5.2.2 Treasury Organisation Exercise[1]

Unit: Unit 1 – Treasury Strategy

Module: Module 5 – Treasury structure

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Summary: Exercise examining the merger of two companies, both seeking to exploit synergies in a global market which is progressively concentrating. The treasuries in each company are quite different and the case focuses on issues arising as a result of the integration, requiring identification of these issues and outlining a possible new treasury organisation structure

Keywords: treasury, organisation

Background

Very recently, Fixe SA (France) and Fasteners (UK) merged to create Fastfixe SA, the largest metal and non-metal fasteners group in Europe, and third world-wide, with 140 factories and 36,000 staff in 21 countries, and with major presences in France, UK, Germany, Spain and Italy.

Question 1

What are the major issues which you should take into account in structuring the merged treasury?

Question 2

Outline a possible new treasury organisation.

[1] This exercise is used in the Unit 1 final tutorial (both classroom & online groups), and your answers are to be uploaded to the Module 5 activity webpage in advance. Your answers are not assessed, but will be reviewed by the tutors in preparation for the tutorial. Please see the study website for further information.

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Proforma annual figures for Fastfixe at GBP/EUR = 0.83 are:

Profit and loss	**Fixe x 2 EURm**	**Fasteners x 2 GBPm**	**Fastfixe GBPm**
Turnover	1,078	1,105	2,000
PBT	101	60	144
PAT			104
Net Asset Statement			**Fastfixe GBPm**
Tangible assets			565
Intangibles			450
Investments			65
Other net assets			200
Net borrowings			(500)
Net assets			780
Minorities			(80)
Attributable net assets			700

Fixe Recent History

Up until 10 years ago, Fixe operations had been based almost exclusively in France. The company was organised on a decentralised basis into ten operating units to enable the operating entities to focus their energies on meeting specific customer requirements in their particular product-market. 10 years ago, several operating units had begun to look abroad for new markets and the decentralised structure had enabled them to expand rapidly in Western Europe over the ensuing five years, during which time a total of 24 operations had been acquired by the various operating units. The chief executive claimed that because of the decentralised structure it had been possible to run the company “on the telephone” without formal procedures. Operating units abroad reported direct to their parent operating unit in France (mother, daughter structure). Prior to the merger Fixe employed 12,000 staff.

Fasteners Recent History

Pre-merger, Fasteners employed 24,000 staff and operated in the UK, Europe, Africa, the Far East and the USA through subsidiaries, joint ventures, associates and licensees. Most of these businesses had been in existence for many years and had developed product-market strategies and business structures tailored to the local environment. Geographical spread for the two companies pre-merger (in the prior year) is shown in the table below.

Fixe		Region		Fasteners
Turnover GBPm equivalent	Number of Subsidiaries			Turnover GBPm
		Europe		
	-	UK	na	552
524	16	France	1	
	2	Belgium	-	
	2	Spain	-	
184	1	Portugal	-	194
	2	Italy	2	
	1	W Germany	-	
	-	Netherlands	2	
	-	Greece	1	
	-	**USA**	2	145
32	5	**Africa**	5	44
	-	**Other**	2	33
740				968

The benefits of the merger were summarised as follows:

- meeting the growing challenge of pan-European customers
- compatible and complementary markets and products
- power to fund and exploit research and development
- enhanced opportunities for technology transfer and licensing
- optimum deployment of capital
- economies of scale

However, press comment cast some doubt on the cultural and organisational obstacles which might stand in the way:

> ‘Putting together two entirely different companies is not going to be easy, especially given that some subsidiaries have previously been fierce competitors. Because it is a merger rather than an acquisition, there is not the luxury of one side being able to claim victory over the other with conqueror’s rights of being able to impose change. Instead, a new culture has to be forged. The chief executive of Fixe, who will lead the new group, acknowledges this. He says that the group must not be considered as either Anglo-French or Franco-British but as European – an adjustment which some people within the group will find difficult.’

You are a consultant employed to advise the (Dutch) CFO on how to set up the treasury function in the newly merged group. She has given you some sketchy notes on how the two treasuries have worked in the past; but she is not a treasurer herself.
Pre-merger, the Fasteners treasury function was set up as a separate company and operated as a profit centre. The Fixe treasury was a department within the company and operated as a cost centre. The rationale, function and performance measurement basis for both treasuries are summarised below.

Philosophy / culture

Fasteners	**Fixe**
Treasury as a separate function	Department of Head Office
Acts as principal	Acts as agent
Taxed as a financial trader	Provide access to capital markets
Efficient use of group-wide cash	Investor of surplus cash at Centre
Profit centre	Cost centre

Functions and features

Fasteners	**Fixe**
Centralised cash management	Decentralised cash management
Treasury management system - Trema	Treasury Management system – Quantum Avantgard
Principal for dealing in forex options, swaps	Forex dealing as agent, also Commodity futures
Investing and borrowing - e.g. Eurobonds, tax-based products	Investing and borrowing - Money markets (security of principal paramount)
TMS not used for accounting	TMS linked to ERP system
Market feed - Reuters	Market feed - Bloomberg
Routine mark to market valuations	Mark to market only for IFRS revaluations

Performance measures

Fasteners		**Fixe**	
Money Market	Acts as principal	Money market	Acts as agent
	Exceed short gilt returns on rolling historic 3-monthly basis		Comparison with overnight
Forex	Acts as principal	Forex	Acts as agent
	Actual v best/worst rate		No measures
	Mark to market		
	Turnover		
Bank Relationships	Quarterly performance review meetings looking at pricing, service levels and products Business allocated based on Greenwich rankings	Bank Relationships	Lunch on an ad hoc basis; Invitations to Paris Opera, French Open