LESSONS TO BE LEARNT ON EURO

WHETHER OR NOT THE UK REMAINS OUTSIDE THE EUROZONE, THE EURO WILL HAVE A HUGE IMPACT ON THE WAY UK FIRMS DO BUSINESS, SAYS **ROLAND BROOK** OF SMITH & WILLIAMSON.

The UK will remain outside the eurozone for the immediate future but the impact on UK businesses and their IT systems will continue to increase both before and after any decision by the UK on whether to join is made. UK business managers will need to consider the challenges and opportunities posed by the euro and then assess what changes are required.

THE EUROZONE EXPERIENCE. Our colleagues in the eurozone generally consider that the transition from the former national currencies to the euro has gone well. However, a number of clients experienced some problems as they rolled over accounting systems, legacy databases and spreadsheets from one currency to another. There were particular risks when converting linked systems, including some instances of incorrect currency values being credited or charged to bank accounts.

In Germany, Spain and the Netherlands it was retailers and other cash service providers which were under the most pressure during the first weeks of January 2002. These businesses were generally being asked to take on the role of banks, collecting significant amounts of the former national currencies and returning euro change. This caused some queuing but was soon back to manageable levels. Some retailers mitigated these delays by using separate cash tills for each currency.

For other businesses, such as exchange bureaux, the euro has been bad news, while it has had a neutral effect for businesses such as the professions and been good for others, particularly those which trade or pass through neighbouring countries, including freight drivers. It seems some banking systems took a *laissez faire* attitude to large amounts of cash which suddenly materialised and were deposited. Therefore, the euro was also good news for those at the shadier end of society – it remains to be seen what view UK financial institutions may take in a similar situation in future, given our forbidding anti-money laundering regulations.

Some businesses took the opportunity to replace accounting software, sometimes running two different currency systems in parallel for a short period of time. Alternatively, software houses provided upgrades or a conversion routine. Typically, businesses went live with the new currency accounting systems at the start of a new fiscal year, which in many eurozone countries is 1 January.

While many larger businesses had been planning the conversion for the past two or three years, many small- and medium-sized businesses left detailed planning to the last six months before the changeover. This resulted in a last-minute rush and a potentially higher risk of incorrect transaction processing and also higher costs if they were reliant on, for instance, consultancy advice, which was in short supply.

Little reliable information is available regarding the cost of conversion. However, analysts have suggested that this could equate to between 0.5% and 1% of turnover in some business sectors, which would not be insignificant, particularly for businesses on tight margins. Some concerns have also been expressed about the relatively high cost of processing euro transactions drawn on banks in other eurozone countries, which may make very low value transactions uneconomic.

LESSONS FOR UK BUSINESSES. UK companies which trade with eurozone businesses were soon aware that from 1 January 2002 it was not possible to raise orders or invoices using the obsolete national currencies. Similarly, they found that it was not possible to raise cheques or make electronic transfers using these former currencies. However, once the transition period was over, many UK businesses perceived the reduction in the number of currencies as the removal of another barrier to trading within the eurozone.

FINANCE SYSTEMS. Finance staff will already have grappled with issues such as how to transfer ledger balances held in the obsolete currencies. More advanced multi-currency software permits the default currency of customer and supplier accounts to be changed without affecting transactions in the obsolete currency. In other multi-currency software, it may be easier to open new customer and supplier accounts, with the euro as the new default currency.

This second approach enables outstanding national currency balances to be settled and separated from any orders and invoices raised in euros, and avoids the problems of mixed currency statements. Businesses that have previously transacted with eurozone customers and suppliers in sterling may now find

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themselves under increasing pressure to transact with their business partners in euros, and may require system upgrades, euro price lists and a euro bank account.

The pressure to implement euro-compatible systems will apply to some business sectors, even when selling just in the UK. As much as 30% of London’s Oxford Street shops and many national department stores already accept euro settlement, although in practice they may only accept euro cards and cheques, rather than actual euro notes or coins.

In addition, it is often the case that euro transactions are accepted at only one particular cash till. It is still early days – a national flagship Oxford Street store recently advised us that in the first few months it was typically processing just single figure euro transactions every day.

WIDER BUSINESS ISSUES. Aside from the raw processing and reporting issues, the euro will have an impact on broader business issues. For instance, euro pricing will provide greater transparency and may result in business gravitating to the cheaper countries in the eurozone.

The real euro enthusiasts in the UK may already be considering the implementation of a euro base currency general ledger system. However, while some UK government agencies such as Companies House are amenable to, say, filing of year end accounts in euros, others such as Customs & Excise still require a sterling VAT return declaration (albeit that they will accept a euro settlement).

PLANNING AHEAD. Logically, UK businesses should have a smoother transition whether they decide to implement euro-compatible systems on a voluntary basis or as a result of a UK decision to join the eurozone at a later date. We have the opportunity to learn from the experiences of the other eurozone countries, and most of the key pan-European software developers now have debugged euro-compliant packages dealing with such intricacies as exchange rate conversion to six significant figures. At a trivial level, it is only in the recent past that computers have been able to display the euro (€) currency sign.

However, there is a risk of complacency. Many people will recall the year 2000 doom-mongering and view euro warnings as alarmist. But the experience in the eurozone is that the euro project is far more complicated, affecting virtually all currency value fields, rather than just dates. Within the eurozone, there was a shortage of suitable contractors and advisers during the transition period. This created boom conditions for such suppliers, and daily fee rates rose dramatically. It is still possible that any UK transition period could be much shorter than the three years given to first-phase eurozone countries.

Businesses should consider performing an impact analysis of the gap between where they stand now and where they need to be, examining both the IT implications of the euro and general business aspects. Many business managers are still understandably reluctant at this stage to make a substantial investment in the possibility of UK euro entry. However if, say, a new finance system replacement is required regardless, then spending a small extra amount on a euro-compliant system may save another extra substantial replacement at a later date.

Key questions for any new supplier include how its software will address a change of base currency from sterling to euros, how the software will convert historic data, and whether customers can be invoiced in two different currencies.

IMPLEMENTATION. Many of the larger international suppliers now offer euro-compliant products in most significant respects. However, single currency products, legacy software and niche products will create greater challenges during any transition period. Some specialist tools will be available but business managers may want to apply different rules to different parts of a database. For instance, it may not be appropriate to convert all historic data, due to the difficulties of subsequently corroborating such information once roundings have occurred. One approach is to keep the data in the historic national currency, but to change across to euros just for the user interface.

Another issue to start considering is the length of the system transition period. For organisations with very large databases this could take days, which might mean a suspension of operations. With the ‘big bang’ approach, all data is converted in one go. However, many businesses will have disparate data split into discrete parts. While it is usually possible to suspend, for example, the ledger accounting software for a short period of time, this may be more difficult for, say, supply chain management software.

An alternative would be to have a phased conversion. But this will create its own problems, since part of the system will be utilising older sterling data, while other parts will be running new euro data and there may be a need for transitional bridge software to be developed.

There is also the issue of what should happen to data held on desktop PCs, including spreadsheets, databases and the like. Consideration needs to be given to the costs and benefits for these smaller conversions. Businesses with outsourced IT should confirm whether changes to software necessitated by UK euro entry will be covered under existing contracts, and they may also want to assess the euro readiness of their partners.

With the range of potential pitfalls, it is essential that contingency plans are developed, and tested, to deal with the most likely scenarios. In some instances this may involve dusting down Y2K contingency plans, but there will almost certainly be a need to address scenarios more specific to the euro.

By starting well in advance of their critical path, the message from the eurozone is that the majority of the implementation problems can be avoided – plan hard, work €asy !

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