

DIVING INTO THE POOL



BOB LYDDON'S SECOND ARTICLE ACCOMPANYING THE ACT'S WORK ON EURO CASH POOLING, PROVIDES A GUIDE FOR TREASURERS AT THE ANALYSIS STAGE.

The purpose of this article is to provide an easy-to-use framework for the treasurer who is starting the analysis phase – a rough guide to assembling a high-level case to justify spending time on the subject by showing:

- why there may be benefits;
- how significant these could be;
- potential barriers to implementation; and
- internal support needed to proceed.

A BRIEF INTRODUCTION TO PAN-EUROPEAN CASH POOLING.

The first article (*The Treasurer*, Sept 2002) set out the backdrop to the subject, namely the different techniques used, pitfalls and contractual issues. Then it broadly matched company profiles to the technique most commonly used by that type of company, before listing some questions companies should ask about their banking relationships before embarking on the analysis. In the third article

we will bring those lessons back into play at the stage where the company thinks that there is a problem that can be solved.

STARTING POINT FOR ANALYSIS. The start point of the analysis should be an outline of how big a problem there is, the amount of money to be saved, and whether a project can be successfully implemented. The methodology described below aims to solve, for the company, the following equation:

*The amount of money on the table X
The company's need to capture that money X
The propensity of the company to accept a solution*

The methodology here gives some indicative measures and suggests scores against each, to be added up to get a total score. The higher the number, the bigger the likely problem and the better the chance of solving it. The maximum score is 55. The first paradox

TABLE 1
THE AMOUNT OF MONEY ON THE TABLE.

Measure	High \blacklozenge Indicator and respective score \blacklozenge Low				
	5	4	3	2	1
Balance sheets of individual subs	Simultaneous debt & cash	Substantial fluctuations in cash needs	Predictable build-ups and reductions in working capital	Minimal working capital	Sales office only; stocks on consignment
Subs when viewed at country level	No consolidation	Consolidation for local tax only	Consolidation of financial reporting	Central finance advisory function	All subs share a finance function
Country-level banking	Dozens of local relationships	Multibanked; choice not based on bank services	3 or 4 self-contained relationships – run by different sub divisions	2 or 3 operating banks with a concentration bank	Monobanked in the country; regular review
Cross-country situation	Wide disparity of working capital and balance sheet structures	Sales orgs build cash; manufacturing borrows	Ad hoc direct intercompany loans are made	HQ loan and deposit scheme exists	Multilateral netting exists with embedded i/c loan scheme

TABLE 2
THE COMPANY'S NEED TO CAPTURE THAT MONEY.

Measure	High ◀ Indicator and respective score ▶ Low				
	10	8	6	4	2
Management philosophy	Embedded shareholder value system	Shareholder value added in early stages of adoption	Harmonised General Ledger & MI system in place	Monthly summary financial reporting	Quarterly summary financial reporting
Company financials	External cash sources under pressure	Cashflow under pressure	Margins under pressure	Ample unutilised committed lines exist	Ready access to markets, profitable

TABLE 3
THE PROPENSITY OF THE COMPANY TO CAPTURE THAT MONEY.

Measure	High ◀ Indicator and respective score ▶ Low				
	5	4	3	2	1
Operating structure & IT	Shared service centres using Enterprise Resource Planning (ERP)	3-faced matrix with line of business, country and function	2-faced matrix with line of business and country	Geographical organisations	Autonomous divisions with own system of subs
Legal entity structure	Regional treasury centre and/or European Economic Interest Group (EEIG) exist	Regional holding company exists	Country holding companies + local tax consolidation	Country holding companies only	Subsidiaries belong to autonomous divisions
Finance function structure	Finance managers report solid-line to central treasury	Finance managers report dotted-line to central treasury	Local FD reports solid-line to group CFO	Local FD reports dotted-line to group CFO	Finance managers report to local FD, who reports to local MD

TABLE 4
OVERALL SCORING.

Score	Conclusions
48-55	There may well be something significant on the table, and there is a decent likelihood that the levers exist to extract the benefit
28-47	Careful examination is needed of exactly where the positives and the negatives are, and what it would take in terms of information, internal support or change in circumstances before a project could be launched
Below 27	Meaningful change in circumstances required before taking this further at all

is that it is the company's organisational complexity that both creates costly inefficiencies and acts as a barrier to eliminating them.

However much money it is, the company must need to save it and also be willing to undergo the required organisational change. Treasury may be tempted to impute a big saving (\$1m is often cited), but even this may not be enough if other drivers to change are absent.

The second paradox is that, the greater the company's organisational complexity, the more difficult it will be for treasury to get the information to prove there is money on the table.

YOU'RE NEARLY THERE. By completing this stage of the analysis, the company will have a realistic outline of the size of what could be on the table and the barriers.

This, in turn, leads to a decision as to whether to investigate further or not. If the decision is 'not', then the analysis will furnish the case as to why not at this stage – but will leave the company with a series of possible triggers for re-opening the dossier. If the

decision is to investigate further, then the company can be assured that there will be some evidence to present to internal stakeholders as to why this is a topic that ought to be pursued. The next phase is to get sufficient internal stakeholders onboard for a process of putting numbers against the inefficiencies that may exist.

THE NEXT STEP. The next article will recap on the lessons from this article and the previous one, and provide a roadmap from the point where there is buy-in for a project to take place at all, up to the boxing of a solution. The solution that is identified should be appropriate for the company given not only the potential size of benefits and organisational issues internally, but also the known external issues in the tax/legal/regulatory area, and restrictions imposed by the company's banking relationships.

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