

REXAM'S TREASURY TEAM TELL
GRAHAM BUCK HOW THEY
WENT ABOUT REPLACING
THEIR TREASURY
MANAGEMENT SYSTEM.

Left to right:
Rob Earlam,
Jeanette
Sewell and
Jon Drown



An inside job

As the world's second-largest producer of drinks cans, packaging group Rexam is a big purchaser of aluminium. That means commodity hedging is a key focus for its treasury team in addition to the traditional areas of foreign exchange and interest rate management. In common with its peers, it hedges on behalf of customers as well as for its own risk management, so its volumes are particularly hefty.

Group treasury is centralised at the London head office, with the department dealing on behalf of operations in 25 countries across Europe, the Americas and Asia. Assistant treasurer Rob Earlam says the team also manages the financial assets and liabilities of the parent company and its business units, currency exposure, cash pooling and forecasting, funding and liquidity, counterparty credit risk, settlements, and bank and bondholder relationships.

While hedging focuses mainly on aluminium, it also extends to gas and power for the group's plants, diesel for freight contracts, and different types of resin to support the plastic packaging divisions.

The policy was recently adapted to changes to the way Rexam and its customers choose to hedge. As commodity markets have become more volatile, their risk-based approaches to hedging have been refined. "This acted as a catalyst to ensure that our treasury systems were able to cope with the increasing complexity and volume of demands," says Earlam. "We've grown accustomed to being used as a quasi-bank by our customers, so need to have a treasury management system [TMS] able to meet that demand and handle the increasing complexity of transactions."

Rexam's existing TMS was struggling to cope with traditional treasury activities. The basic system was a decade old, and functionality had been bolted on piecemeal over time. So in April 2010 the group began preliminary work for introducing a new TMS. Among the first decisions to be made was the balance between using external consultants and in-house resource for the project.

PwC was selected as outside consultant to help guide the team through the process mapping and request for proposal (RFP) stage. Earlam says: "PwC's knowledge of what best practice looked like in treasury processes was something we couldn't have envisaged from a Rexam-only view of the world, and they had good understanding of the capabilities of different TMS on the market."

Any treasury team contemplating a similar project should map out existing processes at a preliminary stage and not assume they will still work efficiently once a new, more powerful TMS is introduced, says Earlam's colleague Jon Drown, director of group treasury.

"This means asking how you can improve your processes to maximise the new system's benefits," Drown explains. "Are there things you can do differently?"

Early stages of the project involved a two-month exercise to challenge existing practices, reduce manual processes and streamline where possible. The exercise also included developing a highly detailed RFP to submit to system vendors.

Drown says that PwC urged the team to pin the process down as much as possible to make eventual implementation easier. "The quality of implementation depends on how well you define exactly what you want to system providers. The greater the amount of definition you can include in your RFP, the better you can assess whether they can meet your requirements. For us it became clear that several lacked the capabilities to come up with exactly what we were looking for."

Deputy treasurer Jeanette Sewell adds that Rexam had a similar wishlist when moving from its existing bank-specific payment platform to SWIFT, undertaken as part of the same overall system replacement project. However, one item could not be ticked off. The group wanted to use SWIFT to exchange commodity trading confirmations for its base metals, but as the system isn't yet able to exchange messages the treasury team is lobbying for this functionality to be added.

Using this approach, the team defined the capabilities required from the new system as:

- increased visibility over company-wide cash;
- enhanced control and risk management, with maximum straight-through processing of all treasury transactions;
- greater automation and minimal duplication of work;
- enhanced risk management capabilities for FX, interest rate risk and commodity risk;
- flexibility to support the emerging role of treasury services within the wider corporate environment; and
- security and control around treasury activities and data integrity.

These requirements were incorporated in a detailed RFP submitted to tender and vendors' responses were analysed against a set of weightings. A field of five potential providers was narrowed down, and the remaining names invited to a structured demonstration.

OpenLink, the final selection, is a "front-to-back" risk management and accounting platform. Launched as a derivatives banking system it subsequently moved into the commodities market. In recent years it has established itself in the area of corporate treasury, and Earlam



says that an added attraction was its flexibility – it can be customised to handle work methods in different ways. The choice was also influenced by plans for treasury to have greater involvement with Rexam’s internal supply chain department.

However, once the RFP process was complete and OpenLink chosen, the implementation was driven in-house rather than through external consultants. “Resourcing in-house carries major advantages, one being that the product is thoroughly understood by each team member,” explains Sewell. “The downside is that it demands a huge time commitment. Outsourcing avoids that, but also carries the risk that you end up with a system nobody properly understands.”

Earlam adds: “We opted for the ‘let’s do it ourselves’ approach. Daily meetings were held for individuals most closely involved, and weekly for others in the project. From the outset we included stakeholders, such as accounting, internal audit, IT and tax.”

In addition, a steering committee was established to provide governance and ensure that team members were aligned to the project objectives. With Earlam acting as project director, specific responsibilities were allocated to each member and Sewell oversaw the SWIFT implementation.

“It was also important that we had a dedicated IT person as part of the team,” says Earlam. “Our treasury systems analyst, Brett Manning, was able to offer a huge amount of IT expertise, without which the project would have been almost impossible to complete.”

Implementation of OpenLink on-site commenced in February 2011. It began a challenging period for both Rexam’s treasury and accounting teams whose daily activities now had to accommodate a substantial volume of additional work. “One lesson we learned was never to underestimate the resources needed – or the impact of the project on departments outside treasury,” says Drown.

The demands intensified during the project’s latter stages. Vigorous user acceptance testing was followed by a month when transactional data was incorporated into both the old and the new TMS. The challenge was intensified by high levels of volatility in the markets at that time and heavy volumes of commodity and currency trades.

“During the parallel-run process, all our transactions had to be captured and processed in both TMS and then reconciled between them,” says Earlam. “This also enabled us to identify and resolve unforeseen issues. It ensured that when we eventually went live we could place a high degree of confidence in the new system’s ability to cope.

“We also carried out two full month-end reconciliations for

accounting, so that we could account for all movements within a certain tolerance. We simultaneously had to design and implement new reporting from OpenLink, both to enable reconciliation as part of the parallel-run process and to provide the right reporting for ongoing TMS.”

The project still came in on time and under budget – an achievement that, combined with success in the debt markets during 2011, saw Rexam scoop the Deals of the Year Award in the large treasury team category. OpenLink went live at the start of November, although development work has continued since.

The number of users with access to the system has steadily risen, passing the 100 mark earlier this year. “We have now embarked on phase two, to link the new system with our supply chains and involve individuals in this part of our operations,” says Drown. “Our web portal access is being rolled out globally and will extend to cash forecasting, FX forecasting, FX orders and commodity order transactions. It will ultimately give us the ability to restrict individuals’ access rights and also provide instant visibility for all deals. In future we can use SWIFT as the payment platform for other business units if we identify sufficient savings to make the move worthwhile.”

The group has also set up a change control committee to oversee continuing development of the system and further enhancements.

Implementing the new TMS – and undertaking the task in-house – made heavy demands of all those involved. Nonetheless Rexam’s treasury and accounting teams believe it has been a valuable experience, giving many members the opportunity to demonstrate new strengths.

“We’ve heard horror stories where new systems were introduced but things didn’t go so well, and these projects can be pretty high-risk,” says Drown. “But all 20 members of the teams involved felt fully engaged right from the planning stage – a key factor in the project’s success.”

The team’s advice for other treasury departments ready to take the plunge is to be aware that it creates a great deal of extra work, not only for treasury but also for connected departments. They add that you should never assume that the system provider will give you all the project management tools – it’s important that you yourself take on project ownership and governance.

Graham Buck is a reporter on The Treasurer.

editor@treasurers.org

