Making the most of e-business

E-business presents a major headache for corporate treasurers. But, argues Sheila Baddeley of KPMG Consulting, it can also open up opportunities.

Over the past 10 years, technology has brought about major changes in how the role of the corporate treasurer is defined and performed. This prompts us to look forward to what the next 10 years may hold. As the rate of technological development increases, we are likely to see more profound and far-reaching changes in the role and work of corporate treasuries than in any other recent development.

A recent survey of 357 European companies with a minimum turnover of \$330m (£205m) showed that currently just 2% of companies' transactions are carried out directly over the internet (see *Figure 1*). However, respondents' predictions of their future e-commerce activity suggests a radically different picture. The total anticipated percentage of European sales that will be transacted over the internet in the next three years was a much more significant 13.6%. For the UK, the prediction was 15.6%.

E-business will impact upon all aspects of organisations' commercial activity. Many of the current systems and data sources on which the treasury function relies may be replaced, offering treasurers the opportunity to improve data flows and hence decision-making.

The good old days?...

Treasury departments rely on established processes to carry out their core functions. The better the quality of information flowing into the treasury department, the better the quality of decision-making and the more value the treasury department is able to add.

Under a paper system, orders are received by phone, fax or mail. These are then booked onto a computerised system. Production planning subsequently monitors these orders, places raw material orders, and manufactures and ships the goods. Many of these processes generate data essential to the functioning of the treasury department.

> Corporate treasurers have a key role to play in exploiting the opportunities that e-business is starting to present

...and the brave new world!

The patchwork of paper and computerised systems can be frustrating for treasurers. E-business has the potential to remove these frustrations by sweeping away the processes that give rise to them. This is where it differs from what is termed e-commerce. Whereas e-commerce is primarily concerned with the application of the internet, digital communications and Information Technology applications to buying and selling, e-business takes things much further. In management-speak it is a 'continuous optimisation of an organisation's value proposition and value chain proposition through the adoption of digital technology and the use of the internet as the primary communication medium'. This distinction is drawn out in *Table 1*.


Sheila Baddeley

Some difficult questions

We can illustrate the challenge presented by the arrival of e-business by posing a speculative scenario. For example, if one arm of the company started an e-business function, the old processes which supplied the raw data for treasury decision-making could disappear. Customers may start placing raw material orders via the web, feeding an automatic raw material ordering system and thus allowing both customers and suppliers to self-bill. In addition, many companies are beginning to outsource internet-based distribution and order fulfilment functions, which can add further complexity.

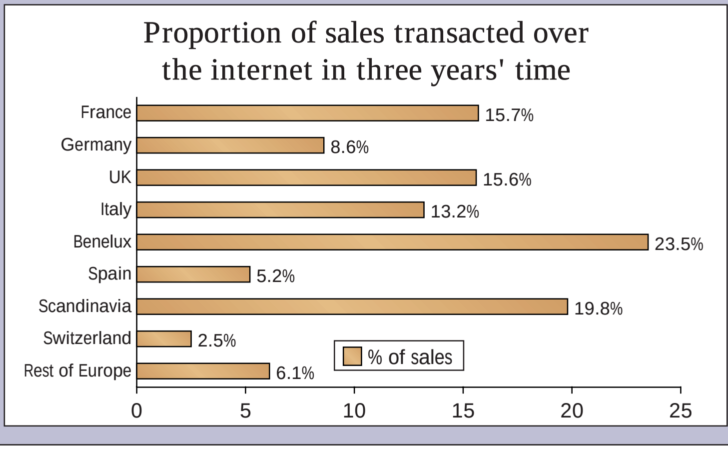
Clearly, treasury would have to draw its data from new sources and systems, and to do this efficiently the treasurer will need to do considerable work at the design stage of the process. However, it may well be that the increased information on, and control of, the ordering/invoicing/payments process (for both purchases and sales) will give the treasurer better quality data with which to work, and therefore reduce the uncertainty he has to deal with.

E-business and banks

If e-business could revolutionise a company's relationships with suppliers and customers, it stands to reason that the revolution could also extend to banking relationships. For example, if a company uses a limited number of banks, what impact could the new e-business operation have on fund flows? The e-business system may work through different payments channels (for example, using automated electronic payments instead of cheques) and treasury must be ready to capitalise on this situation.

More crucially, banks are themselves responding rapidly to the e-business revolution and this, as much as the changes taking place within companies, will affect treasuries' work dramatically. Banks are reviewing how, and with whom, they want to do business. This might even result in some banks adopting 'cherry picking' or other strategies to retain the most profitable customers – a move with major implications for treasurers everywhere. At the very least, treasuries need to communicate with their own banks to find out what their strategies are for the e-business environment and to ensure that their banking relationships are advantageous.

FIGURE 1



What to do

As with all strategic change within their organisations, treasurers need to ensure that they are closely involved from the earliest stages with the design of e-business systems. Recent research into the development of e-business has shown a trend towards the involvement of cross-disciplinary groups in e-business ventures. Treasury, of course, should be one of the departments consulted and treasurers should ensure they are involved early and appropriately.

You'll never stand alone

The solution to a proliferation of disparate e-business solutions is the development of a truly enterprise-wide function. The old way, of largely separate treasury and risk management systems can cause inefficiencies; with e-business, this will be completely untenable. Data gathering with separate systems will not be delivered to the treasury quickly enough for it to be useful. E-business is fast, reliant on the rapid exchange of commercial data. To take full advantage of what this environment can offer, treasurers will require data, real time, in a standard format, from across the entire company, using vendor ERP systems.

This will be vital in enabling treasurers to provide effective cash and risk management systems, in ensuring a rapid financial reporting capability and in allowing the rapid, efficient collation of information for statutory and management reporting.

Enterprise risk management

Being able to integrate data from different sections of the business can revolutionise the risk management abilities of treasuries in a traditional business, but in an e-business, an enterprise-wide analysis of risk is essential.

There are several reasons why this is necessary. First, e-business is such a new concept that the risks involved are still quite poorly understood by many companies. The treasurer's experience and abilities in risk analysis and management will be essential in enabling companies to manage the risks of e-business effectively. Second, the start-up costs of e-business are likely to be high. A company that must make a very large provision for poorly managed risk will be at a disadvantage because its resources for investment in the e-business start-up will be limited.

Even though e-business is still in its infancy, companies cannot really expect its growth to be slow. As more and more organisations embrace new ways of using the internet in their business, the risks – and the techniques needed to manage these – will proliferate. As ever, corporate treasurers will have a key role to play in managing the risks and in exploiting the opportunities that e-business is starting to present. ■

Sheila Baddeley specialises in the treasury and credit modules within SAP at KPMG Consulting. She is a member of the Institute of Credit Management.

TABLE 1 E-commerce / E-business

E-commerce	E-business
• Orders received over the internet; and • payment made via a credit card.	• Suppliers have real-time access to the order book via a corporate extranet and the company manages production and delivery to match; • orders are received over the internet and can be tracked on line; • the whole process of ordering, contract manufacturing, fulfilment and payment is automated; • self-billing – purchasers determine settlement amounts on basis of goods received. There is no conventional accounts payable/accounts receivable function to provide information; • travel and expenses are dealt entirely on the company's intranet with reimbursement within 2 days; • procurement, employee benefits and recruiting are also all web-based; and • employees can sell shares in the company in a couple of clicks.