

# Tesco tools up with STP

A COMPLETE OVERHAUL OF TESCO'S TREASURY MANAGEMENT SYSTEM HAS RESULTED IN A STRAIGHT-THROUGH PROCESSING FRAMEWORK TO UNDERPIN A GLOBAL EXPANSION STRATEGY. **GRAHAM BUCK** REPORTS.



## Executive summary

To cope with the rising volume and complexity of treasury operations, Tesco recast its IT to support straight-through processing. It upgraded to SunGard AvantGard Quantum 4.4 and moved to 360T, Misys CMS and SWIFT.

group's treasury function. So early in 2007 Tesco embarked on a complete overhaul of its treasury management system.

One of the first measures was to upgrade its SunGard AvantGard Quantum 3.06 software, which it had been running for five years and had been "installed on a shoe string". The upgrade to version 4.4 of Quantum was completed in only nine months and achieved the user's four basic objectives: to improve system service levels, to make cash reporting more visible, to drive up price tension when dealing, and to strengthen controls.

Tesco's treasury manager, Adam Boukadida, says that from the outset the group wanted to maintain its relationship with SunGard and upgrade and re-implement its Quantum software rather than replace it.

In June 2007 the treasury team sat down with a Deloitte corporate treasury consulting team to review the treasury system and identify the main weaknesses. These included the lack of straight-through processing (STP) with many areas still relying on manual processing, a weak segregation of duties, a lack of upgrades to the software since its installation, and performance issues.

As Tesco was keen to instigate change and achieve rapid results, the project team was able to consider some of the more advanced ideas in treasury IT and implement them within a fairly short period of time.

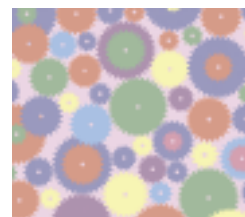
The plan to restructure and improve Tesco's treasury department and make it simpler and cheaper focused on three main objectives: upgrading the treasury management system; implementing new systems for dealing, confirmation, matching and payment; and introducing STP from deal capture to payment.

Tesco chose three systems – 360T, Misys CMS and SWIFT – for the various STP functions, and SunGard assisted in creating an STP environment to facilitate their use.

Tesco may comfortably continue to hold pole position in the UK supermarket sector, but in recent years the retail chain has steadily lessened its dependence on its home market by expanding internationally.

New stores in Eastern Europe and Asia, and a foray into the tough US market with the launch of its Fresh & Easy chain, primarily in California, have been the central planks of Tesco's growth strategy. There have also been other long-term initiatives to develop the group's non-food sales so that they match revenues from food lines and to develop other retail services for consumers. The latter goal was behind the £950m deal in July 2008 that saw Tesco take full control of its Tesco Personal Finance joint venture by purchasing the 50% stake of partner Royal Bank of Scotland.

These developments combined to create an increase in the volume and complexity of the work carried out by the



**Online dealing:** The 360T system was one of the first peripherals to be installed, tested and go live. The immediate benefits were real-time quotes, the ability to have price tension among Tesco's 12 banks, and improved management information. Some 80% of the company's straightforward trades can be conducted via 360T.

**Online information and deal matching:** Tesco implemented Misys CMS (Confirmation Matching Service) for faster confirmations between the group and its bank counterparties. Misys CMS supports automatic confirmation and deal matching across a range of instruments, automatic updating of deal confirmation status in Quantum, and improved management information.

Misys CMS went live at the end of 2007 after an implementation period of four weeks and immediately began matching the group's foreign exchange and time deposit trades. Once a trade is electronically executed, details are automatically fed into the treasury management system, which creates a file of trade confirmation data that Misys CMS can collect and deliver directly into its database via a secure file transfer mechanism.

Misys CMS receives the bank counterparty's trade confirmation via the SWIFT network and performs real-time matching of the corresponding trades. It then automatically generates a message as evidence that the trade is matched, which is delivered via secure file transfer back to the treasury management system. From here, the necessary payments and accounting entries are created to complete the cycle.

**Online balance reporting and payments:** The final component was to place Tesco's settlement and bank account reconciliation process with SWIFT. The SWIFT network has traditionally acted as a messaging service for banks and financial institutions, but in recent years has steadily been rolled out to include corporates.

The SWIFT implementation saw the automation of bank account information, payment messaging and MT210s. Implementation took longer than the previous two phases as it required the co-operation of several participating banks, which agreed to standardise on specific SWIFT message types to be exchanged, but it was eventually completed in late 2008. Both Tesco and Tesco Personal Finance have their own bank identifier code (BIC).

**INTEGRATING TESCO PERSONAL FINANCE** By the time the three phases of STP had been completed, the Tesco Personal Finance deal with RBS had taken place. Boukadida said that although the team was given only three months to implement a

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treasury structure for Tesco Personal Finance, it was able to meet the deadline.

Phase one of the plan had been completed by the end of last year and part of phase two, to roll out the system internationally, has already been completed.

Other objectives of phase two, to be completed by 2010, include:

- completion of the SWIFT migration in the UK;
- in-house banking;
- full implementation of the hedge accounting and revaluation system Reval (Tesco Personal Finance already uses it, while Tesco was scheduled to go live last month and the full interface is scheduled for this month); and
- accounting interface with Oracle 11i.

Longer-term objectives include integrating SWIFT internationally and bringing Tesco Personal Finance fully in-house by the end of next year.

Most recently Tesco has improved cash management processes for its overseas subsidiaries, which can post in their cashflows and funding requests.

"The group is expanding in Asia, with Korea representing one of the biggest markets overseas, and it's important to have 100% confidence in the data," says Boukadida.

He adds that the upgraded system is now adequate for Tesco's current needs, but an annual review is conducted near to the year-end. It will be vital to check regularly on whether service levels, disaster recovery systems and general relationships continue to match the group's required levels.

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