

A SUCCESSFUL PARTNERSHIP

The treasury department at John Lewis not only supports the business, but also the organisation's 88,700 partners. Alan Drew explains how he and his team tackle the challenges this creates

Words: **Ben Poole** / Photography: **Tony French**

From early on in his professional life, Alan Drew – now group head of treasury at the John Lewis Partnership – had a curiosity about treasury. “I worked at a regional building society in a role that had a lot of interaction with the treasury team,” says Drew. “I quickly got bored of what I was doing in the mortgages team, but became more and more interested in what the treasury team was doing.”

Drew progressed to the position of treasury dealer after only 12 months in the role. It was then, by taking international cash management exams, that Drew discovered there was a lot more to treasury than the dealing side he had been exposed to. This encouraged him to swap a financial institution for a corporate position, by joining electronics retailer Dixons.

“In seven years at Dixons, my job changed quite a lot,” explains Drew, who passed his AMCT in 2005 while at the retailer. “I ended up assistant treasurer there, via a few roles, and that saw me cover a lot of different topics. In my last year there, I wasn't really doing much treasury at all; M&A disposals took up most of that time.”

It was while working for Tesco in 2011 that Drew moved to Hong Kong. In his international treasury role, he had been based in the UK and covering into Asia, but the company knew at the time that the next couple of years would be very Asia-centric, with specific transactions in the region. With this in mind, Drew's role flipped, seeing him based in Hong Kong, but then also covering back into Europe.

One surprise for Drew was that he found Hong Kong to be run more like an organisation rather than simply a region to live in that had business or finance as its core employer. “It really felt like a business – there is a chief executive that runs Hong Kong,” says Drew. “I was only there for two years, but you could see and feel them doing things to compete with other ‘businesses’, such as Singapore and the Free Trade Zone in Shanghai that was opening up. Hong Kong was having to move, adapt and keep relevant like a company would competing against other markets.”

While the 2008 financial crisis hit the Western world hard, Hong Kong had already experienced the Asian financial crisis, as well as the SARS medical crisis. This experience of relatively

consistent market shocks has had an effect on the mindset of business operations in Hong Kong. “One of the real strengths of the centre was that they had got used to crisis and have developed really strong and progressive risk management thinking,” says Drew. “My team was particularly strong at modelling different types of scenarios and kept reminding me that the storm of the century happens every 20 years rather than 100 years.”

While in Asia, Drew also experienced first hand the ways that China was opening up the renminbi. In August 2011, Tesco issued a renminbi dim sum bond out of Hong Kong. “We were one of the first international businesses to do this, so we had to get lots of permissions and assurances from the governors of the People's Bank of China,” recalls Drew. “It was a market that they were really promoting, so we wanted to do it. Being one of the first, we did encounter certain difficulties, but it became a lot easier, even just during the couple of years that I was there. It is good for market forces that this is so much easier today.”

Joining a UK institution

In 2014, Drew moved back to the UK and into his current treasury role at the John Lewis Partnership. “In some ways, I was attracted by the organisation and the people ahead of the role itself,” says Drew. “I knew this was a company I wanted to get into. The role is incredibly broad. I remember the first couple of weeks thinking that I probably should talk to someone in investor relations about something, only for someone to say that they thought this was my responsibility, as we only had ‘debt’ and ‘debt-like’ investors. That would be quite a quick conversation!”

Reflecting the broad nature of the role, a recent realignment has seen finance strategy and pensions join the treasury department. A key focus is to get asset and liability management right. The Partnership has a large financial liability with its open defined benefit pension, as well as bonds, operating leases, cash and a lot of really good property. “The change in structure to bring strategy and pensions in with treasury is to bring all of this together and really get it right,” says Drew. “We also get to lead in some areas that could be perceived as peripheral treasury, whether it be from >



VITAL STATISTICS

£10bn

Annual gross sales of the business

88,700

Permanent staff, the organisation's partners

46

John Lewis shops across the UK

346

Waitrose supermarkets

1864

The year John Lewis began trading on London's Oxford Street

58

The total number of countries outside the UK where Waitrose's growing export business has a presence



building out a property strategy to our pension liabilities and all the complex inputs into pension risk management. I like the concept of treasury as an entity broadening out to be ultimately responsible for the full balance sheet.”

The John Lewis Partnership is focused on being able to differentiate what it offers to partners compared to what they could get as an employee at another organisation. An example of that is the open defined benefit pension scheme, which is something of a rarity for companies today. Drew and his team have recently carried out some pension risk management activities, which will help make the defined benefit scheme more affordable.

“The Partnership is fully committed to providing that benefit,” explains Drew. “At the same time, the retail environment is increasingly competitive and trade margins across all of retail have compressed, particularly in food. Being able to do one thing while the financial backdrop is pulling you to do something else is a challenge. There is a real focus on productivity and efficiency across the Partnership and how we do that in a way that doesn't distract from the partner and customer offer that we provide. Balancing all of those things is not easy or straightforward. It brings a real subtle complexity to the role that is somewhat unique.”

Project Venice

The treasury team at John Lewis spent a big part of 2015 rebuilding the way that cash is managed, how it flows around the business and the way that it can be managed using the treasury management system (TMS). “As the project was about rebuilding the foundations, we called it Project Venice,” says Drew. “That has really transformed what we do because that is just happening in the background, whirring away in the machine,

while we can invest our time in business engagement, business partnering and thinking about what the right thing to do is.”

Part of the increased investment in the TMS was to help get a better handle on real-time cash management and optimising cash resources. This exercise involves using the Partnership's existing TMS, but changing the way that treasury interacts with it, as well as unlocking part of the system that was already there, but not being used. “We have been looking at a lot of straight-through processing and automation,” explains Drew. “The approach of using the same thing, but just a bit better, this fits in with our productivity agenda of using existing assets a little bit smarter. This has made a real difference; it has freed up my team's time to work more on finance strategy.”

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No Plan B

When it comes to funding, John Lewis does not have access to traditional equity markets. So while other organisations would think that they could always go to a certain market or ask their owners for some more money as a Plan B scenario, this isn't the case for Drew, who possibly would not be very popular if he just walked round the office with a collection bucket.

“We have been looking at different ways of funding the Partnership. Our predecessors did some of that – one of our

predecessors did a retail bond in 2011 that was a really good transaction. This opens up another market for us if we need to or want to.”

Drew explains that the focus over the past year for his treasury has not been on external debt markets. Rather, they have been looking inward at the balance sheet and financial strategy, and looking at funding – pensions, leasing and bank debt – as an adjusted leverage. The company has to be really mindful of its balance sheet because, unlike some of its other retail peers, John Lewis cannot do a rights issue.

“We are starting to look at landlords providing leases to us in the same way as we would a bond investor, providing direct cash to the business,” explains Drew. “My new team structure supports this as well. We can make the best decision based on a holistic view of all assets and all liabilities. We run ourselves fairly liquid and that liquidity has materially increased over the past year. This is reflective of our review of the balance sheet as well as market conditions. We do not know what the future is going to look like, but what we do know is that we are going to have to be fairly flexible. The retail market could get rather bumpy, so we have to get our balance sheet ready for that.”

The treasury at the John Lewis Partnership does use hedging as a risk management tactic, specifically when it comes to currency exposures. The John Lewis division brings a lot in from outside the UK, particularly in areas such as electricals and homeware. This is less of an issue for Waitrose, where a lot of the food is UK sourced, but the treasury team is definitely active when it comes to risk management.

“By being able to bring a few other areas of the business into the treasury area, risk management thinking immediately picks up inflation risk,” says Drew. “This is definitely the case when thinking about the pressure on pension liabilities if inflation rates go up. This may be indirect to treasury, but it certainly fits within organisational risk.”

A business with a difference

The ownership structure of the John Lewis Partnership means that treasury can have a conversation about the economics of a transaction over a longer period of time, rather than simply worrying what it may look like in the financial statements at a moment in time. “It is about the long-term economics, and what the best thing economically is for partners and the Partnership,” says Drew. “For me, it has been absolutely brilliant that I can think longer term and not worry so much about how the accountants may perceive or present something; it is about the underlying nature of the transaction.”

This outlook reflects the nature of the Partnership, which has been around for more than 150 years. It has its own constitution, and shares the rare distinction of being one of the few entities, along with the US and the Kingdom of Bhutan, of enshrining happiness in its constitution, in this case the happiness of its partners. “The team and I all feel that we want to hand over something that is in better shape than when we started,” says Drew. “That is not something I’ve particularly felt at other organisations I have worked – probably because you know the owners will change before you do.”

Ben Poole is a freelance writer and editor, specialising in treasury and transaction banking

ALAN'S TOP TIPS FOR SUCCESS

It is important for treasurers to spend as much time with the business as possible, because we, in treasury, are not the business. Really get in among the guts of whichever organisation you are in and make sure you keep connected. That, and invest heavily in your team: recruit brilliant people.

What I like about the AMCT is that it is a broad qualification. There will be areas that you won't have touched at the time you are going through the exams, but you will at some point; it could be core to the job at some stage.

My favourite gadget is my Fitbit. If I've been at my desk for too long, it is a great reminder that I need to get up, walk around and be much more mobile. And it plays to my competitive spirit.

I've never really pushed the next role – it has just happened. I think this is because I have just tried to keep learning and get involved in lots of different things. Also, just be a good person. Throw a lot of energy at both of those things and the opportunity should just come – don't force it.

The most difficult question my FD is likely to ask is probably the question that I haven't yet considered. Only because, as a treasurer the inputs into decisions are wide and varied, and if you miss an angle it could change the outcome. My FD keeps me on my toes, but that is a good thing. It's why we exist as a function.

I like to unwind after a stressful day by spending time with my kids. They are quite young, six and four, so being able to get home and see my family is what life is all about.



ALAN'S CV

2014-present

Group head of treasury, John Lewis Partnership

2013-2014

Director, international treasury, Tesco

2011-2013

International treasurer, Tesco

2009-2011

Group treasurer, Signet Jewelers

2001-2008

Treasury analyst, treasury manager, then assistant manager, Dixons Retail

1999-2001

Treasury dealer, Norwich & Peterborough Building Society

QUALIFICATIONS

Cert ICM (2003, AMCT (2005)