

Taking Treasury from Reactive to Proactive

Centralize Your Treasury

Experts Discuss the
Most Important Steps to
Transform Your Treasury



CENTRALIZE YOUR TREASURY



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ORGANIZE YOUR TECHNOLOGY TO SUPPORT PROACTIVE TREASURY



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For more than 25 years, Ari Morris has provided leadership in global and domestic treasury consulting, technology selection and design, cash and liquidity structures, and foreign exchange hedging, establishing a network of relationships with corporate treasury professionals and technology vendors. Prior to becoming a consultant, Ari worked for Thomson Reuters' Global Corporate Treasury business, JPMorgan Chase, and Sumitomo Mitsui Banking Corporation. Ari is also an advisor to the Cornell-Queens Executive MBA program for the new ventures and global business courses.



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Most companies migrate from a simple accounting structure to treasury management right around the time they reach the \$1 billion valuation mark. Usually, when such a company comes to our advisory firm for help establishing a treasury system, it's bursting at the seams.

The volume of its work is increasing. It's being battered by ad hoc questions from the rest of the organization: What happened to that wire from two weeks ago? What is our foreign exchange (FX) exposure? What is our cash forecast two weeks out?

The bigger a company becomes, the more difficult it is for that company to answer such questions without an effective way to aggregate and centralize treasury data. In my experience, that requires robust technology.

In one sense, the question of reactive versus proactive treasury is a legacy question. A \$100 billion company was not always that big. In the company's very early years, a simple accounting system was likely sufficient for the task of simply crunching numbers. That baked-in reactivity often carries forward well past its appropriate expiration date.

In my experience, companies stuck in reactive mode probably have no organized technology foundation on which to manage treasury operations. They probably still move data manually from one system to another, doing things like tapping into their many bank accounts individually, without any interface that can reach in and reconcile them all from one single point.

That kind of treasury department, frankly, adds little value. It is invariably playing defense.

“ In one sense, the question of reactive versus proactive treasury is a legacy question. ”

KEY LESSONS

- 1 THE BIGGER A COMPANY BECOMES, THE MORE DIFFICULT IT IS FOR THAT COMPANY TO ANSWER CERTAIN QUESTIONS WITHOUT AN EFFECTIVE WAY TO AGGREGATE AND CENTRALIZE TREASURY DATA.
- 2 A LOT MORE COMPANIES ARE RECOGNIZING, FROM THE TOP DOWN, THE IMPORTANCE OF PROACTIVE TREASURY.



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Here is an example of a Silicon Valley technology company I worked with that turned treasury into a critically important function, one that added significantly to meeting the company's overall objectives.

This global company employs an intercompany licensing strategy to achieve the appropriate balance between cash management and tax efficiency. When the project began, its treasury department already was managing heavy volumes of intercompany loans and settlements. Treasury was challenged to keep up with the organization's plans to embark on a series of acquisitions and an anticipated big growth spurt. The company needed a more efficient platform to manage all of that activity and it was determined that a multilateral netting solution was required to centralize intercompany payments that was also capable of efficiently handling related FX. We led the process to craft the vision, define the requirements and advise through the implementation.

When multilateral netting had been implemented, things changed markedly. Rather than being defensive, treasury became an enthusiastic supporter of the company's growth. It now had a technical structure upon which it could layer in all its new business and became a key contributor to the company's overall success.

The good news is that I see a lot more companies recognizing, from the top down, the importance of proactive treasury—a fact probably inspired by the financial crisis of 2008–2009. More board members and senior managers are now directing treasury departments to become proactive by implementing robust, centralized technology environments.

I hope—and I am beginning to believe—that this is a permanent condition.



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YOU DON'T HAVE TO BE BIG TO BE PROACTIVE



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Jim Cashin is a Partner in McGladrey's technology and management consulting practice, and has more than 24 years of consulting experience. Jim is the national leader of McGladrey's finance and accounting outsourcing practice and serves as the Northeast leader of the McGladrey's management consulting practice. He focuses on finance, accounting and IT transformation, business process improvement, merger & acquisition (M&A) integration, and performance management.



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One of our clients, a \$250 million professional services company, was in the process of executing an acquisition-based growth strategy while at the same time diversifying its core services. Throughout this process, the company targeted acquisitions that had an annualized return on investment (ROI) of between eight and 10 percent, but to acquire those companies, the client often paid a premium, sometimes up to seven times the target's earnings. Despite this, the company was confident in its acquisition strategy and its ability to achieve its targeted ROI.

One of the greatest challenges for our client while executing its acquisition strategy was that it often was unable to quickly analyze its financial performance across the organization, which also included previously acquired companies that were being integrated into its organization. As a result, our client ran into liquidity issues and ultimately lost out on certain favored acquisitions because of cash constraints.

After understanding our client's challenges, McGladrey recommended that the company select and implement a performance management system to sit on top of and draw data from its enterprise resource planning (ERP) system. This performance management system would allow our client to enhance its business analytics capabilities in a structured, systematic and strategic way under a defined governance umbrella. These enhancements would enable the client to manage its treasury function more proactively and strategically, while providing greater insight into short-term and long-term capital needs.

“Define governance, and assess the importance of a strategic treasury function within the organization.” 

KEY LESSONS

- 1 YOU DO NOT HAVE TO BE A MEGA-CORPORATION TO ENGAGE IN PROACTIVE TREASURY.
- 2 WITH SOLID, PROACTIVE, AND AUTOMATED TREASURY UNDERPINNINGS, COMPANIES CAN CONDUCT SCENARIO PLANNING.

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The company followed our advice and was able to manage cash and working capital much more effectively, improve the performance of existing business lines, and effectively execute its M&A strategy. It was able to prioritize the most strategic objectives and put others on the back burner. It had adopted proactive treasury management.

Enormous market capitalization isn't a prerequisite for making the leap to a proactive treasury function. There is the argument that a centralized treasury function is not necessary until the company reaches a certain critical mass and begins to engage in internationalized business. McGladrey's vast experience shows that this argument is not necessarily true, especially for our middle market clients.

Many middle market companies are already global. As such, they need to understand ever-changing global regulatory impacts, be responsive to international political and market uncertainty, and understand foreign exchange implications—all nearly impossible using reactive, labor-intensive, manual accounting procedures.

With solid, proactive and automated treasury underpinnings, companies can conduct scenario planning. They can take into account business unit performance, supply chain optimization, accounts payable (AP) and strategic vendor management. They can use the greater visibility into their operations to determine what their AP cycle should be to optimize cash, leverage banking relationships and manage debt ratios.



With solid treasury management in place, companies can strategically manage cash flows as different factors of the business change.



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How do you get there?

- Define governance, and assess the importance of a strategic treasury function within the organization. Fully map out how it will operate.
- Understand your company's current metrics for managing risks associated with cash and capital. Understand all the banking relationships, the global business strategy and how much investment it will take to get to the next level.
- Assess the data you have on hand—how long are your day sales outstanding (DSO) cycles, for example—to formulate recommendations for improving your cash and risk position as you evolve toward treasury management.

With solid treasury management in place, companies can strategically manage cash flows as different factors of the business change. Say your company has a fast AP cycle, but DSO is slow. You might operate for years not even knowing that situation exists. If a good treasury operation uncovers the problem, however, it might then identify ways to shorten the DSO cycle and lengthen the AP cycle. Suddenly, the business finds that it has more cash on hand to take advantage of opportunities as they arise.

Treasury management is a critical component to all organizations, regardless of size. Establishing proactive treasury capabilities and processes can greatly enhance an organization's ability to meet its goals and objectives, mitigate risks and achieve a competitive advantage.

CENTRALIZING TREASURY OPERATIONS IS KEY



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Diana Faynblut is a treasury professional with New York University, holding an MBA from the same. A Certified Treasury Professional, Diana has more than eight years of treasury experience and specializes in short-term investments, liquidity management, and treasury operations. Prior to her career in treasury, Diana was an IT consultant, working with a range of companies on designing and implementing IT solutions. Currently, one of Diana's projects is treasury system implementation.



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When I first started in treasury at New York University, the treasury function was new, and all the cash management and banking was done within the individual schools. Over the years, we have moved toward a more centralized treasury process. Centralizing treasury has given us a better view of our cash and investments, which has enabled us to more effectively manage our bank accounts, not only for auditing and compliance but also for tracking bank fees. This centralization has also improved the way we manage investments.

As we centralized treasury, we also worked to automate many functions. In treasury, we spend a lot of time doing many of the same tasks every day. We have been implementing a treasury system that has enabled us to automate many of those functions, such as regular reporting.

Our goal is to manage the working capital liquidity and invest it in such a way that we don't lose the principal. Improving visibility into our finances and automating routine functions gives us more time to engage in more strategic activities. For instance, we have more time for research and time to build models that help us decide on the best uses of our working capital. We have more time to work on cyber-security and business continuance planning, to ensure that treasury can continue operating no matter what. We also spend more time working with schools on their budgets, planning and coordinating with them to help them get what they need to achieve their goals.

All of these activities become possible with more centralized visibility into our finances and the time to plan best strategies for managing our working capital.

“ Centralizing treasury has given us a better view of our cash and investments. ”

KEY LESSONS

- 1 BY MANAGING WORKING CAPITAL LIQUIDITY, TREASURY CAN INVEST IT IN SUCH A WAY THAT IT DOESN'T LOSE THE PRINCIPAL.
- 2 IMPROVING VISIBILITY INTO FINANCES AND AUTOMATING ROUTINE FUNCTIONS RESULT IN MORE TIME TO ENGAGE IN STRATEGIC ACTIVITIES.

Tomorrow's Treasury Management Today.

Kyriba's cloud treasury system gives you the visibility to power business growth.

Organizations need to work their capital effectively to drive long-term growth. Proactive Treasury Management is a new approach to treasury, delivered exclusively by Kyriba, the leader in cloud-based treasury management. Beyond simple treasury automation, Proactive Treasury Management gives finance leaders the analysis and insight to deploy cash in an efficient and strategic manner. This enables them to drive smarter, more informed business decisions, and add value throughout the organization.

With Proactive Treasury Management, CFOs and treasurers can be the enablers of growth well into the future.

Contact us now at **1-855-KYRIBA-0** or find us online at **kyriba.com**.



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