Association for Financial Professionals®

AFP Treasury Benchmarking Program

2011 Survey

Introduction and Key Findings

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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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To see the entire story, download the full edition of the *AFP Treasury Benchmarking Program: 2011 Survey* report. In addition to the wealth of information contained in this abridged edition, the full edition goes deeper into the best practices in bank relationship management.

To read the full report, go to www.AFPonline.org/benchmark. Please note that the full report is available to both members and non-members of AFP, and only requires you to log into the website to gain access to the full report.

The AFP Treasury Benchmarking Program—2011 Survey

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 generate dramatically improved levels of performance. Benchmarking the practices and performance of one organization against those of others can be one 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.

In 2008, the Association for Financial Professionals (AFP) launched its *AFP Treasury Benchmarking Program*, a partnership between AFP and the IBM Corporation. The program's goal was, and is, simple: to provide benchmark data to financial professionals so they can compare the performance of their organizations' treasury operations against that of comparable peers.

In 2011, AFP and IBM, along with a new underwriting partner—PNC Bank—continued this valuable program with the fourth annual survey for the *AFP Treasury Benchmarking Program*. As with the previous three surveys, the 2011 survey was supplemented by responses from alumni members of The Financial Executives Networking Group (The FENG). The enthusiastic participation of financial professionals played an important role in the success of this year's survey. AFP gratefully acknowledges all survey respondents for the investment of their time in contributing to the completion of this important research.

The objectives of the 2011 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

The 2011 survey broke tradition with the previous three surveys for the *AFP Treasury Benchmarking Program* by taking a closer look at bank relationship management specifically. But even with this shift, the survey report in your hands highlights important treasury operations issues that have a direct impact on today's organizations and provides an outline of the key implications for optimizing your organization's treasury operations. The report's summary of the key findings supplements the customized peer reports that participating organizations received in exchange and in gratitude for their participation in the project.

The 2011 survey of the *AFP Treasury Benchmark Program* consisted of 42 questions and generated responses from 720 organizations.

The survey results can have important practical applications for your organization. Using the information in this aggregate report will allow your organization to compare its 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.

It is important to remember that 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.

This report provides a starting point for understanding critical aspects of treasury operations by collecting cost, full-time equivalents (FTE), cycle time and service delivery data related to bank relationships. Where applicable, this report presents data on both the median and the 80th percentile response for three types of peer groups based on size (annual revenue), industry and ownership type. Data collected on bank relationships are presented with cross-tabs by company size, the number of bank relationships and the average tenure of bank relationships.

We welcome your thoughts on the 2011 survey for the *AFP Treasury Benchmarking Program*. Your comments and questions should be directed to research@afponline.org

AFP is grateful for its continued partnerships with the IBM Corporation, which provided the critical technical support and benchmarking expertise, and PNC Bank for their underwriting support. Most of all, all three organizations thank this year's participants for their valuable time in completing the survey.

Introduction

Results from the 2011 survey for the *AFP Treasury Benchmarking Program* provide a clearer view of treasury departments' strategies in managing their bank relationships. They allow treasurers to compare their own situations across many different characteristics in which bank relationships are reviewed, including number of relationships, length of those relationships, credit facility, measures of satisfaction, frequency of meetings, and tracking spending.

On average, the typical treasury department manages five banking relationships. Those relationships are multi-faceted depending on company size (as measured by annual revenue), whether organizations are public or private, and across different industry segments. The majority of bank relationships last an average of ten years. This is likely due to the high value organizations place on keeping and maintaining longer term relationships with their banking partners, especially those banks that organizations feel are supporting their business objectives. At the same time, new technologies in tracking bank relationships have evolved. Electronic Bank Account Management—eBAM—has been one important development, and the use of this technology is expected to grow as treasury departments continue to seek methods to manage that process more efficiently.

While credit is an important factor in establishing and maintaining bank relationships, it is not the primary driver in *consolidating* such relationships. Consolidation is driven more by a desire to achieve efficiencies; that is, to "do more with less," managing fewer relationships in order to in achieve economies of scale in bank relationship management. This could be a sign that the pendulum is shifting from increasing the number of bank relationships—done in part as a counterparty risk strategy—to decreasing the number. It should be noted, however, that the desire to expand the number of bank relationships—from a risk standpoint—is still evident from the survey results. As companies look to revise their credit facilities throughout this year and into next, new relationships will be established, already-established ones reinvigorated and certainly all aspects of spending are likely to be reviewed.

Key Bank Relationship Benchmarks and Metrics

This section of the report reviews key metrics of treasury operations in terms of bank relationship management. At the end of the report, readers will find graphs featuring the same data presented by company size and industry peer groups.

The typical organization has 4.0 full-time equivalents (FTEs) in their treasury operations for every $1 billion in annual revenue while the benchmark organization has 1.4 FTEs. The number of FTEs deployed to serve treasury operations differs (on a normalized basis) by organization size. The typical organization with annual revenue between $500 million and $999 million has 5.0 FTEs per $1 billion of annual revenue, while the typical company with annual revenue between $5 billion and $10 billion has 1.7 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. Companies in the services, information/communications, government and financial/insurance industries also tend to have a significantly greater number of FTEs. Organizations that typically have fewer FTEs to support treasury operations include those in the energy, retail/wholesale and transportation/warehousing industries. These findings have been very consistent over the past four surveys.

The typical organization uses 1.7 FTEs for every $1 billion in annual revenue to perform cash management activities while the benchmark organization employs 0.6 FTEs. As is the case with overall treasury function staffing, the level of human resources deployed to perform cash management processes differs (on a normalized basis) by organization size. The typical organization with annual revenue between $500 million and $999 million employs 1.7 FTEs per $1 billion of annual revenue to conduct "manage cash" processes, while the typical company with annual revenue between $5 billion and $10 billion uses 0.4 FTEs per $1 billion of annual revenue for the same function. Privately held companies use significantly more FTEs on a normalized basis than do publicly traded ones, as do companies in the services and financial/insurance industries. Organizations that typically have fewer FTEs to support "manage cash" processes are in the energy, retail/wholesale and transportation/warehousing industries.

The median number of cash receipts processed annually per "manage cash" FTE is 16,667; at the 80th percentile 148,800 cash receipts are processed per FTE annually. There is a direct correlation between the size of the organization (as measured by annual 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 of between $500 million and $999 million typically process 11,500 cash receipts per "manage cash" FTE, with the median jumping to 160,000 for organizations with annual revenues between $5 billion and $10 billion. Further, there is a relationship between industry type and the volume of cash receipts processed per FTE; organizations in the government, retail/wholesale and transportation/warehousing industries are the largest outliers.

The typical treasury department manages and oversees relationships with five banks, but there is significant variation by organization size and industry. Organizations with annual revenues between $500 million and $999 million typically have relationships with five banks while those with annual revenues between $5 billion and $10 billion have relationships with 15 banks. Intuitively this makes sense as larger organizations are likely to have a larger global footprint and so are more likely to do business with financial institutions in different countries. Companies reporting a relatively larger number of bank relationships include those in the energy, manufacturing, retail and transportation/warehousing industries.

The average length of organizations' bank relationships is 10 years. Smaller organizations tend to have shorter-lived bank relationships. For example, the average length of bank relationships for organizations with annual revenues between $250 million and $499 million is eight years. In addition, privately held companies and organizations in the information/communications, manufacturing, retail/wholesale and services industries tend to have shorter-lived bank relationships.

The typical organization reconciles 20 bank accounts per "manage cash" FTE (including concentration, lockbox, disbursement, trust and fiduciary), while top-performing organizations reconcile 72 bank accounts per "manage cash" FTE. The typical organization with annual revenue between $500 million and $999 million reconciles 16.7 bank accounts per "manage cash" FTE compared to the 45 bank accounts reconciled in the typical organization with annual revenue between $5 billion and $10 billion. A greater number of bank accounts per "manage cash" FTE are reconciled by companies in the energy and finance/insurance industries while organizations in government, information/communications, manufacturing and retail/wholesale industries tend to reconcile fewer accounts per FTE.

The typical organization takes three days to resolve bank account discrepancies, while the benchmark organization needs two days. While there is some variation in cycle times by organization size, there is no correlation between the two. From an industry perspective, organizations that take a greater amount of time to handle bank account discrepancies are those in finance/insurance (4.0 days), government (5.0 days) and services (4.0 days).

The typical organization develops a short-term cash flow forecast in 3.0 hours. By comparison, top performers accomplish this task in only 1.0 hour. Organizations that need longer times to develop short-term cash flows are those in the energy (3.5 hours), manufacturing (4.0 hours) and retail/wholesale (4.0 hours) industries, while short-term cash flow forecasts are developed relatively faster in government and services organizations (2.0 hours).

The typical organization takes two 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 increases marginally the larger the organization.

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