

# Business partner

STEPHEN EAST, GROUP  
FINANCE DIRECTOR,  
WOOLWORTHS GROUP PLC,  
TALKS TO PETER WILLIAMS.

At this time of year, as the build up to Christmas gets under way, it is hard to switch on the TV or open a newspaper without seeing an advert for Woolworths. One man who will be watching the Woolworths' ads with more interest than most is Stephen East. As Group Finance Director he will be paying even closer attention to the sales figures. East only joined Woolworths a few months ago, but he gives the impression of a man who has firmly grasped the essentials of the role of the Group Finance Director at one of Britain's best known stores and best loved retail brands.

East certainly picked an interesting time to join Woolworths from an accounting and financial reporting perspective. In his first full week at the beginning of July Woolworths announced its interim results, the first the group had compiled under International Financial Reporting Standards (IFRS). East has just spent the last few weeks talking to City analysts and the company shareholders.

As East says: "As a company which sells products based largely around kids and celebrations, Christmas is always going to be vital. 40% of our sales happens in the 10 weeks running up to Christmas." Having such a large percentage of the turnover squashed into just 20% of the year must give rise to some interesting challenges. Particularly so at the moment when, as East says: "The High Street is a challenging place."

How challenging can be seen in those interim results produced by Woolworths back in the summer. Chairman Gerald Corbett pointed out that the first half of the year is traditionally loss making for Woolworths, but even so losses from continuing operations edged up to £35.9m compared to £32.9m for the same period the previous year. Perhaps it is the top line that really tells the story of the current fragile state of British retailing. Group sales from continuing operations were down 2.9% to £1.04bn, while Woolworths like-for-like sales were down 4.0% in the 26 weeks to 30 July 2005.

Since the US corporate scandals at the turn of the century, you could argue the prevailing culture has emphasised the compliance role of the finance director and his team. However it is not the primary concern for East. He says: "My job is to make sure we're being a business partner to the rest of the company, the finance department is not the score keeper.

"I think the challenge for the finance department is to be fully integrated into the business. The more you can get the finance department reflecting the way the business thinks, then you are more likely to avoid surprises. Nobody likes surprises,

particularly if they are not nice. But the City does not even like nice surprises because they are trying to understand your business."

The example that East gives of business partner not score keeper is during his time at property group MEPC plc (now MEPC Limited). He says: "The finance and tax people worked very closely with the property guys. If we were putting together a transaction we needed to ask what were the needs of the tenant or purchaser, for instance. So if the purchaser was a charity they would not be interested in the tax attributes of the property."

In seeking to ascertain the needs of the prospective tenant, East manages to convey a sense of fair play, an idea that business should be there for the long term. "There is no such thing as a one-sided good deal, it has to be good for both sides."

The Group Finance Director may be based in Woolworths' London head office on the Marylebone Road but he makes sure he is not completely desk bound. As part of an induction process, he recently visited one of Woolworths' 800 stores with colleagues from management information systems to see how the in-store ordering and till system – installed a year ago – was faring. And yes, Woolworths' Group Finance Director could work on the checkout but as he says: "It might be dangerous."

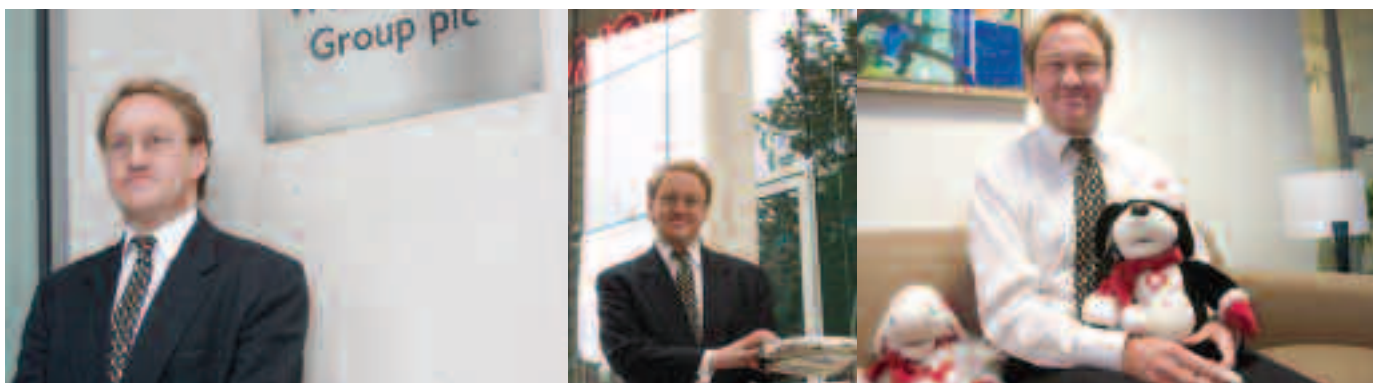
What is more important to East than his ability to ring up the pick'n'mix, is the fact that every till in the 800 Woolworths stores is also an internet point. So as well as being able to buy the items in store, customers can also buy online at the till any of the 250,000 CDs that the company has in stock at its music wholesalers and receive the goods the next day in the post. A system that East is confident is working well.

The work of the treasurer was first opened up to East when he was at Binder Hamlyn, where he qualified as a Chartered Accountant. In 1983 he was seconded to one of his clients, building materials company Redland, as cover in the treasury department for three months. He clearly made an impression. Six months after his stint

ended he was back after having been headhunted by Redland's treasurer and ended up as Group Treasurer. His responsibility was extended over the years and the group's centralised tax function and global insurance programmes were added to his core responsibilities of managing the centralised treasury function for the company. East helped to oversee massive growth in the organisation with turnover eventually hitting £2.7bn and employees numbering 25,000. After a period where he established a corporate finance consultancy business, he was enticed back into big

### East on treasury policies:

"As for the structure of your treasury, policies have to suit the requirements and culture of your business. Some companies want treasuries to be hugely entrepreneurial, some conservative. I would describe the treasury function as a profit-conscious risk reduction centre. You don't get rid of every risk because that is not cost-effective to do so. Managing financial risk is one of the key treasury remits."



corporate life, becoming first Director of Corporate Finance and then Finance Director at property company MEPC. He summarises his career to date as "great fun" adding "I've learned a lot and in the companies I've worked for we've managed to achieve a lot of interesting things." For instance during his time at MEPC, he was instrumental in the restructuring and disposal of the company's US business which owned over \$1bn of property. Much of those funds were then returned to shareholders.

Having seen various organisations in operation, East refuses to be overly prescriptive on the ideal role of the treasury function. He says: "The critical issue is what does the business actually need, there is no one right answer."

The size of the treasury function will depend on individual characteristics such as the size of the trading flows, the foreign exchange (FX) requirement, the intra-group trading, the need for a European netting system or a debt management requirement.

As for the treasury need at the Woolworths Group, East characterises the company as "not one of the most complicated businesses principally because it is mainly a UK business". But he does point to three distinctive characteristics which drive the group's treasury management: first the company engages in a large amount of overseas sourcing of merchandise which brings FX issues and Letters of Credit into play; second, it has massively cyclical cashflows.

The company has cash on the balance sheet at the 29 January year-end as a result of the Christmas trading period. But the cash drains away during the course of the year so that while there are six months of surplus at the start of the fiscal year, the final four months see the company needing to borrow. The third interesting element is that Woolworths Group holds a total leasehold estate.

East says: "This is a fundamental piece which has to be taken into account when you are looking at what the capital structure should be. What you have is a rental commitment which is rather like

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having an interest commitment. So you look at fixed charge cover, rather than pure interest cover."

If East could still be described as a new boy at Woolworths, he is an old hand at the Association of Corporate Treasurers (ACT). Currently Deputy President, due to become President in May 2006, he has a long-standing commitment to the profession. First encouraged by his boss, Redland's treasurer Gareth Jones, East attended regional meetings in Redland's Reigate offices and then took on the responsibility for organising the regional activities.

Over the years he has also chaired the ACT's Education, Programme and Publications committees. He helped to run ACT course programmes in the early and mid 1980s. At the time the ACT was heavily dependent on the work of volunteers and it was like running a small but growing business.

East may now be sitting in the Group Finance Director's chair but he is still convinced that treasurers have a lot to offer their organisations. He points to the growing concern in the corporate world over the funding of company pensions. A few years ago, treasurers would have had little interest in actively managing company pensions. These days treasurers are increasingly working with other financial professionals in managing the pension problem.

East sees pensions as an example of where treasurers can bring their financial skills and experience to bear and really make a difference in a tricky situation. He says: "It is all about applying the skill sets that treasurers have got to the business benefit."

He is clear about the value of the ACT: "It is a fantastic network. Being able to ring up one of your fellow members to ask 'Is there a man trap over there?' Over the years the network has been hugely valuable because you don't have to start at base zero. People are very willing to share their experiences. I have learned about treasury matters and about general business issues. It is like everything else in this world, the more you put in, the more you get out."

A network that East will doubtless be drawing on as he helps to guide Woolworths through this Christmas and beyond.

