



# Testing times for treasurers

FACING MULTIPLE CHALLENGES IN A SHIFTING ECONOMIC LANDSCAPE, TREASURERS FROM ALL SECTORS ATTENDED THE ACT WORKING CAPITAL CONFERENCE IN LONDON RECENTLY. HOW ARE THEY ADAPTING TO THEIR CHANGING ROLE? CHRISTIAN DOHERTY REPORTS

> The importance of working capital to any company, big or small, can't be overstated. It's the lifeblood of the business. A good working-capital strategy can allow management to make more considered decisions, work with its supply chain more closely and survive whatever headwinds may arise.

So it's not surprising that the ACT chose this vital topic to focus on in its most recent one-day conference in London on 15 September. Bringing together senior treasury figures from across all sectors and industries, the conference aimed to illustrate the latest thinking on working-capital management across a series of sessions.

From the challenges of getting buy-in from senior management on the

importance of working capital to working with suppliers to ensure harmonious and sustainable payment arrangements, the day was filled with the sort of insight vital to a treasury professional at every level.

In his keynote speech, Rowan Austin, head of trade and supply chain finance product at the Royal Bank of Scotland, set the tone for the day when he told delegates that not only is treasury a mainstay of risk management, but it is increasingly a driver of value creation.

"I think we should celebrate the fact that in recent years treasury has become the mainstream part of the finance function, breaking out of the image of being a dusty back-office function away from the world of the 'real' business, with

little differentiation from accounting and finance," he said.

## Driving innovation

"Treasury is now seen as a value-adding function, with responsibility for managing critical resources," said Austin. "Growth capital is one of the most fundamental elements of any successful business.

"As part of that, we're now seeing treasury evolve as a distinct business function, away from the accounting operations, and, because of this, the function itself is one of the driving forces in innovation.

"There are other challenges, though. The rise of China, followed by the current slowdown in its economy and the exposure of the world's banks to the Chinese bubble, is bound to

test treasurers in businesses with cross-border operations. The eurozone's recent travails also demand a clear and considered response."

Given the volatile nature of the economic landscape, it's hardly surprising that treasurers find themselves pulled in a number of directions: generating cash to keep the board and shareholders happy; managing risk in the markets; working with suppliers and customers to ensure working capital is managed at an optimal level – there's never been a trickier time to manage the treasury function.

The highest priority when it comes to managing working capital, at least according to a straw poll of the audience, was risk management and beating the competition at cash generation.

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## The challenges of globalisation

Austin went on to discuss how globalisation was creating a number of opportunities for corporates, which, in turn, places the importance of the treasurer even further up the agenda.

“Globalisation brings new markets and opportunities and, equally, corporates trading overseas are much more diversified in their risk and better able to withstand pressures. It’s proven that they’re less likely to default in times of stress. And, as they spread their operations across borders, treasurers will know how difficult it can be to manage global liquidity in an efficient cash management structure.

“So some businesses can end up with less-than-optimal arrangements for managing cash. Corporates

Hailed by many as a solution that offers both liquidity and flexibility for suppliers, while helping large corporates manage their supplier base to avoid unwanted insolvency and uncertainty, SCF is now an integral part of many large corporates’ working-capital strategy.

“It was both a profit-and-loss and balance-sheet issue for us,” explained a former treasurer of a major corporate, who led the efforts to set up an SCF scheme a few years ago. “The idea took hold because it was a way to maximise balance sheet and profit and loss. We were a seasonal business that had days between the end of November and mid-December with hundreds of millions of pounds’ worth of orders and a lot of suppliers involved.”

supplier relationship and it’s very important to us that we treat suppliers ethically and work with them to make sure they get paid on time and we get a good service,” said one treasurer from a high-profile retailer.

However, it’s fair to say that the vexed issue of payments, particularly to smaller suppliers, is still a recurring theme.

As one treasurer put it: “We’re very focused on giving the best possible deal we can to suppliers, but we ourselves are under pressure, which means we’ve given more thought to alternative solutions that might help our supply chain get paid on time.”

All important issues, to be sure. But for the treasurer at one large retailer, the main focus falls on finding the right balance between investment in stock and keeping cash

So what are the building blocks of a successful working-capital strategy? “It has to have broad board support, and when it comes to embedding the right attitude, working-capital improvements should be seen as a business project, not just a finance one,” he said.

“Incentives are also important – for instance, you should notice a greater awareness of cash when you target salespeople, not on the orders they take, but on the cash they bring in,” he explained. “You’ll see they improve their processes and it helps the business as a whole.”

Taking a long-term view helps build a healthy way of working, and this also applies to targets for senior management. Indeed, at the pharma mentioned above, 50% of the top managers are incentivised on cash generation.

However, it’s fair to say that to solve a big problem you need to apply a big solution, and for the treasurer, there is no substitute for adequately resourcing the treasury team.

“It’s a common gripe for treasurers, and I think most will recognise the challenge of getting the business as a whole to buy into the concept of cash and how it’s managed, including putting adequate resources in place,” said one delegate. “There needs to be an element of trust built up between treasury and the commercial side of the business to ensure that the two sides can work together.”

## “I think we should celebrate the fact that in recent years treasury has become the mainstream part of the finance function”

and banks need to work together to minimise these fragmented positions and maintain efficiency.”

Austin also outlined a number of trends, including the rise of open-account trading, albeit with regional variations: “That, in turn, has led to a decrease in the use of traditional trade tools, like letters of credit,” he explained.

## The growth of supply chain finance

So what are those alternative techniques now being employed in the working-capital space? One of the solutions that came up during a number of presentations was supply chain finance (SCF). The growth of SCF has been a notable feature of the treasury landscape in recent years.

Under that particular SCF programme, suppliers are able to access a working-capital marketplace. When a buyer uploads its suppliers’ approved invoices to the platform, the connection is complete. Early-payment collaboration can begin immediately, with buyers setting their optimal rate of return and suppliers setting their desired rate of early payment.

The treasurer was also keen to point out that a good SCF model has at its heart the maintenance of good supplier relationships. “There’s a very important qualitative element here,” he said. “We had tens of thousands of suppliers and they need to be taken care of.”

Indeed, looking after suppliers was a recurrent theme throughout the day. “We’re interested in our

flows healthy: “The engine room of any retailer is stock and how it’s managed. Get that wrong and you’re always running to catch up.”

## Establishing good practice

Even the biggest companies have to stay nimble and make sure their working-capital strategies are fit for purpose. Key to that is establishing the importance of good working-capital management throughout the business.

Describing the evolution of his company’s working-capital management strategy, the treasurer of a large pharmaceutical described it in the past as being seen as “largely a finance issue, managed locally, with poor visibility, few shared service centres and little vision for ‘value add’”

Rowan Austin is head of trade and working capital at the Royal Bank of Scotland



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