# LOOK INWARDS FOR RESULTS

AFTER RESTRUCTURING, WHITBREAD CHOSE TO OUTSOURCE SOME OF ITS TREASURY FUNCTIONS. **BOB COOPER** OF THE BANK RELATIONSHIP CONSULTANCY (AND FORMER GROUP TREASURER AT WHITBREAD) EXPLAINS THE PROCESS.

In 1999, Whitbread embarked on the process of outsourcing its treasury function. There were many reasons behind this decision. First, although Whitbread had previously undertaken very successful structured financings, these were no longer suitable and available to the group. Second, after a number of key strategic disposals and the return of a substantial part of the cash proceeds to the shareholders, the group was not only smaller and simpler, but also set for a period of consolidation. *Table 1* indicates the change in Whitbread's finances after its disposals and restructuring.

Having streamlined the company, it was unlikely that the treasury team would be tackling major financing and risk management exercises in the near term. Whitbread now had the tricky problem of sustaining a costly, yet underutilised, treasury unit, while dealing with an inevitable lack of motivation caused by the operation's excess capacity.

**SMALL BUT IMPERFECTLY FORMED.** Whitbread's treasury team comprised the group treasurer, deputy group treasurer and two treasury managers, all of whom had extensive treasury experience. The department was responsible for all aspects of treasury operations, including funding, financial risk management, cash and liquidity management and bank relations. A sub-committee of the main board, the Risk Committee, met monthly to consider the principal financial risks facing the group. The final factor in the decision to outsource was the difficulty of ensuring effective internal control when operating a treasury department with a small team. In addition to which, any staff resignations or absence of team members from the office for sustained periods would inevitably create substantial problems because of the unit's small size.

**PRELIMINARY OUTSOURCING.** The outsourcing project was split into two stages, the first being to outsource all aspects of cash and liquidity management, treasury reporting and administration. It was decided that once the first stage had been successfully completed a decision would be made on outsourcing the principal elements of financing, risk management and treasury strategy.

At the time of the decision there were very few outsourcing providers capable of providing the range of services Whitbread required. As a result, it was decided that the first stage of outsourcing would be brought in-house and handled by Whitbread's finance services department, which maintains accounting records, manages all trade payments and receipts and provides a financial reporting service to the group's various divisions. Individuals from the department were to be trained in basic treasury procedures and processes.

**SUCCESS CRITERIA AND PROJECT MANAGEMENT.** Clear project objectives were fundamental to the success of the project. For stage one these were:

- cost savings of £0.5m a year;
- a reduction in the head count of the treasury unit by three;
- the separation of dealing, deal recording, payments and reporting; and
- maintaining the quality of service provided by the treasury team.

These objectives would probably not have been met within the short space of four months without the commitment of the treasury team. Regular monitoring of the progress of the project was undertaken by a steering committee composed of those key individuals with ultimate responsibility for the project's success. The committee signed off each key stage of the project on its

**TABLE 1**

| Whitbread plc | 2000 £bn | 2001 £bn |
|---|---|---|
| Turnover | 3.7 | 1.7 |
| Operating profit before exceptionals | 0.39 | 0.24 |
| Total assets less current liabilities | 3.7 | 2.9 |
| Borrowings | 1.1 | 1.3 |

*NB: 2001 financial data relates to the group's finances after a restructuring which was completed in May 2001.*

'THE OUTSOURCING PROJECT WAS SPLIT INTO TWO STAGES, THE FIRST BEING TO OUTSOURCE ALL ASPECTS OF CASH AND LIQUIDITY MANAGEMENT, TREASURY REPORTING AND ADMINISTRATION'

completion and authorised the commencement of the next stages. Whitbread was fortunate in that the treasury team could draw on the project management expertise present within the group's IT department. As well as assisting with many of the project's technical areas they also helped on many aspects of project management, such as resource planning, timetabling, user acceptance procedures and service level agreements.

Staff training was also a major consideration. This covered all areas involved in the transfer as well as some of the fundamentals of treasury management. In addition, Whitbread had to compile a complete documentation set of all procedures and processes, including a 'what-if' guide should certain operations, for example, bank balance reporting, fail. The new structure was subjected to extensive parallel running, with the results of the finance services department's tasks reconciled daily to those undertaken by the treasury department. Because the finance services department was assuming responsibility for liquidity management, clear instructions, policies and procedures had to be compiled. These covered how liquidity should be managed, which facilities could be used, and to what extent, what periods drawings could be made for, and what instruments could be used. These were all monitored by the Risk Committee to ensure the instructions and policies were kept to.

**STAGE TWO.** Stage one of the process was completed in February 2000, with all key objectives achieved. In December 2000, Whitbread began stage two. This comprised outsourcing the provision of technical input and advice on risk management, funding, bank relations and treasury strategy and policy. In hiring a consultancy firm to provide these services, Whitbread's principal concern was that the consultant could attain a sufficient feeling for its business philosophy, corporate personality and strategic direction. The consultant attended the monthly Risk Committee meeting, where he provided practical input and information. Whitbread still retains responsibility for bank relations and has the final decision on risk management and financing transactions, but the consultant provides the necessary technical support.

**EXTERNAL VERSUS INTERNAL OUTSOURCING.** As previously mentioned, Whitbread was forced to outsource internally because there were no suitable treasury outsourcing providers. Although 'internal outsourcing' sounds like a contradiction in terms, this approach initially had certain advantages – the company was reassured that the then innovative approach to outsourcing was under control because the treasury operations were still being performed 'in-house'. Second, it also meant that greater cost savings could be achieved as there was no additional recruiting within the finance services department and Whitbread was not paying for outsource provider's fees. There was also no need to transfer data to a new system or design new reports – although this advantage was offset by the amount of training required for the new treasury staff. With hindsight, a professional outsourcer could have prevented some of the minor inefficiencies and costs that naturally occur when non-treasury professionals handle treasury operations. They would also have ensured best practice was always applied, and kept an overall view of cash and liquidity management. Finally, such a resource could have provided a more comprehensive service covering all areas of treasury activity. These benefits may well have offset the additional cost of hiring an outsource provider.

**CHOOSING THE OUTSOURCE PROVIDER.** The following tasks (or a combination of) can generally be outsourced by many firms:

- cash management;
- liquidity management;
- administration (including maintenance of the treasury management systems);
- internal reporting; and
- some aspects of FX management.

Although external parties can provide technical input and advice on matters such as treasury policies, funding, risk management and bank relations, most companies believe they should retain final responsibility for these matters. Choosing an outsource provider therefore largely depends on what treasury operations are being outsourced. Principally, companies need to satisfy themselves that a complete range of controls operate over all the relevant processes and systems within the provider. This requires a thorough understanding of the structure, organisation and procedures that the provider has in place. There should also be a rigorous examination of the security and integrity of the company's information, both as it is relayed to and received from the outsource provider and as it is maintained by the provider. The quality of support provided to the treasury system, by the outsource provider and by the ultimate treasury system provider are also relevant considerations. Internet-based systems have merely become the medium through which outsourcing is effected and should not be a reason for overlooking due diligence and best market practice.

Companies should ensure they can maintain or improve their quality of service, otherwise there is little point in outsourcing. If cash and liquidity management is to be outsourced, can the provider act within the company's own cash and liquidity management policies? A firm intending to outsource its cash and liquidity management should consider whether a prospective provider has an adequate infrastructure to manage some of the non-routine decisions that are involved in these activities. The financial strength and commitment of the provider will also be a prime concern as treasury outsourcing is still a comparatively new industry. All of the investigations dicussed here can take up valuable time and might be better handled by an experienced outsourcing consultant.

**ALL PART OF THE PROCESS.** The firms most likely to consider outsourcing are either those which are not large enough to justify the costs that a treasury function implies, or that want to alleviate some of the operational and administrative risks and burdens that are involved in maintaining a treasury department. Many treasurers will also see outsourcing as chance to improve internal controls, information flow and service levels. The outsourcing of aspects of treasury operations can also be seen as part of the continuing process of concentrating on core skills and costs reduction.

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