Expanding value: dealing with dichotomy

ANGELA POTTER DISCUSSES HOW TREASURERS ARE, TODAY, MORE OF A STRATEGIC BUSINESS PARTNER ACROSS ALL AREAS OF THE BUSINESS.

Executive summary

The ACT is leading the way in developing increasingly sophisticated treasury staff with its treasury and finance qualifications. This is helping to provide businesses with staff who have a thorough understanding of the challenging issues they face in changes to regulation, compliance, technology and new markets. The dichotomy is how can treasurers free up time to ensure they add value?

During the recent Barclays sponsored ACT Cash Management conference, a treasurer of a multinational corporate commented: "During times of difficulty, treasurers demonstrate their true worth to the business."

We concur with this view – certainly when the business environment is more challenging, including trading in new markets overseas, corporates can gain a distinct competitive advantage through optimal management of every aspect of their financial position.

Traditionally the treasury function of any business has always been essential in ensuring that there is sufficient liquidity available to meet obligations as they fall due, suppliers and payroll are paid in a timely manner and financial risks are managed effectively. However, treasurers are increasingly becoming more of a strategic business partner across all areas of the business, embedding financial best practice to maximise the efficiency and profitability of the business.

This is being driven by the ever-increasing pace of change to regulation, compliance and technology in the financial sector and recognition that corporates may be able to seize a competitive advantage by reducing their costs and improving processes to grow their business. These changes include the introduction and further development of SEPA, including SEPA Direct Debits, faster payments in the UK, anti-money laundering regulations and technology developments such as corporate access to SWIFT.

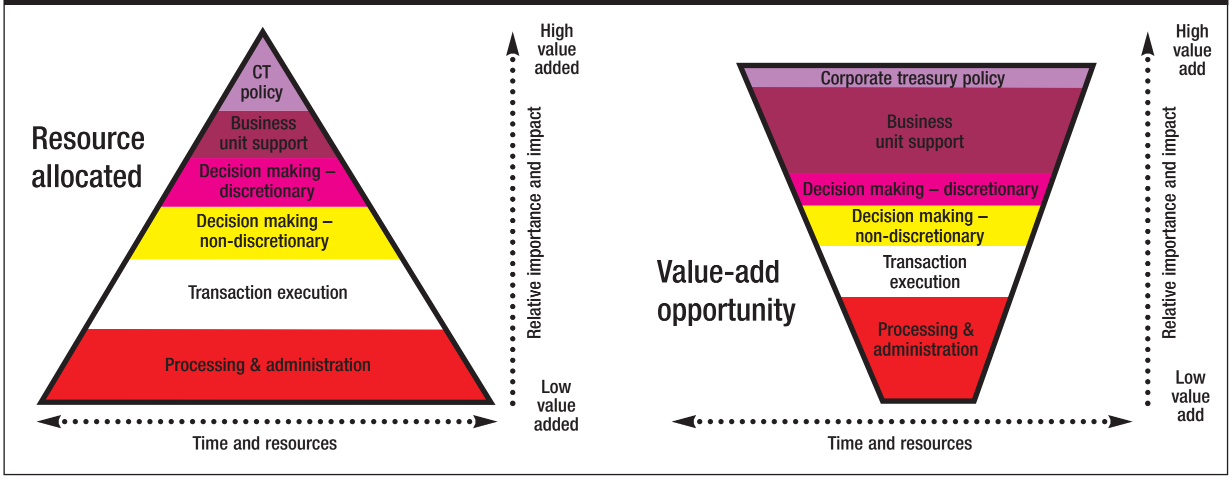
The dichotomy for the treasurer is how to free up time to devote to providing "value-add" to the rest of the business while ensuring that the financial functions are completed in accordance with internal policies to meet the ever-increasing regulatory, compliance and audit requirements. From work which we did with a number of major corporates last year, Figure 1 explains the dilemma perfectly.

USE OF SYSTEMS To help overcome this dilemma, systems and technology are key in centralising the finance function to benefit from the financial expertise in the treasury department. Most corporates have made a significant investment and implemented, at least partially, sophisticated ERP/TMS across their global operations to establish a common platform to manage their business and financial needs.

From a cash management perspective, such systems provide information across the whole financial supply chain, including liquidity positions, accounts payables and accounts receivables; providing the treasury department with an overall view of the company's position. Such investment has led to numerous benefits:

- automation of the majority of a corporate's daily financial processing and administration tasks, such as account reconciliation;
- minimising operational risk;
- increasing operational security;
- maximising straight-through processing (STP); and
- providing a catalyst to centralise the finance function, including:
  - establishment of payment factories; and
  - intra group foreign exchange netting.

Figure 1: The dichotomy for the treasurer



Of course any automation must be supported by group policy standards, control and monitoring processes to ensure financial propriety and regulatory compliance.

To achieve maximum benefit, corporates will want to interface their systems with those of their banks, although the "Holy Grail" of being able to use the same interface and standards with each of their banks may still be some distance away, depending on the corporates' chosen method of connectivity. For example, common formats and standards may be available if a corporate is a SWIFT Corporate Access user but may not be achievable if their preference is to use bank's proprietary host-to-host connections.

One of the reasons why banks and corporates have been unable to resolve the issues regarding common standards is the different priorities of both groups. Both want STP; however for banks this has largely been about achieving a clean payment transaction, where for corporates this is a much broader requirement of streamlining payments and integrating to the supply chain and operational efficiency.

What is important is that corporates integrate their systems with their banks as effectively as possible to maximise the automation provided through the ERP/TMS system. For example, payment files generated automatically should be delivered to the bank ensuring full straight-through processing from the TMS/ERP into the relevant clearing systems. In addition, balance and transaction information should be uploaded into the system to provide for automatic reconciliation as far as possible.

THE CHALLENGE OF ADDING VALUE Treasury staff are becoming more sophisticated and have an increasing understanding of leading edge financial practices: this is led by the ACT's own treasury and finance qualifications. Treasurers are well placed to meet the challenge, by providing expertise, advice and support covering funding, financial risk management, bank relationship management, policy standardisation, terms of trade, process simplification and performance measurements.

Through having a thorough understanding of the business, improvements can be made to the entire working capital cycle – from reducing days receivable outstanding to negotiating advantageous discounts for early payment where appropriate. Liquidity is key: treasury is tasked with ensuring that there is no excess liquidity tied up in the business. Using surplus cash within the business to fund short-term deficits will save costs – borrowing externally effectively means a corporate borrows their own money, creating margin leakage in the business.

Current market conditions are of course another factor – rather than borrow externally, generating liquidity internally from, say, reducing days receivable from 45 days to 40 can improve the working capital position substantially. An example is a corporate which last year effectively reduced its days receivables outstanding by six days, generating over £65m in additional cash.

Working capital improvements of this magnitude can certainly have a direct effect on the overall debt and investment requirements of a business and thus on the capital structure required by the company, proving the value-add from treasury.

Of course each company will have a different business model, depending on the sector in which they operate, and the benefit that treasury can add may differ from company to company. However, it is important that the policies established in each business enable the business to perform competitively with its peers.

HOLISTIC APPROACH At Barclays we take a holistic approach to the cash management requirements of each corporate – not "one size fits all". Each company will have different needs depending on the business in which they operate and their structure.

Barclays' aim is to help treasury to demonstrate and expand their value to the organisation. Our objective is to help every business manage its working capital position in the best way possible through providing services and systems that are relevant to the needs of the business in order that each company can achieve its optimal cash management model.

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