

# Outsourcing and beyond

As outsourcing gains acceptance, and the game is moving on towards a hosted, full-service integrated treasury environment via the web, says Anne Querée.

Outsourcing embraces a complexity of choices, from outsourcing some of the specific operational tasks of treasury, to the fully outsourced company or regional treasury centre, managed by an agency treasury. Nowadays, it can also encompass contracting out the management and delivery of the systems required in the treasury department to an application service provider (ASP), which delivers the application via the internet, or using a business service provider (BSP) for a combination of systems and transactional support.

## **Treasury's core competencies?**

The received wisdom of outsourcing is that non-core, non-strategic functions can be successfully outsourced – the rest should be kept firmly in-hand and in-house. Like many received wisdoms, this statement simply raises the next, more difficult question – what are treasury's core competencies? Speaking at the association's UK Treasurers' Conference in Birmingham last month, Graham Wood, Group Treasurer of PowerGen plc, expressed the view that, while some back office tasks might be suitable for outsourcing, "so much in treasury is intrinsically bound up with the management of the company". He explained: "I couldn't contemplate saying to the managing director of one of our businesses that they should go and talk to an outsourcing provider about a particular matter."

The benefits of outsourcing are also a well-rehearsed mantra:

- cost savings through economies of scale and reduced cost of operation;
- efficiency benefits through higher technology investment by the outsourcing partner;
- insulation against technology/market changes;
- bought-in process and markets expertise; and
- enhanced control through contractual service level agreements.

How responsive will outsourcing partners be to the bespoke needs of individual customers?

The articles in this spotlight offer some convincing arguments in favour of outsourcing significant portions of your treasury activity.

## **Addressing practical issues**

The flip-side of the economies of scale argument is a 'one size fits all', approach that makes some treasurers uneasy. In his article, Declan Lynch claims that 70% of all the processes handled by treasurers are common from one company to another. But Antony Barnes, treasurer international, Nycomed Amersham, raised a question at the UK Treasurers' conference concerning the practicalities of version control between in-house systems and those of the outsourced treasury provider. He said: "If an outsourcer is regularly upgrading a software platform, you will have to upgrade your bolt-ons and special applications too. How responsive will outsourcing partners be to the bespoke needs of individual customers?". He added that, in any planned systems implementation, the important point was for the customer to understand fully how the gap is breached between the product offered by the supplier and the solution demanded by the customer.

Other questions about outsourcing were raised during the conference. In a presentation that focused on strategies for improving treasury management, Stephen Crompton, until recently Deputy Finance Director at SmithKline Beecham (now GlaxoSmithKline), said: "The case for outsourcing is clear. The

problem is, who is going to provide the service and at what price? And when do you do it?" He went on to suggest that organisational change should precede any outsourcing (as opposed to being achieved through outsourcing). "Global transaction processing centres can be measured more easily against what others [outside providers] have. [This approach] will make subsequent comparison less emotional," he suggested.

In reality, however, it is often enforced change in the form of an acquisition, de-merger, IPO or a market event such as the introduction of the euro that is the catalyst and the best opportunity for outsourcing.

## **Treasury outsourcing today**

A discrete function with a well-defined process will be a good candidate for outsourcing. Ian Talbot of JPMorgan highlights foreign exchange management, intra-company loans administration and liquidity management, among others, as appropriate for outsourcing to an agency treasury.

Or, treasury management for a defined geographical area might be outsourced. Many of the clients of agency treasuries in Dublin are US companies which have chosen to outsource their European cash and treasury management rather than build a costly infrastructure of their own.

Some finance functions also can be easily 'isolated' and then outsourced. For example, at the UK Treasurers' conference, Peter Evans, International Treasurer at Tesco, described how in Asia his company has outsourced its cash collection process – not just collecting the cash, but counting it too – to a security company.

Independent consultant Jack Large described at the conference how remittance advice processing might be outsourced using an ASP service from Burns e-Commerce Solutions, while last month, *Corporate Finance* reported that Procter & Gamble had outsourced its invoice presentment and payment

system for small and medium-sized customers to the ASP, BillingZone.

On a larger scale, outsourcing is often a part of shared service centre structures. Typically, this might involve using a bank's bulk payment service to send multiple payment type instructions in a single file for the bank to sort and execute via different automated clearing houses, or print and mail cheques and drafts.

These are examples of treasury/finance outsourcing as we know it today, and the cheap, ubiquitous (and increasingly secure and reliable) communications provided by the web are playing an increasing role in achieving such 'isolate and outsource' solutions.

However, as Mike Roden argues on p40: "It is the arrival of new, web-enabled technology that has, for the first time, made large-scale outsourcing a viable option for forward-looking treasurers."

**Future models**

The changing terminology (agency treasury/ASP to BSP/Outsourcing Provider (OSP) and so on) is a signpost to a significant shift in how treasury services may be delivered and used in the future, moving away from the 'isolate and outsource' model to a end-to-end treasury process in which different suppliers and partners have a role to play.

Jack Large explained the shift in his presentation, *Outsourcing and the Future of Cash and Treasury Management*, at the UK Treasurers' conference. He illustrated it with descriptions of how treasury systems providers and banks are using web technologies to engineer hosted, straight-through processing solutions for their customers, linking them to third-party exchanges for pricing and deal execution, to other banks, internet settlement providers and to the customer's own in-house enterprise resource planning (ERP) systems. He cited Trema's transaction hub initiative, SunGard's eTreasury eXchange and Citibank as good examples. Citibank is currently in a selection process for a systems supplier to provide web-enabled functionality for its agency treasury service in Dublin. The plan is to move away from manual procedures, providing customers with direct access via a portal or lobby to view their data, submit instructions, receive reports and send information flows back and forth. Plans include integration with ERP systems and third-party exchanges.

Any full-service portal approach should enable treasurers to achieve plug-and-play connectivity to a range of providers (although underlying relationships will still be based on the old fundamentals of carefully negotiated guaranteed service levels and pricing).

"Partner independence is becoming strategically more important," said Large, suggesting that any supplier strategy that aims to tie the treasurer in through technology will fail.

The bird's eye view of the future presented by Jack Large also drew on recent work undertaken by Price-WaterhouseCoopers' treasury consultancy team. Project STRETCH defined just such a concept around a web-enabled dash board (see Figure 1) for discussion with about 40 treasurers and finance directors of multinational companies.

"These are companies already in the forefront of treasury best practice," said David Knight, treasury consulting partner at PWC. "None of them disagreed that the concept was the way forward, but several said they would use it if available today, and a couple of them would like to get involved in building it."

According to Knight, the customer value proposition of such an approach is strong.

He said: "We looked at the costs, excluding the banking transaction costs, of delivering treasury services to an organisation. Across the typical multinational corporation, the all-in costs are surprisingly high. Providing a wider and more integrated choice of treasury service at lower cost creates a major case for change for many companies."

The PWC team is yet to publish any formal results from this research and Knight will not be drawn on discussions under way between possible suppliers of different elements of the concept, but the initiative is worth keeping a close eye on.

**Who do you trust?**

Back in the present, Large believes such future models of treasury will be achieved, but that their full scale use is some years off.

Treasurers, always demanding of suppliers, will continue to ask the practical questions of those offering different flavours of outsourcing as a panacea for all the technical, transactional and staffing headaches of treasury.

Perhaps the most fundamental of these, is "who do you trust?" Such judgement is possibly the ultimate core competency for any treasury professional. ■

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FIGURE 1

Phase II – full OSP supporting business to business trading

