THE BUSINESS OF TRIPS

LEISURE IS A TOUGH SECTOR FOR TREASURERS TO WORK IN BECAUSE OF ITS TIGHT MARGINS AND HISTORY OF HIGH-PROFILE COMPANY FAILURES. DANIEL ALLISON EXPLAINS TODAY'S TOP CHALLENGES

In recent years, banks' attitudes towards the leisure sector have changed dramatically. Whereas they were once very obliging, bankers' discussions with treasurers are now often based on the assumption that the company they are working for is close to entering liquidation.

This change in attitudes is linked to losses in the leisure sector. Banks' credit departments are determined to ensure that companies in a sector where the bank has already lost money do not lose it any more. These days, banks are taking a different approach to a decade ago, when they would have offered every product in their portfolio.

The main changes are:

- A 1,000% increase in the number of questions asked (especially at the facility renewal stage);
- New or additional fees;
- Lower facilities on renewal; and
- Higher interest rates.

Banks typically give the following explanations for the changes:

- The bank has reduced its sector exposure;
- The previous facility size or costs are not sustainable in the present environment; and
- The economic downturn has left the bank with no option other than to decline at this moment in time.

Banks' unwillingness to lend to the leisure sector reduces their income streams. Although they levy higher interest rates, these are charged on lower facility amounts. But banks' primary aim is to reduce their losses, and the leisure sector has a history of high-profile business failures. This has unfair consequences for those who have a decent track record, though. They are penalised for the performance of peers over which they have no control. That said, banks are a necessary partner and there are still plenty that are willing to see things from the treasurer's point of view.

Cash management

Operationally, companies in the leisure sector can be similar to those in the retail sector in terms of how many of their outlets have banking requirements. To simplify banking processes, I have introduced pre-paid cards for petty cash requirements in two companies. There are many providers of this growing service, which has numerous benefits over the traditional process where outlets ask 'head office' for a cheque to cash. For airlines, the ability to 'load' pre-paid cards for cabin crew is particularly useful for covering expenses etc. It also offers access to ATMs for crew and the amount on the card can be controlled centrally, enabling quick and easy top-ups should the need arise.

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Banking structures tend to evolve in response to takeovers, technological advancements, business process changes and other developments. But some companies can overlook the banking innovations that are available to them since everything seems to be 'ticking along'. Pooling structures, international payments and facilities are all products that treasurers can bring up with banks, which have an army of specialists at their disposal.

I have noticed that banks often send charge notification advice that is not checked or reconciled. This is a dangerous practice since our banking partners are just as prone to errors as the rest of us. For this reason, checking of charges should be included in monthly reconciliation procedures, along with petty cash transactions.

In companies where there can be many outlets with frequent changes of personnel, variations in banking practice need to be communicated clearly, effectively and regularly. Responsibility should be delegated carefully without compromising local operations. Pre-paid cards are an easy win for treasurers, compared with just cashing cheques in banking hours, for example.

TMS and training

I have found that companies in the leisure sector view the cost of a treasury management system (TMS) as unnecessary. One FD even described it to me as a luxury. Heavy reliance is placed on spreadsheets

NON-TREASURY ACTIVITIES

In this era of downsizing (also known as 'restructuring'), treasury is seen as a 'natural home' for areas that traditionally had their own dedicated resource. I have assumed responsibility for both accounts payable and accounts receivable as a result of leisure companies looking to carry out the same level of activity with fewer resources. On a pleasing note, at least companies have not tried to shift treasury activity to accounts payable – but then again, I can only speak for the companies I have worked for in the leisure sector.

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despite the risks that such an approach presents.

Leisure companies' need for a TMS is greater than ever. So perhaps TMS providers should review their fees and offer incentives to tempt new companies to adopt the technology since the concept is easy to sell, but the cost is not.

Last year I sent a member of my team on an ACT course for their first treasury course in 10 years. The individual returned enthused and found the day course highly useful. Sadly this experience has not been repeated since cost cutting is the number one focus for many leisure companies in the face of reduced demand and flat, or lower, revenues.

Cash flow forecasting

Cash flow forecasts are a mainstay of any treasury, but they can prove to be particularly challenging in the leisure industry.

The standard 13-week forecast is a basic requirement that most treasuries will demand. But banks and internal stakeholders increasingly need a 'longer' cash flow and for these end-of-forecast balances to tie in with their own accounting equivalents (not something that is as easy as it sounds or as easy as it should be).

Variance analysis is vital, and it is easier to display variances pictorially rather than by illustrating them as a succession of plus and minus figures on a spreadsheet. Most listed companies' investor presentations adopt this approach. It is crucial that the treasurer gets stakeholders around the business to believe in the cash flow forecast that has been produced; variance analysis and a summary will help to get buy-in. I have frequently seen cash flow forecasts sent as a single spreadsheet, with no explanatory words at all, leaving the recipient to wade through 13 weeks (or more) of figures. It is more likely that they will just hit the 'Delete' key.

Hedging

Companies can view hedging in much the same way as they view a TMS. In other words, they can see it as a luxury, especially when it comes to options. With interest rates at a historical low, there is currently a dangerous stance of zero hedging of interest rates in some companies, which predict no rise in interest rates for the foreseeable future. As and when rates do rise, the wafer-thin margins of some leisure companies will be exposed by this practice – even just to hedge a certain percentage would provide some protection.

Having said that, our banking partners now place additional constraints before hedging will be undertaken. Trading beyond 12 months, for example, will probably require some form of 'cash collateral'. This is in case the leisure counterparty is not in business when the hedge matures, thus leaving the bank having to close out the trade in the market. In addition, margin calls for the difference between the trade price and the hedged price are a more common requirement – although these margin calls only appear to work one way.

FX hedging is also an important activity, and there are many different techniques and approaches available. Airlines are particularly exposed to FX since they will have dollar liabilities to cover via revenues earned in euros, sterling or another currency. It goes without saying that US airlines have a far easier job here than their non-US counterparts.

Recent turbulence in the eurozone is a further example of how volatile exchange rates can be. Hedging is a necessary way of controlling that volatility to some degree, rather than sitting back and taking whatever the market throws at your company.

It's not all fun

The leisure industry can be a fun industry to work in, but changing times and attitudes can rub off some of its gloss. Stakeholders are constantly demanding that margins are maintained or increased, which can be challenging when consumers are being asked to tighten their belts in all aspects of their lives. The leisure industry offers a wide range of activities that we all like to take advantage of. But the fact it is a 'non-discretionary' spending category presents the biggest challenge at present.

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