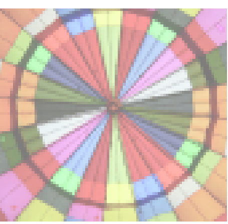

A centralised approach

SETTING UP PAYMENT FACTORIES AND SHARED SERVICE CENTRES NEED NOT BE A NIGHTMARE, AS **KARSTEN BECKER** EXPLAINS.

Embarking on a treasury centralisation project can be a daunting prospect. Yet achieving clarity in terms of what is required – and what is possible – will get things off to a strong start.

One item has been at or close to the top of many corporate treasury agendas for some time – a more integrated and centralised approach towards managing payments and collections. This is no surprise given the potential benefits.

The advantages include lower costs thanks to both internal and external economies of scale, a reduction in risk due to stronger internal controls as well as a further host of benefits – such as streamlined reconciliation and more visible cash positions – on account of the inherently efficient nature of centralised administration.

The broad goals of any centralising initiative are reasonably clear: replacing disparate labour-intensive processes with more centralised capital-intensive ones. However, there can be confusion surrounding the different types of organisational vehicles available to achieve these goals. While shared service centres (SSCs), in-house banks and payment factories are all distinct approaches, the lines between them can be blurred, especially as financial institutions and corporates may be operating using different definitions of the same approach.

Yet there appears to be some consensus on the hierarchy between these different vehicles: SSCs will tend to have the broadest scope, payment factories the narrowest, while in-house banks normally fall somewhere in between.

SSCs, IN-HOUSE BANKS, PAYMENT FACTORIES An SSC is essentially an entity within a corporate designed to supply various other business divisions with certain services. Such services can include human resources and payroll administration, IT support, liquidity management and accounts payable/receivable.

An in-house bank can be a standalone unit or part of a broader SSC and will be tasked with supplying financial services, such as foreign exchange and funding between subsidiaries, to the rest of the business.

A payment/collection factory will be similar, although with a more limited remit – usually just the provision of accounts payable/receivable services.

Accounts payable provides an ideal starting point for centralisation. Invoice processing can be labour-intensive and paper-based, and reforming the processes can yield the greatest benefits for the smallest effort and the least disruption. However, in any move towards a fully centralised structure that yields maximum efficiency, a staggered approach over a period of time will normally make more sense than a complete overnight change.

For example, a strong first step towards centralisation could be to establish regional cash pooling to improve

visibility, control and investment options. This could be followed by the tentative establishment of an in-house bank to manage intercompany lending and further reduce the number of external payments being made. With this achieved, the full centralisation of payments – and, later, collections – might then be suitable.

WHILE EMBARKING ON AN INITIATIVE OF THIS TYPE CAN BE DAUNTING, WORKING CLOSELY WITH AN EXPERIENCED CASH MANAGEMENT BANK WILL CERTAINLY YIELD SIGNIFICANT BENEFITS IN TERMS OF RECEIVING GUIDANCE AND SHARING EXPERIENCE AND BEST PRACTICES.

DRIVERS Full centralisation is being encouraged by a number of factors.

First, regulatory developments such as the Single Euro Payments Area (SEPA) and the Payment Services Directive have created a harmonised payments landscape within Europe and a set of common payment and collections instruments, thus making it easier to centralise similar processes across European subsidiaries. Yet as international trade continues to grow and supply chains become more globalised – encompassing geographies beyond the scope of harmonised environments such as SEPA – and increasingly complex thanks to various countries using different connections and formats, the benefits in developing specialised centres containing the expertise to handle these different processes pile up.

In addition to these factors, technological progress – especially the development of web-based platforms – is making centralised structures easier to facilitate, as well as reducing the fixed costs involved in establishing them.

CHANGE MANAGEMENT Significant changes in existing internal operations and organisational structures are likely to be required to underpin or "industrialise" centralising projects such as these. This makes a rigorous project management approach essential. Indeed, a project of this type will have many different components; they include thoroughly analysing existing processes, defining strategic goals and the requirements of the new structure, deciding on the steps to be taken to achieve these goals, and establishing and monitoring suitable key performance indicators (KPIs) to monitor progress towards them.

Given this complexity, senior management buy-in for any initiative of this scale will be crucial. Indeed, such a project will inevitably involve some short-term expenditure in order to derive benefits in the medium to long term, and will therefore be competing against other projects for support and funding. In this respect, constructing a comprehensive business case to present the justification for change will be an essential step.

This will involve an analysis of both quantitative and qualitative benefits and may include questions such as: by how much can bank fees be reduced? What sort of improvements to working capital performance will be achieved? How large will processing quality and efficiency improvements be? By how much can IT maintenance costs be reduced? How extensive will be the improvements to the visibility of liquidity? And, what compliance benefits will the new structure yield?

PLANNING AND CONSULTATION Establishing a project plan will, of course, involve answering a broad range of strategic and tactical questions regarding the exact structure, degree of centralisation and geographic location of the centralised facility. For instance, the questions that need to be answered will very probably include the following:

- Should only accounts payable, only accounts receivable, or both be centralised?
- Which entities/subsidiaries should be included?
- How many banks should be used?
- What is the legal status of cash pooling and "on-behalf-of" payments in the relevant countries?
- What are the relevant central bank reporting obligations?
- What are the tax implications?
- What are the human resource and real estate costs in the proposed locations?
- Which KPIs will best measure the success of the project?
- What back-up/contingency measures should be implemented?
- Which connectivity options will best suit the new structure?

While this list is by no means exhaustive, it gives a flavour of the type of planning that will be required and the extent of the decisions that will need to be taken before such a project can get off the ground. Of course, there are likely to be some surprises along the way, yet answering all or most of these questions will provide an excellent starting point for assessing potential benefits, constructing a sound business case for change and creating a detailed project plan for implementing the new structure.

And while embarking on an initiative of this type can be a daunting prospect, working closely with an experienced cash management bank will certainly yield significant benefits in terms of receiving guidance and sharing experience and best practices.

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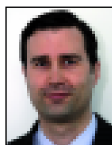

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