

How technology is helping treasurers deliver strategic advantage

The age of the strategic treasurer is here; the global financial crisis made sure of that. However, for corporate treasuries to achieve their full strategic potential, support from the right kind of technology is essential, especially when it comes to achieving full visibility over financial flows and the broad sweep of commercial risk. Here, Treasury Today and Openlink explore the ways in which treasurers can deliver strategic advantage to the organisation.

The essence of strategic treasury is that it is an integral part of business decision-making. This means full and timely visibility over all financial flows is critical. There is no other way of effectively mitigating risks and facilitating growth. Arguably, anything less will limit the usefulness of treasury in the eyes of the C-Suite and the board. This is especially true if it leads to lost opportunities in a fiercely competitive and volatile world.

A changed world

A clean balance sheet has become a crucial element for companies seeking to achieve the right level of funding post-crisis. To achieve this, treasurers must align their understanding of FX and interest rate positions with those of derivatives and, through these, their exposure to raw materials and commodities trades. With boards calling upon Group Treasurers to provide the necessary clarity, the more proactive and aspirational players within the rank and file of treasury are demonstrating their business acumen by driving the agenda for change upwards.

Looking at this in practical terms, we can see an immediate case for change. In an (albeit simplified) manufacturing context, procurement requests cash to buy raw materials, treasury will review and provide the funding. The materials are turned into a finished product which is sold, the cash is collected and eventually returned to treasury's control for onward dispersal.

The problem is that quite often these processes and their respective data streams are disjointed. For efficiency to reign, they need to be part of a natural continuum. How can this be achieved? A system that offers complete visibility across the organisation can effectively reintegrate the workflow. Suddenly, enterprise-wide visibility of cash positions, FX and commodity exposures on one system is achievable. Spurred on by this notion, the most receptive treasuries are actively banishing fragmentation and re-engineering their outlook. They are using technology as their enabler.

Integration, and the insight it can deliver, makes for a far more 'on point' treasury. This is treasury capable of engaging with company financials at an operational and strategic level. In doing so, treasury is empowered to provide far more value and insight to the whole organisation than ever before.

Sharpening hedging strategies

When seeking cost savings, the traditional procurement process has often relied on pure negotiation skills on spot commodity deals. Today, spot deals are commonly eschewed for longer-term contracts. But these necessitate a higher degree of cash exposure than for spots. In such a volatile global market place, being able to confidently lock-in forecasts for extended periods demands that purchases are made with far greater market acuity.

Treasury must be involved in managing that exposure. Why? Because it will be treasury guaranteeing the availability of any

Etihad Airways: no more fragmentation

The treasury of global airline Etihad is divided into front, middle and back office. The airline has many leasing contracts and loans to manage, as well as cash flow typical of modern major aviation business. In the past it had managed leases, fuel hedging, FX and interest rates and cash flow in individual systems.

In a highly competitive market, being able to make informed business decisions quickly is vital. With a fragmented system architecture, aside from the operational risk of separate manual input errors, the airline found rapid response was increasingly difficult. By bringing disparate systems and data sources together, the creation of a 'single source of truth' delivered treasury speed and agility at both an operational and strategic level, helping to take the business to the next level.

Read more on the Etihad story: openlink.com

shortfall if the company is locked into a high price and the price falls significantly, just as it will be if the reverse happens and huge 'savings' disrupt the forecasting mode.

The same is true when hedging currency exposures. In stressed market conditions, increased collateral calls can put pressure on corporate cash flows. Treasury must know how to manage the cash flow around procurement processes and what the hedging costs will be.

Attaining such a detailed understanding is only achievable when the data is held in one system. Treasury can then rapidly respond to any market event in near-real time. This is all about transforming what once were complex decisions into relatively simple choices.

All technologies are not the same

Of course, there is a world of difference between standard treasury technology that is used simply to manage cash, and the more sophisticated modern product that brings analytical power to a wider range of functionality such as FX and interest rates. Openlink's unified treasury cash and risk management solution takes the idea of integration several steps further, without complicating the process.

A leading retailer has deployed Openlink's Findur to give it a derivative trading platform. This is combined with comprehensive cash management and trade finance functionality. Within the system, it is possible for treasury to create full what-if scenario analysis. By doing so, treasury is building an intelligent and rapid response to anticipated market events, whenever and wherever they may occur.

The holistic view from treasury: a strategic advantage

The questions treasury can quickly and easily answer with accurate, centralised data.



Procurement

- How is each buyer performing?
- Is this a good time to lock in prices?
- Which vendors are my buyers dealing with?
- What are they paying in commission?



Leadership

- How much capital will be required for next quarter procurement?
- How are regional procurement groups doing?
- How much are the component costs and where can we save?
- Are we hedged?
- How is spend trending and why?
- What are our top ten grossing finished goods?



Risk

- How many contracts do we need to buy to hedge company-wide exposure?
- How effective is our hedging programme?
- How should we allocate hedges to local business units?

Indeed, where a business has geographically dispersed subsidiaries, the capacity of a single system to deliver full visibility, as and when required, across the enterprise is a powerful addition. For a purely operational perspective, it enables teams around the world to work more agilely from one system that provides a single source of truth. This negates the need for continuous meetings to be had across time zones and means that teams do not have to wait for reports to be manually sent over before making decisions, allowing them to work in near real-time.

Hosting this system on the cloud also provides accessibility for all users, removing the high financial and resource costs associated with the implementation and ongoing maintenance of in-house systems.

Adding value

The effective use of technology can transform treasury from a cost-centre to a profit centre. For example, for any business collecting large volumes of cash on a daily basis, it will not typically see that cash in its bank for weeks. For the duration, this is effectively dead cash. However, if that business has full visibility of its cash position any time it chooses, it can begin to exploit overnight money market investments. When treasury is potentially making a return, to all intents and purposes, it is also adding a revenue boost.

Cost savings

With access to real-time cash positions as part of its everyday business, the treasury of one of the world's largest shipping firms has been able to establish an in-house bank to which all subsidiaries are connected. Instead of those subsidiaries settling invoices from shipping terminals around the world in a multitude of local currencies, the in-house bank settles centrally. This saves a huge amount in bank fees alone.

Moreover, immediate access to a single enterprise-wide view of all actual treasury positions and up-to-the-minute forecast data is a quick route to the efficient use of credit lines and limits with banks. A treasurer armed with wide-ranging accurate and timely data knows precisely how much funding is needed, when, for how long and in which currency.

In a segregated architecture, it can be difficult to know when limits are being approached at group level. In affording a real-time view of current and projected limits, the single system helps to maximise use of credit lines, flagging up limit concerns, enabling treasury to spread the debt more appropriately.

Furthermore, with risk analytics embedded in Openlink, treasurers open to more sophisticated modelling can begin to understand bank fees around more complex structured products. Running credit value analytics, for example, can enable treasury to challenge its banks on the spreads it is being charged. With every calculation and process being audited in-system, when sending out Requests for Quote, it becomes easier to track and trace fee structures over time, assisting with any pricing discussions.

Champion of champions

As businesses become more complex in a competitive and volatile world, a comprehensive treasury cash and risk management solution adds value. It can provide treasurers with the visibility and understanding needed to move to the next level. This will see the role treasury plays in the business transform, becoming more proactive as a value-added advisor to the board.

Forward-thinking regional or deputy treasurers can sow the seeds of change. However, high-level support from individuals with strong vision and direction are needed to bring about significant transformations in any business. Where the will is shown from the top down to ring the changes, it becomes entirely possible to break down those siloes. Once this has been achieved, treasury can truly step up as the key strategic business partner.