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Survey Highlights

Performance Gaps Signal Opportunities to Improve Treasury Operations

Large gaps between the performance of typical treasury organizations and world-class treasury units suggest there are opportunities for many organizations to improve their treasury operations, according to researchers at the Association for Financial Professionals (AFP).

This conclusion was drawn based on results of the 2009 AFP Treasury Benchmarking Program survey, the second in a series of three planned annual surveys being conducted by the AFP in partnership with IBM and underwritten by Deutsche Bank.

"One of the consistent results across both the 2008 and 2009 surveys is a fairly pronounced gap between median and benchmark performance," says Jeff Glenzer, a Managing Director at the AFP.

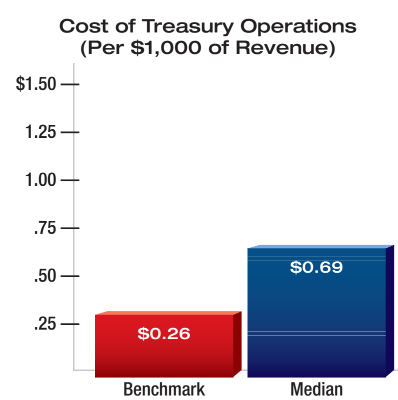
The benchmark (or high-performance) standard is based on 80th percentile responses. In areas ranging from cost of treasury operations to staffing levels, there is a wide difference between median and benchmark performance levels throughout the 2009 survey results, very similar to the results in 2008, Glenzer says.

One of the goals of the 2009 survey, he says, was to begin identifying what's driving these gaps. In particular, the survey asked questions to gauge the extent to which automation and treasury structure (e.g., centralized vs. decentralized) are driving performance differences.

Here's a look at some of the more noteworthy benchmarking survey findings:

Treasury Operating Costs

Based on the 2009 survey results, the magnitude of the benchmark gap (benchmark compared to the median) is significant for virtually all cost and resource benchmarks.

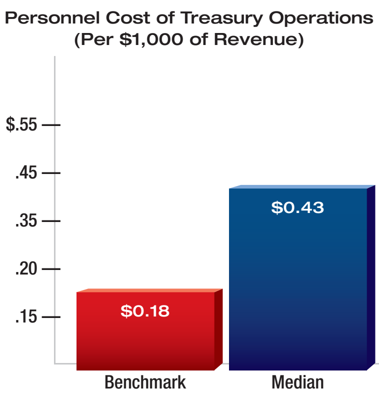


The typical (median) organization operates its treasury operations at an average cost of 69 cents per $1,000 of annual revenue, while the benchmark standard was 26 cents per $1,000 of revenue — a gap of 43 cents per $1,000.

The vast majority of treasury resources (72%) are spent on personnel, according to the survey. The typical organization spends 43 cents per $1,000 in annual revenues on treasury personnel costs. However, the benchmark organization only spends 18 cents per $1,000.

"There again we see a huge performance gap, which is consistent across revenue size, industry and region," says Kevin Roth, Managing Director, Research, at the AFP.

Two other notable survey findings regarding treasury costs were:



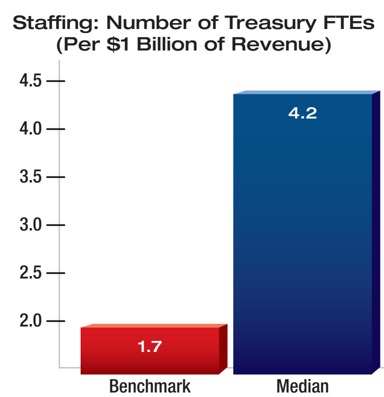
• Size matters. The smaller an organization is, the more intensive its investment in treasury operations tends to be relative to revenue. The typical organization with annual revenues between $6 billion and $10 billion spends 29 cents per $1,000 of annual revenue, compared to $1.50 per $1,000 in revenue for the typical organization with between $100 million and $499 million in revenue.

• *Industry matters, too.* Financial services organizations tend to incur the highest level of costs. This is likely due to their regulatory requirements and strategic emphasis on cash management. "For a manufacturing company, cash and risk management are by products of their business," Glenzer explains. "In the finance and insurance industries, those disciplines *are* their business."

Staffing

The benchmark gap is also evident in responses related to staffing. The typical organization has 4.2 full-time equivalent employees (FTEs) for every $1 billion in annual revenues, compared to 1.7 FTEs for every $1 billion in revenues for a benchmark organization.

The number of FTEs in treasury differs on a normalized basis by organization size. As an example, the typical organization with annual revenues between $6 billion and $10 billion has 1.6 FTEs per $1 billion of annual revenue, while those with annual revenues between $500 million and $999 million utilize 5.5 FTEs, according to the survey results.



Treasury staffing levels also differ greatly by industry type. Organizations in the finance/insurance industry employ the most FTEs on average — 10.0 per $1 billion in annual revenues — followed by government (8.0), services (5.5), information/communications (5.4), manufacturing (3.1) and energy (2.0).

Personnel costs average $100,000 per treasury operations FTE, including compensation and benefits. Size has an impact here, as well. Organizations with annual revenues between $6 billion and $10 billion spend an average of $105,800 per treasury operations FTE, compared to $92,100 at organizations with annual revenues between $500 million and $999 million.

Cycle Times

The 2009 survey examined the cycle times of seven critical treasury functions: cash flow forecasting, concentrating/pooling cash to establish daily cash position, producing a treasury accounting entry, resolving bank account discrepancies, processing an internal fund transfer, processing a borrowing decision and processing investment elections.

One finding was that for most of these functions, size, as measured by revenue, is not a significant predictor of cycle time.

"But probably the most surprising and instructive outcome was that, with just a handful of exceptions, the responses suggested that automation, in and of itself, does not improve cycle times," Roth says.

The survey compared cycle times for automated treasury organizations with those of manual treasury organizations. For functions such as developing a short-term cash flow forecast, producing a treasury accounting entry and concentrating/pooling cash, the responses showed no difference in cycle times.

The only significant difference in cycle times experienced by the typical automated and manual organizations was in the number of bank accounts they were able to reconcile per cash-managing FTEs (14.5 for automated organizations compared to 9.7 for manual ones).

Organizational Structure
Organizations can structure their treasury operations in a variety of ways. Some choose to decentralize so that each subsidiary or even each location has its own operation. Others consolidate treasury operations into a single location, while in other cases certain operations are outsourced to a third party.

However, according to responses to the AFP Treasury Benchmarking Program survey, the majority of organizations conduct most treasury operations within a single corporate treasury operation. Respondents were asked about how they structure more than a dozen treasury functions, and the percentage of respondents reporting a centralized delivery approach ranged from 58% for "produce treasury accounting entries" to 90% for "manage debt."

Automation
Systems represent about 9% of treasury operating costs, according to the survey. Dollars spent on treasury systems is another area revealing a benchmark gap. On average, the typical organization is spending 4.07 cents per $1,000 in annual revenue, while the benchmark organization is spending 1.29 cents per $1,000 in revenue.

And what are treasury organizations getting for their technology dollars? Not everything they expect, they report. "There were very few spots where respondents' automation expectations were met," Roth says.

While automated organizations reported better outcomes in audit trails, improved payment efficiency, and greater effectiveness for in-house banking and bank fee analysis activities, they largely indicated dissatisfaction with automation's impact on reducing staff and improving cycle times, for instance.

"The most widely cited reasons for automating treasury were reducing staffing and manual errors, improving cash flow forecasting and treasury reporting, consolidating to a single application, and rapidly establishing a cash position," Glenzer says. "And these were some of respondents' biggest areas of disappointment."

When respondents whose treasury organizations rely primarily on manual processes were asked why they had not automated, their top reason was that the cost of automation exceeds the perceived benefit.

"One of the messages of the 2009 survey seems to be: If you think you are going to solve that benchmarking gap by throwing automation at it, or purely by centralizing your operation, these factors alone are not going to drive those performance improvements," Glenzer says.

European Results

The 2009 survey's more robust respondent base included about 9% European respondents.

Although international participation was significantly lower than US participation, across the survey responses it was clear that region was not a significant predictor. In other words, the survey results should be just as relevant to European treasury operations as they are to US treasury operations, the researchers say.

Looking Ahead: 2010 Survey

The 2009 survey results reaffirmed that there are significant gaps between typical and benchmark treasury management performance. As to the reasons behind those gaps, the survey data would appear to eliminate at least two possibilities, namely that the gaps are driven solely by treasury organizations' use of automation and/or their treasury structure decisions.

But if not automation and structure, then what's driving these gaps?

Answering that question will be one of the goals for the 2010 survey, Glenzer says. "We'll be looking at what drives those huge performance gaps in areas such as treasury costs and FTEs between typical treasury organizations and benchmark organizations," Glenzer says. "We'll try to identify factors that are driving up efficiency and driving down costs in treasury while allowing organizations to achieve world-class outputs."

If you would like to be part of the effort to identify these drivers, keep in mind that the next AFP/IBM/Deutsche Bank benchmarking survey will be conducted beginning in early March 2010 and will be distributed by e-mail to AFP members and treasury professionals in the gtnews subscriber database. To ensure that you will have an opportunity to participate and receive a customized benchmark report — which will enable your organization to compare its performance against the overall survey sample and against top performers — contact your Deutsche Bank relationship manager or Global Transaction Banking representative.

Additionally, please let your representative know if there are any areas of treasury and cash management that you would like to see addressed more fully in the 2010 survey.