The quest for visibility

THE ACT'S FIFTH ANNUAL CASH MANAGEMENT CONFERENCE WAS PACKED WITH LIQUIDITY AND CASH TOPICS OF CONCERN TO THE CORPORATE WITH THE FOCUS ON CASE STUDIES. **PETER WILLIAMS** REPORTS FROM THE CONFERENCE WHICH WAS SPONSORED BY BARCLAYS COMMERCIAL AND SUPPORTED BY EXPERIAN PAYMENTS.

Achieving more with less was the theme of the conference and more than 100 delegates heard from a range of corporate and market participants about how they had turned that slogan into a reality. The cash-is-king mantra has driven treasurers to involve themselves in all aspects of business processes: centralised versus decentralised treasury policies, liquidity and asset management, supply and sales chain structures and systems development – both internally and in the wider financial community. In short, treasurers have added the function of business process managers to their growing list of responsibilities.

Giles Newell, deputy treasurer and head of treasury operations at SAB Miller, explained what cash management meant for the global brewer. The group treasury's strategy is to treat cash as a scarce resource, an approach which is underlined by the credit crunch which has seen the cost of debt increase for corporates. The overall objective is to reduce the working capital requirement across the group while ensuring that sufficient liquidity is available to the business units. Treasury wanted to align the treasury strategy with the broader finance strategy, and embarked on projects to achieve cash pooling, visibility of cash balances, intercompany netting and foreign exchange centralisation.

These projects have brought benefits for the group and the business units. For the group cash visibility and pooling has improved cash management, with external debt from surplus cash repaid and yield on short-term surplus cash improved. Business units have benefited from cheaper borrowing and better returns on surplus cash.

Global cash pooling was also the focus of the presentation by Becky Lowe, group treasurer at the private equity technical inspection and certification company Moody International. The company has grown strongly over the last eight years and, like SAB Miller, has a global reach, with more than 80 offices in 60 countries. Growth had been so rapid that Moody International did not have a formal treasury function until 2005. The result was that the profits were generated and cash held in more than 40 currencies.

The group decided to move away from its decentralised treasury structure, which had 163 bank accounts held at over 90 banks in 80 countries. The decentralised treasury function brought Moody International myriad problems, including time differences and language barriers, manual intervention and integrity of data, a lack of control, insufficient treasury expertise and awareness at the local level, and trapped cash and accessibility problems.

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The solution was to move to a group treasury function and a global corporate bank. The group function consisted of a group treasurer and treasury assistant, the former reporting to the CFO. It brought measurable benefits such as expertise, increased visibility and control, optimisation of interest in surplus funds and better corporate banking relationships, all of which left local management to focus on running the business.

With the establishment of the global treasury function came the opportunity to select a global bank: HSBC had a global footprint that matched Moody International's, could support cash pooling across the globe and used up-to-date technology and an e-treasury platform. With the migrations of bank accounts to HSBC around the globe, the treasury found that it was enjoying good corporate bank relationships, increased control and visibility, such as the ability to view real-time balances online, and a common internet banking platform which increased control centrally, eased money movements between intercompany accounts and, where possible, standardised bank charges.

Moody International also moved to set up cash concentration in Europe. But setting up cash concentration brings issues such as volumes of documentations, country restrictions, language barriers when dealing with lawyers in foreign jurisdictions and time delays from both lawyers and the bank. But at the end of the project tangible benefits included a reduced cost of debt, increased cash repatriation (even above targets) and a reduction in bank charges and optimisation of time management thanks to automation.

One of the issues the conference returned to over the two days was the need for decent cash forecasting. Paul Gilmartin, head of group treasury at Thomas Cook, explained how the group set about obtaining robust forecasts to help steer business and financing plans in the short and longer term. In June 2007, significant consolidation in the European travel sector took place when Thomas Cook merged with My Travel.

The treasury plan for the short-term forecast was a single template adopted across the group, a rolling 13-week forecast with most regions submitting figures on a weekly basis. To achieve that, treasury had a tough challenge as not all parts of the new group prepared cashflow forecasts and there was a wide variety of methods and outputs in use. However, the aim was achieved by agreeing the opening balance and the template which allowed a single currency input specific to each region. The benefits of the project have become apparent, with greater visibility, the introduction of common reference points, a clear improvement in the quality of short-term forecasts and the management team now focused on cash generation and profitability. The next step for the group will be to develop medium and long-term cash forecasting processes and develop and introduce reporting on cash performance measurements.

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