Mighty Guides

Taking Treasury from Reactive to Proactive

Managing Risk

Experts Discuss the Most Important Steps to Transform Your Treasury

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A PROACTIVE TREASURY MEANS MANAGING RISK

BECOMING MORE PROACTIVE MEANS BEING LESS IMPORTANT DAY TO DAY

GUY SIMONS

Assistant Treasurer,
TRW Automotive

Guy Simons started his career in corporate treasury management working at Norwegian oil and gas giant Statoil's Belgian and Norwegian treasury centers. He subsequently managed foreign exchange for BASF Catalysts (f/k/a Engelhard Corp) and in 2006 joined TRW Automotive, where he supervises global treasury operations. He has extensive experience setting up in-house banking operations and meeting the associated organizational, legal, fiscal, and IT challenges.

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A reactive treasury is like a hospital emergency room. You're not trying to manage anything that happens outside of the emergency room; all you're doing is triage and trying to manage the volume of patients coming in. You can do that, staffing up to address the problems, but in the long run, it's not an efficient way to reduce fatalities.

In a proactive treasury, you are less busy because actions are not based on ad hoc analyses. In the reactive model, you may feel important because you're pontificating about things that only you know, but in a proactive treasury, you spend more time educating and making yourself almost superfluous in many day-to-day operations. The proactive model has fewer exceptions and fewer emergencies. How you become more proactive in treasury often depends on the nature and circumstances of the business. Here's an example of one area where treasury activity transitioned from reactive to proactive.

We have many operating units whose home currency is not the U.S. dollar, and many who buy and sell in currencies other than their home currency. We have no control over whether these currencies grow stronger or weaker, but these changes are potentially large enough to destroy profitability. In our industry, pricing to the unit's customers, vendors, and in which countries we choose to locate our facilities might create currency risk that lasts for many years. Our business units are responsible to manage these risks with their customers and vendors, but short-term these risks are managed by finance, and affect accounts payable, accounts receivable, and bank accounts in foreign currency.

> "In a proactive treasury, you spend more time educating and making yourself almost superfluous in many day-to-day operations."

KEY LESSONS

1. IN A PROACTIVE TREASURY, YOU ARE LESS BUSY BECAUSE ACTIONS ARE NOT BASED ON AD HOC ANALYSES.
2. YOU HAVE TO WORK WITH SHARED SERVICES TO GET TO A COMMON VISION OF HOW YOU WANT TO WORK WITH BANKS.

BECOMING MORE PROACTIVE MEANS BEING LESS IMPORTANT DAY TO DAY

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These balances revalue with currency movements, sometimes creating sudden large currency effects. Historically, the finance directors had final say on whether to hedge or not.

Every month, each finance director has to explain all significant variances to their budget, and currency volatility was a common culprit of results that were wide of the mark. Every monthly discussion became an unproductive finger-pointing exercise because no one could actually dissect how much unexpected currency effect was due to bad forecasts, and how much due to bad timing of hedges and who had played a larger role in which bad hedging or not hedging decision.

We began by working to define exactly how much exposure currency movements created for us. We laid down some rules that the business unit was only responsible for reporting its commercial and financial exposures. Treasury would hedge systematically so that senior management would have good expectations of our net exposure and we could reduce month-to-month volatility.

> "How you become more proactive in treasury often depends on the nature and circumstances of the business."

Unfortunately, it didn't quite work out right away. But we moved from finger-pointing in our discussions to discovering real pain points. For instance, we found some systems produced big foreign exchange gains and losses that were due to the use of prior-month average exchange rates to book current-month transactions. We decided to produce daily rates from treasury and provide them to all of the accounting systems worldwide so that everybody was on the same scale. Gradually, we worked out all such kinks, the foreign exchange results have become a lot more sensible, and currency discussions now focus most on business changes that have future currency impacts.

For treasury to become proactive, it must identify simple sets of rules for the business to follow, and thresholds above which treasury needs to get actively involved, and it must develop tools it can offer to operating units around the world to stay financially safe.

COMPANIES LEARN THE TRUE VALUE OF TREASURY

JOHN ENGEMAN

Director of Treasury,
David Yurman

John Engeman is the director of treasury for David Yurman, responsible for global treasury and insurance. Prior to joining the company in 2014, he was the vice president, assistant treasurer of Kate Spade & Company, and the treasurer of the Kate Spade Foundation. His responsibilities included managing global treasury operations—cash and risk management, investments, debt, and liquidity management. A Certified Treasury Professional, Certified Management Accountant, and Certified Financial Manager, he has a BBA in finance from the University of Notre Dame and an MBA from Hofstra University.

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The year 2008 was important for treasury because for many companies, traditional cash flow dried up. If a company's treasury was not proactive and forward thinking during those years of tight credit, that company did not have a chance. Treasury had to become either a strategic advisor or an entity that jumped to the head of the line in communicating with the CEO.

I was at Liz Claiborne (now Kate Spade & Company) during those challenging times. It was a difficult period for the apparel industry, and Liz Claiborne divested itself of many brands to preserve cash flow. We pursued a variety of strategies to maintain sufficient liquidity when credit dried up and some banks simply stopped lending to us. Treasury was forced to be innovative, finding new and creative ways of valuing and monetizing our assets. We changed our approach to managing global currencies and collaborated with suppliers without having to issue letters of credit. Just to provide an idea of how this changed treasury's role, before the financial crisis, treasury met with the Board maybe twice a year, usually to report on how the 401(k) plan had performed. When the crisis set in, we were presenting to the Board six times a year, explaining our liquidity issues to them and being asked for recommendations. We became deeply involved in developing the company's financial and operational strategies.

> "Treasury had to become either a strategic advisor or an entity that jumped to the head of the line in communicating with the CEO."

KEY LESSONS

1. WHEN TREASURY IS PROACTIVE IN OFFERING INSIGHT AND ANALYSIS AND KNOWLEDGE OF RISK EXPOSURE AND MITIGATION, IT CAN HELP MAKE KEY BUSINESS DECISIONS.
2. A PROACTIVE TREASURY CAN PINPOINT OPPORTUNITIES AND STRATEGIES THAT UNLOCK VALUE FOR THE COMPANY.

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As a result of this experience it became clear the value treasury could bring to the table – that being proactive in offering our insight and analysis and our knowledge of risk exposure and mitigation, we were relied upon to make key business decisions, sometimes having direct influence on the future viability of the company.

The credit crisis offered an opportunity for treasury to prove its value and provide strategic solutions that continue today. While the crisis has passed, the focus has shifted from doing everything possible to preserve cash and liquidity to looking at opportunities that unlock value for the company. This may include managing risk differently, providing improved models for global currencies and hedging strategies, providing new financial management tools to business units, or using analytics and technology to guide operations in ways that make forecasting more accurate. It's up to treasury to take advantage of its elevated position so that it will have a positive influence on business operations.

> "The credit crisis offered an opportunity for treasury to prove its value and provide strategic solutions that continue today."

EIGHT STEPS TO A PROACTIVE TREASURY

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Eric Cohen is a principal in PricewaterhouseCoopers' (PwC) Advisory Corporate Treasury Solutions Practice, specializing in treasury and risk management consulting. He has provided strategy through execution support in all aspects of treasury and risk management. Prior to joining PwC, Eric spent eight years in a variety of front-, middle-, and back-office positions in banking and capital markets. Eric holds an MBA in Finance from New York University.

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In my years of treasury experience, I have developed a list of eight essential steps a treasury organization needs to take to become more proactive and to help their companies achieve its strategic objectives.

1. Secure the Right Talent. Develop a mix of employees who are strategic, analytical, tech savvy, and customer-centric. They must be able to collaborate with key stakeholders, both internally and externally. Additionally, they should have resources that understand how global operations work. The treasury practitioners of today must be capable of partnering with finance and operations to drive change, navigate risk and seize opportunities.

2. Become Risk Resilient. Manage risks proactively, and adjust strategies as new risks emerge. For example, recently there has been significant volatility in the currency markets resulting in many companies falling short of earnings estimates. From a currency risk standpoint, companies that fully understand their exposure profile and proactively manage associated risks are more likely to be able to adjust their strategies in real time, align better with strategic initiatives, and avoid surprises.

3. Develop a Cash Culture. Historically, many companies have been profit focused, with a priority on sales, and less focused on cash flow. In today's environment, it's critical to be cash efficient and to drive working capital improvement. Treasury has a key role to play in that strategy. One example is of one of our clients who established a "cash leader role" with responsibility to work with various business units in the company to drive working capital improvements. As a result of the output of this initiative, this company realized billions in freed up excess working capital.

> "Develop a mix of employees who are strategic, analytical, tech-savvy, and customer-centric."

KEY LESSONS

1. TREASURY NEEDS TO BUILD TRUSTWORTHY RELATIONSHIPS WITHIN THE BUSINESS AND DEMONSTRATE THE VALUE IT BRINGS.
2. IN TODAY'S ENVIRONMENT, IT'S CRITICAL TO BE CASH-EFFICIENT AND TO DRIVE WORKING CAPITAL IMPROVEMENT.

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4. Partner with Businesses and Other Departments on Key Initiatives. Treasury needs to be proactive in collaborating with businesses on other initiatives where treasury can add value. One common example is working with businesses in assessing and implementing alternative financing arrangements such as supply chain financing. Additionally, the relationship with the tax and M&A departments are critical as well. If the company is planning a restructuring or a potential acquisition or divestiture, the more involved treasury becomes early on—the more seamlessly the activities will go.

5. Maintain an External Orientation. In addition to being well plugged in within their own organization, it's equally important to be focused on what's going on in the outside world, where the most profound issues reside. Specifically, understanding how the business and financial markets are evolving and developing relationships with stakeholders (e.g., investors, banks, rating agencies) is a vital component to helping the company achieve its objectives.

> "Treasury needs to develop and implement a systems strategy that maximizes the use of technology, including exploring cloud solutions."

6. Employ Enabling Technology. Treasury needs to develop and implement a systems strategy that maximizes the use of technology, including exploring cloud solutions. We see many companies limited by a lack of IT resources; having the right technology in place improves visibility and access to data, which ultimately enhances decision making and drives better performance.

7. Implement Operational Excellence. First, focus on achieving straight-through processing. Second, leverage shared service centers and consider outsourcing alternatives. Treasury organizations that use these two approaches will be able to free staff from transactional activities so they can focus more on analytical and strategic activities and ultimately help drive more value across the organization.

8. Communicate the Value That Treasury Brings to an Organization. Having a clearly defined strategy and vision and being able to actively advocate that across the organization enables treasury to operate more strategically. To demonstrate its value proposition, treasury has a growing incentive to publicize its message via use of scorecards, dashboards or other performance reporting. This will help provide exposure to senior stakeholders and build credibility with business partners.

TO BE PROACTIVE, YOU MUST THINK STRATEGICALLY

TODD W. YODER

Head of Derivatives and Hedging Strategy, Director of Global Corporate Treasury, Fluor Corporation

Todd W. Yoder has an extensive background in multinational corporate finance and holds three business degrees, including an MBA from the University of Notre Dame. His global business interactions have taken him all over the world, including major business centers in Europe, the Middle East, and Asia-Pacific. Todd has been a guest speaker on a variety of topics related to multinational corporate finance, macroeconomics, and corporate treasury strategy. Todd is known for employing a down-to-earth communication style that delivers complex financial and economic information in easy-to-understand terms.

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I have been fortunate over my career to have worked with some extremely intelligent business leaders who are strategic and proactive by nature. In particular, the treasurer at WellPoint (now Anthem, Inc.) really opened my eyes to how corporate treasury can be an invaluable strategic business partner to the chief financial officer (CFO) and chief executive officer.

I believe that if you want to have a proactive world-class treasury, you have to see things before they happen and help prepare the organization to mitigate associated risks and seize opportunities. Sound impossible? It's not.

Treasury takes a special type; today's treasurer must be well versed in many areas. The days of reading *The Wall Street Journal* and *Financial Times* every morning and assuming that that's sufficient are long gone. As a multinational corporate treasurer, you must have an advanced understanding of economics, mathematics, statistics, econometrics, technical accounting, tax, banking regulations and restrictions, and the intricacies of all facets of financial markets. The first step is to make sure you're invested in the most talented staff you can find. The return will be in the multiples if you get the right people in the right seats.

> "Treasury-related technology should be at the heart of your treasury group."

KEY LESSONS

1. MAKE SURE YOU INVEST IN THE MOST TALENTED STAFF YOU CAN FIND.
2. FOCUS ON ANALYZING DATA FOR MEANINGFUL DISCUSSIONS THAT HELP YOU MAKE PROACTIVE BUSINESS DECISIONS AND RECOMMENDATIONS.

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Next, you must have a solid treasury foundation, including best-practice policies and procedures—what I call *core treasury.* Some treasurers don't realize it, but you need a treasury management system. Just in the past few years, a range of sophisticated treasury functionality has been brought to market to help you get core treasury to best practices much faster and more efficiently than ever before. Treasury-related technology should be at the heart of your treasury group; it's valuable to each member of your treasury team if used appropriately, reduces user errors, and frees time for your team to think strategically and be proactive. You can have your analysts and managers jockeying spreadsheets all day, or you can have them analyzing data for meaningful discussions that help you make proactive business decisions and recommendations. If your team is consolidating spreadsheets to determine your cash position, which currencies you hold, where you're invested, and what your cash flow forecast is, you're likely not the strategic business partner that you could be.

> "As a strategic treasurer, you must build a reputation within the company as a strategic thinker."

An important resource for the strategic treasurer is the bank group. Some treasury organizations don't use their bank group beyond basic banking services. This is a mistake. Bankers are out there every day talking to a lot of different organizations that are going through different phases and facing different challenges, and they see the strategies that turn out well and those that don't. As a result, experienced bankers can offer good insight. The key is finding those bankers who are at the top of their game and maintaining a consistent dialogue with top organizations.

Finally, as a strategic treasurer, you must build a reputation within the company as a strategic thinker. If you take the steps described herein, the CFO and executive team will quickly begin to see you as a business partner, not a report.