Using a powerful tool

THINKING ABOUT UPGRADING YOUR TREASURY MANAGEMENT SYSTEM? WOLSELEY'S **MIKE VERRIER** AND **JEFF SNYDER** DID JUST THAT, AND EMERGED FROM THE RIGOROUS PROCESS WITH SOME PRACTICAL AND VALUABLE ADVICE.

Executive summary

- Wolseley recently reviewed and replaced the technology employed within its treasury department to increase efficiency and meet the reporting and control demands imposed by the current regulatory environment. Its review of the options available addressed some of the key issues in treasury management systems that large businesses, operating with a small treasury, face today.

Technology has moved on apace in the treasury world in recent years and the selective application of this technology is of prime importance to a tightly run treasury operation such as we have at Wolseley. Wolseley is the world's number one distributor of heating and plumbing products to the professional market and a leading supplier of building materials and services. But within Wolseley, the treasury department is relatively small (at the time of implementation only five people) yet tasked with managing the treasury affairs of an international business operating in 28 countries across Europe and North America. As with many treasuries of our size – and given our diverse business profile – efficiency is the key to delivering the optimum service levels our stakeholders require.

The main focus areas of treasury at Wolseley are cash management, the management of the debt portfolio (predominantly in US dollars and euros) and the inter-company loan book. Treasury transactions are low in volume but high in value, and the instruments applied to hedging interest rate and foreign exchange risk tend to be of a plain vanilla nature.

This relative lack of complexity meant we could manage the operation effectively on a suite of spreadsheets to meet our reporting requirements. Indeed, many smaller treasuries are able to run very effectively in this way, with spreadsheet applications of varying degrees of sophistication, and are thereby able to resist the pressures to invest in high-level and high-cost technology. At Wolseley, the only third-party technology that we employed within treasury was the electronic desktop banking application provided by our main relationship and clearing bank, as well as the ubiquitous Reuters and Bloomberg terminals.

THE NEED FOR CHANGE The option of sticking to tried and tested in-house systems came to an abrupt halt with the arrival of a double-crested tsunami that swept through many large corporations. The move to international financial reporting standards (IFRS), particularly compliance with IAS 39 *Financial Instruments: Recognition and Measurement*, as well as the internal control frameworks imposed to comply with the Sarbanes-Oxley legislation, forced us to move to more complex statutory reporting and put much greater demands on the control environment. Clearly, these both had a major impact on our business at Wolseley and we had to consider carefully how we would meet the challenge within treasury.

The application of technology – whether of our own design or from a third-party supplier – would be a major factor in our success and so we took the opportunity to examine our needs thoroughly and to consider the various options open to us. It was a chance to assess the treasury technology market and to see how much benefit we could obtain from using an advanced system. In particular, we saw it as an opportunity to move to best practices by improving operational efficiency and developing enhanced risk and management reporting.

As in most large corporations, justifying the budget to implement a new treasury management system (TMS) was not easy when you

are usually managing adequately with what you already have in place. However, the adoption of both IAS 39 and Sarbanes-Oxley in concert, meant this was no longer the case and that our current systems were inadequate. We embraced the opportunity and decided to make a big leap forward.

THE PROJECT GETS UNDER WAY We decided initially to concentrate on the treasury management systems marketplace, as this would provide the crux of our technology needs. Mike Verrier's earliest involvement with these systems was some 25 years ago at Dunlop, when there were no off-the-shelf TMS available, requiring the design and building of an in-house solution. The advantage was that it suited Dunlop's defined needs precisely. The great disadvantage was that those needs could not be changed without a lot of cost and effort and the system had to be supported by Dunlop.

However, times have changed and so has the technology available. The TMS of today offers far more in the way of sophistication, power and flexibility. The treasury department no longer has to adjust its processes to those demanded by the system, as was often the way in the past and those processes certainly did not always reflect best practice! An extra and vital improvement in the systems has been the development of tight control and security which, combined with full transparency of data and flexible reporting, provides the necessary tools to satisfy the needs of good corporate governance.

We decided not to reinvent the wheel but to review the various solutions available to us. The second issue requiring a decision was whether to use a specialist TMS package or to choose the treasury module of an enterprise resource planning (ERP) system. You cannot be dogmatic in this respect, as the different approaches taken by the very different supplier profiles have to be compared with the individual needs of the buyer. The decision should depend on the facts and circumstances of the individual entity.

The ERP option did not fully meet our specific application needs and implementation timescale, so we examined the TMS market. We opted to utilise a specialist consultant – the treasury consulting services of Deloitte – with knowledge of the market who could guide us through the selection process. The consultant formed part of our four-man project team.

After a series of initial high-level system demonstrations, we selected two suppliers from the initial shortlist of six provided by the consultant who had worked with these systems in a more detailed workshop environment. Both systems demonstrated considerable sophistication and the ability to meet almost all our needs as described in our requirements definition document.

The final selection was made after site visits to reference sites given to us by the two vendors. On a technology basis there was virtually nothing to separate the two systems. We selected SimCorp's IT2 principally because of the enthusiastic endorsement given by the reference site.

The importance of this step in the selection process cannot be overemphasised. Consulting the reference site allowed us to obtain a full and frank opinion of what the system was like to work with and the level of support and commitment we could expect from the vendor. It gave us a lot of confidence that SimCorp had a very flexible, effective product and was a good company to work with.

IMPLEMENTATION AND INTEGRATION As with any technology project, the implementation of a TMS requires strict discipline in project execution. It also requires firm direction. To ensure we didn't fail in this respect we brought in a specialist project manager from
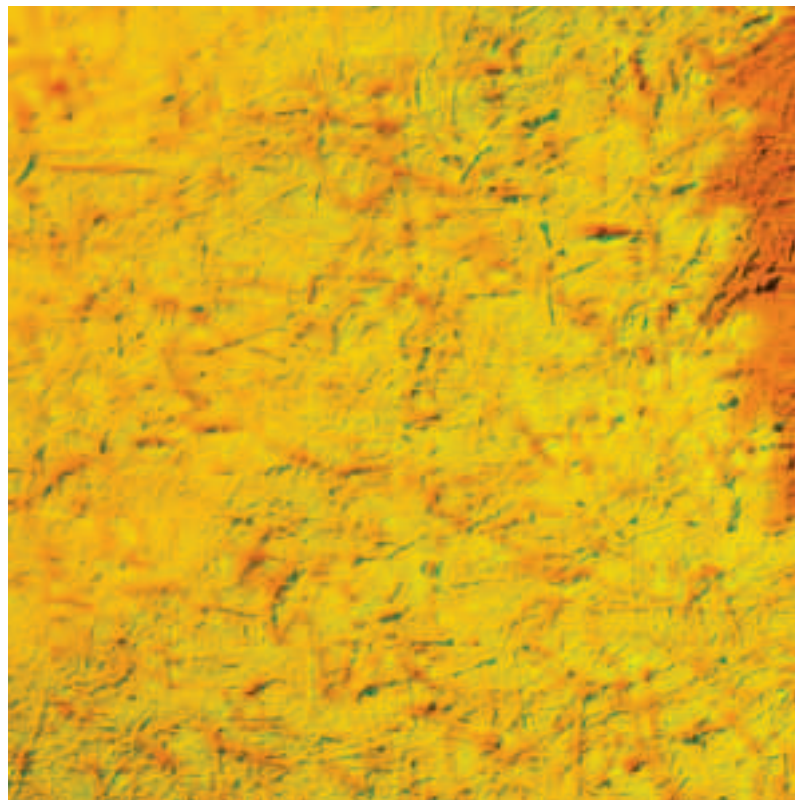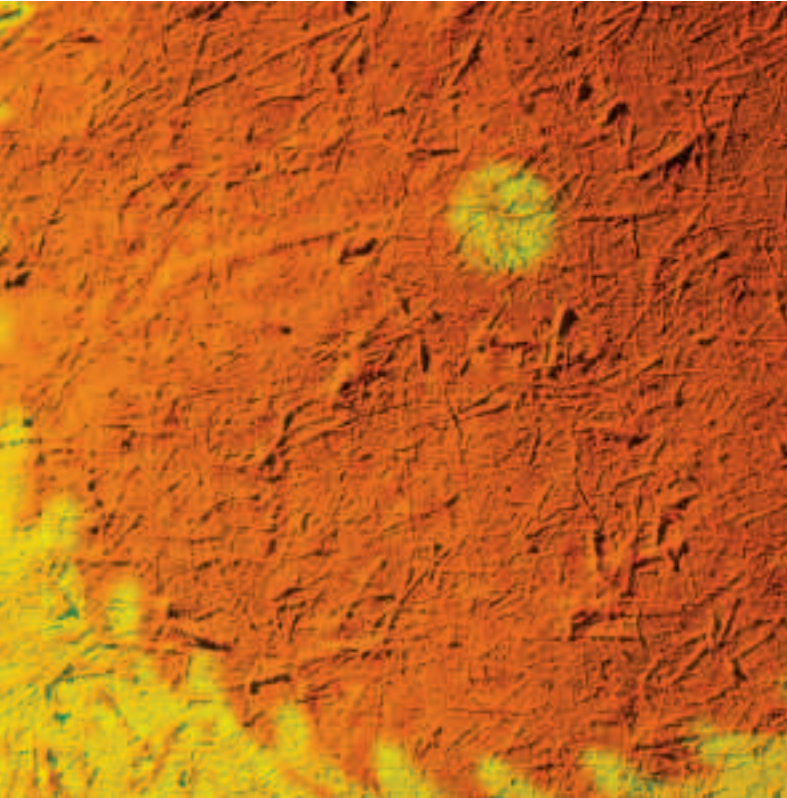
our dedicated IT centre in Ripon. However, despite our best efforts and those of the supplier, the implementation was slower and harder than we had expected and absorbed a considerable chunk of the treasury team's time over and above their usual duties. But the time was well spent as we gained valuable user knowledge of the system which will allow us to take maximum advantage of the software as we continue forward.

As part of our overall technology review we looked at opportunities for system integration that could provide straight-through processing and would increase security and control. To this extent we configured our IT2 system with the following capabilities:

- Balance and bank statement information now flows directly into IT2 from our clearing bank's electronic banking platform, enabling daily cash position calculations and short-term cash forecasting. For technical reasons specific to our internal IT configuration we have not yet routed payment instructions directly from the TMS to the bank system.

- There is an interface between IT2 and our PeopleSoft general ledger for all treasury accounting entries.

- We are in the process of implementing Misys Treasury as a confirmation matching system and integrating it with IT2 to further improve control.

- Historic market data is now downloaded directly onto IT2 from Reuters and Bloomberg.

While multi-bank foreign exchange dealing platforms appear to provide advantages for treasuries with a large turnover of transactions, given our small throughput of only a handful of deals a day we did not consider this to be a beneficial option. While IT2 can

initial business decision to support a TMS project.

Suitable user training and system support is essential to a successful project and there is a danger that sophisticated and somewhat complex solutions do not have clear documentation. An idiot's guide would also be valuable!

SOME THOUGHTS ON THE PROJECT Our technology project and the implementation of IT2 was a success but as with all things we learnt a lot along the way and there were some key issues arising. These include:

- Implementing a TMS is a major project for any treasury as it absorbs an enormous amount of resource. Outsourcing responsibility is difficult as it is important for the treasury team to retain the system knowledge. However, we found it of great benefit to use the help of specialist project managers – first, for the selection process, and second, for the implementation itself.

- It is critical to decide at the outset what you want to achieve from the project and where you want your treasury to be on completion. A thorough review of your treasury operation in line with current best practice and blended with your business profile should enable you to obtain that essential vision necessary for a successful project. If you have this clear vision at the outset, the implementation will run more smoothly and the desired goals will be achieved more quickly.

- Do not be too ambitious. It is very easy to be tempted by the high level of sophistication available but it may not be necessary for your specific needs and may indeed detract both time and resources away from fundamental treasury needs. Don't buy or attempt to implement something with the sophistication of a Porsche if all you want is the reliability of a good bicycle.

- Once you have acquired this powerful new tool, plan to steadily increase your use of its functionality. This is an opportunity to enhance the management reporting of the treasury function and determine how the operations can be further improved. We view the system as work in progress. We continually want to extract more value out of the system by using its extensive capabilities.

- Do not be too rigid in the route taken to implement a TMS. Work with the supplier and be prepared to be flexible in order to meet defined needs.

Could we operate effectively without our new TMS? No. IT2 is now central and integral to our management and regulatory reporting and the efficient operation of our treasury department.

And the most important message? At the outset you need a good, clear vision of control, risk management and reporting. A TMS is a powerful tool and the more you work at understanding its capabilities the more benefits you will get out of it. Do not just let it stagnate; constantly develop its application to drive continuous improvement in your treasury function.

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integrate this, we have held off on this step for the moment.

Additionally, regularly updated long-term cash forecasting beyond normal business planning is not an important issue for us from a TMS standpoint as we have a large debt portfolio and do not run cash positions for any length of time. We know the maturity profile of the debt portfolio and our business cashflow cycles are not volatile. The incremental benefit from configuring IT2 to gather long-term group cash forecasting data was thus deemed unnecessary at the time of implementation.

OBSERVATIONS ON THE TECHNOLOGY AVAILABLE Running this treasury technology project provided us with a good update of the application market as it is today. The TMS market has contracted to the point where there are fewer but far more advanced options available. The sophistication of today's products delivers such power and flexibility that even the simplest treasury would find it hard to decide to build a solution in-house. The resource required in designing and subsequently maintaining, supporting and developing such an in-house system would be out of proportion to the cost of buying a readily available off-the-shelf solution.

However, the provision of flexibility has some additional cost because the initial system implementation may be tougher than in the past as the parameters that will achieve the ongoing operating flexibility need to be defined at the beginning. Producing the required reports may also be tricky as the flexibility demands so much more in the way of definition.

Integration between the TMS and our other treasury and accounting systems is now efficient, providing us with secure and fast throughput of information. The ability to attain real-time cash reporting using web technology is there if your business profile warrants it. The added security and control that the technology brings to the financial and corporate environment is key to the