

Smaller firms needn't be left out in the cold

Declan Lynch of Vtreasurer explains how new developments are enabling smaller companies to reap the benefits of outsourcing in the treasury arena.

Economies of scale are the Holy Grail of outsourcing. Certainly, scale is the most easily understood leverage point in any outsourcing decision. The optimal use of infrastructure and the experience and expertise around a process are what generates the power of economies of scale, and outsourcing is often the only way many small companies can take advantage of this business benefit. Traditionally, both treasury expertise and applications have been expensive commodities often beyond the reach of many smaller firms. In this article, we will look at some new developments that are changing the face of outsourcing in the treasury arena, what the benefits are for small companies, how to choose your supplier and what to watch out for in doing so.

Treasury outsourcing defined

Outsourcing the treasury function involves having a financial institution or consulting agency competent in treasury management handle day-to-day cash management, debt management, investment management, foreign exchange and other treasury functions for your business. Based on the guidelines your organisation provides, they will consolidate your daily cash position to maximise the returns of your investment portfolio and/or minimise your borrowing costs. They also provide general ledger upload files, sophisticated reports and valuable consultative advice.

What is on offer?

For many financial institutions and consulting organisations serving treasury professionals, providing outsourcing services is a natural extension of their existing business. For many, mainly through agency treasury centres such as those found in Dublin's International Financial Services Centre (IFSC), this consists of little more than a front-end to the transaction-processing capabilities

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of the banks that promote them. It assumes a certain level of expertise on the part of the company and generally provides 'execution-only' to achieve some tax advantaged outcome.

Most small companies require value added, rather than cost/tax savings, and more of a full service than is currently available from banks in general. Large international banks, which have dominated this sector, are paring their client lists under increasing pressure with regard to profitability and use of capital. This will mean that many small firms will not be able to turn to these providers, even if they wanted to.

Consulting organisations on the whole have been slow to move beyond their traditional advisory and implementation

roles and get involved in providing full service or turnkey solutions to the corporate sector.

However, things are changing and a new breed of provider is emerging. The main driver of this change is the increased availability of internet-based treasury technology. The much-hyped application service provider (ASP) model (essentially rent versus buy) of delivering technology to companies which up until now were unable to justify the investment has opened up the market not only for the technology providers but also for a new breed of outsourcing provider that combines expert advice/expertise with technology to deliver a complete business solution to the small and medium enterprise (SME) sector.

An ASP hosts software applications, handling all the technical aspects of delivering the application and making it available to users over the internet for a fixed fee, usually monthly. Typically, ASP services are targeted at middle market and small businesses, many of which may not be able to meet the expenditure required to license a system.

I classify these new providers as business service providers (BSPs), a combination of an ASP and a traditional business process outsourcer. A BSP takes on the full responsibility for the entire business process, providing more than just a technological solution. I believe that they solve the fundamental flaw in the pure ASP model, that is, for most small/medium corporates the delivery of technology alone does not provide a solution for their treasury requirements. Being able to access the functionality of a top tier treasury application for £x per user per month does not mean that your treasury issues go away. Guaranteed delivery of business processes is going to be the key and BSP's that combine the ASP delivery and pricing model with a business process outsourcing offering are best placed to succeed in this new



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market. This new model provides leverage of expertise, scale and access to customers, and opens up a new market for technology and outsourcing vendors alike.

As a full service provider, Vtreasurer (founded by the author) is the first company to extend the ASP model in the treasury market to provide a complete internet-enabled solution, bridging the technology gap with established business processes and trained professionals. Powering Vtreasurer is SunGard's Quantum application, with eTreasury deployed to extend the functionality to the client's desktop utilising a web browser.

Particular benefits to client

Outsourcing subscribers place a high degree of value on the combination of consultative advice and technology. "We are a start-up," says Georges Phinason, European Finance Director for Messagemedia. "Even though we are part of an established US company, our plan involved building a pan-European business in less than 12 months. To do this, we needed to understand how we could create value for our customers and focus on those processes. Outsourcing our treasury needs allowed us to do this cost effectively and also gave us access to the rich functionality of a top-tier treasury system."

Many treasury outsourcing subscribers also cite that the new internet-based technology which offers real-time connectivity to the provider eliminates the 'black hole' into which traditional outsourcing arrangements generally disappear.

"Extending the functionality of the supplier's application platform to our desktop was the key to overcoming the perennial issue of perceived loss of control in any outsourcing relationship," explains Pascal Deperrois, CFO of Interliant Europe, a company in the high tech sector. "eTreasury gives me 24/7 access and really allows the outsourcing supplier to become an extension of our management team."

What to watch out for

The key to a successful outsourcing relationship is a clear contract that sets out the division of responsibilities between all parties, the deliverables and the level of service expected.

A clear mutual understanding must exist between the outsourcing provider

The Treasury outsourcing value proposition:

- avoid software cost of installed solution. All you need is a web browser;
- simple agency structure. Provider does not take custody of funds;
- utilise the expertise of knowledgeable Treasury professionals without the costs of full-time staff;
- have the ability for any approved individual securely access your company's information 24 hours a day, seven days a week via browser/internet connection from anywhere in the world;
- avoid IT and training costs associated with an installed solution;
- professional reports for performance analysis; and
- focus on strategic initiatives, rather than back-office functions.

and the subscriber as to the roles, objectives and overall strategy of the outsourcing arrangement. An open dialog will ensure that the goals and objectives of the subscriber are being met.

To best accomplish this, most subscribers have successfully used written procedures in conjunction with periodic reviews to ensure that the outsourcing provider continues to add value through effectively managing their treasury operations and that it is also operating in tandem with the goals of their company.

Outsourcing providers cannot operate in isolation and this is particularly true of treasury. The subscriber needs to be aware of their responsibilities, such as providing the outsourced function with accurate forecast data and maintaining constant communication.

Existing policies and controls need to be reviewed to ensure they are appropriate once a third-party becomes involved. The policies and controls must define the level of discretion that the outsourcing provider will have.

How to choose your supplier

For those looking to outsource their treasury functions, they need to work with providers that will obviously provide a

greater benefit (for example, increase returns, solve staffing challenges and produce professional reports) than if they continued to manage the treasury function in-house. Performing a cost-benefit analysis that also takes into account non-quantifiable factors is the best way to initially analyse this proposition.

Subscribers need to trust their organisations' finances with a reputable third-party that provides expert advice combined with a reliable and secure environment for the data. What is the guaranteed up-time and contingency plan if the provider's server is down? What types of security measures are in place to protect subscriber data? All of these mission-critical issues need to be thoroughly addressed.

Demand will grow

The demand for sophisticated treasury management services will continue to fuel the growing number of financial institutions and other agencies offering treasury outsourcing services. Is outsourcing the treasury function the answer for every small company? Absolutely not. But there are models evolving that allow smaller firms to benefit from the advantage of having their treasury activity handled by powerful applications and managed by experienced treasury professionals.

Leveraging technology and professional expertise allows the providers of these services to pass on significant savings to all their users. On the basis that probably 70% of all the processes handled by a corporate treasury are common from one company to another, the demand can only grow. ■

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