A US perspective on banking relationships

Joanne Sammer, writing for *International Treasurer* journal, looks at the new focus and banking ties of a US corporate.

As Molex Inc. grew overseas, it realised it needed a new treasury structure as well as a more effective global banking strategy.

During its first years of high growth, Molex Inc. emphasised local autonomy and decentralisation. As the global electronics manufacturer fast approaches $2bn in sales in 2000, that strategy has become a potential liability – from a treasury perspective.

Molex's decentralised approach resulted in multiple banking ties and posed barriers to effective cash management. Hence, in 1999, Molex began to rationalise its banking, as well as its treasury management approach.

Ad hoc banking

With manufacturing operations in more than 20 countries, Molex had maintained, until recently, an estimated 300-plus bank accounts with about 90 banks worldwide. Molex had "banking relationships that were relatively undeveloped and operated on an *ad hoc* basis throughout the world," says Robert Mahoney, the company's CFO.

These widely dispersed banking relationships did not allow the company to leverage its growing size and clout to obtain better banking services and more competitive fees. Even more troublesome, it prevented the company from maximising the efficiency and effectiveness of its cash management approach. "With significant foreign currency, as well as cash exposures offshore, we realised we needed to work with fewer, higher quality banks that could offer the security of funds and cash management a multinational corporation like Molex needs."

This *ad hoc* banking approach was essentially an outgrowth of the company's corporate structure. Rather than an integrated whole, Molex allowed its business units to operate as separate entities. Each unit within a given country had considerable autonomy, including establishing banking relationships, as long as it met its growth and profit margin goals.

As long as the financial results were there, "no one really worried about their cash management approach," says Pat O'Brien, the company's director of tax, treasury and risk management. As a result, the company was doing business with a wide range of banks in any given country, often as many as three or four banks, to handle various functions, like payroll, accounts payable, and petty cash.

The streamlining

To address this core issue, Mr. Mahoney proposed that the company develop a regional banking structure (*see Figure 1*) with a single bank for each major region to handle services like excess cash management, including regional cash sweeps.

These banking relationships would be the province of each region's director of finance. However, central authority over all banking relationships would reside at corporate HQ with Messrs Mahoney and O'Brien, and Miles Shearer, corporate manager of treasury.

> Before Molex could get to work on managing cash and banking relations more effectively, its treasury professionals had to effect a major cultural change within their own company

Molex at a glance

Employees: 14,700
Industry: Electronics manufacturing
Full year 1999 net revenue: $1.7bn
Full year 2000 projected revenue: $2bn
HQ: Lisle, Illinois, USA

To begin this process, Mr. Mahoney invited the leading banks in each region to respond to an RFP. Each bank had to explain how it would become the lead bank in the region, show a reputation for best practices, and demonstrate its ability to work with Molex.

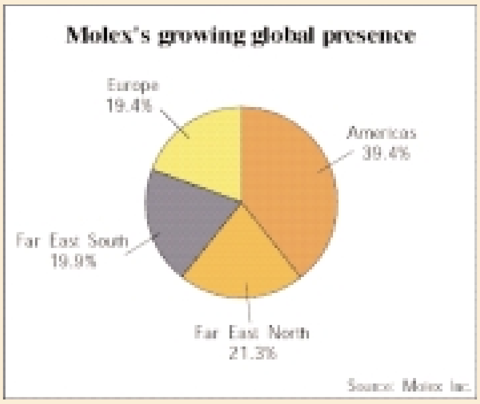
Other criteria included visibility in the region, compatibility with Molex's global SAP system, and the ability to provide better control, lower costs, and better asset management in the region.

A massive cultural change

It soon became apparent that this process would entail much more than choosing the right bank for each region. Before Molex could get to work on managing cash and banking relations more effectively, its treasury professionals had to effect a major cultural change within their own company.

Treasury had to gain the cooperation of regional and local managers who were used to calling their own shots. It also had to convince managers to look beyond their own profit centres and results to do what is best for the entire company and its shareholders.

"We communicated with each operating unit and said that we needed to eliminate some of our banking relationships," says Mr. O'Brien. "However, at the same time, we made it clear that we understood and respected the fact that



they needed to maintain certain relationships to control day-to-day operations, like payroll or petty cash."

The company established a general rule of one local bank account (two if justified). It was then up to the local controller to choose a local bank to handle these transactions.

In addition, Mr. Mahoney also introduced some important internal changes designed to support the new regional banking structure and foster a collaborative approach throughout the company. In the old environment, the local controller ran everything with little regional or corporate oversight.

To change that, Molex got each region's director of finance to work more closely with local controllers. Managing and controlling regional cash accounts and being the primary point of contact for corporate headquarters became a specific accountability of the regional finance director.

"We knew we needed a combination of financial people and regional operating management to arrive at the best decision," says Mr. O'Brien. "This also helped address our main concern, which was to get everyone in the regions to work together as one group and establish one solid banking relationship."

In Europe, the company chose ABN AMRO, based on both the services and fees it could offer, as well as the fact that it had the "best European flavour and most of our operations there could identify quickly with ABN AMRO because there was that cultural connection."

Similarly, in the Far East South, Molex chose Standard Chartered based largely on its very solid reputation in the region and because many Molex managers were accustomed to dealing with the bank. "It was a very painful process to get them to let go of their local banking relationships," says Mr. Mahoney. "But at least they were able to move to a bank with which they could identify."

Measuring bank performance

Now that its new regional banking structure is in place, Molex will be closely monitoring the performance of each bank on both a quantitative and qualitative level.

Initially at least, Molex expects to evaluate banks' performances annually, with the possibility of future quarterly reviews designed to identify and resolve issues before they become full-blown problems.

On the quantitative side, the company will be measuring things like improvements in the investment of cash resources, overall fee reductions, and the time required to get cash from one entity to another.

The qualitative factors of performance are, of course, more difficult to gauge but equally important. Molex expects these qualitative measures to include the evaluations of day-to-day service among the local controllers, the ability of the regional bank to work closely with a local bank, and the ability of the regional bank to provide additional value and resources to help Molex further automate its global treasury processes.

Molex will also measure each bank's overall competitiveness and where it stands in the development of best practices compared to other banks.

Overall, Molex is looking to answer one fundamental question: "Are we banking with a bank that is playing catch up with its competition or with a bank that truly knows its business and recognises the value of staying abreast of new trends developing within the global banking environment?" says Pat O'Brien, the company's tax director. ■

The results so far

So far, two of the four regions have made their choice. Already the company is seeing significant improvements. For example, in Europe and the Far East South, Molex has established a regional letter of credit.

The regional letter of credit has two key advantages. First, it is more cost effective than what each sub could have achieved on its own. And second, each region has a bigger pool of money available than each individual operating units would have had. "Essentially, these regions have gone from having little clout as a collection of small local organisations to having the weight of Molex as a global leader behind them," notes Mr. O'Brien.

The company is also developing a cash pooling process across Europe to minimise regional borrowing and other bank fees.

Pooling would allow mature operating units with a solid cash base to neutralise the effect of start-up operating units that require periodic cash infusions. In the past, these local operating units had no choice but to borrow on their own and pay high interest costs.

Going forward, the company is also using this regional banking structure to improve overall cash control and to ensure that idle cash is repatriated to the US in a tax-efficient manner. "We are looking to maximise current cost savings and to ensure we are operating in the most efficient manner from both a tax and treasury planning perspective," says Mr. O'Brien.

"More importantly, we are working to find the best way to manage our cash to achieve the best overall net earnings result."

Finding middle ground

When developing a banking structure, companies should avoid viewing their choices in black and white terms, says Mr. Mahoney. "Companies think they have two choices in terms of bank relationships – either centralise everything under one umbrella or become highly decentralised. I think our experience proves that there is middle ground between those two extremes, where companies work with strong banks that have a strong local or regional identity." ■

This article first appeared in the International Treasurer *journal, New York (+1 212 233 3261).*