Turning the crisis into an opportunity


A SURVEY BY PWC REVEALS THAT MORE THAN 80% OF UK CORPORATE TREASURERS BELIEVE THAT THE FINANCIAL CRISIS HAS WON THEM GREATER BOARDROOM ATTENTION. **YANN UMBRICHT** AND **DAVID STEBBINGS** LOOK AT HOW TREASURERS CAN USE THIS ENHANCED PROFILE TO SECURE MUCH NEEDED NEW INVESTMENT, BROADEN THEIR INTERNAL PROFILE AND USE THEIR SKILLS MORE WIDELY TO SUPPORT BUSINESS GROWTH.

Dealing with the impact of the financial crisis, including unprecedented funding and cash constraints, foreign exchange (FX) and commodity price volatility and increased uncertainty about the strength of banking counterparties, has set the toughest possible test for treasury teams. Yet it has also highlighted treasury's crucial contribution to the safety, liquidity and ongoing profitability of the enterprise.

At the beginning of 2010, the PricewaterhouseCoopers treasury group carried out an in-depth survey of more than 40 treasury teams from UK-based companies as part of a wider global study of more than 600 respondents. They were asked about how well prepared they felt they were for the crisis, how they responded and how they thought the experience would shape their future priorities. The participants were chosen to provide a cross-section of sectors and company sizes.

The survey points to a job only half done. The initial crisis is being dealt with, particularly in the funding arena despite tougher market conditions, but the risks remain. More than 80% of UK participants believe that the key role of treasurers in managing the impact of the crisis has brought the profession and the department greater recognition from the board (see Figure 1). More than 70% believe that the crisis has highlighted the value they add to the business.

This visibility has helped treasurers begin to develop a more active partnership with business teams. Survey participants see enabling the business to manage treasury-related risk and cash more effectively as their main opportunity to add value over the next five years. However, the survey also suggests that treasurers may need to spend more time in developing their commercial understanding and relationship skills if they are to work more closely with the business.

Providing frontline business teams with more insight and analysis is likely to require additional investment, both directly

in analytical systems and the staff to run them, and in the automation needed to improve process efficiency and hence free up more time to support the business. Unfortunately, most survey participants have yet to translate their higher profile into an ability to spend more money to support it (see Figure 1). Some have even faced a cut in their budgets despite the increased workload created by the crisis.

The focus on treasury by the board and senior management is likely to be relatively short-lived, so one message from the survey for treasurers is that they should press the case for more resources now or risk seeing the opportunity slip away. As Rahm Emanuel, White House chief of staff, said a couple of years ago: "Never let a serious crisis go to waste."

THE CASE FOR INVESTMENT Our survey charts the evolution of the treasurer's role. It highlights where more investment is likely to be needed and how treasurers can improve their support for the business.

With the once unimaginable spectre of bank failure now a reality, counterparty risk management provides a clear example of how the demands placed on treasury teams are increasing. There is a strong recognition that a bank does not necessarily have to collapse to present a serious risk to a company; withdrawal of a bank's funding or payments services could have a devastating effect. As a result, more than 80% of survey participants now regard counterparty risk as a high priority, compared with less than 40% before the crisis. The priority is higher in the UK than most other countries in the global survey. In line with this sharper focus, many participants now augment credit rating monitoring with earlier warning indicators such as credit default swap (CDS) spreads, equity prices and bond yields (see Figure 2). However, significantly more active monitoring is adding to the strain on already stretched resources.

Management of cash in its widest sense, not just concentration mechanisms, and cash forecasting in particular are also seen by treasurers as an area where they can add most value in the future. Over 50% say that cashflow forecasting is a key focus. Cash is king for many businesses and the treasurer is often the go-to individual that senior management looks to for insight and analysis. However, systems and tools are often spreadsheet-based and time-consuming to use, and forecast data is often unreliable. As a result the treasury team has to spend its time making sure the numbers are right, rather than working with business management to make the most of cash in the business and influencing management culture away from profit and loss measures towards a more cash-based focus.

Additionally, heightened price volatility for energy and raw materials has encouraged an increasing number of survey participants to take a more centralised and proactive approach to commodity risk monitoring and management rather than relying on local operations (see Figure 3). However, the survey raised concerns about whether the necessary systems, analysis and intra-organisational communication are in place to support this approach. Nearly 50% of participants still rely on spreadsheets. Although there may be opportunities to realise synergies with other treasury systems, only around a third of participants currently use a treasury management system (TMS) to manage commodity price risk.

In seeking to engage business teams, treasurers can offer the valuable incentive of cost savings or enhanced revenue opportunities. However, to win their buy-in, they will also need to develop a better understanding of the market situation and commercial imperatives

Figure 1: What did the crisis do for you?

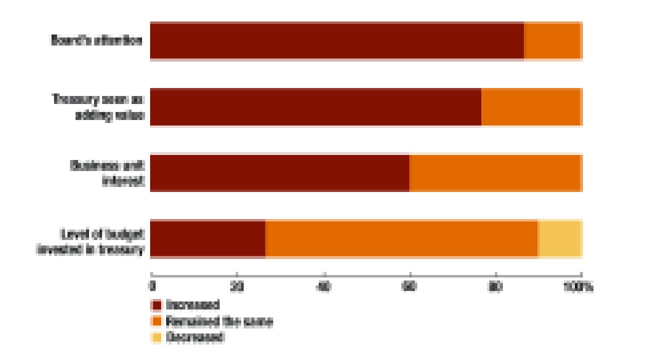


Figure 2: Counterparty risk monitoring

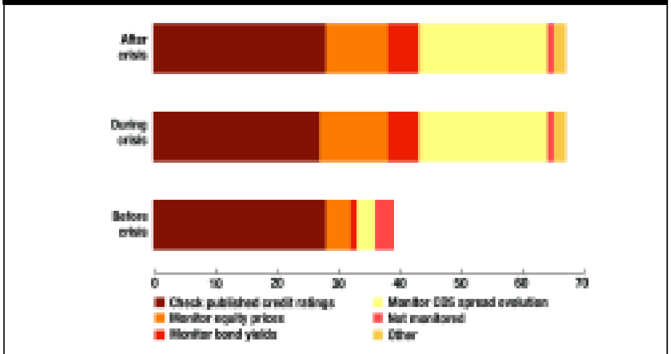


Figure 3: Approach to commodity risk

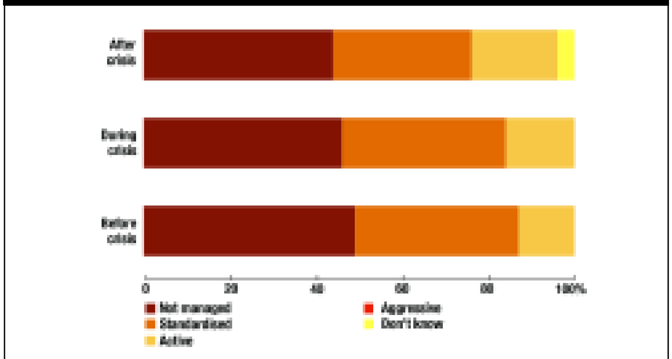
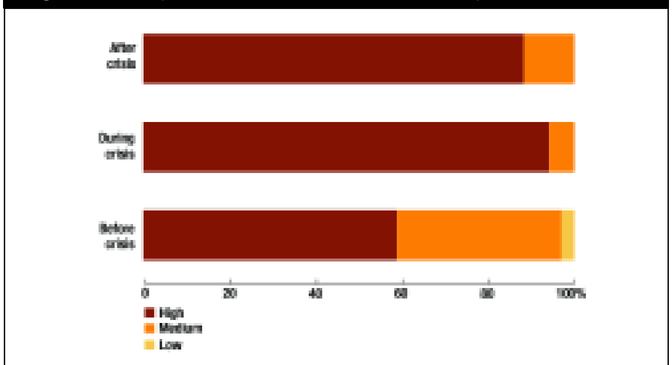


Figure 4: Importance of bank relationship

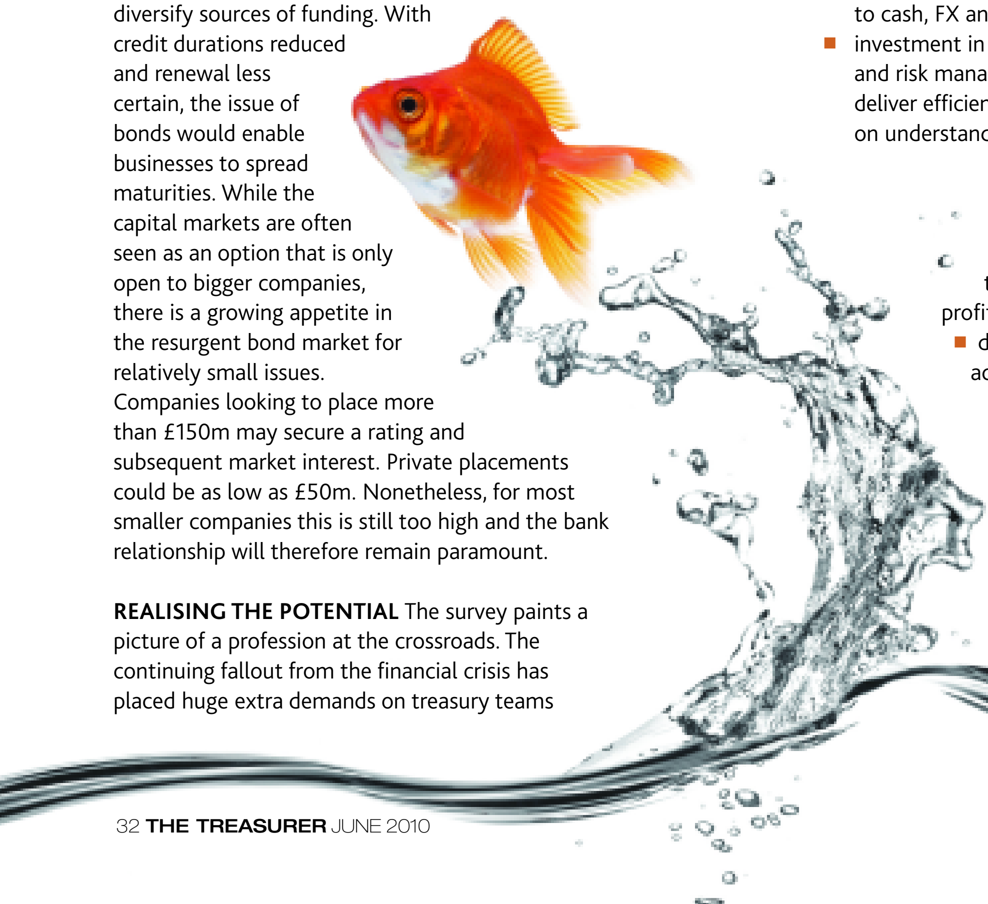


facing particular frontline teams. For example, a supplier might assume the FX or commodity price risks to win a contract with a large manufacturer. Rather than discouraging the marketing team from assuming such risks, treasurers could help the team to develop tools to ensure visibility over these exposures and hedging strategies to mitigate them. Ultimately, the treasurer-business relationship is a trade-off. Helping divisions to reduce costs and manage their risks more effectively will encourage them to provide treasurers with the forecast and actual data and co-operation they need to do the same for the enterprise as a whole.

SECURING FUNDING The crisis has led to a shake-up in funding. The difficulties met in securing sufficient finance have reminded participants of the critical importance of bank relationships, with around 90% recognising such ties as highly important compared with less than 60% before the crisis (see Figure 4). With banks' own liquidity still under pressure, funding will continue to be rationed among a favoured few. However, while more than 60% of treasurers believe they are "tier one" clients for their banks and, therefore, in line for preferential funding and pricing, the true figure is unlikely to be that high. Moreover, while treasurers want to build long-term portfolio-type relationships with their banks to help sustain funding, most believe that banks want to move to an approach in which each transaction is profitable in its own right (see Figure 5).

To reinforce the relationship with their bank, treasurers will need to provide clear-cut evidence as to why their custom is valuable and so in line for favoured credit availability and terms. The use of scorecards to measure how much revenue or profit is earned by a bank from a client company's overall business is a growing trend and allows treasurers to develop a more transparent and reciprocal relationship that highlights the mutual value being created for both sides.

More treasurers might also look to the capital markets to help diversify sources of funding. With credit durations reduced and renewal less certain, the issue of bonds would enable businesses to spread maturities. While the capital markets are often seen as an option that is only open to bigger companies, there is a growing appetite in the resurgent bond market for relatively small issues. Companies looking to place more than £150m may secure a rating and subsequent market interest. Private placements could be as low as £50m. Nonetheless, for most smaller companies this is still too high and the bank relationship will therefore remain paramount.

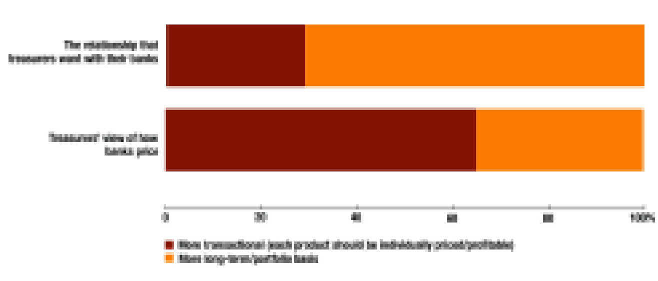


REALISING THE POTENTIAL The survey paints a picture of a profession at the crossroads. The continuing fallout from the financial crisis has placed huge extra demands on treasury teams and further pressure on resources. However, it has also brought new-found recognition from boards and business teams and a golden opportunity to lift the function's status and influence to a new level. To meet rising expectations and capitalise on this opportunity, treasurers need to show their commercial acumen and internal relationship skills. They will also have to make a strong case for investment, which demonstrates how much value they currently create and how much more they could deliver if they had the necessary people, technology and collaboration from frontline teams.

PwC has identified five key attributes that we believe will mark out the treasury teams that will be able to add most value for their businesses in the coming years:

- a diversified approach to funding that seeks to reinforce bank relationships through more effective metrics and expand financing opportunities by exploring capital market and other options;
- promoting greater collaboration with other parts of the organisation as part of the development of more effective enterprise-wide treasury risk management, particularly in relation to cash, FX and commodity exposures;
- investment in a more proactive and centralised approach to cash and risk management, which leverages existing technology to deliver efficiencies, control and visibility, and has a particular focus on understanding and forecasting exposures and their effects rather than more complex hedging solutions;
- the ability to measure and demonstrate value and hence make a convincing business case for further resources, which can in turn improve treasury's contribution to the safety, liquidity and profitability of the enterprise; and
- developing the communication skills and commercial acumen to engage with frontline teams and work as mutually beneficial partners.

Figure 5: Corporate pricing



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To download a copy of the report, Emerging from the Crisis: UK Treasury Survey 2010, go to: **bit.ly/b3RvGd**