

## HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

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**Rohit Godara**

VP, Advisory Solutions

J.P. Morgan Treasury & Securities Services

(212) 552-6563

(646) 322-4460

[rohit.godara@jpmorgan.com](mailto:rohit.godara@jpmorgan.com)

# Agenda

<b>Working Capital Trends In The Marketplace</b>	<b>1</b>
<b>Impact Of Working Capital</b>	<b>7</b>
<b>Global Payables– Levers For Optimal Working Capital</b>	<b>12</b>
<b>Global Receivables– Levers For Optimal Working Capital</b>	<b>17</b>

# J.P. Morgan Treasury Services Overview

## Treasury Services profile

- Revenue \$6.6 billion
- Employees 4,000+
- Clients 40,000+
- Local bank in 32 countries
- Foreign Exchange 135 currencies
- Custody Assets \$14.9 Trillion

## Global product solutions covering

- Deposit Products
- Receivables (paper & electronic)
- Payables (paper & electronic)
- Trade and Logistics
- Liquidity and FX

## Market leadership positions

- #1 in ACH volume (for 34 years...)
- #1 in US Dollar volume (up to \$5 trillion/day)
- #1 in Purchasing Card volume  
*Ernst & Young, 2006 - 2009*
- #1 - Greenwich's 2009 Large Corp Research
  - in cash management capabilities
  - in advisory relationships
  - in leadership reputation

## Recognition

- Best Cash Management Bank – North Amer.  
*Global Finance, 2006 - 2010*
- Most Innovative & Responsive Trade Services Bank  
*Global Trade Review, 2006 - 2009*
- Best Bank for Liquidity Mgmt. in North Amer.  
*Global Finance, 2008 - 2010*

## What Is Working Capital and Why Is It Important?

- **Working Capital**

- A representation of the operating liquidity available to a business
- Considered a good measure of a company's efficiency and its financial health

- Working Capital involves the following metrics

Metric	Definition	Measurement
<b>DSO</b>	Days Sales Outstanding	How quickly a company <b>collects</b> its revenue
<b>DPO</b>	Days Payable Outstanding	How long a company takes to <b>pay</b> its suppliers
<b>DIO</b>	Days Inventory Outstanding	How quickly a company <b>turns-over</b> its inventory
<b>DWC</b>	Days Working Capital	How quickly a company <b>manages</b> its overall cash flow

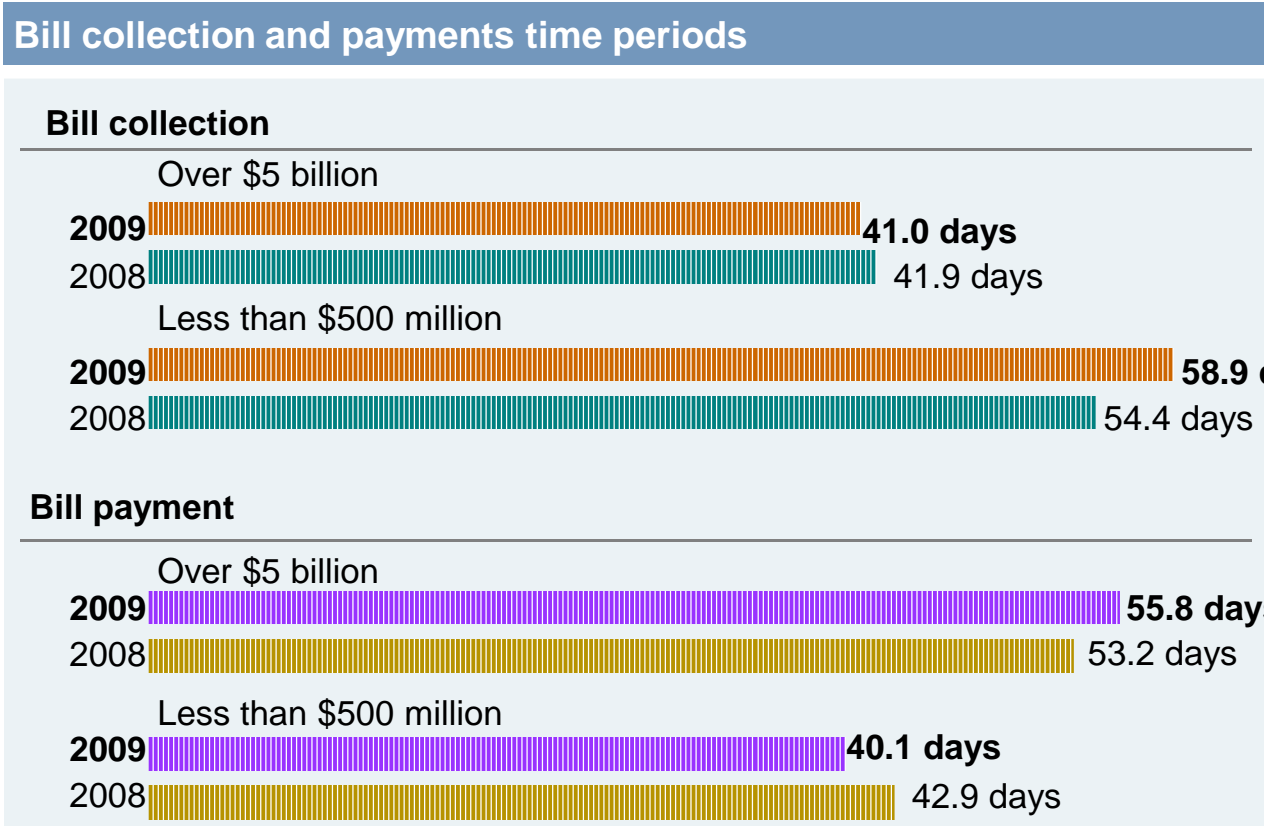
- Working capital is a top priority for clients due to the current economic environment:
  - Credit markets have dried up, eliminating a source of working capital funding
  - Companies have turned to sourcing liquidity internally
- Working capital dialogue is intended for CFO/Treasurer level
  - Operational divisions are often focused on unit costs, not working capital goals
  - However, A/R and A/P operational efficiency has a direct impact on cash flows
- J.P. Morgan's solutions help clients improve working capital **and** operational efficiency

# Working Capital Management – Terms Management

**“Big Firms Are Quick To Collect, Slow To Pay.”**  
- Front page, Wall Street Journal 8/31/09

An REL study for the Wall Street Journal showed:

- Large companies (\$5.0B+) are collecting faster and paying slower
- Smaller companies (<\$0.5B) are collecting slower and paying quicker

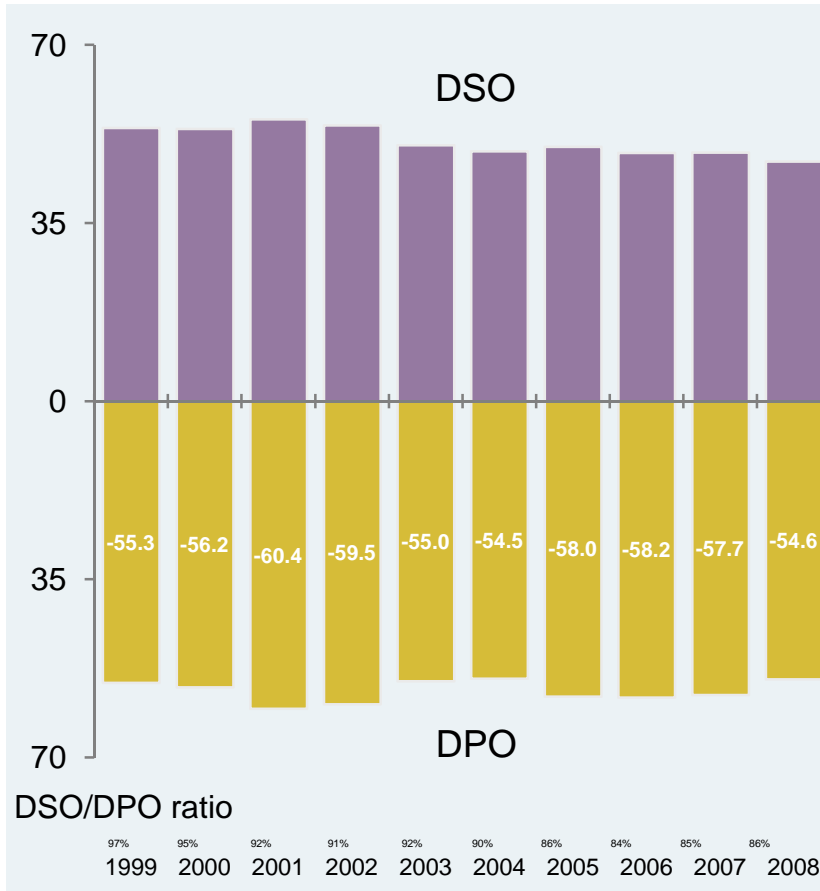


Source: REL Consultancy, a division of The Hackett Group

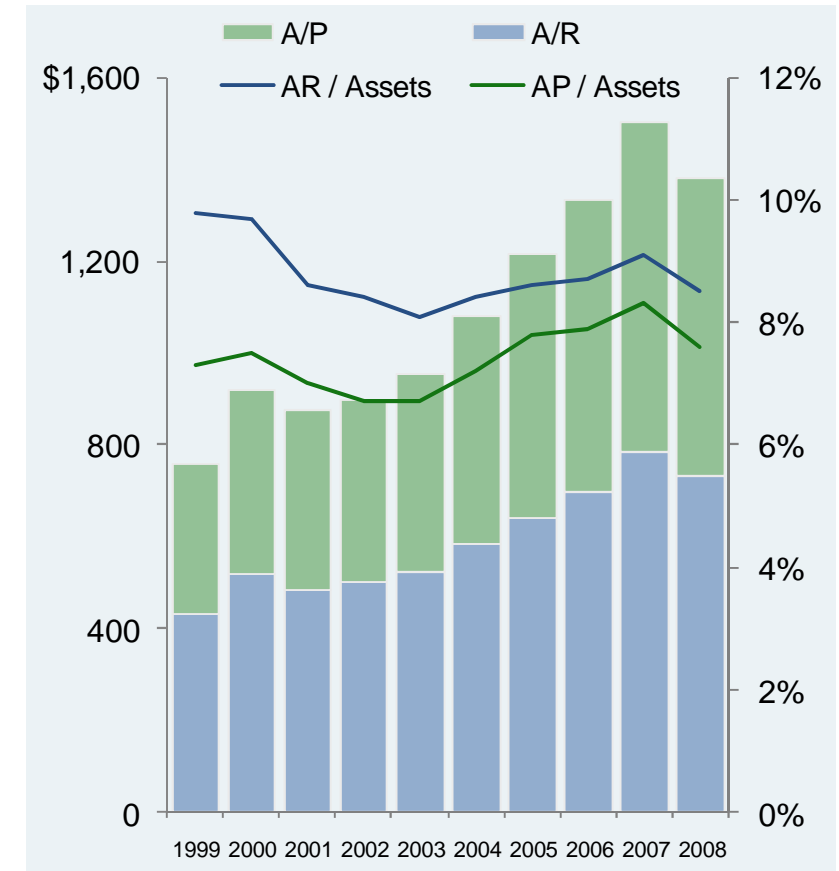
# Working Capital Trends – S&P 500

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

### S&P 500<sup>1</sup> DSO vs. DPO



### S&P 500<sup>1</sup> A/R and A/P Balances (\$bn)

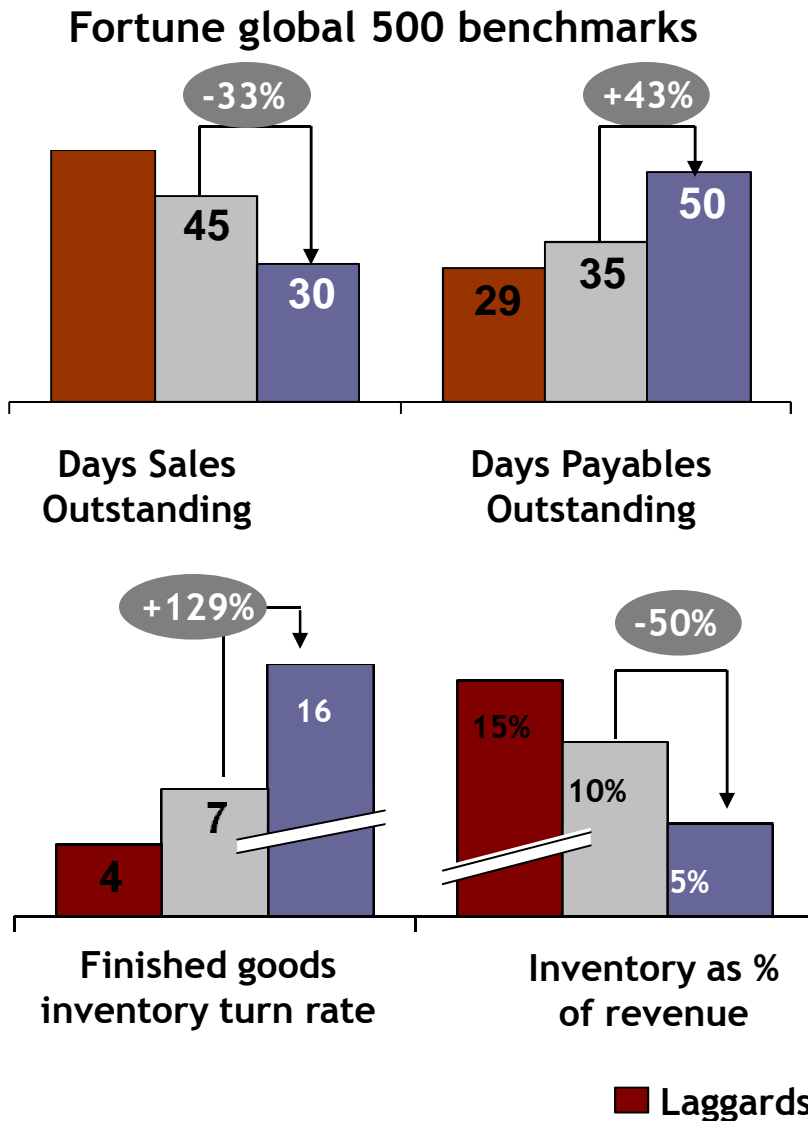


Source: Bloomberg; J.P.Morgan

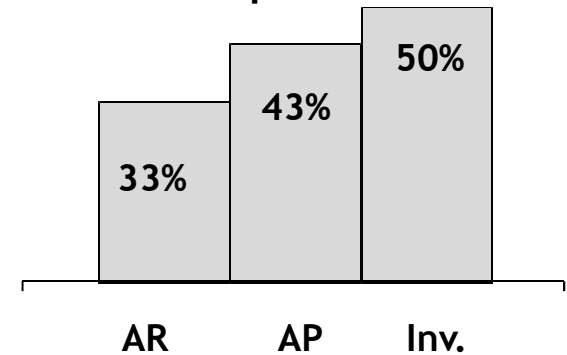
<sup>1</sup> Represents 394 companies from the S&P 500 constituents as of 9/24/09 that were publicly listed as of Dec 31, 1999; Excludes financials

# Working Capital Trends – Opportunity For Improvement

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES



## % improvement in Net Working Capital components -



### Implications

- Improve working capital to **create cash advantage**
- **Review processes** to improve the efficiency/use of cash value chain
- Review holistically to **achieve sustainable benefits**

Source: APQC, A.T. Kearney

# Agenda

**Working Capital Trends In The Marketplace 1**

**Impact Of Working Capital 7**

**Global Payables– Levers For Optimal Working Capital 12**

**Global Receivables– Levers For Optimal Working Capital 17**

# Strategic Working Capital Management

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

Organizations with a robust working capital strategy that employs best practices can strengthen their balance sheet, lower cost of capital, and differentiate compared to peers

## Strategic Working Capital Management

### DPO

#### Payment to Supplier ▲

- Increase suppliers payment terms
- Manage demand, control spend
- Minimize AP transaction costs
- Improve supplier relationships

### DIO

#### Inventory Carrying Costs ▼

- Reduce inventory levels
- Improve demand forecast
- Optimize ERP
- Optimize trade financing

- Timely collection
- Increase invoice accuracy
- Reduce bad debt
- Reduce time to apply cash

### DSO

#### A/R Carrying Costs ▼

### Treasury Operations

- Liquidity Management
- Funding & Investment Mgmt.
- Optimize banking relationship
- Risk & compliance

### Reduce Cash Conversion Cycle

## Guiding Principles

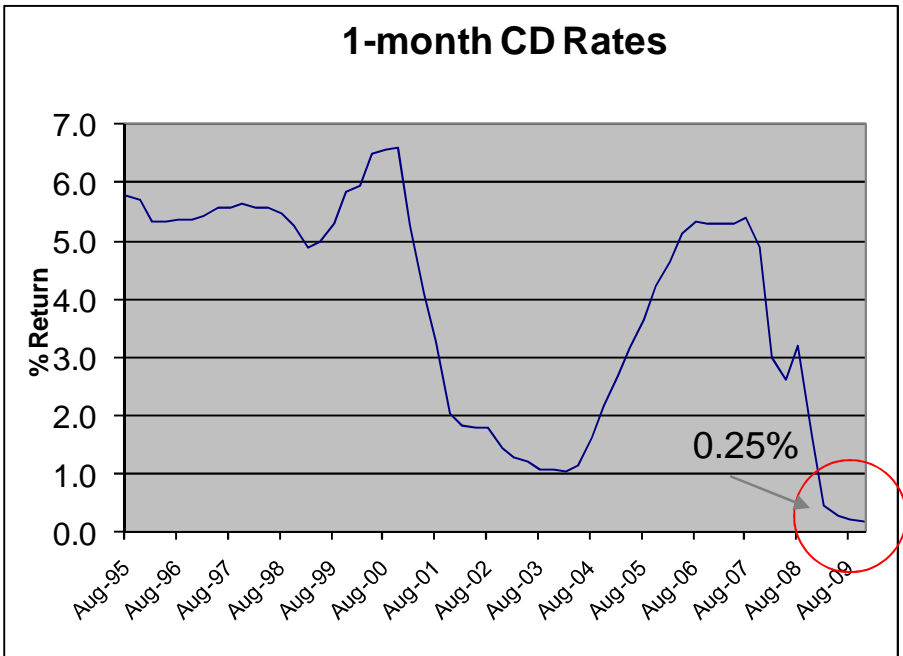
- Increase shareholder value
- Enhance competitiveness
- Minimize need for working capital
- Reduce cost of operation
- Liquidity and cash management
- Prevent fraud
- Simplify and standardize processes
- Focus on value added activities

Improved cash flow can deliver increased returns when used to address supplier's liquidity needs...

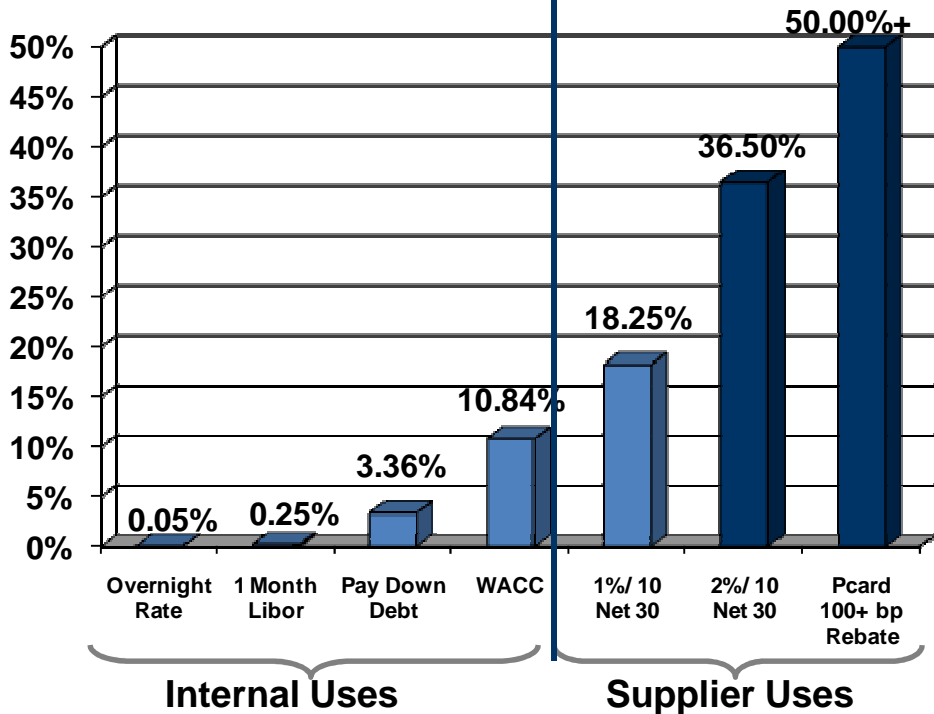
- Returns on freed working capital will vary depending on your internal investment objectives or how you take advantage of alternative uses of working capital

Working Capital Returns

Short-term interest rates...



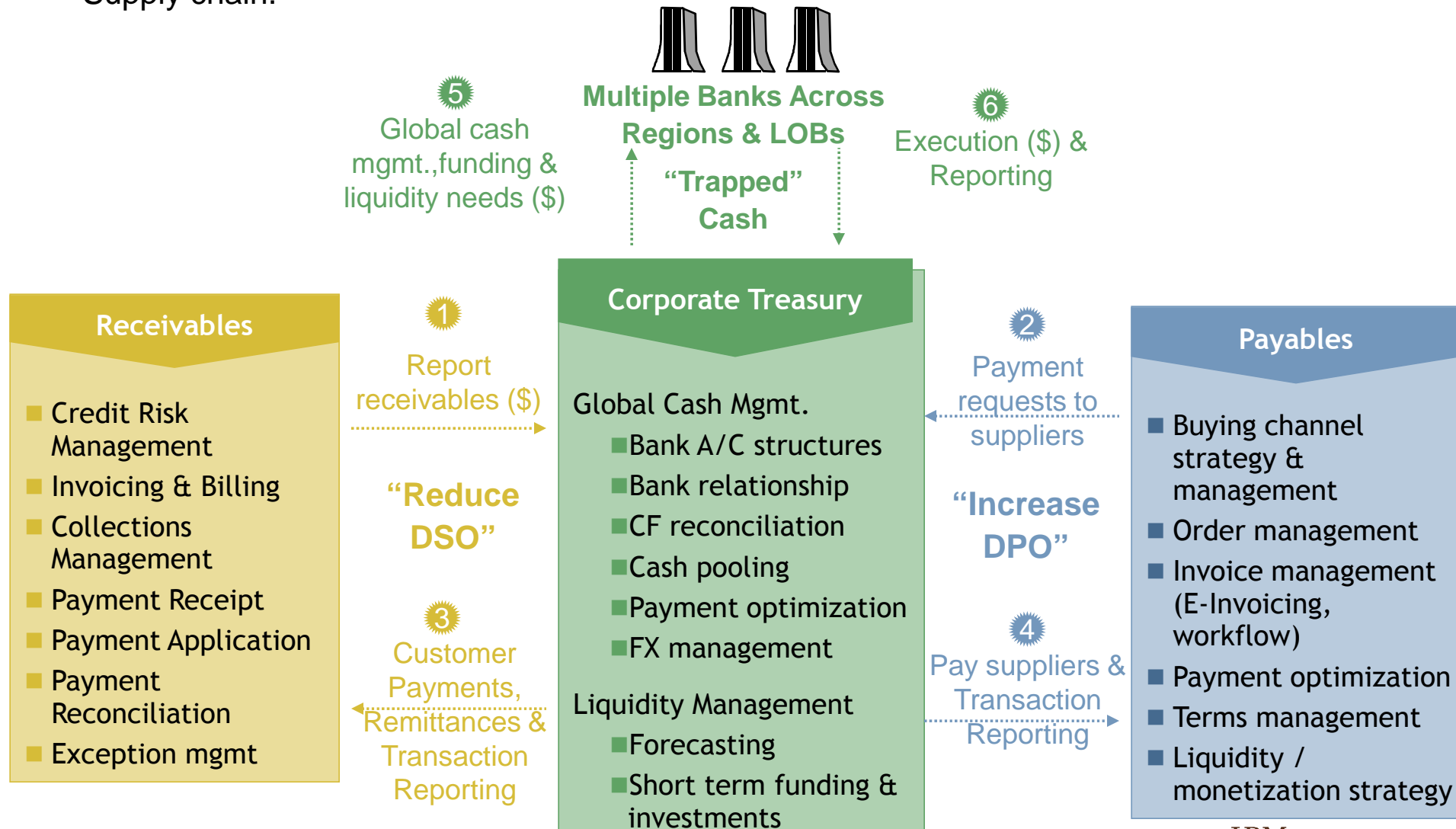
...vs. alternative uses of working capital



# Role Of Corporate Treasury In Working Capital Management

- Treasury operations are in front and center for working capital optimization initiatives.
- Successful working capital initiatives involve Treasury, Finance, Purchasing, Payables & Supply chain.

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## Working Capital Optimization Requires Transformation At All Levels

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

- Effective working capital initiatives require transformation at all levels of the organization across order to cash, procure to pay and supply chain.



### Drivers

- Organization wide KPIs & targets
- Proactive working capital management
- Balance working capital levels with liquidity & risk objectives
- Root Cause Analysis for reasons of failure
- Implementation of organization wide policies
- Standardize process & procedures
- Higher degree of collaboration between finance, treasury, operations, technology
- Best in class benchmarking
- Technology enablement
- Automation
- Data integrity
- System standardization & simplification

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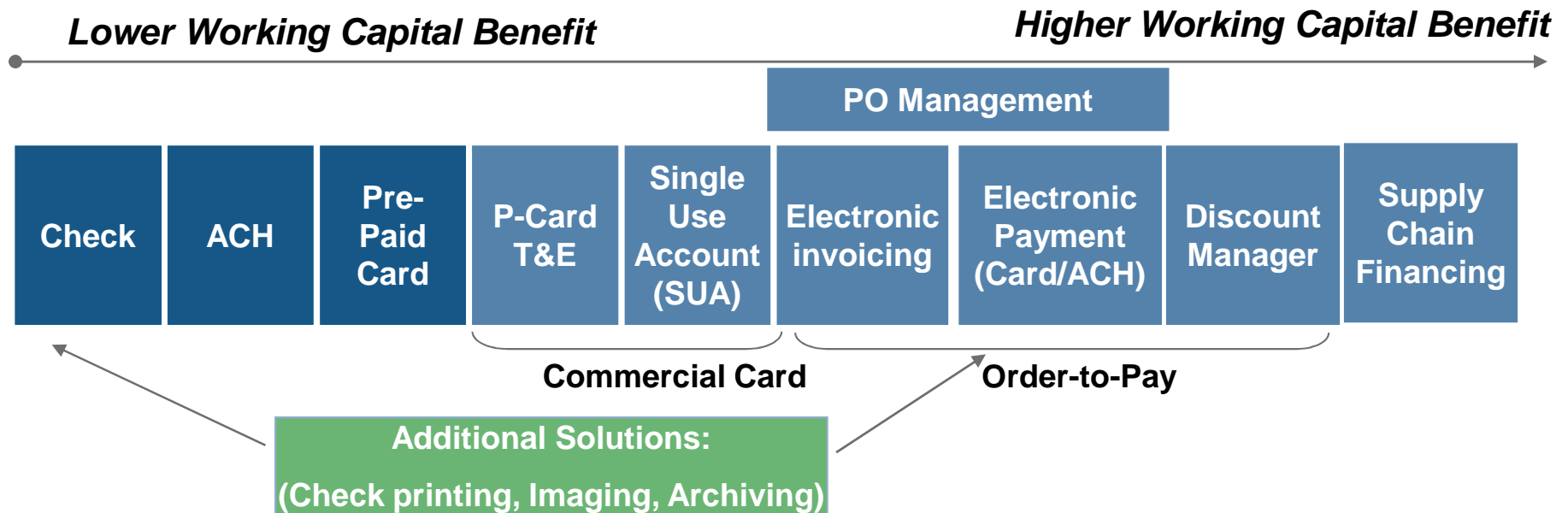
## Symptoms of Inefficient Working Capital – Payables Continuum

- Corporations can identify inefficient working capital levels by assessing the performance levels.
- Below are characteristics of inefficient payables function that can represent opportunity for improvement:
  - Frequent payment runs
  - Large number of suppliers including duplicate suppliers in the system
  - Multiple payment terms with the same supplier
  - Lack of standardized payment terms
  - Lack of payment term approval mechanism
  - Credit sanctions imposed by suppliers
  - Large interest / additional charges for late payments
  - Increase in payment disputes
  - Lack of purchase discounts
  - Lack of rebates through p-card, single use accounts
  - Inaccurate forecasting of disbursements (inaccurate cash flow forecasting)

# Global Payables Continuum – Levers For Optimal Working Capital

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

- Accounts payable can use various solutions to
  - impact working capital performance (increase days payable outstanding – DPO)
  - Monetize payments to its suppliers (i.e. rebates, early payment discounts & invoice automation)

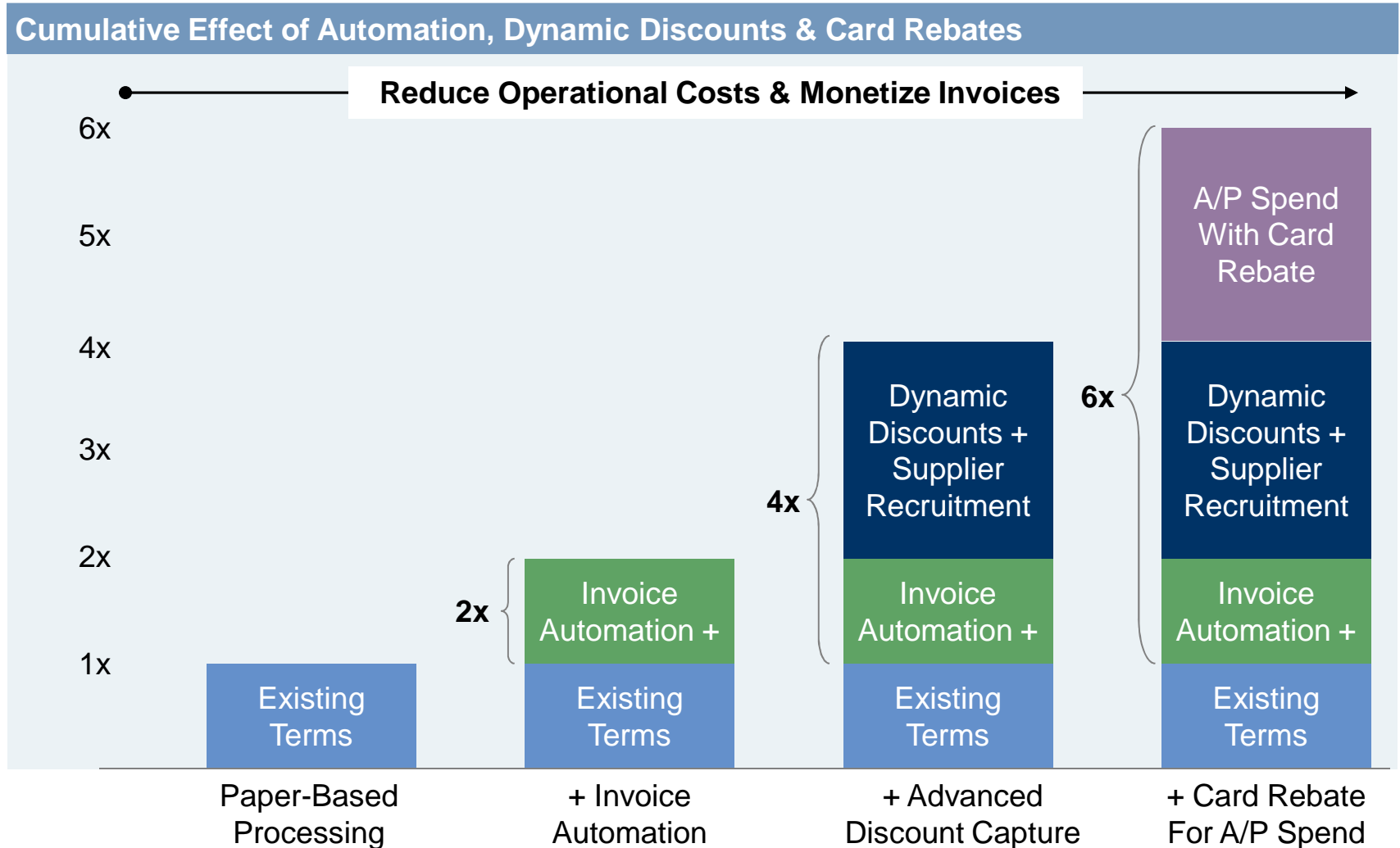


## Accounts Payables Spend Optimization Analysis

- Complete Accounts Payable Automation
- Discounts
- Rebates
- Extend Days Payable Outstanding

# End-to-End Approach On Payables Has Multiplier Effect on Financial Returns

Companies are dramatically growing financial returns by combining process automation, discounting and card settlement against A/P Spend:



# J.P Morgan Payables Solution Overview

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

Payables Process	J.P. Morgan Solution	Working Capital Impact	Operational Improvement
Supplier Management	<ul style="list-style-type: none"> <li>Order To Pay (OTP)</li> </ul>	<ul style="list-style-type: none"> <li>Dynamic discounting &amp; enhance terms</li> </ul>	<ul style="list-style-type: none"> <li>Term Standardization</li> <li>Supplier self-service on ad-hoc payment requests</li> </ul>
	<ul style="list-style-type: none"> <li>Supply Chain Finance</li> </ul>	<ul style="list-style-type: none"> <li>Term enhancement</li> </ul>	<ul style="list-style-type: none"> <li>Strategic supplier financing options (lower than current cost of capital)</li> </ul>
Order Processing	<ul style="list-style-type: none"> <li>Order To Pay (OTP)</li> </ul>	<ul style="list-style-type: none"> <li>Visibility into payables</li> </ul>	<ul style="list-style-type: none"> <li>Purchasing and payables integration</li> </ul>
	<ul style="list-style-type: none"> <li>Card Solutions</li> </ul>	<ul style="list-style-type: none"> <li>Buying channel optimization</li> </ul>	<ul style="list-style-type: none"> <li>Reduce cost of handling orders</li> <li>Rebate payout</li> </ul>
Invoice Processing	<ul style="list-style-type: none"> <li>Order To Pay (OTP)</li> </ul>	<ul style="list-style-type: none"> <li>Electronic receipt /filtering</li> <li>Improve visibility</li> <li>Enable use of cash for high, risk free returns</li> </ul>	<ul style="list-style-type: none"> <li>Reduced cost-per-invoice</li> <li>Improved on-time payment rates</li> </ul>
	<ul style="list-style-type: none"> <li>Doc Manager Solution</li> </ul>		<ul style="list-style-type: none"> <li>Invoice imaging &amp; capture</li> <li>Image archive ,retrieval &amp; workflow</li> </ul>
Payment Issuance	<ul style="list-style-type: none"> <li>Order To Pay (ACH)</li> <li>Single Use Account</li> <li>Supply Chain Finance</li> <li>Payment Outsourcing</li> <li>J.P. Morgan Access</li> </ul>	<ul style="list-style-type: none"> <li>Early Payment Discount                             <ul style="list-style-type: none"> <li>Optimize return</li> </ul> </li> <li>Single Use Account &amp; Supply Chain Finance                             <ul style="list-style-type: none"> <li>Optimize DPO extension</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Payment Outsourcing (Check, ACH, Wire)                             <ul style="list-style-type: none"> <li>Controlled disbursements</li> <li>Check printing outsourcing</li> </ul> </li> <li>J.P. Morgan Access                             <ul style="list-style-type: none"> <li>Payment &amp; balance reporting</li> </ul> </li> </ul>

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## Symptoms of Inefficient Working Capital – Receivables Continuum

- Corporations can identify inefficient working capital levels by assessing the performance levels.
- Below are characteristics of inefficient receivables function that can represent opportunity for improvement:
  - Increasing bad debt levels
  - Increasing balance of past due receivables when compared to revenues
  - Large number of customer billing / invoicing complaints
  - Large number of claims and adjustments
  - Large number of short payments as part of payment receipt
  - Large number of exceptions during payment application
  - Increased credit limits on customers due to frequent credit stop
  - Inaccurate cash flow forecasting
  - Use of non electronic methods of payment receipt

# Global Receivables Continuum – Levers For Optimal Working Capital

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

Days sales outstanding can be improved by reducing the cycle time across the order to cash continuum; namely credit risk management, invoicing, collections, claims and adjustments, payment receipt and payment application.

## Order To Cash Cycle Overview

### 1. CREDIT

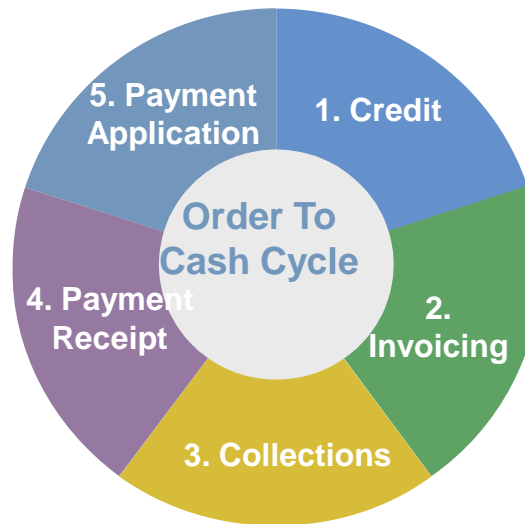
- Set and monitor credit limits
- Set risk tolerance based on sales objectives
- Robust order taking process

### 2. INVOICING

- Standardized invoice presentment
- Ensure customer master file accuracy
- Electronic invoice presentment

### 3. COLLECTIONS

- Customer segmentation based collection treatment path strategy
- Dispute prioritization and resolution
- Set compensation levels to build collection driven culture
- Leverage technology enablers (IVR, workflows etc.) and job aids



## Order To Cash Cycle Overview

### 4. PAYMENT RECEIPT

- Offer clients multiple payment options
- Set B2B, B2C payment receipt strategy
- Ensure optimal lockbox proximity
- Increase electronic payment options (ACH, Wire, Web Payments)
- Streamline payment receipt options to ensure superior customer experience
- Ensure cost effective data and document storage options

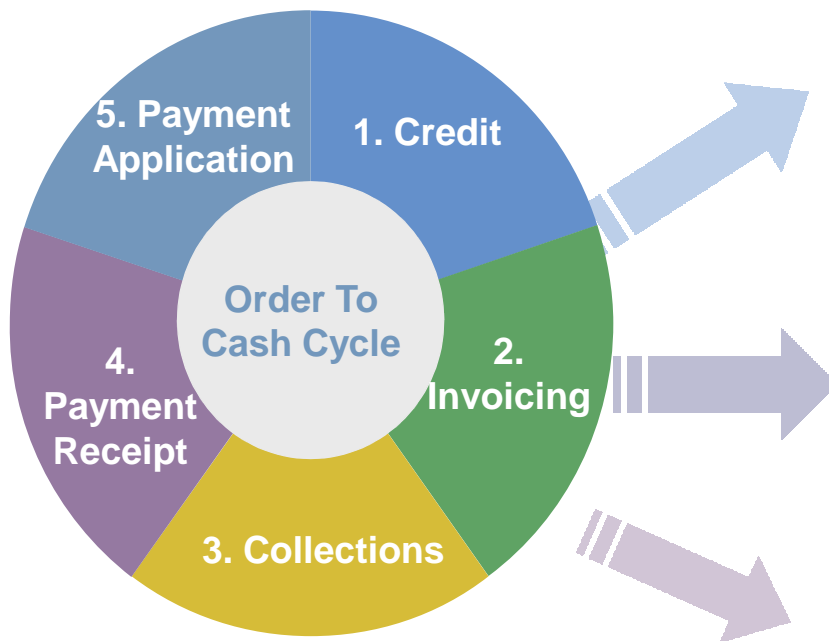
### 5. PAYMENT APPLICATION

- Optimal payment application thresholds
- Exception and workflow management
- Gain real time visibility into payment receipt and application across multiple payment receipt options to support cash forecasting efforts

# Global Receivables Continuum – Levers For Optimal Working Capital

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

In today's environment, organizations are increasingly focusing on customer facing activities to defend and increase revenues across different markets.



## A. Operational Efficiency

Competitive pressure are forcing organizations to look for internal (transactional) and third-party (supplier) cost reductions through process standardization/centralization, supported by outsourcing opportunities for non critical functions

## B. Working Capital Optimization

Organizations are constantly identifying ways to collect faster from customers and maximize liquidity to improve near-term financial performance. Organizations are using terms and price trade-offs supported by technology enablers to create improved invoice to cash conversion results

## C. Risk & Compliance

Sarbanes-Oxley Act, OFAC, amongst others are further elevating corporate awareness of compliance, fiscal responsibility, and transaction security. With current market conditions, there is renewed interest to age and track outstanding invoices and to convert cash deposits to paid obligations to improve revenue recognition and to fulfill audit compliance controls.

# J.P Morgan Receivables Solution Overview

HOW TO MANAGE WORKING CAPITAL DURING TURBULENT TIMES

Receivables Process	J.P. Morgan Solution	Working Capital Impact	Operational Improvement Impact
Payment Receipt & Collection	<ul style="list-style-type: none"> <li>■ Wholesale Lockbox</li> <li>■ Receivables Edge</li> <li>■ Doc Manager Solution</li> <li>■ Payment Connexion</li> <li>■ Virtual Remit</li> <li>■ Virtual Vault</li> </ul>	<ul style="list-style-type: none"> <li>■ Wholesale Lockbox                             <ul style="list-style-type: none"> <li>■ Reduce mail float</li> </ul> </li> <li>■ Receivables Edge                             <ul style="list-style-type: none"> <li>■ Real time reporting for cycle time reduction</li> </ul> </li> <li>■ PayConnexion                             <ul style="list-style-type: none"> <li>■ Electronic payment receipt (web, IVR, phone) for streamlined collections process</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Wholesale lockbox                             <ul style="list-style-type: none"> <li>■ Streamline check receipt process</li> </ul> </li> <li>■ Receivables Edge                             <ul style="list-style-type: none"> <li>■ Visibility into lockbox transactions</li> <li>■ Identify open transaction</li> </ul> </li> <li>■ Doc Manager Solution                             <ul style="list-style-type: none"> <li>■ Invoice imaging &amp; capture</li> <li>■ Image archive &amp; retrieval</li> </ul> </li> <li>■ Virtual Remit                             <ul style="list-style-type: none"> <li>■ Remote check capture &amp; processing</li> </ul> </li> <li>■ Virtual Vault                             <ul style="list-style-type: none"> <li>■ Streamline currency &amp; coin collection</li> </ul> </li> </ul>
Payment Application	<ul style="list-style-type: none"> <li>■ Receivables Edge</li> <li>■ Payment Connexion</li> </ul>	<ul style="list-style-type: none"> <li>■ Receivables Edge                             <ul style="list-style-type: none"> <li>■ Workflow for exception</li> </ul> </li> <li>■ Payment Connexion                             <ul style="list-style-type: none"> <li>■ Cycle time reduction during payment application</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Receivables Edge                             <ul style="list-style-type: none"> <li>■ Link payment to remittance detail</li> </ul> </li> <li>■ Payment Connexion                             <ul style="list-style-type: none"> <li>■ Link payment to remittance</li> <li>■ Consolidated reporting</li> </ul> </li> </ul>
Cash Management	<ul style="list-style-type: none"> <li>■ Receivables Financing</li> <li>■ J.P. Morgan Access</li> </ul>	<ul style="list-style-type: none"> <li>■ Receivables Financing                             <ul style="list-style-type: none"> <li>■ Asset based lending</li> <li>■ Structured trade finance</li> </ul> </li> <li>■ J.P. Morgan Access                             <ul style="list-style-type: none"> <li>■ N/A</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Receivables Financing                             <ul style="list-style-type: none"> <li>■ Reduced AR balance</li> </ul> </li> <li>■ J.P. Morgan Access                             <ul style="list-style-type: none"> <li>■ Payment &amp; balance reporting</li> </ul> </li> </ul>