



Time to take control

THE MIDDLE EAST TREASURER LOOKS AT HOW THE CHALHOUB GROUP WENT ABOUT CENTRALISING ITS TREASURY FUNCTION

The benefits of a centralised treasury and in-house bank are today of increasing interest to companies in the Middle East. Just over two years ago, and reacting to rapid business growth, the Dubai-based Chalhoub Group's CFO and CEO decided to establish a group treasury department. In what was a typical decentralised corporate structure, there had been a lack of visibility, with some entities running a surplus, while others were overdrawn. The centralisation project was initiated to take advantage of potential economies of scale in FX risk management and cash, and to improve the visibility and mobilisation of cash.

The internal resources needed to establish a professional treasury operation from scratch were limited, so Chalhoub commissioned one of the Big Four consulting firms to perform the necessary research and analysis. The firm proposed a target operating model for treasury. Chalhoub then built a team to establish the new department. A key feature of the model was to implement a modern treasury management system (TMS) to underpin operations, to provide automated support for core activities with the required security, control and transparency, and with high-grade audit quality.

The project team consisted of a cross-functional panel from the consulting firm and the Chalhoub Group. For the system selection and implementation processes, this also included Chalhoub IT and legal specialists, and a full-time project manager. Senior management was actively involved in monitoring the direction and progress of the project and to ensure that it was fully supported.

The target operating model identified four key business objectives for the new group treasury:

- Centralised cash management;
- Centralised FX risk management;
- Establishing best practice governance; and
- Achieving the operating benefits of automation.

The structure of the new department now consists of seven professionals, including legal, IT and accounting.

The technology investment

The team built the business case for the technology investment to secure a budget for the project. The business case needed to demonstrate a tangible return on investment, as well as the less tangible benefits of enhanced control and financial risk visibility. It was based on the benefits of the better use of cash through pooling and cash concentration, and improved FX transaction pricing.

Selecting a TMS

The team created a request for proposal (RFP), which was sent to an initial panel of five vendors. RFP response analysis enabled Chalhoub to shortlist three vendors who gave solution demonstrations to the team. Each vendor was provided with a pack of representative actual data and the team scored the demonstration results.

The Chalhoub Group selected Kyriba's software as a service TMS, which was considered the best fit for the group's business requirements and budget. The system is not too heavy, and it has a modular structure that can support potential growth requirements.

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The roll-out

The treasury project's high-level sponsorship by the group executive committee assured a smooth roll-out to the operating companies. This required educating all stakeholders about the benefits for both the operating companies and the group.

The cash-pooling roll-out involved onerous documentation, compliance and administrative processes. Chalhoub deployed a combination of notional pooling and physical cash concentration, according to its partner bank product offerings and the various regulatory requirements.

Chalhoub's banking network

At an early stage, Chalhoub reviewed and updated its banking relationships, to implement both the complex cash-pooling arrangements needed, and to set up the required credit facilities and structures. The Chalhoub Group now works with 19 different banks, operating about 200 bank accounts in 15 different currencies. Chalhoub has three core bank relationships, and also works with local banks that can provide multiple branches to service the Group's retail business.

Robust SWIFT bank communications are outsourced to Kyriba, which has an embedded SWIFT bureau.

Cash management benefits

The newly created centralised structure now gives treasury real-time visibility of the group's network of bank accounts. Chalhoub has successfully set up cash-pooling arrangements wherever permitted, meaning that it is now effectively using cash surpluses in some parts of the group to finance shortfalls in others. This innovation has generated valuable interest savings by minimising external borrowings and enabling surpluses to be aggregated for investment at the best available rates.

FX benefits

The treasury also has full visibility of the group's FX exposures and the team

is now able to net many exposures internally, wherever feasible, eliminating the need to buy and/or sell in the FX markets and thus avoiding the related costs. The team can easily identify the remaining exposures, and hedge them in the markets in compliance with treasury policy. As individual exposures are internally aggregated, less frequent market interventions are needed and the group is able to command finer prices for transactions.

Treasury control

The TMS provides the required automation support for treasury's straight-through processing workflows, ensuring that bank connectivity and treasury management work together seamlessly and in compliance with treasury policy. The system's security and control facilities will ensure that system access rights are fully controlled to protect the use and reporting of sensitive treasury information.

In-house banking

The Chalhoub Group treasury has established an active in-house bank function to automate the organisation's key cash and FX management functions, which is quite a change from the highly decentralised situation of just two years ago. In-house banking is quite a new concept for corporations in the Gulf Region, where decentralised business models have generally been the norm. The Chalhoub Group's senior management team initiated and drove the treasury project to enable the group to enjoy the benefits and efficiencies of international best practice treasury operations.

There are numerous possibilities for Chalhoub to extend its use of the TMS. These include automated bank account management, reconciliation, payments management and financial accounting.

Summary

There are many private companies in the Middle East that have grown rapidly over the past decade, but which still lack a clear approach to treasury management. In some instances, this has created inefficiencies and challenges for financial risk management, particularly in the current environment, when greater levels of visibility, automation and control are increasingly vital. Chalhoub has led by example and taken the initiative to successfully create a value-adding central treasury operation.

THE ROUTE TO SUCCESSFUL IMPLEMENTATION

- Take the time to research, define and document all the business requirements from the outset, so that the project can be accurately planned, measured and managed. This should minimise delays and errors.
- Do not underestimate the human resources needed for success. Work with your team to identify the necessary resources to complete the project as planned.
- Consider using an external adviser to provide the expertise you do not have in-house, to validate your planning and to add value as specifically needed.
- Ensure that your detailed planning includes clearly defined targets and deadlines, so that you can measure progress accurately, identify potential problems and delays, and define and initiate any necessary adjustments and corrections.
- Ensure that you organise sufficient resources (including legal) to complete the demanding administrative processes required for setting up cash pools and borrowing facilities without delaying the project.
- Secure the backing and participation of senior management, to provide authority for the significant process change involved in implementing a new central treasury.

The Chalhoub Group

The Chalhoub Group has been the leading partner for luxury across the Middle East since 1955. As an expert in retail, distribution and communication based in Dubai, the group has become a major player in the beauty, fashion and gift sectors regionally. By blending its Middle Eastern expertise and intimate knowledge of luxury, the Chalhoub Group is building brands in the region, by offering service excellence to all its partners and a unique experience to its customers through its passionate teams.

With a growing workforce of more than 12,000 people, and a network of over 650 retail stores, the group's success is attributed to its most valued asset: highly skilled and dedicated teams. Professionalism and passion are what fuel its competitive edge in today's market. For demonstrating commitment to sustainable business, the Chalhoub Group was awarded in 2015, for the third consecutive year, the CSR Label from the Dubai Chamber of Commerce and was accepted in 2014 as a new member of the United Nations Global Compact Community.

