Treasury functions face varying requirements when implementing a new TMS. **Liz Salecka** talks to four corporates about the path they took and why.

Case study Lucent Technologies

A seamless solution

Centralising its global treasury functions has not only meant improved business practices at Lucent Technologies but has led to significant cost savings too.

AS A LEADING SUPPLIER of next-generation products and services for fixed and wireless networks to the world's largest communication services providers, Lucent Technologies decided it was time to make its own treasury technology next-generation too. The company's treasury operations were being managed on a geographical basis, with the head office in New Jersey in the US responsible for corporate treasury functions and separate treasury functions in Hong Kong and the Netherlands taking care of certain aspects of foreign exchange (FX), money market activities and cash management for business operations in the Asia Pacific region, China and EMEA respectively.

In 2000, Lucent Technologies' corporate treasury function decided to streamline its worldwide treasury functions to reduce duplication and achieve greater efficiencies. It also wanted greater control of, and visibility into, the treasury practises of its different groups worldwide.

To achieve this, the company began its search for a treasury solutions supplier that could consolidate the roles of its disparate treasury systems into a single technology platform with full front-, middle- and back-office functionality. At the same time, it was interested in implementing an in-house banking model.

After talking to several suppliers, Lucent decided to implement Trema Finance Kit Version 5, which came with its own in-house banking component – the Trema Finance Kit Cash Management Module (CMM). The new solution matched the group's business and treasury objectives for a common, central system that could be accessed by users worldwide and provide them with a wide range of treasury activities – from FX and money markets to inter-company loans. Moreover, the new system brought with it all the benefits of an in-house bank which could net and then collectively manage inter-business debt payments, as well as handle the FX exposures of individual businesses and their surplus liquidity.

"We have seen a fundamental change in cash management and cash pooling"

Fred Schacknies
Director, In-House Banking, Lucent Technologies

Group business benefits

The new solution was installed at the corporate treasury function in New Jersey, with 20 business operations in 10 different countries going live in the first two phases of implementation at the start of 2004. After the third phase goes live, a further 36 operations in 24 countries will be connected.

Centralisation has streamlined the entire treasury function, making it more efficient and cost-effective to run and has also allowed the aggregation of data about multiple functions, products and instrument types, as well as improving visibility of cashflows worldwide.

Trema Finance Kit has enabled the group to automate several processes that were previously handled manually, freeing up treasury personnel to focus on other treasury activities. The treasury function now works more effectively with other parts of the organisation – for example, by providing full integration with the accountancy function by interfacing with a new enterprise resource planning (ERP) solution being rolled out across the entire company.

Exposure management benefits

From a treasury perspective, the consolidation of individual businesses' exposures and their cashflows has dramatically reduced the volume of transactions Lucent now enters and manages. In the case of FX, for example, the in-house bank is taking over individual operations' spot conversion activity, together with the centalised hedging of forecast flows for the businesses, and these are now amalgamated in one portfolio for consolidated hedging – a process that has resulted in considerable cost savings.

"The entire project was initiated in treasury with a number of objectives, one of the main ones being to reduce the number of external transactions we were conducting on a worldwide basis. We are now consolidating more of our positions internally," says Fred Schacknies, Director of In-House Banking at Lucent Technologies, adding that consolidation already indicates a 25% decrease in the volume of external deals entered by the group.

The new centralised solution is also leading to improved centralised cash management. The liquidity of individual operations is now pooled by the in-house bank, providing one large cash sum for investment, which should result in improved net interest income. The system also provides global, more timely visibility of cashflows, therefore leading to improved cash management decision-making.

"We have seen a fundamental change in cash management and cash pooling. Before, we were relying on the services of a number of external banks for this, but now more of our cash pool is increasingly being handled by the new in-house banking mechanism," says Schacknies.

In-house banking services

Further benefits are being derived from the general banking services provided by the in-house bank to individual business groups, a move that is supporting the continuing consolidation of banking relationships and the reduction of external bank fees.

The use of an internal bank has greatly reduced the need for physical cash transfers between individual businesses to service inter-company debt, for example. This process is now managed 'cashlessly', with the centralised treasury crediting or debiting businesses' internal accounts as required.

Individual subsidiaries' payments to third parties are also being routed through the internal bank, with the centralised treasury then settling each individual operation's account internally in the latter's own currency, again reducing the need for third-party bank involvement.