

Group treasury drives pan-European banking

Marie Jewitt and John Mowbray of Diageo look at how group treasury can enhance shareholder value by initiating and managing cross-functional change.

Diageo is a leading consumer goods company. Formed in December 1997 through the merger of Guinness and Grand Metropolitan, it has an extensive portfolio of food and drink brands through its four business streams: United Distillers & Vintners (UDV), Guinness, Burger King and Pillsbury.

The creation of Diageo provided the opportunity throughout the new organisation to appraise existing operations and identify ways of maximising value for the group. This is being achieved both through cost-saving efficiencies and new value creation.

In group treasury there is a wide range of skills. Given its contact with all parts of the business and the corporate centre, it is in an ideal position to see the global perspective. This makes it well-placed to implement value adding initiatives across the group.

The group treasury function performs three distinct roles:

- risk management;
- treasury execution; and
- value creation.

Risk management and treasury execution must be carried out to ensure efficient management of the financial risks in the business units. The value creation team role is to identify and deliver opportunities across the whole group which increase shareholder value. This gives group treasury the opportunity to deploy and maximise the use of a wide range of skills.

An early opportunity identified was to create an integrated pan-European banking (PEB) solution across the four business streams. This has been used in this article as the case study.

Pan-European banking solution

The merged group inherited a legacy of 62 banks and 120 cash pools in the 16

 Diageo's business streams	
 <p>World's leading spirits and wine company with leading international brands such as: Johnnie Walker, J&B, Smirnoff, Gordons.</p>	 <p>One of the world's leading food companies with four international brands – Green Giant, Old El Paso, Pillsbury Dough, Haagen-Dazs.</p>
 <p>Brewing company best known for Guinness stout – more than 80% of world stout market share.</p>	 <p>World's second largest fast food restaurant chain.</p>

western European countries in which Diageo operates. In addition, 12 financial systems were being used within the region, which gave rise to a wide range of practices.

Group strategy includes the objectives to move towards the greater use of shared service centres and, where appropriate, the outsourcing of non-core activities. The task was to develop a solution that would actively support this

strategy, enabling costs to be reduced and, in addition, providing a platform for a global solution.

The centralisation of cash management provides a greater opportunity to outsource non-core activities and support the set up of shared service centres.

There were three areas in which the solution could reduce costs:

1. bank charges, by capitalising on



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FIGURE 1

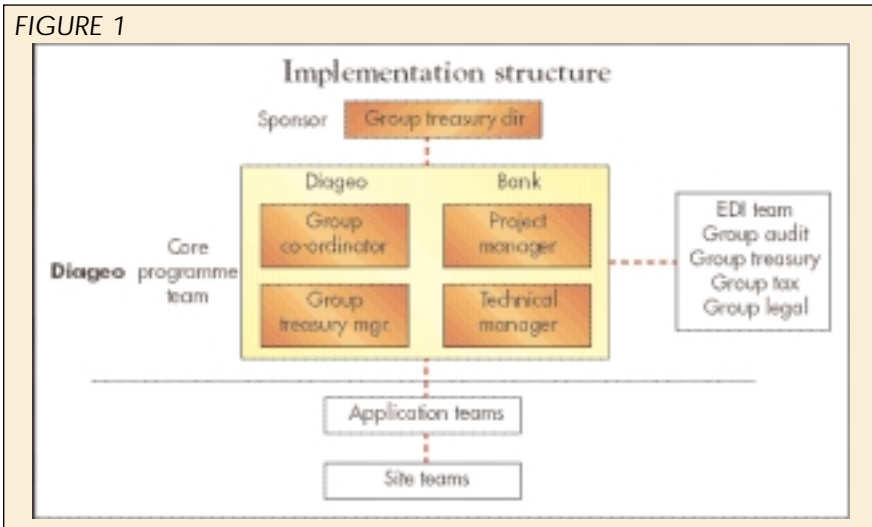
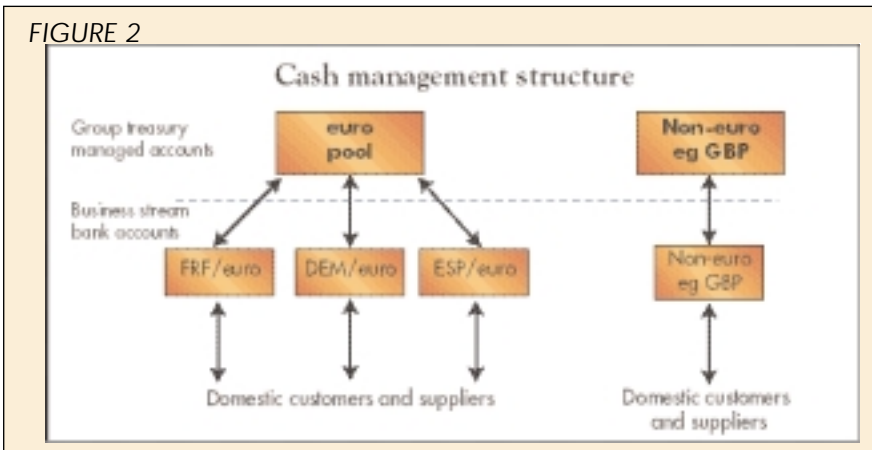


FIGURE 2



- group buying power and solution efficiency;
- interest, by centralising cash management. All cash can be actively managed, thus capitalising on central expertise. This is of particular benefit to the euro currencies; and
 - administration costs, by a combination of process re-design and automation.

Model – key features

To deliver the above it was considered that five key features were required:

- single cash management structure;
- single bank relationship;
- complete solution;
- single technical infrastructure; and
- control and security.

Hurdles

However, there were a number of hurdles to overcome before these could be achieved:

1. the number of financial systems;
2. the diverse banking requirements

3. the variety of different banking instruments and practices in the 16 markets;
4. the lack of integration between the systems and processes of group treasury and those of the business streams; and

The centralisation of cash management provides a greater opportunity to outsource non-core activities and support the set up of shared service centres

5. step change in mindset was required to accommodate leading edge practices.

The PEB model and bank selection

The selection and implementation processes were co-ordinated by the group treasury value creation team. An important element was the involvement from the outset of key experts from the corporate centre and business streams. This guaranteed both that the optimal solution was selected for Diageo and that there was ‘buy-in’ and ownership from the business.

An RFP was issued to those banks that could potentially provide the required banking services. This formed the basis for the banks’ replies, which were then rigorously reviewed by the experts in four areas:

- IT infrastructure;
- local business requirements;
- treasury services; and
- strategy and pricing.

The review process highlighted those gaps which were of critical importance to Diageo’s model. This formed the basis for further negotiations. The banks were requested to propose how all key banking services could be provided and a complete solution delivered. Bank of America offered the best strategic fit for Diageo’s banking needs in Europe.

Implementation of the PEB model

The implementation structure is outlined in Figure 1. This structure is mirrored at Bank of America to ensure that there is an effective partnership. Group treasury co-ordinates and manages the project ensuring:

- the overall objectives and requirements of other head office functions (for example, tax, legal, audit) are met;
- maximum benefit for the group is achieved;
- resources are committed and managed; and
- optimal capital/funding structures are set up for each business unit.

The business units are responsible for local implementation and for selecting the individual country solutions within the overall objectives. While there is standardisation, it is appreciated that there are individual

TABLE 1

Rationalisation of the Diageo Group

	Before	After
Cash management banks	62	One relationship
Sets of documentation	>62	One
Cash pools	120	6
Bank accounts	>600	<150

country requirements and therefore the model needs to be flexed to ensure these are met. Local ownership means there is only a small team managing the project in group treasury. It ensures there is a two-way education between the business units and central treasury and that we are working together to drive maximum value.

Cash management structure

To ensure maximum benefit is achieved through taking advantage of central expertise, access to lower spreads and the netting of balances, the cash management structure has to allow all funds every day to be managed by group treasury.

To achieve this, all bank accounts, where possible, are to be held with the PEB. If bank accounts with other banks are required, through partnership arrangements, these should zero balance automatically to/from a PEB bank account. PEB bank accounts (see Figure 2) zero balance on a daily basis to bank accounts managed by group treasury. Those currencies in the euro-zone zero balance to a single euro pool based in London allowing the group to maximise the euro opportunity.

Information on all the bank balances is to flow on a timely basis to ensure active management of all funds/funding requirements.

A single relationship is set up with the PEB. Where the PEB cannot provide banking services, partner bank arrangements are set up. This allows that:

- a single point of contact is to be established;
- one set of documentation is to be negotiated and maintained; and
- capitalisation of group buying power is achieved by operating with one bank relationship.

The solution includes all banking services, those of the local business units and group treasury.

A single technical infrastructure allows both processes and procedures to be

administrative effort. In addition, it gives an opportunity to leverage integration with treasury systems.

Standard EDIFACT message formats are used to communicate with the bank. These are used both to send information (payments and direct debits) and receive information (bank statement, five-day forecasts and lockbox information). This has the following advantages:

1. the messages can be used to communicate with any bank that has EDI technology in place. This gives greater flexibility, allowing the same structure to be used globally with potentially different regional banks. In addition, if the decision were taken to change the PEB, then the existing structure could still be maintained;
2. the use of standard message formats provides an insurance against technology changes and reduced maintenance/upgrade costs;
3. application systems used by the business can be rationalised without impacting the bank; and
4. direct communication can be maintained with the bank, thereby avoiding the use of intermediary bank software. This avoids the

standardised and allows automation to take place, largely eliminating routine manual processes and reducing

requirement for any re-keying and improves control and security.

There is improved control and security with the move away from manual controls (for example, signatories) to using electronic means (for example, encryption) with duty segregation.

What does all this mean?

This means that there is an opportunity to allow radical change and improvement. This is highlighted in Table 1.

Even though there may still be as many as 12 financial systems there will be flexibility with organisational structure and it will be possible to rationalise the number of systems, if required, without having an impact on the banking structure.

A combined business and treasury solution has been created helping to ensure that group treasury is not viewed purely as an isolated head office function but rather as part of an integrated team.

Driving value

A key lesson from the project has been the potential role that group treasury can play in driving value from and managing change throughout the organisation. This goes beyond just achieving the objectives of the project.

Through the project there has been the opportunity to:

1. influence finance strategy in areas that in the past have been considered to be outside the 'normal' domain of group treasury;
2. identify best practice and facilitate the sharing of such best practice across businesses;
3. create the functionality to allow management to make informed financing and cash management decisions; and
4. capitalise on skills available in group treasury and the business units by ensuring a two-way education and knowledge flow.

The PEB project has helped group treasury to be recognised as a proactive value-adding function in Diageo PLC. ■

Marie Jewitt and John Mowbray have strategic responsibility for global cash management, business unit capital structures and business/treasury process integration at Diageo plc.

A single technical infrastructure allows processes and procedures to be standardised and allows automation to take place, largely eliminating routine manual processes and reducing administrative effort