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Treasury for profit

In April's edition of the *International Treasurer*, the challenge was thrown down to treasurers on the structure they should consider for their treasury. The argument below was well made by the editor, Joseph Neu, and Oceanus thanks him for granting plagarisation rights.

With revenues falling short for many companies, it is again time to think about turning treasury into a profit centre, particularly for larger multinationals. True, there are companies that have experimented with the idea of treasury as a profit centre, only to decide it was a bad idea. But this does not mean that it cannot be done successfully. Indeed, this, in part, is the assumption behind new firms that are offering treasury on an outsourcing basis, which will be testing new approaches to the profit centre model.

Losses on those types of trade that once made treasury profitable usually erode a treasury profit centre mandate. If not the actual losses, it is the fear of potential ones that push treasury back to being a cost bucket. The conservative nature of most boards keeps senior management focused on generating core business earnings. Treasury should safeguard the money earned. Unfortunately, the safeguarding of funds earned is seen as a cost-saving activity rather than a profit-making one.

However, institutions (and individuals) regularly hand over funds earned as part of their core businesses to outside professionals who safeguard their funds by investing them. By and large, these fund managers are profit seekers. Most investors are comfortable with this incentive structure.

Why should treasury be any different? Is it because treasury is in-house? Certainly, most of the external service providers are profit centres. So perhaps more of treasury should be performed externally. However, who would argue that in-house treasury activities should forgo seeking profit in order to allow those outside the firm a better opportunity to do so? Consider treasury outsourcing services and how they expect to stay in business. They will not be cost centres. Instead, they will seek to charge companies for services rendered, plus expect to earn a performance spread measured against an agreed benchmark.

So let's review: if it's done in-house, it's for cost savings; if it's out of house, it's for profit. Does this make any sense? Swedish companies have voted with their feet – more than 60% of Swedish companies sampled by PricewaterhouseCoopers recently indicated that they ran treasury as a profit centre, although it was based on a small sample.

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The formation of new external, for profit treasury service providers will make it increasingly difficult for an in-house treasury to retain its cost centre orientation and expect to be a strategic business function. This possibility should warrant questions when treasury outsourcing providers come calling for business. First, can we learn something from their revenue model that could be employed in-house? Second, can we compete with it – now and over time? There are many examples of in-house functions adopting external controls and compensation schemes and competing with them. Keep in mind that the internal competitive advantages tend to come from superior information and integration synergies with the businesses they serve, whereas outsourcing advantages come from greater volume and focus.

Eventually, new organisational structures (for example, B2B exchanges) may blur the lines between internal and external, but the profit centre advantage will remain. Why deny your in-house treasury this advantage now? ■

Oceanus welcomes comment from readers, which may be published anonymously if requested. oceanus@treasurers.co.uk or fax 0207 248 2591.