FIFTH THIRD BANK

Preparing for the Unexpected:

Managing Cash Flow Through Turbulent Times

If the past few years have taught the business community anything, it has been the value treasury can bring to their organizations, helping them survive during difficult economic conditions. More recently, disruptive events such as the flooding, tornadoes and power outages throughout the U.S., the earthquake and subsequent tsunami in Japan, the economic crisis across Europe and even the credit downgrade of U.S. debt serve to remind us of the importance of being prepared for disruptions both large and small.

The key to minimizing any impact to receivables and payables from such disruptions is having an effective working capital management plan in place. Treasury professionals should start by dissecting their organization's cash conversion cycle. By looking at the length of time it takes in days for the business to convert purchases into cash receipts from buyers, you can formulate a working capital optimization strategy that properly addresses issues in your collection process. Putting industry best practices in place will allow you to yield sustainable results and meet your business objectives.

Clearly, it is important for businesses to prepare for the unexpected before, rather than after the fact. In so doing, they can bring discipline to treasury processes in the regular course of operations, which at the same time sets the stage for managing cash flow when any kind of turbulence hits the organization.

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EVALUATE WEAKNESSES TO MINIMIZE IMPACT TO RECEIVABLES AND PAYABLES

Once treasury gains a solid handle on its receivables and payables processes, it is important to evaluate them for any weaknesses. In order to be prepared for turbulent times, you should test your processes against potential disaster scenarios, which will allow you to uncover exposures that might keep your business from operating normally. Armed with the knowledge and insight gained from this type of self-examination, treasury will be in a far better position to make critical, informed decisions about ways to mitigate various types of risks.

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In evaluating your treasury processes, it makes good sense to thoroughly document your working capital management plan. Creating a simple flow chart can give you an opportunity to visualize where strengths and weaknesses lie. Such a systematic evaluation of your operations will help in figuring out how to prepare for and handle various scenarios.

For example, if your company processes checks in-house, receiving payments on a daily basis through the U.S. Postal Service, a severe weather disruption can have serious consequences. As we saw with the massive winter storms throughout the eastern and central parts of the nation last year, public transportation systems were shut down for days, in some cases preventing employees from coming to the office. As a result, the mail piled up and receivables were not processed, causing potential strains on company access to liquidity. In this scenario, had checks been routinely sent to a lockbox center for processing, there would have been no disruption to receivables, despite the temporary closing of offices.

Using the same weather related example, an inability to access the office can have a serious impact on payables. Without a means to issue checks, companies risk falling behind on payment terms and consequently jeopardize discounts from suppliers. Again, in this scenario, technology-based solutions can provide treasury professionals with remote access to their accounts payables, allowing them to pay invoices online without missing a beat.

The ramifications of disruptions can impact treasury indirectly as well, such as when the supply chain itself is compromised. The geographic location of key suppliers can result in business interruptions, as occurred for many businesses located in the Mississippi Delta earlier this year during the catastrophic flooding. This begs the questions of who are your backup suppliers and how quickly can they step in during a disruption?

Gaining a clear understanding of your treasury processes, and then evaluating them against a wide range of possible negative consequences will allow you to expose weaknesses, and take corrective measures before a problem occurs.

PUT YOUR TECHNOLOGY UNDER THE MICROSCOPE

One of the critical steps in preparing your organization for the unexpected is to regularly review your technology to ensure the right tools are in place that will allow for quick recovery from various scenarios – anything from a power outage in the local community to an earthquake half a world away.

It is also important to review the technology that your bank has available to support your business in the event of short-term or long-term turbulence. For instance, what would your treasury organization do in the event that your headquarters building was lost in a fire? How will you gain access to your financial instruments? Do you have the appropriate technology set up at an offsite location that will allow access to your business accounts through your bank's online treasury management portal?

Disbursements during a crisis or disruption are also an important treasury consideration. Access to checks may be impaired, and keeping backup checks in a separate location can present control and fraud challenges. A viable alternate is to utilize commercial cards for payments.

Cards can be assigned to an individual, which allows an administrator to easily track spend online. Once normal operations resume, the cards can be revoked, temporarily suspended or they can be incorporated into everyday business practices. However, it is important to put a card program in place before a disruption occurs. You must conduct a vendor match to determine which suppliers will accept card payments. Commercial Cards are simply one of many technology vehicles that can help maintain operations.

Maintaining liquidity during unforeseen events is crucial, which is why sweep accounts can be used to help mitigate disruptions. Fifth Third Bank offers sweep accounts that can be a valuable tool in your working capital management arsenal. A Consolidated Sweep account lets you aggregate your investable balances from multiple accounts to get a better rate based on the higher balances. Another option is a Credit Sweep, which allows your organization to draw on credit should you have disruption to your cash flow. Rather than overdrawing your account, it taps your credit line and moves monies over to cover the difference. Credit Sweeps can help reduce interest expenses and cover outstanding debt. Tools such as these also must be put in place in advance of a disruption. Fifth Third Bank has other sweep account options available to help you manage liquidity.

PREPARATION IS KEY TO MAINTAINING TREASURY FUNCTION

As your organization develops its overall disaster recovery strategy, it is imperative that treasury be involved in order to ensure that critical treasury operations continue to function smoothly.

In the event of turbulent times, such as natural disasters or short-term economic disruptions, preparation and planning will make it easier to return to normal operations, or at the very least create the right foundation for a "new normal." A good working capital management plan should effectively match disciplined execution with the right technology, which will allow your business to effectively work through difficulties with minimal impact to receivables and payables, and ultimately improve cash flow and working capital management.

For more information please visit www.53.com/TreasuryManagement or contact your Relationship Manager or Treasury Management Officer.

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