5.4.2 Outsourcing Treasury Exercise

Unit: Unit 1 – Treasury Strategy

Module: Module 5 – Treasury structure

Date: 1 March 2012

Summary: Exercise requiring views on the feasibility of outsourcing some or all of a company's treasury functions. Requires identification of the motivations, benefits and drawbacks of outsourcing, the most appropriate treasury functions to be outsourced and how such arrangements could be controlled, once they are in place.

Keywords: treasury, organisation, outsourcing

Background

Your company, Bradley Ltd, is a manufacturer with subsidiaries worldwide. It supplies specialist packaging to other companies which produce for their domestic consumer market such as foodstuffs, beverages, clothing, and household consumables. Despite the specialist nature of the product, packaging is seen by the customer base to be substantially a commodity on-cost. Bradley's challenge therefore is to maintain as efficient a cost base as possible (bearing in mind the threat of competition from lower-cost countries), whilst maintaining its brand of providing advanced products such as light but tough protection for delicate products, biodegradable plastic film and preformed, pre-printed tins.

Bradley is funded centrally using bank, capital markets and commercial paper debt. Funds are lent on to subsidiaries.

Bradley is looking to re-focus and rid itself of all peripheral activities which do not meet aggressive value-added criteria. Several functions have been wholly or partly outsourced, e.g. IT, training, payroll, security and plant maintenance. You are asked for your views about the feasibility of outsourcing some or all of your treasury functions.

Question 1

In the context of Bradley, what might be the motivation, benefits and drawbacks of outsourcing?

Question 2

Which specific treasury functions could be outsourced most readily and under what conditions could such a course of action be justified?

Question 3

How would you control these arrangements once implemented?

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