

# TRANSFORMING TESCO



Treasury director Adrian Marsh talks about the people and process changes he's made since joining the supermarket giant

Words: **Sally Percy** / Photos: **Will Amlot**

Back in 1919, tailor's son Jack Cohen started selling groceries on a market stall in London's East End. The business he founded went on to become a supermarket empire, serving tens of millions of customers in 14 countries around the world, including in the US, Eastern Europe and Asia Pacific, raking in revenues of over £64bn for its last financial year.

Nearly a century later, the man who now occupies what was Jack Cohen's corner office in Old Tesco House, an unprepossessing building in Cheshunt, north of London, is Adrian Marsh, Tesco's director of tax, treasury and corporate finance. Marsh, who was previously European finance director at pharmaceutical giant AstraZeneca, took the job in 2010, attracted by Tesco's global reach and the breadth of the role.

"Having the opportunity to work with tax, treasury and corporate finance in a company that's international, in developing markets and with its own bank was a no-brainer," says Marsh. "For me, this role was as interesting a job as you could find in finance in the UK."

Although his background lay more in treasury and operational finance roles, he wasn't daunted by his new responsibility for tax (some 50 tax professionals report to him, including those who specialise in indirect taxation and customs). "In treasury, you should operate closely with the tax function anyway and you should be naturally curious about tax as a business expense in that it interacts so much with everything that happens in treasury," he says.

Marsh arrived at Tesco in the wake of the credit crunch as the supermarket giant, along with the rest of the corporate world, had to adjust to a new order in which bank funding could no longer be taken for granted and working capital management had assumed greater importance than ever. And, naturally, treasury was in the thick of the action.

"In a lot of countries in which we operate, we are probably the biggest supplier of liquidity in the market," observes Marsh (indeed, it is estimated that one in seven pounds spent in the UK goes through Tesco's tills). "So cash management is an extremely important part of what we do."

Once he had his feet under the desk, Marsh decided it was time for Tesco's treasury to get closer to the business, "putting the right team in the right places", as he puts it, and working with the property and commercial teams to understand their needs and the broader retail environment. He set up simple forecasting and reporting mechanisms that were appropriate for a multinational company and created policy frameworks and funding plans for the board to sign off. The end result is "a high-performing team that has the confidence of the board", he explains.

Treasurers who work in a retail environment need to be fleet of foot than their peers in other industries. "The pace is a lot faster in retail, the margins are a lot smaller and so the impact you can make is greater," says Marsh. "There is a lot less time spent planning and navel-gazing and there is shorter time from implementation to execution. It's all about meeting the customer needs here and now and making sure the business is supporting that."

He continues: "From a treasury perspective, understanding the seasonality, the rhythm of the business and the cash cycle of the business is very important. You need a good understanding of where the capital flows are as well – what's being anticipated."

Mirroring the increased activity in the stores, Christmas is a particularly busy time for Tesco's treasury, thanks to the massive volume of stock that is bought in November and December, payroll, dividend payments and end-of-quarter rent bills. "Your daily liquidity management needs to be at its tightest and the team must be on its game from the end of October until the middle of January," says Marsh. In addition, the group's international operations mean that Chinese New Year, Diwali and Ramadan all have a big impact on treasury, too.

At certain points in its cash cycle, Tesco has high levels of cash reserves, but that cash is then consumed by the business through the cycle. The grocer is not sitting on a cash mountain and neither does it intend to. In 2011, it bought back £900m in debt, using cash that was earning less than 0.5% interest, to buy back public bonds on which it was paying interest of 5-6%. It keeps what cash it does have in money market funds and deposit accounts, but >



# Hello

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## ADRIAN'S TOP TIPS FOR SUCCESS:

◆  
“My best advice for other treasurers is to always hire people who are smarter than you.”

◆  
“The AMCT qualification was very useful in the early days of my career. It gave me structure and awareness of the issues that would be relevant. I make sure all our people go through it – it’s a must. And it’s something that you do outside work, so it’s a good demonstration of commitment.”

◆  
“The secrets to my success are honesty and being a simple person. Being able to simplify has allowed me to operate at a level that gets things done rather than make things overly complicated.”

◆  
“My favourite gadget is my chainsaw, but I’m never allowed to use it because I’ve cut down all the trees that I can with it.”

◆  
“The most difficult question my FD is likely to ask is: ‘Why haven’t we improved working capital?’”

◆  
“The best way to relax after a long day is to cook.”

◆  
“What I’d like for Christmas is record sales. Then we’d all be happy.”



## ADRIAN'S CURRICULUM VITAE

### 2010-present

Director tax, treasury and corporate finance, Tesco

### 2004-2010

European finance director, AstraZeneca

### 1998-2004

CFO building products, group controller, group treasurer, Pilkington

### 1996-1998

Group treasurer, Inchcape

### 1993-1996

Senior manager, PwC Consulting

### 1989-1993

Treasury roles, Grand Metropolitan and Inchcape

### 1987-1989

Various finance roles, British Alcan Aluminium

### Qualifications

FCT, FCCA

primarily uses it to finance the group through its central liquidity programme. “It’s rare that all the business is in cash surplus at the same time,” says Marsh. In the event it does suffer a liquidity crisis, Tesco can access £3.8bn in undrawn credit facilities that are provided by its core group of 14 international banks.

Since the financial crisis struck, Tesco has diversified its funding. Now, it does very little bank borrowing and instead uses unsecured euro and dollar medium-term notes for most of its financing. It also issues commercial paper and sells property bonds in the UK commercial mortgage-backed securities market. This year, it completed a £300m sale and leaseback deal in South Korea and raised £379m on the Thai Stock Exchange through the largest initial public offering of a property fund ever in Thailand. In 2011, it was the first retailer to access the offshore renminbi ‘dim sum’ bond market in Hong Kong, raising £70m. “We structure our funding so that we have a wide source of liquidity from different currencies and different markets, and we’re not exposed to single sources of liquidity,” Marsh explains.

➤ Since February 2011, Tesco Bank has raised £385m through retail bonds issued on the London Stock Exchange (LSE). Although it’s owned by the group, Tesco Bank is not rated in its own name, which ruled out the wholesale markets as a funding source. But the LSE’s Order book for Retail Bonds (ORB) proved the ideal platform for it to source alternative liquidity as it could trade on its trusted brand name. ORB isn’t suitable as a means of financing the group because it lacks sufficient liquidity, but Marsh describes it as a “really valuable source of liquidity for smaller businesses in the UK”.

Tesco’s treasury handles around \$50bn in FX each year, including cash used for financing purposes. As one of the UK’s largest importers, it brings a huge volume of products into the country for resale and inherent in that is currency risk. “The commercial function manages the margin between what it buys at and what it sells at and currency is an element in that,” says Marsh. “We work closely with the buying teams globally to make sure we’re managing the various moving parts. That doesn’t mean we hedge it all the time, but it’s being managed.”

Like many other multinationals, another risk that Tesco faces is the eurozone crisis. It is exposed in two markets – Ireland and Slovakia. “We run very tight cash management in those countries. We get cash in, we pay suppliers and we’re not reliant on long-term payment cycles to us from customers. So we ensure we’re not holding high cash balances,” says Marsh. For a retailer, working capital management is always important, but the eurozone crisis has heightened its significance for the group even further. “Working capital management is one of the biggest areas of focus for both myself and the finance function in general,” says Marsh.

## TESCO IN NUMBERS

**£64.5bn**

Tesco’s annual revenue, excluding VAT, for the year ending 25 February 2012

**£3.8bn**

Tesco’s pre-tax profit in 2011/12

**£6.8bn**

Tesco’s net debt at the end of its last financial year



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From a tax perspective as well, there is plenty to keep Marsh busy. Since Tesco is a major importer, customs is an important issue for the group. It is also one of the biggest collectors of tax for, and the largest payer of tax to, the UK government, according to a 2011 survey by PwC. “We have a responsibility to pay appropriate tax in the countries we operate in. The function here is not about complex avoidance schemes,” Marsh states firmly.

Given his past experience of divisional finance director roles, Marsh is well placed to comment on whether treasurers are suited to the CFO role. “Whether you make a good finance director or not is more about your ability to understand the business, articulate business performance, and process and distil complex information,” he says. “It doesn’t matter what senior finance lead role you’ve played; it’s your ability to operate in those different dynamics. At Tesco, we will move potential country finance directors through treasury. It’s part of how we

train our finance community. It’s a key part of understanding total finance as a discipline.”

Such is Tesco’s commitment to treasury that it has a graduate training scheme for the function, which is part of its wider CIMA training programme for finance professionals. Marsh has played an active role in developing the scheme, seeing talent management as “the most important thing I can do”. He also believes fervently in diversity as vital to the success of any treasury team – “not just a mix of men and women, but different nationalities, experiences, upbringings and cultural backgrounds”.

And so it seems that the spirit of Cohen, who was himself the son of a Jewish Polish immigrant, lives on in the unprepossessing corner office of Old Tesco House. ❤️

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<b>£74.5m</b>	<b>£1bn</b>	<b>1919</b>	<b>14</b>	<b>500,000+</b>	<b>6,234</b>
was donated to charity by Tesco in 2011/12	the amount Tesco is investing in its UK business to restore its performance	the year in which Tesco was founded as a market stall in London’s East End	the number of countries in which Tesco operates	the size of Tesco’s global workforce	the number of Tesco stores across the world