Who will win?

Executive summary

- Should you choose a treasury system primarily because it most closely matches the needs of your treasury (and so enables the department to contribute optimum value to the business) or because it meets the global infrastructure and business needs of the group? The ideal system does both.

There is a commonly held view that specialist treasury management systems (TMS) and the treasury modules offered by the ERP (enterprise resource planning) suppliers represent a battle between solutions, with one approach being wrong and the other right. Competition in any open market is healthy and desirable, but such strongly opposing views are rarely found in other areas of treasury. Is there really a right way to go and is it right to dismiss one alternative or the other? This article considers the arguments, looks at some of the emotive issues and tries to reach some conclusions.

BACKGROUND HISTORY We need first to understand a little of the background to the development of systems to meet the needs of management within the treasury environment. Specialist TMS evolved in the 1980s, filling a gap hitherto filled by manual or spreadsheet processes, with some of the larger corporates investing considerable internal resource in designing and building their own TMS.

Early systems tended to come from small specialist software companies, often set up around one product, and their design incorporated the specific treasury experiences of the authors. Each system had considerable variations in strengths and weaknesses that reflected their origins. They ranged from risk management to cash management, from front office to back office. Some filled the role (and still do) of TMS workhorse while others had particular strengths in analytics.

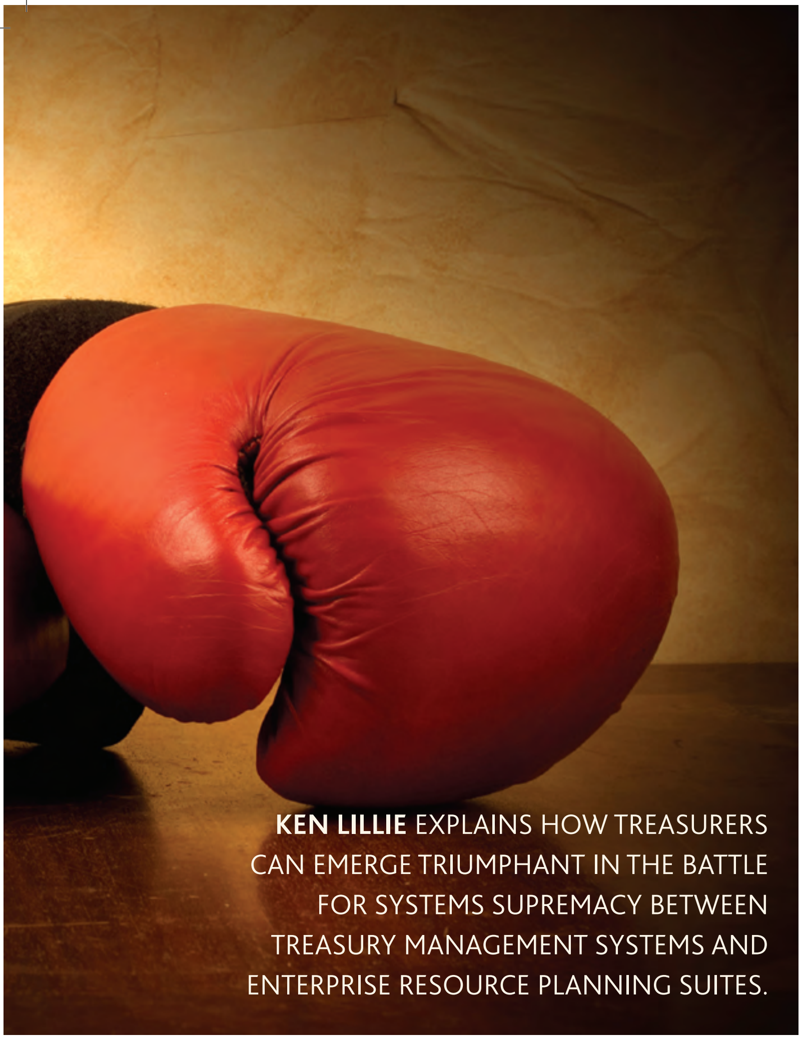
As the early systems spread into the market, ERP suppliers identified and reacted to the needs of their clients using the financial modules of their software and wanting a TMS capability. So the ERP-supplied alternative was developed as an extension to their customers' existing financial software.

Many of the original smaller TMS suppliers were acquired by larger companies (some have changed hands several times), and some just faded away. But as time advanced, so did the capability of the remaining systems and the functionality gaps were filled. From the suppliers' point of view some of the older but successful systems required considerable investment in technology to keep them sharp, so acquisition was an acceptable way forward. A relatively recent development has been individuals from those early days using their skills and experience to develop genuinely new products.

During this time of dramatic change the ERP companies did not lose their impetus. Oracle introduced a new TMS module, which is now part of the Oracle Financials family of applications, and SAP continued developing its treasury module.

UNDERSTANDING THE TMS ROUTE Individual suppliers and their products originally targeted niche markets and some of the smaller surviving companies still continue to do so. But the main market thrust is for suppliers to broaden their offering to cover more market sectors. The larger suppliers have achieved this through acquiring a portfolio of systems, as did SunGard AvantGard (Quantum, Integrity and Globe$) and Wall Street Systems (WSS, Trema's Finance Kit and Richmond's Odyssey). Smaller suppliers have concentrated on the wider application of scalable and flexible solutions. Indeed, it is the use of the latest technology and languages that provide the strength and flexibility, although the success, of course, depends on its application by the supplier.

TMS suppliers have recognised that in a world looking for straight-through processing (STP) for a complete treasury solution, they have had to work hard on interfacing to other systems. ERP systems have historically scored highly in this area as standalone TMS solutions have frequently struggled with a fully integrated solution while the ERP linked smoothly with the enterprise (assuming the same software version was employed globally) and with the banks. But the problematical interfaces are now largely a thing of the past and workflows and information flows through STP are genuinely achievable. Most TMS have a risk management capability that is at the very least acceptable in identifying, measuring and monitoring foreign exchange, interest rate and counterparty risk. Often this information is available to update dealer positions online in a real-time environment. However, interfacing the TMS to specialist risk



management software should not be a problem if more sophistication is required than that on offer.

Web technology has enabled the TMS to provide a single solution for an international or even a global organisation with flows of information allowing the central treasury to function as a genuine group treasury operation. This includes not only the ability to operate as a central dealing bank but also for optimising cash management. An extra bonus for the corporate TMS buyer is that some of the suppliers that initially designed their products for financial institutions have moved on to market them to the top end of the corporate treasury spectrum by adding on functionality. But the needs of the two markets are not always compatible, so make sure a supplier talks your language.

Indeed, the TMS suppliers have extended their reach so far that some of them are now using the term ERP in conversation to describe the breadth of their products, although in most cases this does not extend far beyond treasury. Certainly, there are some impressive solutions for cash management, forecasting and strategic planning now available. One supplier has even moved into the payables and receivables area although none of the TMS suppliers could truly call its product an ERP system with the potential for full business integration in the traditional sense.

UNDERSTANDING THE ERP ROUTE The fundamental difference between the true ERP route and the TMS approach is that the ERP companies started off with business solutions rather than a treasury management system.

An enterprise may embrace production (product planning, product development, and so on), procurement and logistics, sales and service, human resources and financials, and although treasury fits naturally into this general scheme it is only a small part of the whole. But from the perspective of the complete financial solution it was a logical extension to meet the rising need for a treasury solution. As a result, the initial ERP bias was towards resolving back-office issues. Indeed, that back-office bias has been a double-edged sword for some

time as concentration on the efficiency of fully integrated flows and automated processes has been outweighed hitherto by charges of a lack of progress on front-office and risk management capability. That is now being addressed and progress is being made on instrument coverage and, in particular, risk management.

The ERP suppliers implement treasury systems as part of what is primarily a holistic solution – that is, a single financial solution from cash, banking and general treasury through to financial planning and the general ledger, running on one technology platform across the enterprise. This often generates buy-in from internal IT departments and can be an interesting approach for the CFO. However, treasurers may have some doubts about the priorities accorded to their needs by a treasury solution that is part of a much wider and potentially massive group-wide business implementation, or even as an add-on module to an existing implementation.

HOW DO YOU DECIDE? The debate on whether to opt for the ERP treasury module route or the TMS alternative can become fearsome indeed, but pursuing a logical path towards selection can make the decision easier. First of all, consider some commonly held beliefs:

- **ERP systems have little or no front-office capability** This charge used to be true, but is now being actively addressed with some interesting results; instrument coverage and risk management are vastly improved;
- **TMS systems are front-office-oriented** Not so. Some have very strong back offices and are even interfaced to specialist front-office dealing systems; and
- **ERP systems provide better cash management functionality** But some TMS have a highly sophisticated cash management capability with efficient interfaces in place.

There are two fundamental guidelines to follow in comparing ERP and TMS options.

A full requirements definition should be compiled detailing the exact requirements of the specific treasury and business. The ERP and TMS alternatives cannot be measured against one another for effectiveness; they have to be measured against a standard set of requirements that acts as a yardstick. Only if both alternatives fit the bill should they then be compared against one another to decide which offers the best fit.

A key aspect of the requirements definition is the prioritisation of treasury's requirements and where these fit into the requirements of the business. If there is a conflict between the two, this should be resolved before the selection process gets under way.

An ERP treasury module is designed to be part of a complete financial or business solution and not to stand on its own. The obvious conclusion is that there is little reason to take the treasury module of an ERP suite unless the company is running or planning to run the rest of the suite.

A selection process that was limited to TMS systems would still be thorough and would involve detailed comparison between the alternatives. All TMS have different attributes, approaches and applications of the technology. If an ERP module is included in the process, then the process does not change.

Some of the criteria in the requirements definition will be particularly relevant in deciding between the ERP and the TMS:

- **Front office and risk management functionality** A thorough comparison of what is on offer is essential. An ERP module would not pretend to be a dealing room solution.
- **Cash management** ERP traditionally scores high here but the TMS route may be simpler and as efficient. Some TMS have powerful group-wide cash management, planning and forecasting capabilities.
- **System integration** The ERP one-platform route is being challenged by improved and seamless connectivity between the TMS and other treasury systems (banking systems, cash management, multibank dealing systems, confirmation matching, and so on). It is worth noting that all the major suppliers, both ERP and TMS, are forging more partnerships with other suppliers of treasury software, delivering increased opportunities for smooth integration.
- **Report writing** Ensure that the current or planned requirements for reporting are properly met and that new reports can be developed readily without continuous referral to the supplier. Are regulatory reporting and corporate and compliance reporting needs fully met?
- **Speed and cost of implementation** Make sure that the implementation plan is realistic and meets the need of the treasury. Treasury's requirements should have priority within the business.
- **System development** Ensure that the system will have the necessary dedicated resource and evaluate the R&D invested by the supplier. Ensure that the system is developed in line with the treasury markets when new instruments are introduced.
- **Partnership** The supplier needs to understand the immediate aims of the client if it is to be able to work in close partnership throughout the implementation. It also has to appreciate the longer-term strategic treasury view to help identify and meet the client's system needs in the future.
- **Does the supplier fully understand the treasury solutions business and is it committed it?** For most TMS suppliers, the system is their only business and they are therefore fully committed. The larger TMS suppliers may have a suite of products available and the buyer will need to be satisfied that the business strategy attached to its specific product is sound. ERP suppliers have a far wider business remit and the buyer should therefore be satisfied that the treasury business is fully supported and a good team of treasury specialists is in place and is available.

Ken Lillie has more than 20 years' experience of providing treasury consultancy and 10 years' previous experience in corporate treasury.
ken@lillieassociates.eu
www.lillieassociates.eu