

# RADIANCE



OUR EXPERTISE | YOUR ADVANTAGE

## How Treasurers Can Drive Working Capital Optimization

# INTRODUCTIONS

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Jeff Diorio



Advisory lead with expertise in  
Treasury and Finance automation

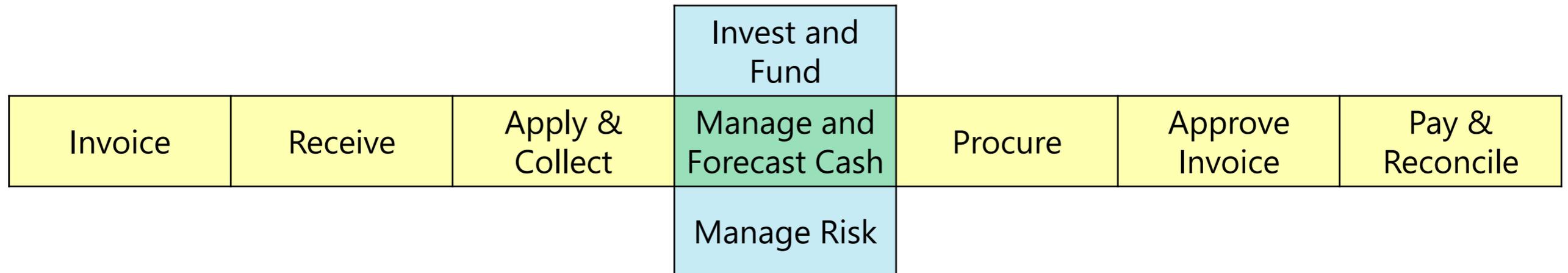
Dave Robertson



Head of PMC Treasury with  
expertise in banking, payments  
and Treasury

# VALUE: WORKING CAPITAL IS CRITICAL TO **PROFIT, LIQUIDITY AND CUSTOMER EXPERIENCE** ...

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# VALUE: ... AND IS A SIGNIFICANT DRIVER OF VALUE

OPTIMAL WORKING CAPITAL MANAGEMENT YIELDS FINANCIAL AND STRATEGIC BENEFITS



## Liberate Cash

- Extend payables and accelerate receivables.
- Position firm to pay-down debt or dividend cash.



## Drive Efficiency

- Reduce third party fees.
- Reduce / eliminate FTE.



## Improve Experience

- Improve customer, supplier, and employee satisfaction.
- Delight customers and suppliers.



## Fortify Governance

- Gain insight into AP and AR portfolio and flows.
- Monetize the value of AP and AR.
- Reduce risk exposures and accelerate controls / escalation.

Typical benefit 100mm turnover firm

+4mm  
increase  
in cash

+100K  
cost  
save

## CHALLENGES:

WORKING CAPITAL UNITS ARE OFTEN PLAGUED BY **DATA ISSUES, MANUAL PROCESSES, AND AD-HOC DECISIONS**



- **Inaccessible Data**
- Incomplete Data
- Disparate Formats
- Conflicting Data
- Fragmented Data



- **Fragmented Responsibilities**
- Manual Processes
- Delays
- Potential Error
- Exposure to Risk and Fraud
- Low Capacity for Value Creation
- Lack of Transparency



- **Reactive Management**
- Failure to Optimize
- Slow to Act
- Failure to Monitor Environment

**Recommendation:** Organizations requires a “champion” for working capital issues to transcend siloed functions

# RECOMMENDATIONS: EVERYONE KNOWS THE **TARGET STATE** ... BUT FEW KNOW HOW TO GET THERE

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- ❑ **Digital** media and channels for payments and payments-related communication
- ❑ **API integration** with key systems / providers – e.g., banks, ERPs
- ❑ **Automation**, orchestration and control of processes
- ❑ **Optimization** of payment methods and financing terms in AR and AP, aligned to cost of capital
- ❑ Real-time **visibility** into cash, working capital and financial risk exposures
- ❑ Real time **monitoring** of counterparty, provider, customer and supplier risks
- ❑ **Scalability**: Ability to grow quickly – and with low / no incremental staff
- ❑ **Extensibility**: Ability to seamlessly integrate new markets, providers, business models, pricing strategies

# RECOMMENDATIONS: SUCCESS REQUIRES **IMPROVEMENT ACROSS SEVERAL STREAMS**

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## Data

- Digitize as early in the process as possible
- Capture, normalize, consolidate, enrich data

## Process

- Streamline and simplify
- Determine optimal mix of central / local activities
- Automate / orchestrate

## Governance

- Automate controls, escalations, audits
- Develop dashboards, analytics and optimization engines to drive value-creation and risk mitigation

## People

- Migrate from operational- to knowledge-workers
- Drive a proactive, value-creation mindset

# USE CASE: WHERE'S THE MONEY?

TYPICAL VALUE IN OPTIMIZATION INITIATIVES – WITH BENEFITS PER \$100MM REVENUE

Terms / Financing Optimization	Process Automation and Orchestration	Digitization	Controls & Governance
<ul style="list-style-type: none"><li>• <b>\$4-5 mm increased cash</b></li></ul>	<ul style="list-style-type: none"><li>• <b>\$200K reduced expenses</b></li></ul>	<ul style="list-style-type: none"><li>• <b>\$25K improved EBITDA</b></li></ul>	<ul style="list-style-type: none"><li>• <b>\$100K improved EBITDA</b></li></ul>
<b>Requires</b> <ul style="list-style-type: none"><li>• Customer / supplier segmentation</li><li>• Optimization modeling</li><li>• Outreach process / tools</li></ul>	<b>Requires</b> <ul style="list-style-type: none"><li>• Process and role re-engineering</li><li>• Automation tools</li><li>• Business rules</li></ul>	<b>Requires</b> <ul style="list-style-type: none"><li>• Customer / supplier segmentation</li><li>• Outreach process / tools</li><li>• Data capture and integration (banks, ERPs, 3<sup>rd</sup> party platforms)</li></ul>	<b>Requires</b> <ul style="list-style-type: none"><li>• End-to-end automation and supporting data model</li><li>• Integration of process orchestration and governance</li><li>• Analytics</li></ul>
<b>Rapid</b> Deployment	<b>Near-Term</b> Deployment	<b>Near-Term</b> Deployment	<b>Longer-Term</b> Deployment

# Q&A SESSION

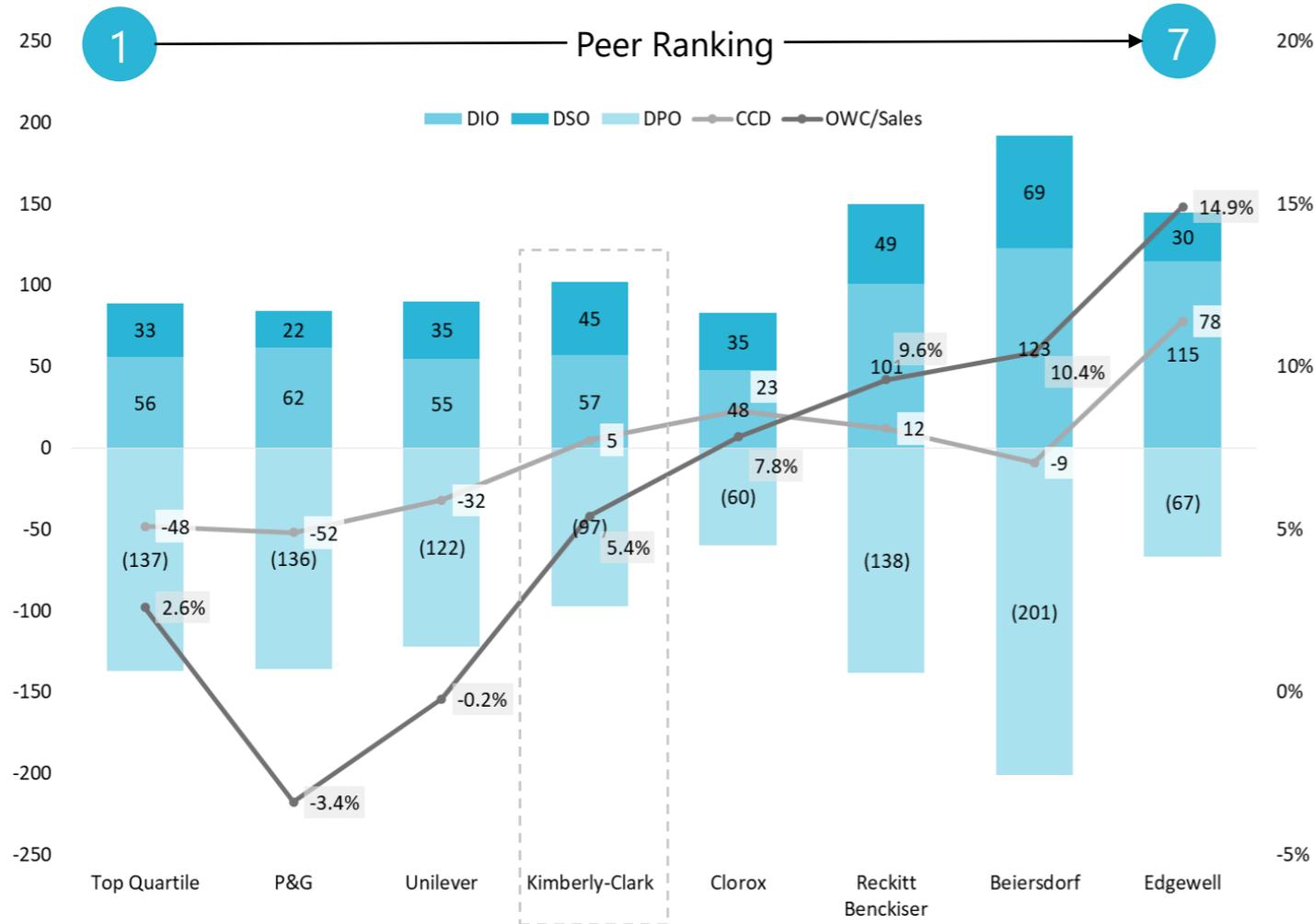
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## Topics for consideration

- Who is the working capital champion in your organization?
- Which of these opportunities have you captured and remain to be captured?
- What or who is impeding you from achieving an optimal working capital structure?
- ...

APPENDIX:  
HOW TO THINK ABOUT IMPROVING  
YOUR WORKING CAPITAL

# CASH CONVERSION CYCLE VARIES AMONG PEERS, DRIVING CASH NEEDS



Company	DSO	Rank
Kimberly-Clark	45	5
P&G	22	1
Edgewell	30	2
Unilever	35	3
Peer Median	35	

Company	DPO	Rank
Kimberly-Clark	97	5
Beiersdorf	201	1
Reckitt Benckis	138	2
P&G	136	3
Peer Median	129	

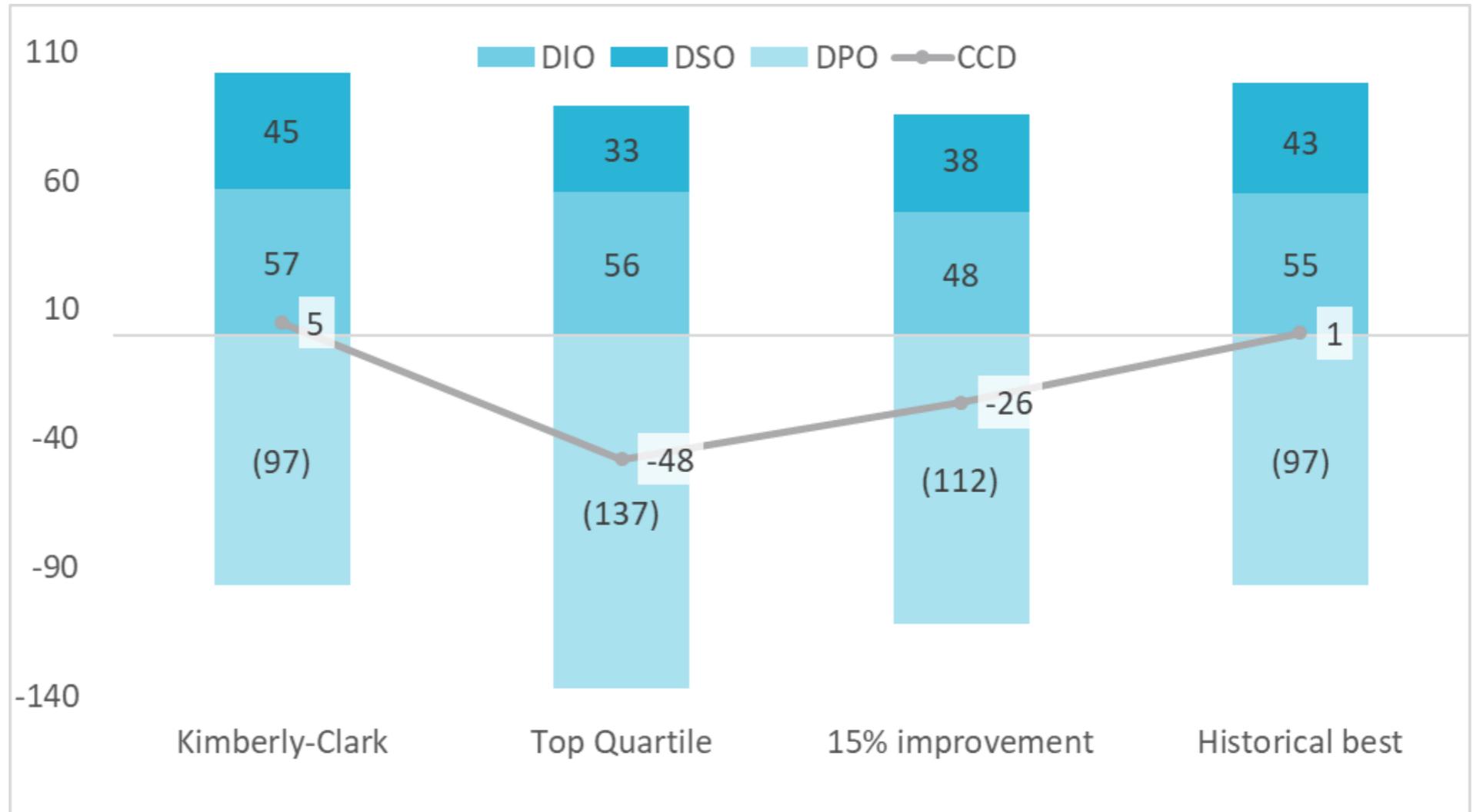
Company	CCD	Rank
Kimberly-Clark	5	4
P&G	(52)	1
Unilever	(32)	2
Beiersdorf	(9)	3
Peer Median	2	

Company	OWC/Sales%	Rank
Kimberly-Clark	5%	3
P&G	-3%	1
Unilever	0%	2
Clorox	8%	4
Peer Median	9%	

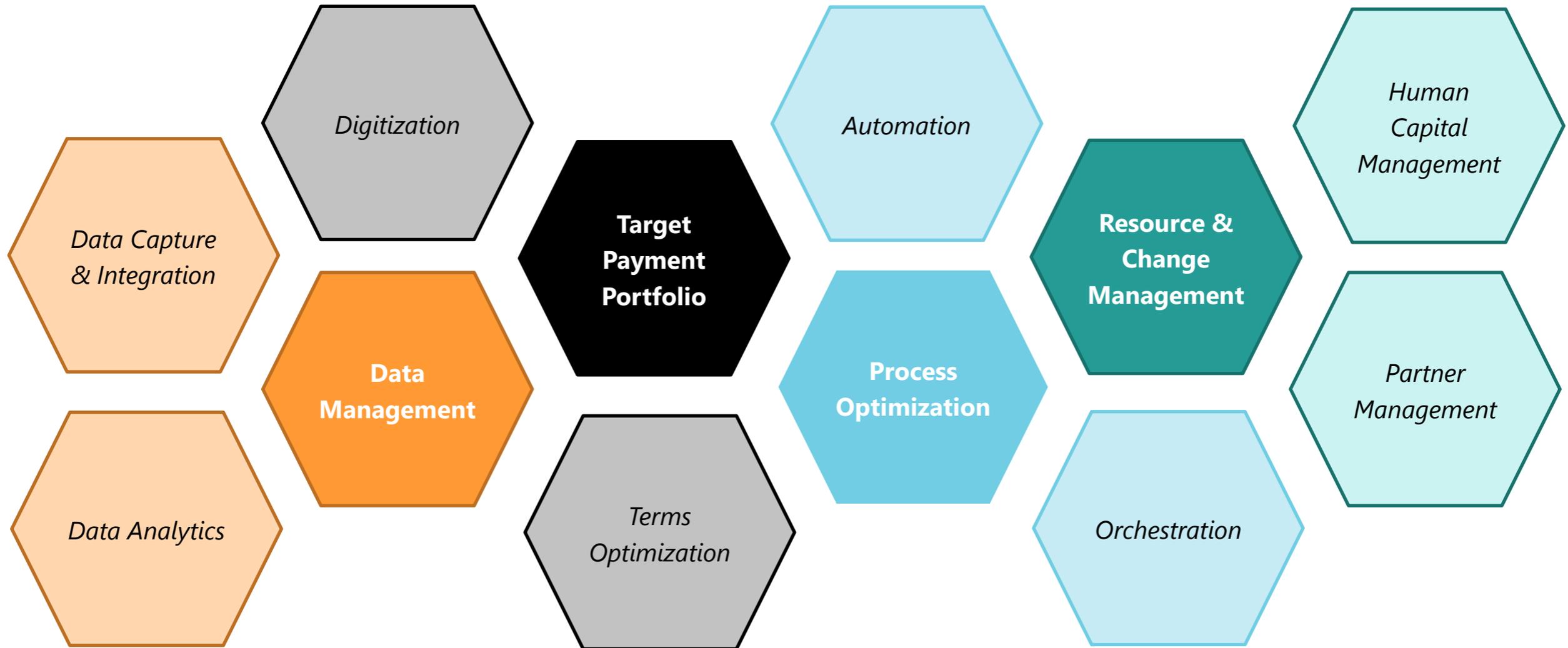
# CASH CONVERSION CYCLE DRIVES RETURN ON INVESTED CAPITAL

Accelerating cash conversion frees up cash, improving return on invested capital.

- Achieving top quartile working capital turnover, Kimberly Clark (~19bn in revenue) could release **\$2bn in cash (10% of revenue)**.
- Achieving historical best rates of conversion would release **\$170mm of cash (~1% of revenue)**.

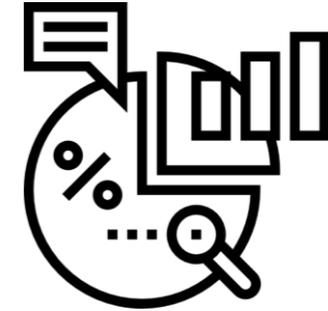
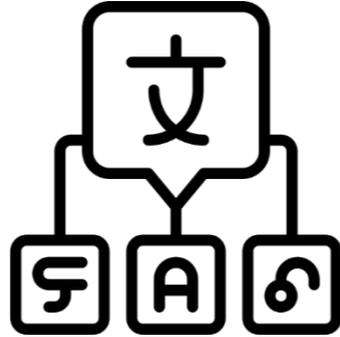


# YOUR WORKING CAPITAL OPTIMIZATION **TOOL KIT**



# DATA MANAGEMENT IS THE FOUNDATION

AUTOMATION, ORCHESTRATION, OPTIMIZATION AND GOVERNANCE ARE DRIVEN BY DATA



## Capture

- Time stamp
- Full and real-time extraction
- Auto-monitor
- Auto-validate
- Escalate gaps to accountable owners
- Identify and resolve root cause gaps

## Consolidate

- Connect disparate sources
- Normalize data to common taxonomy
- Automate any required transformation
- Auto-validate authoritative data set
- Escalate gaps to accountable owners
- Identify and resolve root cause gaps

## Leverage

- Automated controls and escalations
- Manager dashboards
- Decision support
- Market / Competitive / Environmental Simulations
- Accessibility for ad-hoc queries

# SET YOUR TARGET **PAYMENT PORTFOLIO**

IF YOU DON'T DEFINE IT, YOUR SUPPLIERS AND CUSTOMERS WILL DEFINE IT FOR YOU



SUPPLIERS



CUSTOMERS

## Understand Options, Factors and Constraints

- Available channels, methods, financing
- Value and volume by channel, method
- Value and volume of exceptions, disputes, deductions
- Percentage and duration of late and early payments
- Terms (including supply chain finance & factoring)
- Relative power of buyer and supplier
- Currency of payments
- FX Spread
- Credit Rating
- Service Intensity
- Profitability



## Target Portfolio

- Channels
- Media / Method
- Financing Decisions



## Migration Plan

- Initiatives
- Execution Waves
- Onboarding and Monitoring

# OPTIMIZE TERMS

THE POWER OF OPTIMIZATION IS ONLY LIMITED BY YOUR KNOWLEDGE OF YOUR CUSTOMERS AND SUPPLIERS

Customer Summary Sample Customer 49	
Lookup Method	Customer Number
Customer Number Lookup (Input)	Customer 49

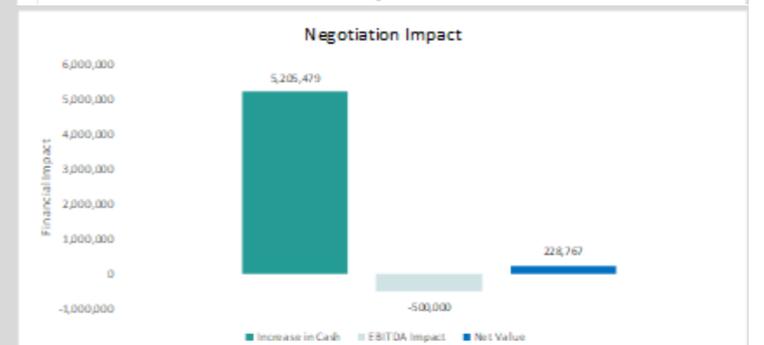
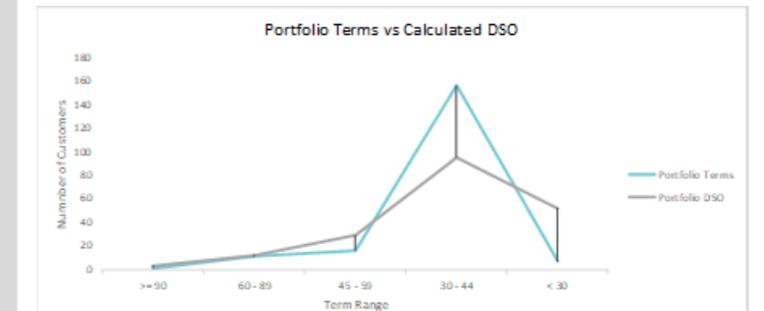
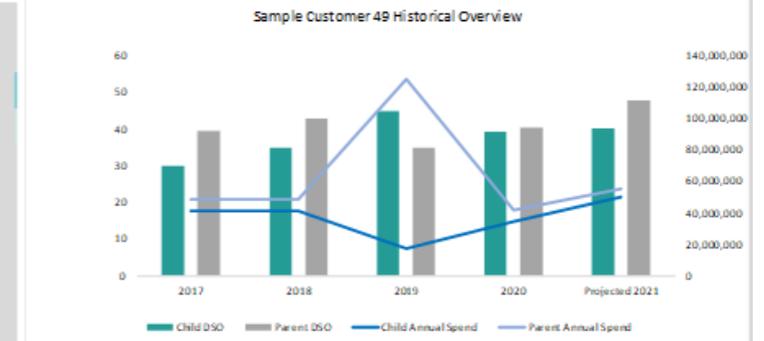
Child Account Summary		
Projected 2021 Annual Spend <sup>1</sup>	47,011,166	50,000,000
Payment Terms	30	48
Discount Terms - "Enter Payment Terms if None"	30	48
Discount Percentage	0%	
2020 Annual Spend	34,524,870	
YOY Sales Variance	45%	
Estimated 2021 DSO	48	

Parent Account Summary		
Parent Number	Parent 14	
Parent Est. 2021 Annual Spend	55,515,947	
Parent Terms	30	
Estimated DSO	48	

All Child Accounts				
Customer Name	Customer Number	2021 Annual Spend	DSO	Payment Terms
Sample Customer 49	Customer 49	50,000,000	30	48
Sample Customer 48	Customer 48	5,142,921	30	46
Sample Customer 52	Customer 52	2,827,085	30	46
Sample Customer 51	Customer 51	504,678	30	54
Sample Customer 50	Customer 50	30,098	30	40

Negotiation Inputs	
Suggested Payments Terms	10
Suggested Discount Terms	10
Suggested Discount %	1.0%
Estimated Cost of Capital	14%

Sample Customer 49	
Increase in Cash	5,205,479
EBITDA Impact	-500,000
Reduction in Firmwide DSO	4
Net Value	228,767
<b>Recommendation:</b>	<b>Accept</b>



# AUTOMATE AND ORCHESTRATE THE PROCESS

AUTOMATION IMPROVES SPEED, EFFICIENCY AND FLEXIBILITY, AND DRIVES VALUE CREATION

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Automate



Expedite

**Consider Impacts:**

Improvements for you may cause complications for others

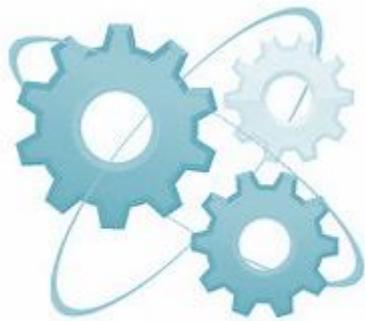
# RESOURCE & CHANGE MANAGEMENT

DON'T OVERLOOK WHO AND WHAT NEED TO BE INVOLVED AND HOW CHANGE AFFECTS THEM

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## Project Management

Technical design  
Integration



## Success Management

Continual feedback  
Communicate, communicate, communicate

## Resource Management

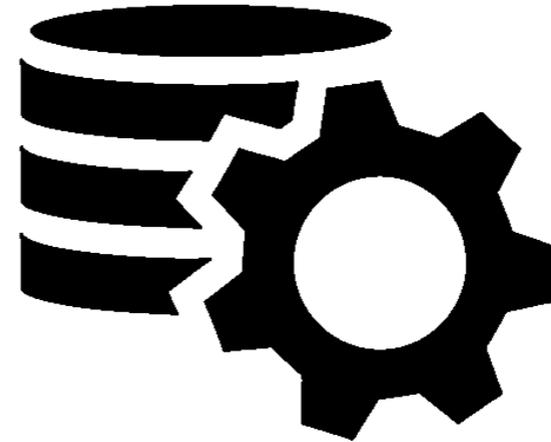
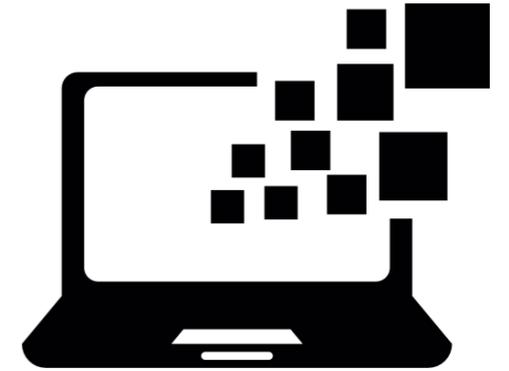
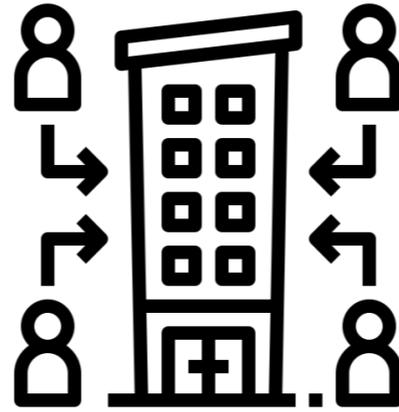
Training  
Procedural documentation



# PARTNER **LANDSCAPE**

A WIDE VARIETY OF PARTNERS PROVIDE TECHNOLOGY AND SERVICE OFFERINGS TO OPTIMIZE WORKING CAPITAL

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# GETTING STARTED

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- ✓ Understand opportunity and constituents
- ✓ Be clear on constraints, timeline, growth considerations
- ✓ Assess current state / define target state
- ✓ Break execution into manageable initiatives with clear business case
- ✓ Ensure appropriate accountability, resourcing
- ✓ Deploy governance to maintain a focus on results
- ✓ Start with easily accessible wins with clear benefits
- ✓ Don't forget to invest in communication and change management

# PMC: LEADING TREASURY EXPERTS

OPERATIONAL TREASURY, RISK MANAGEMENT AND PMC ANALYTICS PROVIDE 360° SOLUTIONS

Our solutions minimize the risks you face managing business in a global marketplace.



## OPERATIONAL TREASURY

Defining, creating and operating your treasury function.

## RISK MANAGEMENT

Creating and implementing a hedging strategy founded on impartiality and transparency.

## PMC ANALYTICS

Our online platform providing credit adjusted derivative valuations and hedge accounting support.

# GLOBAL PRESENCE

SINGULAR SITUATIONS REQUIRE EXCEPTIONAL EXPERTS

## Americas

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20th Floor  
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## Europe

77 Endell St  
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OUR EXPERTISE | YOUR ADVANTAGE

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# NEXT SESSIONS



O2C

## *Analytics Deep Dive: Creating 2X Impact With Right Reporting For Order To Cash*

**Ganadeep Ray Patlolla, Director, Digital Transformation, HighRadius**

**04:20 PM EST | West Mezzanine Center**

## *Happy Hour & Zing Starts*

**04:20 PM EST | MetLife 50 Club/Field**

