

ANOTHER WAY TO ADD VALUE



THE INCREASE IN OUTSOURCING MAKES PERFECT SENSE IN TODAY'S GLOBAL BUSINESS ENVIRONMENT. **MARIO TOMBAZZI** OF JPMORGAN TREASURY SERVICES EXPLORES THE ISSUES.

The outsourcing of treasury operations may not have been around for hundreds of years, but is not exactly a new concept. So why all the renewed interest? What are the implications, and where is the industry taking it? This article addresses these issues and also explains why treasury outsourcing now makes perfect sense in an increasingly dynamic, global corporate business environment.

UNDER PRESSURE. Globalisation has dramatically altered the corporate landscape. Treasurers are forced to ensure company operations meet the demands of modern multi-national business. Access to and the company-wide distribution of up to date business-critical information, a flexible infrastructure and process efficiency are prerequisites for business success. The role of the treasurer has evolved and acquired new responsibilities: treasurers must now play a more active role in supporting and driving the business forward. They have to maintain control over operations amidst organic and acquisitive growth and ensure co-ordination between business units across a number of jurisdictions. Business processes must be streamlined, continuity ensured, and economic cycles and working capital managed exceptionally well. All this has to be achieved in a cost-efficient manner, while demonstrating value generation and alignment to the business development strategy.

CRITICAL ISSUES. Historically, treasurers have encountered obstacles to running their departments efficiently. Most have not enjoyed access to up to date, high quality business information. Diverse local market practices and internal procedures, considerable duplication of functions within the department and complex regulatory, legal and fiscal frameworks have added further challenges. In addition, treasurers have often faced critical resource shortages and over-reliance on a few key individuals. Comprehensive internal treasuries are usually only mandated in large companies. Treasury operations in most other companies lack the scale required to achieve full benefits and economies in the labour and IT expenses, which comprise between two-thirds and three-quarters of the total treasury costs. The business case for a full in-house treasury department has been made far more difficult by the high cost of

developing and maintaining internal expertise, and the rising cost of technology for improving internal processes and increasing productivity.

MAKE THE MODEL ADDRESS THE ISSUE. Treasurers have adopted different approaches to address these problems, as well as speed of strategy's implementation. We find that the choice of organisational model is significantly influenced, if not determined by, factors such as the size of the company, the industry and regions it operates in, and the models adopted to organise and manage other key business functions outside treasury. The typical treasury profiles shaped by these influences can be described, with some simplification, by three dimensions: the level of infrastructure centralisation; the degree of process standardisation; and the sophistication of technology. By examining these three core dimensions it is possible to describe the treasury model of any company (see *Figure 1*). Furthermore, these dimensions also demonstrate the efficiency level of existing treasury structures, as measured by a combination of hard measures, such as departmental operating costs or productivity levels, and soft metrics such as degree of control, potential to expand or time spent on added value activities.

FIGURE 1
THE TREASURER'S DASHBOARD: MEASURING ORGANISATIONAL EFFICIENCY.



ADDING VALUE. The outsourcing value proposition is better understood by companies at one end of the treasury model spectrum. Companies that have endured significant functional reorganisation, process re-engineering and IT investment in shared architecture and common application are more likely to have realised most of the benefits. They are also more likely to consider a more limited but traditional form of treasury outsourcing, whereby they can continue focusing on the core treasury competencies. Being aware of their value drivers, they will look only to outsource administrative and back office functions, or specific applications yet to be fully integrated with the rest of their IT environment. Outsourcing strategically ensures these companies remain ahead of their competitors, by enabling them to commit internal resources to further improving their sophisticated treasury operations and leaving process improvement initiatives to a third party.

At the opposite end, companies which are de-centralised and present less sophistication in their present set up will find end-to-end outsourcing extremely appealing. A fully outsourced treasury operation will offer state-of-the-art technology, a flexible infrastructure of people and IT and rapid access to best practices and professional expertise, without incurring the direct initial investment.

FIGURE 2
TYPICAL MOTIVATIONS FOR OUTSOURCING.

	People Process Technology	Centralised Common Homogeneous	Decentralised Bespoke Heterogeneous
Focus on core competences/value adding activities		✓	✓
Cost reduction		✓	
Rapid access to best practice/vendor domain expertise			✓
Gain infrastructure flexibility (both IT and people)		✓	✓
Reduce direct investment in infrastructure			✓

These companies may consider outsourcing their entire treasury operation as this approach satisfies a number of their reasons for outsourcing (see *Figure 2*). The benefits that an outsourced operation brings to these organisations can be quantified by measuring the gaps in best practice adoption and the distance from better performers with similar characteristics (such as same industry and size). But where the benefit is greater, the complexity and hurdles for migrating are also more challenging.

Between the extremes lie a number of companies where the treasury model is still in evolution and where the drivers of efficiency and value are becoming more defined and transparent. From JPMorgan's experience, there is plenty of opportunity to support their strategic development and to explore how their transformation plans can be accelerated and enhanced by an appropriate outsourcing solution.

CONVERGENCE. Strategic outsourcing, where an organisation contracts out key functions to a specialised service provider, has become a popular business management tool among leading corporations. Strategic outsourcing is different from utility and process outsourcing as one needs to distinguish between core value-adding activities and support functions and business-critical

processes. Action like this is frequently backed by a business decision to continue performing core value-added activities in-house and outsource all other functions.

Historically, the outsourcing industry has developed around specific areas or functions, such as technology, property facilities management and highly specialised financial services (pension management, for example). Successful outsourcing experiences have driven rapid adoption of IT and transaction outsourcing practices. The industry experienced significant growth and application service providers (ASPs) specialising in IT outsourcing and infrastructure on-demand supply, and business process outsourcing (BPO) providers focusing on the provision of transactional processing services and infrastructure, became more abundant.

One of the current trends in the industry is the emergence of business service providers (BSPs) offering a combined ASP and BPO service that extends beyond system technology. BSP models cover process management, transaction processing, consulting and e-business in an end-to-end solution. New ways of delivering BPO services, particularly through the internet, allow BPO firms to expand their service offerings. As technology continues to advance, many users are demanding a single integrated proposition that shifts the

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outsourcing support away from the IT portion towards the business process side. Recent market initiatives confirm this view, as many IT outsourcing companies are developing new explicit strategies for the BPO market and a few established BPO suppliers are investing in ASP and application outsourcing technology. The outsourcing industry is therefore likely to go through considerable change over the next few years as the business model convergence of the current market players is creating pressures for industry consolidation and opportunities for joint ventures and alliances.

AGENCY TREASURY SERVICES STAND ALONE. The treasury outsourcing industry does not fully adhere to general outsourcing trends. Although the same underlying client-driven forces are in operation, there is little appetite for specialised IT vendors to expand their offering beyond new technology delivery models (ASP as an example). But the opposite applies to agency treasury services providers (or ATs, as the BPO players are defined in this market), where there is significant opportunity in leveraging on existing infrastructure and expanding their service offering with much higher technology integration. Having developed so far as niche business opportunities, operating in a less competitive environment, they are now ready to take the lead in shaping the future landscape of this industry. Both sides have a clear understanding of the market segments they are most attractive to, and they also know how crucial it is to ensure the wider distribution of their products and services. Both rely heavily on the technology component, but ATs span across more disciplines and are the sole providers of the professional human element that is an integral part of the BSP service.

CLOSING THE GAP. Although treasury outsourcing has evolved remarkably over the past 10 years, there are still notable service gaps for outsourcing customers. Future opportunity within the outsourcing market is contingent upon the provider's ability to identify and rectify them. Enhanced connectivity between the treasury and the rest of the organisation is essential to ensure efficiency. Similar considerations apply to the level of automation and straight-through-processing (STP) as well as the level of enterprise application integration into other third-party systems. Companies are still looking for increased process standardisation, as well as improved data consolidation and management.

Bridging the current service gap is possible if the outsourcing relationship can provide comprehensive administrative support coupled with sophisticated technology and a high level of integration and connectivity across applications. The real opportunity lies in a single outsourcing provider creating a new infrastructure capable of managing the full spectrum of treasury activities currently available with ATs, as well as extending the current service breadth and providing enhanced connectivity and integration services in one complete solution.

JPMorgan Global Agency Treasury Services have been working on reducing the current service gaps in existing outsourcing models for some time and believe that the time has come for providers to take a holistic approach to treasury outsourcing services so the outsourcing vehicle can grow into a more strategic business

component. We are engaged in an initiative to create an infrastructure that operates as a fully integrated financial services platform for a company to exchange, analyse, process and administer data that is critical to financial value chain management. Such a platform will become the foundation for an end-to-end managed service provision across a number of functions, including treasury.

ARM AGAINST YOUR SEA OF TROUBLES. So should you outsource, or not outsource? As with any strategic business management decision, you must consider your company's existing infrastructure and the quality of your current operations before you can begin to quantify the value an outsourced operation can generate. The cost of migrating towards an outsourced model, as well as the resources the management shift consumes must also be considered. Of course, there are many factors that must be taken into account when considering business transformation initiatives, but the variety of outsourcing models available, as well as the future sophistication of existing outsourcing models, could soon provide a much more attractive proposition and a feasible outsourcing option for firms.

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