

EUROPEAN FOCUS FOR LYCOS



DICK BENNINK (LEFT) OF BENNINK & VAN LOON AND **PAUL BEISHUIZEN** OF BNP PARIBAS REVEAL LYCOS'S CASH MANAGEMENT TACTICS.

Lycos Europe is an internet destination, operating a pan-European network of websites in 10 languages. The firm's combination of search engines, communication services, content channels, internet access, homepage building and online communities addresses a wide range of target groups, providing a medium not only for consumers but also for advertisers and e-commerce partners throughout Europe.

Lycos Europe's headquarters is located in two places – Haarlem in The Netherlands and Gütersloh in Germany – and there are 19 subsidiaries in 10 countries in Europe. This article describes the steps the company took in successfully implementing a European cash management structure.

BACK TO THE FUTURE. To get a better understanding of the choices made during the implementation of a new European cash management structure, a recap of key events in the recent past of Lycos Europe is necessary. In February 1999, Lycos Europe had its IPO on the Neuer Markt in Frankfurt. As result, it presented a cash position of more than €600m. With some of these funds, Lycos Europe acquired Spray Network in Sweden in November 2000, which had subsidiaries across Europe (mostly in Northern Europe).

In January 2001, Multimania in France joined the group. Subsequently, in April 2001, as part of the restructuring of its finance department, Lycos relocated its treasury activities from Germany to the Netherlands, to set up a corporate treasury department.

Lycos wanted to take advantage of the momentum that was created with the establishment of a corporate treasury by centralising cash and treasury management and by implementing a new cash management structure in Europe. This was to replace an existing structure of accounts held with several banks, partly linked, with automatic sweeps for some subsidiaries. However, the existing structure offered differing levels of autonomy to each subsidiary.

The underlying driving factor for the increased focus on treasury and cash management was to achieve better control on cash and cashflows within the company. The old saying "cash is king" is well understood within Lycos. Even though it is cash-rich, it is still a loss-making business and, given the current market situation, getting into the black in the near future is an important objective.

SELF-ASSESSMENT. The starting point of the process was a self-assessment in preparation for the final request for proposal (RFP). This was prepared by the Interim Treasurer and presented to the CFO and Financial Vice President. Before Lycos could launch its RFP for a new European cash management structure, certain questions had to be discussed internally, such as:

- which cash management structure is preferable over other structures based on the characteristics of Lycos (organisational structure, culture, level of (de)centralisation of tasks and responsibilities)?;
- what are the key elements Lycos definitely needs within the new structure and which are its priorities?; and
- which banks should be invited to answer to RFP?

Given the level of autonomy of the subsidiaries in the global structure of Lycos, the new structure needed to suit a central cash management policy, while also bringing the subsidiaries enough benefits to ensure smooth implementation. This type of win-win situation was seen as important in the establishment of an efficient and harmonious corporate treasury department.

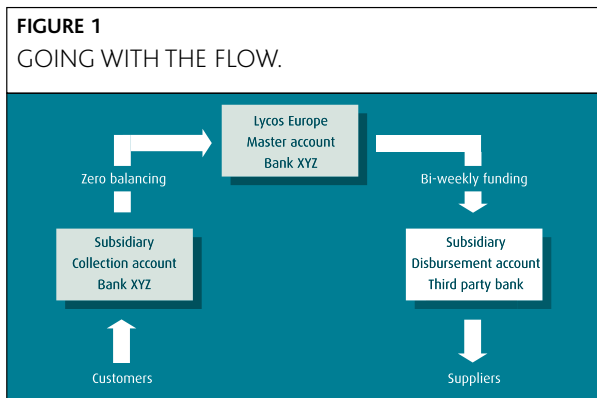
'Structure', in Lycos' terms, refers not only to the opening of bank accounts and the processing of sweeps, but also to the organisational side: the implementation of a set of ground rules for Lycos corporate treasury and its counterparts at the subsidiaries. This system was to facilitate and ensure the centralisation of cash management policy, the optimisation of interest at group level (which necessitates a regular cash forecasting process at subsidiary level) and an increase in the efficiency of the payment process at subsidiary level. To meet these requirements, the structure chosen by the steering committee had the following characteristics:

- Only single currency bank accounts.
- Master account of corporate treasury and collection accounts of subsidiaries to be held with the same bank.
- Daily one-way sweeps from collection to master accounts.
- Introduction of a three-month rolling cashflow forecast to be prepared by subsidiaries and delivered to corporate treasury.

- Bi-weekly funding of the disbursement account based on this cashflow forecast.
- Cashflow forecast and analysis of previous month's cashflows reviewed by treasury and the subsidiaries during monthly conference calls.

With this structure, subsidiaries would be forced to take a much closer look at their cashflows, with the result that central treasury would receive the necessary information for cash and liquidity management without a significant impact on the autonomy of the subsidiaries (see Figure 1). A two-way sweep was never considered as this would have led to unwanted surprises in the cash balance at corporate treasury. This could be adjusted in the future, however, if a proven track record of a close-to-actual cashflow forecast were established.

REQUEST FOR PROPOSAL PROCESS. Having chosen the structure, Lycos addressed the RFP to five banks the company felt could supply the outstanding service that Lycos demanded. Within the RFP, Lycos identified its priorities and specified the following key requirements of the selected bank:



- To provide the chosen bank account structure (the structure as discussed internally was outlined in the RFP as a starting point and the banks could make any alternative suggestion that respected the characteristics required. However, in the end, the structure was not changed after discussions with the various banks).
- An electronic banking (EB) system which could provide multi-bank reporting and remote authorisation for Lycos Europe accounts. (This was important because Lycos headquarters is located in two places and authorised people within the company tend to travel a lot).
- To have an overall presence in Europe.
- Reasonable cost of set-up and maintenance of the bank account structure.
- Direct reporting to the EB system after the zero balance sweeps, which would provide corporate treasury with up-to-date consolidated value date balances.

Based on the submissions of the various banks Lycos identified a short-list of two banks. They were both given the opportunity to present their proposal extensively, including implementation procedure and timeline. After these meetings, the findings and results were presented internally to the CFO who in the end chose BNP Paribas was chosen as the provider of Lycos' European cash management structure. Going back to the key requirements of the RFP:

- BNP Paribas' cash centralisation enables automatic transfers per currency and per value date of the cash balances from various currencies across most of the countries where Lycos is located on a daily basis. Where BNP Paribas does not have a presence, it could offer the service in co-operation with a local partner bank.
- For reporting needs, BNP Geolink – a computer-based electronic system – provides balance and transaction reporting from each account held either by BNP Paribas or by a third party bank. It also has the possibility of remote authorisation based on proven technology. Second, Lycos was one of the pilot users of NetCash, an internet solution for the flexible authorisation of payments, and many other cash management services on-line. This made it possible to maintain the principle of dual authorisation within Lycos without the risk of delay in execution of payments due to the non-availability of authorised people.
- Based on a five-year calculation, BNP Paribas' pricing was second best overall and the most reasonably priced in the short-list.
- BNP Paribas is able to report the zero balance-related bookings (one debit on the sub account, one credit on the master account) directly to the Lycos EB system before the actual booking is done. In this way, Lycos treasury gets its exact value balance position one day before standard statements would have been received.
- The automated link created between Geolink/NetCash and the Lycos treasury/ERP environment enables Lycos to keep an accurate track of the intra-company borrowing/lending position that exists as a result of the cash centralisation sweeps.

READY FOR ACTION. A 'kick-off meeting' held in Amsterdam set provided a starting point for the implementation process. In order to implement Lycos' European cash management structure, two teams were formed within BNP Paribas – one in France and the other in the Netherlands. The overall co-ordination of the project for Lycos fell under the responsibility of the treasurer, acting as a single point of entry for all negotiations between BNP Paribas and Lycos and within the Lycos organisation itself. Organising the project this way allowed Lycos to the project in a methodical manner, while at the same time giving everybody involved in the implementation process an equal say.

An organised approach was adopted from the very start of the implementation process. This included a precise timetable and a structured planning system, assigning the responsibilities and functions of each person involved in the process. As a result, the incorporation of most of the subsidiaries in the process took only three to four months, including the preparation of the complete legal documentation.

The implementation can be judged a success in that it has brought Lycos Europe and its subsidiaries a clear European cash management structure, with a major rationalisation of processes. As a result of the new policy, the structure, processes and visibility of cashflows have increased tremendously and brought finance within Lycos Europe and its subsidiaries to a higher level of professionalism.

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