the benchmark treasury function look like in 2012? At one level, the key operational metrics establish the contours for benchmark performance: cost of operations that are roughly one-quarter those of typical peers, a number of FTEs that is one-third that of an average organization, exponentially higher transaction volumes and faster cycle times.

Beyond such summary metrics, however, are a series of organizational factors that are no less integral to establishing and understanding benchmark performance. These factors are not confined to organization size, industry and ownership, of course. One that stands out from our survey results is the growth of treasury's organizational footprint—its mandate and leadership role. That enhanced role is important in defining a benchmark function and in resetting treasury's performance expectations.

Management support for treasury – both in terms of

investing in technology but also investing in human capital – is a must-have to factor into performance levels (and to earn or maintain). In addition, the extent – and expansion – of global trade activity has dramatic influence on treasury operations and their performance metrics.

Amid all the dynamics and demands at play in any organization, treasury professionals make tradeoffs and reconcile competing priorities and limited resources. Optimizing treasury operations does not necessarily mean pursuing one benchmark to the exclusion of others, but rather tailoring operational improvement efforts appropriately to the challenges and opportunities of the department and organization. A wide lens will continue to serve practitioners well in closing the gap toward peak performance while delivering in an environment of ever-evolving business needs and expectations for the treasury function.

# Glossary of Terms

## Activity Map and Process Overview

The following processes and activities were included as part of the *AFP Treasury Benchmarking Program* survey. These processes may cross departments and/or site locations. To ensure consistent collection of survey data,

some survey respondents needed to assimilate data from other departments or entities in order to reflect the complete costs and activities for this module.

### Processes



### Activities

- |  |   |  |  |   |
|--|---|--|--|---|
| <ul style="list-style-type: none"> <li>• Management activities</li> <li>• Formalize the domain and governance of Treasury operations</li> <li>• Establish and publish Treasury policies</li> <li>• Develop and monitor Treasury procedures</li> <li>• Audit and revise Treasury procedures</li> <li>• Develop and confirm internal controls for Treasury</li> <li>• Define system security requirements</li> </ul> | <ul style="list-style-type: none"> <li>• Management activities</li> <li>• Manage and oversee banking relationships</li> <li>• Manage and reconcile cash positions</li> <li>• Manage cash equivalents</li> <li>• Manage cash flows</li> <li>• Develop cash flow forecasts</li> <li>• Negotiate, analyze, resolve and confirm bank fees</li> <li>• Process and oversee electronic fund transfers (EFTs)</li> <li>• Produce cash management accounting transactions and reports</li> </ul> | <ul style="list-style-type: none"> <li>• Management activities</li> <li>• Manage in-house bank accounts for subsidiaries</li> <li>• Manage and facilitate inter-company borrowing transactions</li> <li>• Manage centralized outgoing payments on behalf of subsidiaries</li> <li>• Manage central incoming payments on netting transactions</li> <li>• Calculate interest and fees for in-house bank accounts</li> <li>• Provide account statements for in-house bank accounts</li> </ul> | <ul style="list-style-type: none"> <li>• Management activities</li> <li>• Manage financial intermediary relationships</li> <li>• Manage liquidity</li> <li>• Manage debt and investments</li> <li>• Manage issuer exposure</li> <li>• Process and oversee debt and investment transactions</li> <li>• Process and oversee foreign currency transactions</li> <li>• Produce debt and investment accounting transaction reports</li> </ul> | <ul style="list-style-type: none"> <li>• Management activities</li> <li>• Manage interest rate risk</li> <li>• Manage foreign exchange risk</li> <li>• Manage exposure risk</li> <li>• Develop and execute hedging transactions</li> <li>• Produce hedge accounting transactions and reports</li> <li>• Monitor credit</li> </ul> |
|--|---|--|--|---|

## Cost Definitions

### Revenue/Net Revenue

Total annual revenue is net revenue generated from the sale of products or services. This should reflect the selling price less any allowances such as quantity, discounts, rebates and returns.

### Revenue for Government Agencies

“Revenue” for government agencies participating in benchmarking surveys is defined as budget authority, fees and other funding that is associated with the delivery of services under the agency’s mission. To avoid potential distortions of revenue as compared with private sector organizations, survey respondents from government agencies were asked to exclude from revenue those funds that “pass through” the agency to other organizations. These exclusions cover grants, benefit payments, and royalties, fees, debt collections, etc. where the funds are not retained within the agency for internal use.

### Total Cost of Continuing Operations

For purposes of this study, survey respondents were asked to include all costs associated with generating the income that results from continuing operations. Total cost of continuing operations includes cost of goods sold, selling expenses, and general and administrative expenses. Excluded were the following costs: taxes, extraordinary items, unusual or infrequent items stated below the “Income from Continuing Operations” line, and gains or losses due to discontinued operations or changes in accounting principles.

### Personnel Cost

Personnel cost is the cost associated with personnel compensation and fringe benefits of employees (i.e., those classified as FTEs which includes both full-time and part-time salaried/hourly employees) contributing to each respective process. Personnel cost included all of the following costs.

- **Employee Compensation:** Includes salaries and wages, bonuses, overtime and benefits.
- **Fringe:** Includes contributions made towards the employees’ government retirement fund, workers compensation, insurance plans, savings plans, pension funds/retirement plans, and stock purchase plans. This also includes special allowances, such as relocation expenses and car/transportation allowances.

### Systems Cost

Systems costs include all expenses, paid or incurred, in conjunction with:

- Computer hardware or computer software acquired by the organization or provided to the organization through service contracts.
- Any related costs to process, service and maintain computer hardware or computer software.
- The costs of providing and maintaining services for each applicable process (e.g., computer system(s) processing (CPU) time, network/system communication charges, maintenance costs for applications and data storage). This includes the costs related to LANs, WANs, etc. This does not include one-time costs for major new systems developments/replacements.
- Consultant fees were not included in depreciation of new system implementations. Survey respondents were asked to include only those costs that occur more than six (6) months after implementation, as normal system maintenance costs.
- Any systems cost (e.g., maintenance) which is outsourced to a third party supplier should have been captured in the separate cost category labeled “outsourced cost.”
- All salaries, overtime, employee benefits, bonuses or fees paid to full-time, part-time or temporary employees or independent contractors who perform services relating to computer hardware, computer software, processing or systems support.

**Overhead Costs**

For the purpose of this study, survey respondents were asked to provide the total actual overhead costs for the year related to the specified process. These are costs that cannot be identified as a direct cost of providing a product or a service. The costs include the primary allocated costs such as occupancy, facilities, utilities, maintenance costs, and other major costs allocated to the consuming departments. *Excluded* were systems costs that are allocated, since these were captured separately as systems cost.

**Outsourced Cost**

In determining outsourced cost, survey respondents were asked to include the total cost of outsourcing all aspects of each process to a third-party supplier. Excluded were one-time charges for any type of restructuring or reorganization. Outsourced costs also included costs for intra-company outsourcing (i.e., reliance on a shared services center).

**Other Cost**

Other costs are costs associated with the specified process, but not specifically covered in personnel cost, systems cost, overhead cost and outsourced cost in this questionnaire. These other costs include costs for supplies and office equipment, travel, training and seminars. Include the cost of telephones, except for that portion captured in systems cost.

## Appendix I: Conversations with Financial Professionals about Benchmarks

Now in its fifth year, the AFP Treasury Benchmarking Program has provided financial professionals with key data that help them determine the effectiveness and efficiency of their treasury operations. This year, AFP asked Nilly Essaides to interview several survey participants to glean further insight from their responses. The purpose of these interviews was to better define what is a “benchmark operation,” going beyond a series of metrics to consider a broader set of factors.

### Finding New Measures of Success

The results from the 2012 survey of the *AFP Benchmarking Program* reveal that treasuries today are more often called upon to perform additional functions. At the same time treasuries are required to remain highly efficient in their costs and process design. This basic tension now drives the metrics’ focus as well as the necessary tradeoffs treasurers must make in order to fulfill their departments’ expanding mandate. Additional research suggests that treasurers are looking beyond numbers to try to capture the value their departments have and that they are struggling to support their globalizing organizations with limited resources and systems investment.

What constitutes the “best” benchmark for treasurers seeking to measure their performance against others is not static: it is a relative measure that reflects every company’s business, global reach and current area of focus. As treasurers and their departments are called upon to do more in their organizations, their focuses shift from basic cash to value-adding decision-making support. In addition, external factors, such as funding requirements, liquidity and tax positioning also affect what drives treasury’s main metrics.

### Identifying True Peers

When looking for comparative benchmarks, size or even geographic reach may not be the most influential factors. Companies are looking for others that share their thinking about improvement. Process efficiency versus outright cost may be a more powerful measure, therefore, for any organization, given the flexible nature of the treasury organization and its expanding mandate.

Intuitively, treasury professionals feel that looking only at cost measures does not necessarily tell the whole story. “I hate benchmarks that look at bank accounts per billion dollars in revenue,” confessed one professional at a technology multinational that has just under \$5 billion in revenue. That is because so much depends on the company’s business, and its business model. What she and her peers are looking for in comparable organizations is not necessarily size measures, but for companies that have been focused on the same issues. For this professional, a significant part of that means looking for peers that have learned how to effectively scale their processes. Scalability is driven by successful technology deployment and the maturity of both the organization and of the treasury operation. “If you’re managing 100 accounts or 1,000 accounts, the amount of incremental work it takes should be smaller and smaller.”

The data from the 2012 survey of the *AFP Treasury Benchmarking Program* supports this comment. It reflects a trend toward an effective scalability of process by treasury. For example, the findings show that there’s a pronounced negative relationship between the number of treasury/finance functions in which the treasury department leads and the resources used by the department. That sounds counterintuitive at first, but the numbers add up when this scalability factor is taken into account. The data is skewed more toward larger companies which tend to have built-in efficiencies.

“In treasury our task is to safeguard the firm’s cash.” The tradeoff is a product of the tension between the resource limitations and the mandate. “All companies and all treasuries are resources limited. We are HR limited and capital resource limited,” another practitioner said.

## Recognizing Market Forces

What drives a current focus on metrics may change, as companies' internal realities shift. The same holds true for the impact of market conditions. During the credit crisis in 2008-09, treasurers were pulled into the fire lines to defend their companies' liquidity positions. For some, the alleviation of these market constraints has allowed for a shift in metrics' importance.

"It [focus on metrics] depends on the market environment and what's going on in the world," explained a practitioner at a large multinational (over \$10 billion). "In 2008-09, our focus was on liquidity; now the focus is more on internal efficiency, for example measuring cost per invoice," she said. "The priorities depend on where the organization is, its industry and the business model."

## Accounting for Financial Position

For another energy company, the focus is driven by the organization's current net borrowing position. While the treasury executive at the firm confirmed he is looking for a combination of cost and process efficiencies in defining how he looks for benchmarks, the ones that matter the most now are a product of the company's leverage. "Overall we're looking to keep as much liquidity as possible and if we have available cash [we] pay down debt whenever we can." Like many others, this company struggles with getting offshore cash back into the U.S. For U.S. senior financial executives, the dilemma is less clear: if the company is generating cash overseas, why is it still borrowing in the U.S.? But treasury understands that there are big hurdles to repatriation. For this company, 80 percent of cash sits outside the U.S. as it seeks to pay down U.S. debt.

The most important measure of success for this company currently is keeping interest expense below budget. "We're managing cash to pay down debt, or using interest rate hedging to reduce that expense," explained the practitioner. "At the more operational level, we are making sure our people have the proper tools and bank account functionality tied to it." He added: "Right now, leverage is driving a lot of the focus."

## Acknowledging Strategic Role

Cutting costs or improving process efficiency is key, but increasingly treasurers are being expected to do more than safeguard cash. They are expected to play a valuable strategic role in their organizations, helping senior management and the business units grow companies and support revenue growth and global expansion. So while cash remains a big focus for treasury and many companies focus their "frontline" measures on its utilization and control, the information is not used just to measure efficiency. Instead, it is a measure of how well treasury is able to support management decision-making.

"How do companies gain visibility to cash daily in real time?" asked one practitioner at a technology company. That's her focus when seeking benchmarking partners. "Does the company know 99 percent of its cash position?" she asked. "Companies that do can make good business decisions in terms of liquidity need, how much cash to keep on hand versus optimizing their investments."

Indeed, this technology company has tied treasury performance objectives to its overall goals. "We define and communicate our vision as being a competitive advantage to the company in order to add shareholder value," said a treasury executive. For treasury, this broad definition is narrowed down to good management of the balance sheet, optimizing working capital and funding needs as well as cost of capital and understanding the tradeoffs between credit and accounts receivables. The question treasurers should ask themselves when they seek best practices is: "Are you helping the company to understand its cash flow generating capabilities?" the executive said. "We don't create and generate cash flow [in treasury], but we can help the company think through the right decisions."

The practitioner at a very large company with growing overseas sales noted that cash has also been a big focus in her organization. Treasury was tasked with finding ways to utilize cash more efficiently. "We've been stickler[s] for efficiency in use of cash," she said. "What was acceptable two or three years ago is no longer acceptable. We were measured by numbers of opportunities we identified and how we made it more efficient."

A financial professional at another company echoed the same sentiment. “Since our main objective is to safeguard cash, the main metrics look at cash utilization, e.g., how much is invested versus idle,” said the treasury professional. The company has actual targets against which it manages its excess cash and reports are generated on a quarterly basis. “The metrics are reviewed with the CFO in weekly meetings and incorporated into upcoming reports to the Board,” she said.

“So many companies tend to focus on immediate P&L, EPS and accounting-driven markings,” added another treasury professional. But treasury can help the company better understand its cash forecast information and the tradeoffs between DSO and cash flow. One of the success metrics she’s deployed is looking at cash flow generated per every one point of margin.

### Factoring in Global Footprint

Globalization has put new constraints on already constrained treasury departments. The survey shows that there is not a discernible statistical relationship between the percentage of revenue generated outside of the organization’s home country and the normalized number of FTEs utilized to deliver treasury services. That means treasury is not adding new staff to handle its expanding responsibilities.

“Everybody expects things to work perfectly. Nobody pays attention when things are going well, but when they’re not everybody seems to know about it,” one professional reported. “People’s expectations are a big hurdle. They expect operating overseas to be as easy as operating in the U.S.,” he said. “Things as simple as setting up a bank account cannot be done in a week, and not because it’s not getting the attention.” He sees treasury’s role increasingly as setting the right expectations.

### Weighing Investment in Technology

Investment in technology continues to stand in the way of treasuries seeking to improve their performance, especially in supporting quickly globalizing businesses. Because executive management or an organization’s Board of Directors may not see treasury as a direct contributor to the top or bottom line, treasury may not receive the same level of support for resources that other groups within the organization receive.

Interestingly, the 2012 survey of the *AFP Treasury Benchmarking Program* showed that treasuries that receive management support and IT investment on par with other departments score higher on the efficiency scale. That is a metric to share with management when seeking new investment.

Those treasury departments that get management support for systems investments report a tremendous new capability to support growth – particularly on the international front. Results from the 2012 survey of the *AFP Treasury Benchmarking Program* confirm anecdotal evidence that more treasurers are being called upon to support their companies as organizations derive a growing share of their revenues from outside their domestic market.

What does this mean for treasury? It means having the systems to collect information from multiple jurisdictions and interact with far-flung business units. That sort of model requires efficient systems, but “within treasury we haven’t kept up on our systems and making sure we have a 24/7 model,” said the practitioner at the technology company. To do so, “we need to make sure we have global systems and processes: follow the sun. It’s not a sharing of spreadsheet,” she said.

Often, investment decisions are driven by business focus. At one very large company, for example, management has determined that a treasury workstation would be nice to have but would not provide the biggest return on efficiency– at this stage. Instead the company decided to invest in invoice automation.

The resolution is often a matter of selling management on some technology investment, according to the treasury practitioner at a professional services multinational company with an extensive overseas presence. But the solution is not necessarily a relatively ex-

pensive, wholesale automation product. “We actually managed to sell our CFO on a little niche software,” the practitioner revealed. While the company looked at utilizing the treasury module of its ERP system, it determined that the cost/return would not be a good tradeoff. “It’s not going to make us measurably better off,” she said. “Nor will it support the organizational objectives, which for us means keep costs down to keep us competitive.”

Instead, treasury invested in an foreign exchange (FX) risk management data collections and analytics application. “That little application streamlined a very manual roll-up process to look up FX exposure.” We believe it helped us manage and measure better.” The problem she faces, as do most others, “is that we can’t exactly quantify it. We hope it has impacted the bottom line by allowing us to hedge the real exposures,” she said.

Like many others, the company above has to make do with a thinly staffed team. “It took me five years to get an analyst,” the treasury practitioner revealed. While the response has been trying to tackle mounting work load with technology, the solutions are not always simple. At least this company’s treasury is now able to communicate more directly and centrally with its multiple banks using the workstation.

## Building Partnerships

Getting organization-wide collaboration and support is also a challenge for treasurers looking to improve their service delivery and implement efficient processes. In the past, treasury was able to work independently to fulfill its mandate. Now it needs the active participation of other financial and business groups in order to provide services to global operations. It also means greater support from treasury’s business partners – its banks.

“One of the greatest barriers is getting an understanding of all the people you need to involve,” said one executive. “There are so many tax, legal, and regulatory implications.” If the right people are not on the project, “you can go down the wrong path.”

It is also tough to gain a broad understanding of what it takes to do business in regions and countries. One practitioner reports that regional finance staff often call her to help calm down impatient business managements. “People don’t understand how long it takes to open a bank account, or what are the regulatory constraints regarding repatriation,” she said. “There are all sorts of intricacies for operating successfully.”

“We are expected to be the experts,” confessed another practitioner. “We, too, struggle with nuances that are in those countries.” The company has operations in over 60 global locations. Yet, she said, “the biggest challenge is getting information from global banks, the few that remain.” Because treasury needs to rely on its banks to help make it the expert it is expected to become, companies need their banking partners to be more invested in the relationship. “Simple things like opening a bank account in a foreign country can be mind boggling. It’s a huge challenge.”



## Adopting New Measures to Evaluate an Evolving Function

In conclusion, what also emerged from the discussions with survey participants is that measuring cost and process efficiencies alone does not capture the broader value treasury departments now contribute to their organizations. Treasury is reaching farther from its traditional center of competence to provide decision support and advice to business operations. It is often there that it adds the most value. But it is these attributes that are the hardest to measure.

One executive mentioned that she feels that her group adds the most value by helping the company navigate the impacts of new financial regulations, by keeping the company aware of financial and nonfinancial counterparty credit risk as well as its reaction to the crisis in Europe. There are not measures for this.

One practitioner said that, ultimately, “Treasury continues to be thinly staffed. So much of what treasurers end up doing daily is ‘blocking and tackling.’” Right now, however, treasury’s “old” roles, such as maximizing investment income, pale in comparison to its new leadership responsibilities.





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