ISSUE 3 2009 | £5.95 €8.00 $8.95

AN SPG MEDIA PUBLICATION

# FDE

## FINANCE DIRECTOR EUROPE

WWW.THE-FINANCEDIRECTOR.COM

**CFOs David Davies of OMV and Philip de Klerk of INEOS on why cash remains this year's front-line concern**

**Plus: APM Terminals' CFO on running a global finance function; Swisscom's CFO on consolidation**

GROWTH CAN HAPPEN ANYWHERE. YOU JUST HAVE TO KNOW WHERE TO LOOK.

Today, growth can be found in new, and often unexpected, places. Though the task is more difficult than ever, opportunities will prevail around the globe today, tomorrow and the days after tomorrow. Now, more than ever, you can be confident that we at BNP Paribas Corporate & Investment Banking remain committed to providing you with solutions that support your interests, your projects and your business. Wherever the opportunities exist, we will work together to help you prosper.

BNP PARIBAS
CORPORATE & INVESTMENT BANKING

The bank for a changing world

www.cib.bnpparibas.com

**FDE**

***Finance Director Europe* Issue 3 2009**

Editor **Michael Jones** | michaeljones@spgmedia.com
Chief Sub-editor **Elliott Aykroyd**
Sub-editors **Cari Jolaoso, George McDonald**
Production Manager **Dave Stanford**
Production Controller **Steve Buchanan**
Art Director **Robert Filistad**
Designer **Mehmet Sem**
Client Services Manager **Derek Deschamps**
Lead Contributors **Nigel Ash, Jim Banks, Steve Coomber, Christian Doherty**
Head of Publishing Sales **Richard Jamieson**
richardjamieson@spgmedia.com
Publication Manager **Sanjeev Dole**
sanjeevdole@spgmedia.com
Project Director **Steve Dunkerley**
stevedunkerley@spgmedia.com
Circulation Manager **Kam Jannati**
Circulation Executive **Alessio Rizzo**
Publisher **William Crocker**
Co-publisher **Christopher Watts**
Editor-in-Chief **John Lawrence** | johnlawrence@spgmedia.com

SPG MEDIA LIMITED

*Finance Director Europe* is published by SPG Media Limited

**Head office**
Brunel House, 55–57 North Wharf Road, London W2 1LA, UK
**Tel:** +44 (0) 20 7915 9600
**Fax:** +44 (0) 20 7724 2089
**Email:** info@spgmedia.com
**Websites:** www.spgmedia.com
www.the-financedirector.com

ISSN 1462-866X © 2009 SPG Media Limited

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, photocopying or otherwise, without prior permission of the publisher and copyright owner. Whilst every effort has been made to ensure the accuracy of the information in this publication, the publisher accepts no responsibility for errors or omissions.

The products and services advertised are those of individual authors and are not necessarily endorsed by or connected with the publisher. The editorial opinions expressed in this publication are those of individual authors and not necessarily those of the publisher.

Further copies of *Finance Director Europe* are available from SPG Media Limited at a cost of £5.95, €8.00 or US$8.95 per copy.

Member of the Audit Bureau of Circulations

Printed by Williams Press (Berks) Ltd



# ALL YOU NEED IS CASH

To borrow from the old quip about buying a new house – ‘location, location, location’ – the mantra for the finance director in 2009 has been ‘cash, cash, cash’. In the midst of the financial downturn, keeping a tight handle on cashflow has become crucial. Never before have companies had to re-focus so keenly on a core agenda of cash, costs and liquidity. As a consequence 2009 has very much proven to be the year of the finance director.

Scarcity of cash and credit can often prompt a hatchet-wielding approach towards cost control, particularly to the low-hanging fruit of wages/headcount reduction and price increases and decreases for customers and suppliers. However, to keep on favourable terms with these stakeholders and to maintain a sharp and competitive edge, invoking President Obama’s more considered ‘scalpel’ approach to cost cutting, executed with surgical precision, is perhaps more prudent.

Speaking in our special ‘Cash is king’ supplement, group treasurer of international building supplies group Wolseley Mike Verrier says: ‘Cash has always been king, but now it has become emperor; cash is exercising its full regal powers’. Ignore those words of advice at your peril.

This edition of *FDE* also features interviews with CFOs David Davies of OMV (page 26) and Philip de Klerk of INEOS (page 24) on why cash remains this year’s front-line concern. De Klerk, a keynote speaker at a June FDE executive breakfast briefing on the subject in London, espouses the same view as Verrier: ‘We used to focus on EPS or EBITDA and cash was more or less a second thought, but now it is truly measurable. Cash is the most objective measure you have for gauging how a business is doing.’

Looking ahead, 2010 will prove to be the year of the recovery but for now the key concern is the driving of a sound cash management strategy in the downturn.

Away from the quest for cash, elsewhere in this edition we learn from Christian Moller Laursen, CFO of APM Terminals Management (page 43) how his finance department is helping the company to meet the myriad human resource challenges that globalisation throws up to large corporates. We also hear from Swisscom’s CFO Ueli Dietiker (page 12) on how their 2007 acquisition of Italy’s Fastweb has finally given it sufficient legroom to continue to grow as well as refocus on squeezing maximum value from its core customer base.

**Michael Jones**
Editor, *Finance Director Europe*

Summer 2009

Spring 2009

Winter 2009

Autumn 2008

Special offer for *Finance Director Europe* readers for just
**£1495 +VAT**
valid until 5 October 2009

CIMA
Chartered Institute of Management Accountants

# CIMA Executive CPD Academy

## 29-30 October 2009 | London, SW1P 4NP

A two day intensive CPD Academy covering a range of financial strategic updates - maximising your CPD learning whilst minimising your time out of the office.

Produced in association with the AICPA and CMA Canada it will feature a panel discussion with experts from each of the three institutes. This will provide you with a unique opportunity to quiz accounting and finance industry leaders from both sides of the Atlantic.

### Benefits include:

- the ability to focus on an essential range of strategic issues
- a tailored curriculum content designed by CIMA for senior finance professionals
- networking at the highest corporate levels
- insight into American and Canadian finance strategy
- the potential to complete your CPD before the year end.

### How to book

T. +44 (0)208 849 2265
F. +44 (0)208 849 2460
**www.cimaglobal.com/executive**
Contact Eileen Roddy with any specific enquiries
eileen.roddy@cimaglobal.com

in association with

**www.cimaglobal.com/executive**

# contents

**3 FOREWORD**

**8 THE BOTTOM LINE**
*FDE*'s round-up of the latest news and statistics

**10 *FDE* NETWORK**

## FEATURES

### TREASURY MANAGEMENT

**16 KEEP IT SIMPLE**
Christian Doherty checks out the key points of the Morrisons turnaround strategy with treasurer Tony Marsh.

**18 LOCATION, INNOVATION AND VALUE**
The Association of Consulting Firms has developed a distinct model for providing IT services.

**20 CHANGING LANDSCAPE**
The main themes at The Association of Corporate Treasurers' annual conference this year were 'adapting, diversifying and sustaining' in the downturn. Michael Jones caught up with Stuart Siddall, chief executive of the ACT, to discuss the evolving role of the treasurer.

### INFLATION-DEFLATION RISK

**22 READY FOR DEFLATION?**
BNP Paribas on the grinding process of deflation.

### COVER STORIES

**24 CASH IS KING**
When *FDE* hosted the first of its new season of breakfast briefings in London, the discussion was focussed on the role of cashflow in the downturn.

**26 SHIFT IN STRATEGY**
CFO for oil company OMV David Davies tells *FDE* how the company has sought to maximise cash flow in hard times while maintaining investments in long-term projects.

### CASH MANAGEMENT

**29 FAST FOREX**
In challenging conditions CFOs need banking partners to deliver efficient payment options, Rita Saverino of FX4Cash explains to *FDE*.

**30 MORE DATA, MORE CASH**
According to Mark Wood of Genpact, measuring lag indicators is not enough. It is analysing the data within lead indicators that is key.

**24 & 26**
**COVER STORIES:**

**12**

**THE BIG INTERVIEW**

**SMOOTH OPERATORS**

Swisscom was a medium-size state-owned telecoms provider, challenged in its home market and with three aborted international expansions. Then in 2007 the acquisition of Italy's Fastweb finally gave it room for growth but, as Ueli Dietiker (above) and Patrick Dudli make clear to Nigel Ash, the resulting debt has focused the firm on generating more value from its core Swiss base.

**43**

**HUMAN CAPITAL**

**THE PORT OF THE MATTER**

Globalisation presents many challenges for corporations, not least the operation of functional teams and management of human capital across geographically and culturally diverse regions. One company faced with this complex human resource challenge is APM Terminals, which serves over 60 of the world's container shipping lines. CFO Christian Moller Laursen assesses the impact of globalisation on the finance function with Steve Coomber.

# cont

**3 FOREWORD**

**8 THE BOTTOM LINE**
*FDE*'s round-up of the latest news and stati

**10 *FDE* NETWORK**


## FEATURES


### TREASURY MANAGEMENT

**16 KEEP IT SIMPLE**
Christian Doherty checks out the key points of the Morrisons turnaround strategy with treasurer Tony Marsh.

**18 LOCATION, INNOVATION AND VALUE**
The Association of Consulting Firms has developed a distinct model for providing IT services.

**20 CHANGING LANDSCAPE**
The main themes at The Association of Corporate Treasurers' annual conference this year were 'adapting, diversifying and sustaining' in the downturn. Michael Jones caught up with Stuart Siddall, chief executive of the ACT, to discuss the evolving role of the treasurer.

### INFLATION-DEFLATION RISK

**22 READY FOR DEFLATION?**
BNP Paribas on the grinding process of deflation.

### COVER STORIES

**24 CASH IS KING**
When *FDE* hosted the first of its new season of breakfast briefings in London, the discussion was focussed on the role of cashflow in the downturn.

**26 SHIFT IN STRATEGY**
CFO for oil company OMV David Davies tells *FDE* how the company has sought to maximise cash flow in hard times while maintaining investments in long-term projects.

### CASH MANAGEMENT

**29 FAST FOREX**
In challenging conditions CFOs need banking partners to deliver efficient payment options, Rita Saverino of FX4Cash explains to *FDE*.

**30 MORE DATA, MORE CASH**
According to Mark Wood of Genpact, measuring lag indicators is not enough. It is analysing the data within lead indicators that is key.

**24 & 26**
**COVER STORIES:**

**12**

THE BIG INTERVIEW

**S OPERATORS**

Swisscom was a medium-size state-owned telecoms provider, challenged in its home market and with three aborted international expansions. Then in 2007 the acquisition of Italy's Fastweb finally gave it room for growth but, as Ueli Dietiker (above) and Patrick Dudli make clear to Nigel Ash, the resulting debt has focused the firm on generating more value from its core Swiss base.

**43**

HUMAN CAPITAL

**O : MATTER**

Globalisation presents many challenges for corporations, not least the operation of functional teams and management of human capital across geographically and culturally diverse regions. One company faced with this complex human resource challenge is APM Terminals, which serves over 60 of the world's container shipping lines. CFO Christian Moller Laursen assesses the impact of globalisation on the finance function with Steve Coomber.

# ...contents

## 52 PROCUREMENT

As an unexpected benefit of the downturn, harsh protectionism, trade disputes and increasing tariffs have led to numerous opportunities. Price estimates have decreased, supply bases are shrinking and suppliers are reducing costs. Michael Jones discusses the situation with AstraZeneca's CPO Jon Kirby.

**32 THE SIMPLE CASH POOLING SOLUTION**
UniCredit Group was found to be the most efficient and supportive cash pooling partner for manroland AG.

## IT FINANCE

**34 HELPING CUSTOMERS SUCCEED**
The CFO wants IT to be more efficient, Paul Patterson of HP Financial Services tells *FDE*.

**35 VALUE IN TECHNOLOGY**
David Mitchell, SVP of global IT research at consultants Ovum on involving the finance function from the outset on new IT purchases.

## XBRL & INTERACTIVE DATA

**36 ID ON THE CARDS**
David Blaszkowsky of the Securities and Exchange Commission explains why CFOs at US listed firms need to pay attention to the SEC's interactive data (ID) mandate for the statutory filing of primary financial statements, notes and schedules.

**38 A UNIVERSAL REPORTING LANGUAGE**
XBRL has implications far beyond the IT department, Dave van den Ende and Wim Scheper of Deloitte Consulting tell Jim Banks.

**40 GET TO GRIPS WITH XBRL**
XBRL filing seems to meet the concerns surrounding financial reporting, but has also been met with trepidation. Olivier Servais of the International Accounting Standards Committee Foundation seeks to dispel these concerns.

## FINANCIAL SUPPLY CHAIN

**46 ON THE SAME PAGE**
Standardised adoption of e-invoicing can offer huge savings. But as Friso de Jong, chairman of the EEI Platform tells *FDE*, users need to address the concerns of their customers for it to prove successful.

**49 TRADE FINANCE: A TOOL FOR TOUGH TIMES**
Banks are finding innovative ways to help their clients achieve this, resulting in the re-emergence of trade finance as Deutsche Bank's Axel-Peter Ohse explains to Jim Banks.

**50 CASH MANAGEMENT IS KING**
Roger Hill and Gavin Stewart of Lloyds TSB Corporate Markets tell FDE that it is crucial to find banking partners that understand the different product solutions for operational, core and strategic cash.

## PENSIONS & ASSET MANAGEMENT

**54 FIT FOR PURPOSE**
With the previously healthy Dutch pensions system ravaged by zero swap rates, recovery could be a battle. Anton van Nunen of Van Nunen & Partners and Piet Duffhues of Tilburg University share some practical solutions with *FDE* on getting pension funds fighting fit.

**56 NORMAL SERVICE RESUMED**
The financial crisis led to a derailment in terms of outflows for six consecutive quarters, from the summer of 2007 to the end of 2008, but the situation is back on track, writes director general of the European Fund Asset Management Association Peter De Proft.

**59 PROSPEROUS PENSION PROVISIONS**
Nikolaus Schmidt-Narischkin, head of fiduciary management and Martin Thiesen, head of pension and investment solutions at DB Advisors on the necessity for a systematic approach and an efficient management process.

## MONEY MARKET FUNDS

**60 THE IMPORTANCE OF DEFINITION**
The lack of a harmonised definition of money market funds in Europe has resulted in products sharing a similar name but using different parameters, which, as Gail Le Coz of the Institutional Money Market Funds Association explains, increases the possibility of investor confusion.

## RELOCATION

**62 EXETER SUCCESS STORY**
Exeter is an ancient cathedral city with an extremely modern outlook and a successful broad-based economy. As Richard Ball explains, it has a city council that is fully focused on the needs of existing businesses as well as the requirements of companies considering moving themselves to an exceptional business location.

## M&A AND RESTRUCTURING

**64 SHAPING THE FUTURE BUSINESS**
The FD is a critical player across the entire life of any M&A project. Danny A Davis of Davis Consulting and Stephen Dawes look at how the FD helps to shape the strategy for future business by controlling the planning process.

## 66 EVENTS/DIRECTORY

# Uniting Practitioners, Providers & Advisors

**The Shared Services & Outsourcing Network** (SSON) is the largest and most established global community for shared services and outsourcing professionals.

Sign up to our FREE weekly e-newsletter and receive the latest articles, interviews, podcasts, tools, whitepapers, Q&A and blogs PLUS find out about all upcoming events, webinars and networking opportunities.

***www.ssonetwork.com/FDE***

The BOTTOM line

# NEWS AND VIEWS

THE LATEST DEVELOPMENTS IN EUROPEAN FINANCE

## The toughest year end on record – CFOs across Europe are facing a uniquely challenging reporting environment

**Are companies measuring enough and do they have the right tools?**

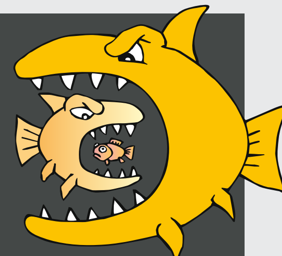
The financial crisis and recession have made a significant impact on the way major European companies have reported their 2008 year ends, according to new research by Ernst & Young.

Going concern assessment was a significant issue for CFOs with 45% of those polled spending more time discussing the issue as the year end approached. When it came to the accounts themselves, 83% of companies had some impairment charges included within their reports. The magnitude of these varied according to sectors.

Reporting in Adversity, which surveyed 250 CFOs and audit committee members and reviewed the 2008 year-end accounts of over 60 major European companies, found that very few of the reports contained actual going concern qualifications. But many more were including additional narrative around their going concern assumptions.

The research also showed that pension liabilities are still a big issue for companies and specific attention has to be paid to actuarial rates and assumptions in the current environment. Two-thirds reported a worse pension deficit compared to the previous year, while 14% moved into deficit. Net pension deficits were generally found to have doubled.

## CMOs FAIL TO MAKE BUSINESS CASE FOR CFO INVESTMENT AS CRISIS BITES



**Are companies measuring enough and do they have the right tools?**

Results from a new survey amongst chief financial and chief marketing officers (CFOs and CMOs) suggest that if companies could measure the impact of their marketing campaigns more effectively they will be able to protect – or even increase – their budgets even in the midst of the economic recession. The Marketing Success survey released by Xerox, reveals that while CMOs (79%) and CFOs (78%) both agree that if marketing could be measured effectively it would show a positive return on investment (ROI), CMOs are struggling to deliver the proof without the right measurement systems in place.

CMOs and CFOs (56% and 33% respectively) believe that by increasing marketing measurement they'll be able to see the benefits of marketing activity better. But marketing measurement remains fairly basic with 81% still using Excel spreadsheets, 47% using paper-based systems and 3% with no measurement at all.

Increasing marketing measurement is the way CMOs can drive budget upwards with nearly all (97%) of CMOs and CFOs agreeing that by increasing marketing activity measurement they will be better placed to both see and show how marketing is contributing to the business. The survey also highlights a trend to increase the measurement of marketing activity (70% of CMOs and 39% of CFOs) and that marketing can make a real business and profitability impact on company performance with the majority of CMOs (96%) and CFOs (87%) agreeing.

## THE AGM

### "I ASK YOU TO LEAVE"

**Jozef De May, chairman of Fortis addresses disgruntled shareholders earlier this year. The meeting had descended into chaos when shoes and a voting machine were thrown at the chief executive.**

"IT IS SURPRISING, IN THE WELTER OF QUESTIONS THAT ONE GETS AT (AGMS), HOW FEW ACTUALLY RELATE TO THE PERFORMANCE OF THE COMPANY, OR THE DECISIONS TAKEN BY THE BOARD."

**The late Sir John Harvey-Jones, former chairman of ICI.**

## THE NUMBERS GAME

*The* **BOTTOM** line

# VITAL STATISTICS

TOP-LINE FACTS AND FIGURES IN EUROPEAN FINANCE

## PROFIT & LOSS

*FDE's* roundup of who's moving where in the finance talent transfer this quarter.

| Name | Was... | Will be... |
|---|---|---|
| David Ebersman | Executive vice president and CFO at **Genentech.** | Head of finance at social-networking site **Facebook** (from September) |
| Tim Morse | CFO at semiconductor company **Altera Corp.** | CFO, **Yahoo** |
| Lynn Good | Group executive and president businesses of **Duke Energy's** commercial business | Group executive and CFO, **Duke Energy Corp.** |
| Marcel Smits | CFO, **KPN** | Leaving the company by the end of the year |
| Thomas Buess | Head of operational transformation, **Allianz** | CFO, **Swiss Life** |
| Thomas Müller | CFO, **Swiss Life** | Left the **Swiss Life Group** for personal reasons |
| Søren Thorup Sørensen | CFO, AP **Møller-Mærsk** | Left for health reasons |
| Lynn Fordham | Finance director, **SVG Capital** | Chief executive, **SVG Capital** |
| Jonathan Symonds | Managing director at investment bank **Goldman Sachs** | Deputy CFO and CFO designate, **Novartis** |
| Raymund Breu | CFO, **Novartis** | Retires in March 2010 |
| Michael Smith | CFO of Life and Annuities division, **Lincoln Financial Group** | CFO and chief insurance risk officer of US annuity business, **ING Group** |
| John O'Donnell | Finance director, **Allied Irish Banks** | Will retire in August. |
| Siegfried Mayrhofer | Manager of the controlling and accounting department, **Telekom Austria** | Finance director fixed network division, **Telekom Austria** |
| Pietro Marazana | Senior VP for finance, **Premiere** | CFO, **Premiere** |
| Guy Whittaker | CFO, **Royal Bank of Scotland** | To step down later this year. |
| Marina Natale | Head of private banking, **UniCredit** | Group CFO, **UniCredit** |

**Thomas Buess,** CFO, **Swiss Life**

**Raymund Breu,** Retires in March 2010

**Marina,** Group CFO, **UniCredit**

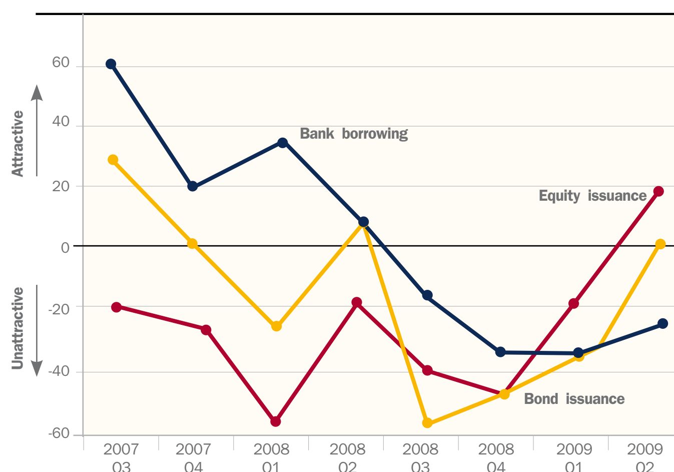
## NUMBERS CRUNCH

# 37%...

...of European audit committees do not comprise a CFO or former CFO. Countries where CFO expertise is lacking in over 50% of the audit committees are Portugal, Denmark, Finland and Switzerland.

**Source: Corporate Governance Report 2009, Heidrick & Struggles.**

## Favoured source of corporate funding





Net % of respondents reporting the following sources of funding as attractive.

*Source: Deloitte CFO survey, Q2 2009.*

## Asset backed new issuance drops 54.1% in Q2

Fixed income new issuance was valued at **USD 1 trillion** for Q2 2009 representing a **15%** (USD 180 billion) drop on Q2 2008 figures. During the same period asset backed new issuance accounted for **USD 100.6 billion** of all issues down by **54.1%** (USD 118.7 billion) and the overall size of the international capital market rose by **10.3%** (USD 1.3 trillion) to a total value of **USD 14.1 trillion**.

Once again the Euro was the preferred currency of issue capturing **51.6%** (USD 525.8 billion), the US Dollar was selected for **36%** (USD 367.4 billion) and Pounds Sterling was chosen for **6.6%** (USD 67.7 billion) of the total fixed income new issuance in Q2 2009.

**The top issuers in Q2 2009 were:**
Freddie Mac (**USD 42.8 billion**), Société de Financement de l'Economie Française (**USD 33.3 billion**), European Investment Bank (**USD 26.1 billion**), Lloyds TSB Bank (**USD 24.7 billion**), Fannie Mae (**USD 23.9 billion**) and KFW (**USD 22.9 billion**).

*Source: Xtrakter, the market utility*

## What next? Ten questions for CFOs

**As companies shift their attention from fighting the crisis to getting the most from the recovery, according to McKinsey, CFOs must keep them focused.**

1. What shape will a recovery take?
2. Have you restructured enough?
3. Is your supply chain sufficiently flexible?
4. Do you have a short list of acquisition targets ready?
5. Should you restart conversations with potential alliance partners?
6. Are you ready to divest newly underperforming businesses?
7. Do you have the financial resources needed for an upturn?
8. Have you taken advantage of the buyers' market for talent and other resources?
9. Do you know what risks a recovery might bring?
10. Can you sell your recovery plan to investors?

*Source: McKinsey Corporate Finance Practice*

# FDE NETWORK

UNITING THE EUROPEAN FINANCE COMMUNITY

## *FDE* LinkedIn group highlights

**The following question was recently posted on the *FDE* LinkedIn group by Matthew Needham, interim head of Value For Money at the University of Lincoln. 'What is the best cost reduction strategy?'**

I am always very cautious when it comes to so-called best strategies. Each situation needs a different approach, and most of the time there is more than one suitable way.

From my experience the quickest way is to start with costs that have no direct impact on effectiveness and/or efficiency. A good example is travel cost. Economy arrives at the same time as business but costs much less. Same may hold true for administrative costs and office space. Space or the first class location is not always all needed. Another starting point is existing processes. Do they still support the business, or just slow it down? Rising efficiency is not always a direct relief on cost side, but very often does help to save cost right away as less input (working hours, material and licences) are needed to get the same result.
***Richard Huth, CFO, Infinigate Holding AG***

My first point of research regarding costs is usually within gross margins. Identifying low margin products/services and asking for price rises usually produces some significant profit improvement, almost overnight. If products are withdrawn then this can free up space and resources. Also look at payment terms as cash is king and some
***Keith Grace, interim finance director, Orchard House Foods Ltd***

I couldn't agree more with Keith. Looking at a P&L, which generates a bad result, the first reaction lots of people have is to cut expenses. However, if you have come to a point where further cost cutting exercises will endanger your operational focus, you need to assess the top line of the P&L and analyse the quality of your sales.
***Erwin Delandshere, CFO, Aspel Group***

An effective combination of pricing and margin management coupled with 'sacrifice and focus' on overheads should of course deliver bottom line improvement.

I would echo earlier comments on seeking out the non-value added processes that will almost certainly exist in the business. If you look at your business as a customer and ask yourself 'am I willing to pay for that?' you may see some waste that is currently invisible.
***James Hodgson, FD, Gala Coffee Ltd***

Customer focus is key. Therefore, taking the value chain and breaking it into different processes is a good way to start that analysis.

**Some aspects from my own experience:**
A realignment of reporting and controlling as a way of reducing costs. Many firms produce reports and figures that are unfortunately a waste of time and money.

A cut back on external consultants. Try to find internal staff that might have the same know-how to do the consultant job. Forget independence since you will rarely get that. A paid consultant is often less objective than young and honest internal staff members.

Finally, there are travel costs. We are in the 21st century now with some excellent possibilities to use chat programmes, internet telephones and video conferencing. Once you start you easily get used to it.
***Jan Kuepfer, senior auditor, Swiss Life***

Educate the workforce on costs, e.g. how much it costs to print a colour copy, how much it costs if you don't switch off your PC in the evening, or, how much an overtime hour costs including on-costs.

Identify the key variable costs and educate employees through discussion and forums as to what the component parts are and how they are built up. Most employees go through their day in blissful ignorance of how costs accumulate.

The average person leans towards parsimony rather than extravagance – why not leverage that trend and apply it to the workplace. This approach can ultimately evolve into a corporate culture.

It's vital that employees understand how management expect to achieve their goals, not just what the goals are. As ever, communication is key. A co-ordinated, well communicated and simple approach will undoubtedly yield savings.
***Séamus Noonan, financial controller, Mercury Engineering***

## Prominent new members to the *FDE* group on LinkedIn

| CFOs and FDs | Job title | Company | Country |
|---|---|---|---|
| David Blaszkowsky | Director, Interactive Disclosure | SEC | US (page 36) |
| Dave van den Ende | Partner | Deloitte | Belgium (page 38) |
| Ueli Dietiker | CFO | Swisscom | Switzerland (page 12) |
| Christian Moller Laursen | CFO | APM Terminals | Netherlands (page 43) |

# *FDE* NETWORK

UNITING THE EUROPEAN FINANCE COMMUNITY

## New specialist *FDE* groups

**Due to the success of the *FDE* group on LinkedIn, we have established four more specialist *FDE* groups:**

*FDE* Treasury is a group for CFOs and their treasurers. Members of the various national treasury associations are most welcome.

*FDE* Audit is for CFOs and their heads of internal audit. Members of the IIA are also welcome.

*FDE* Shared Services & Outsourcing is the group for ***FDE*** readers who have either established their own SSC to accommodate transactional processes or have outsourced to a third party.

*FDE* Technology keeps ***FDE*** readers up to date with technologies such as XBRL, e-invoicing, business intelligence (BI) and performance management as well as IT financing and ECM.

*FDE* Marketplace is an open group for CFOs and the only ***FDE*** forum in which recruiters, consultants and service providers are welcome to join.

## Sign up to debate the latest hot topics

The *FDE* members' community on LinkedIn continues to grow apace. Now, boasting over 2,000 members and picking up 500 members each quarter, the group is proving to be an excellent networking tool for readers.

To join the *FDE* group on LinkedIn
***please email***
**stevedunkerley@spgmedia.com**

***or go to***
**www.the-financedirector.com**
and click on the LinkedIn logo.

Bogota is proving its strategic value as a centre for BPO/IT operations. Experienced and abundant human resources, competitive cost structure, experience and stable operating environment, make the city one of the most attractive destinations in Latin America for offshoring and outsourcing. Invest in Bogota connects companies with opportunities in Bogota.

Contact details
Invest in Bogota, Cra. 7 No. 71 - 21 Torre B, Of. 901, Bogota, Colombia
Tel: +571 7423030 • Website: www.investinbogota.org

**M&Y Data Solutions** is China's largest international provider of Business Process Outsourcing solutions. Since its foundation in 2001 it has grown to more than 2,200 operators supporting an enviable global client base; M&Y is internationally acknowledged as being a pioneer of China's BPO industry. Recognized as a top 100 global outsourcing company by the International Association of Outsourcing Professionals, M&Y is proof that China has arrived on the international outsourcing arena.

Contact details
M&Y Data Solutions, Loft 3, Ocean House, Clarence Road, Cardiff Bay, CF10 5FR, United Kingdom
Tel: +44 (0)29 2030 1202 • Fax: +44 (0)29 2030 1207 • Email: info@mydatasolutions.com
Website: www.mydatasolutions.com

Etisal is an ISO 9001:200 certified contact center outsourcing service provider. Etisal offer its Marketing, Sales, customer care, and helpdesk services through 3 facilities (1500 seats in total), multi lingual university graduate agents. Etisal domain of experience spans telecom, banking, aviation and retailing.

Contact details
Etisal International, 8th floor, El Tatbekeen Building, Abbassia Square, Abbassia, Cairo, Egypt • Tel: +202 24887000 • Fax: +202 24887001
Email: etisal@etisal-int.com • Website: www.etisal-int.com

Swisscom's
Ueli Dieteker.

# SMOOTH OPERATORS

Swisscom was a medium-size state-owned telecoms provider, challenged in its home market and with three aborted international expansions. Then in 2007 the acquisition of Italy's Fastweb finally gave it room for growth but, as **Ueli Dietiker** and **Patrick Dudli** make clear to Nigel Ash, the resulting debt has focused the firm on generating more value from its core Swiss base.

The Federal State of Switzerland, which owns 52% of Swisscom, has set the strategic goal that the firm's long-term debt must not exceed 2.1 times EBITDA, explains CFO Ueli Dietiker.

'We have debts of CHF 9.4 billion (€6.14 billion) at the moment, which is in the region of double our EBITDA. So our headroom for further acquisitions is limited. We would really only look at M&A to strengthen our businesses in Switzerland and Italy.' Even so, last year Swisscom abandoned the idea of taking over Italian-based broadband supplier Tiscali.

In 2007 Swisscom paid €3.1 billion for Fastweb, a 19% premium on market value, which unsettled some investors, who protested they could have bought the shares directly. While he does not dispute the argument, Dietiker insists: 'There were a number of reasons why the deal was better for us. First of all we were able to leverage our balance sheet because before we had almost no debt. Secondly, Fastweb's profile fits ours perfectly.'

In Switzerland, where Swisscom enjoys very high broadband penetration and increased competition, not least from cable, it has seen costs of price erosion year-on-year of up to €300 million to €350 million. By contrast, only 29% of Italian households have broadband and there is no cable competition. Dietiker says the strategy is to balance the declining returns from the fully mature Swiss broadband market with the considerable volume expansion opportunities in Italy. Fastweb remains a separate brand and has been run as a separate operation but Dietiker says one concession in Swisscom's drive for cost saving was the creation of a common purchasing board for the Italian and Swiss organisations.

In January 2008 Swisscom completed a substantial reorganisation, rationalising its businesses around customer segments to produce four operating units: Swisscom Switzerland, Swisscom IT Services – specialising in the integration of complex corporate IT structures, Swisscom Participations, and Fastweb.

Dietiker points out that the changes were under way before the Fastweb acquisition but were adjusted to include it.

'Part of the rationale was the expectation that fixed line and mobile markets will converge and therefore it was better to have a single customer-focused organisation in Swisscom Switzerland than the previous infrastructural-based operating units.'

## THE DEALS THAT DIDN'T FLY

Arguably the best deal that Swisscom never did was the acquisition of the German 3G mobile telephone licence in 2000. It entered the auction with a budget of DM10 billion. It walked out with its cheque book unopened because the licence was knocked down for over DM16 billion.

'We were lucky' says Dietiker, 'People were paying far too much for 3G.

They had fantasies about the payback, as it became apparent. In the fall of 2000 when all the hype was over, we were able then to buy the 3G licence in Switzerland for a minimal fee.'

In an attempt to build critical mass in 2004 Swisscom went after Telekom Austria and then in 2005 Ireland's Eircom. Both deals fell through, says Dietiker, because of politics. Last year Swisscom looked hard at Tiscali, the Milan-listed internet company with fixed line broadband operations in the UK and Italy, seeing a possible fit with its Italian Fastweb business. But it no longer had the funding. 'We refrained from the opportunity,' says Dietiker, 'and we're not interested in Tiscali at the moment.'

we have also increased quality. We stressed service levels in areas like call centres yet over the past three years we have also made cost savings in these customer touch points.'

Consolidating the back office, with the centralisation of accounting, financial control and human resources has produced a reduction of more than 100 back-office jobs.

Ironically for a company whose leading corporate business takes the IT outsourcing of major companies, Swisscom set about outsourcing some of its own processes. 'We have outsourced many supporting functions,' says Dietiker. 'In March we outsourced all facilities management to Johnson Controls with a saving of 270 jobs. We also implemented a new SAP platform called Royale, in which we have realigned the process system with the new customer focus and with one company dealing with everything from mobiles to fixed net solutions.' By consolidating its business offers around the single Swisscom brand, the company has also cut marketing costs appreciably.

**'NOW WE HAVE NOT ONLY BEEN ABLE TO PRIORITISE OUR COST-CUTTING, WE HAVE ALSO INCREASED QUALITY.'**

'The reorganisation was the culmination of a process that had begun nine years before with the part privatisation of Swisscom and the liberalisation of the telecoms market.'

'We needed more transparency and to optimise our processing, which the new structure enables,' says Dietiker, 'Now we have not only been able to prioritise our cost-cutting,

However, as a pre-condition of combining its mobile and fixed line operations, he explains that Swisscom had to buy out Vodafone's 25% stake in its mobile operation or otherwise go through a valuation of its fixed line assets. The purchase went ahead in December 2006 for €2.7 billion and, with the Fastweb deal, soaked up much of Swisscom's war chest.

## 'BUILDING SERVICES WITHOUT INCLUDING THE CUSTOMER'S POINT OF VIEW AND NEEDS IS FOOLISH.'

**Communication nation**

*The Economist* magazine has rated Switzerland's telephone and IT services among the best in the world. The focus therefore, says Dietiker, has to be on further improving the quality of Swisscom's offer. Much of that boost will come from faster broadband with wider bandwidth through the installation of fibre networks.

Of Swisscom's planned capital expenditure of up to €5.5 billion in the next six years, around 30% will go into the creation of fibre networks for the next generation of fixed line communications. It will involve obtaining agreement from landlords in the country's large rental market as well as persuading consumers to buy the new service. The rate of this 'huge' fibre technology investment will, says Dietiker, depend on the pace of market penetration, which is being reviewed at least once a year.

Dietiker's colleague Patrick Dudli, CFO of Swisscom IT Services reflects on its B2B offer Conextrade which, starting out in 2000 with a €6.53 million investment, has grown to include over 1,000 companies participating in the Conextrade Trading Centre and met Swisscom's expectations.

'We have seen a stable annual growth easily exceeding 30% over the last two or three years in both transactions and revenue. The market is still young. Although Swiss companies started quite early with e-invoicing in 2004 when the first e-invoicing-related legislation came into force, there was no major growth in the broad market.'

Further legislation to boost e-invoicing by 2012 will, believes Dudli, bring about a major change, particularly for SMEs.

'It is still mainly large enterprises that focus on e-invoicing, often as part of ongoing process improvement programmes or due to budget cuts. SMEs generally only participate in electronic processes at the behest of their large customers. This government initiative will force them to deal actively with e-invoicing and e-procurement. And they will benefit from it and thus optimise their business processes.'

The economic downturn, says Dudli, has played to other Swisscom IT Services' products, particularly IT outsourcing and application service provision (ASP).

'Companies do not need any IT resources of their own but can benefit from Swisscom IT Services' high-performance information technology at calculable costs. Therefore, ASP means low and transparent costs instead of capital commitments.'

Swisscom, says Dudli has got its assessment of customer needs for IT outsourcing and ASP right, but he accepts that assessing the potential of a market that did not actually exist was not easy.

Swisscom's Patrick Dudli.

'Building services without including the customer's point of view and needs is foolish. Providers can set a pace but new services will only be successful when there is a true market need for them. For example, we started to work on e-invoicing solutions as we know them today back in 2002, based on a strong foundation in EDIclearing and e-procurement. It was not a hot topic then but we believed that invoicing would benefit most from electronic processes. We had the first VAT compliant service in Switzerland, which has since become an international solution that is compliant in 32 countries.'

To extract full value from Swisscom IT Service's business, says Dudli, its management accounting system has two distinct pillars. For the data centre infrastructure, the most important indicators are the cost per unit and the volume of use. For IT projects, tight controls require that the project manager, the client and the account manager are regularly involved in assessing progress.

'Thanks to this 360-degree view the development of a project is very well under control and all necessary adjustments can be undertaken at every stage in order to guarantee the achievement of objectives.' FDE

*Ueli Dietiker is a member of the FDE group on LinkedIn. To join the group please visit **www.the-financedirector.com/linkedin***

**UELI DIETIKER**

Ueli Dietiker is head of group finance and controlling deputy CEO of Swisscom. He was previously at ATAG Ernst&Young, Motor Columbus and Cablecom Holding. Dietiker is a member of the board of directors of Zuckermühle Rupperswil.

**PATRICK DUDLI**

Patrick Dudli is CFO and member of the executive board of Swisscom IT Services AG. Dudli previously held roles as a member of the board of directors at COMIT AG, Resource AG and Sourcag AG, and as regional chief auditor at AG.

european banking forum
navigating the future of innovative banking

Banking technology is evolving.
Don't get left behind.

The European Banking Forum, 18 – 21 March 2010,
Park Plaza Riverbank, London, UK

*Contact:* Rex Pointon, Forum Manager, **rexpointon@vibevents.com** | Nadine Placzek, Forum Manager, **nadineplaczek@vibevents.com**

Tel +44 20 7753 4215 | Website: **www.ebfforum.com**
Brunel House, 55-57 North Wharf Road, London W2 1LA, UK

VIBevents

Enjoying your read?

Thousands of finance professionals around the world are using **the-financedirector.com** as their daily reference point, keeping abreast of the latest developments and using the resources to make informed decisions.

For up to the minute news visit **the-financedirector.com**.

Sign up online to the FREE eNewsletter and receive all the latest updates wherever you are.

FDE
FINANCE DIRECTOR EUROPE

# KEEP IT SIMPLE

For a business that was once a byword for corporate hubris and poor planning, Morrisons is doing well. Christian Doherty checks out the key points in the supermarket's turnaround strategy with treasurer **Tony Marsh**.

It's only three years since the UK's fourth biggest supermarket was still entangled in its seemingly endless attempts to purchase and integrate its new acquisition, Safeway. The deal dragged on for over two years, with the Office of Fair Trading slowing things further by insisting on a full enquiry into the market impact of the deal.

The merger eventually went through with a few adjustments, and after announcing a major restructuring and rebranding exercise, Morrisons emerged leaner, stronger and more competitive. The Bradford-based grocer recently announced a 7% increase in profits to £655 million in marked contrast to its rivals Tesco, Sainsbury's and Asda.

Part of the reason for the turnaround has been the pursuit of prudent financing policies, as reflected in its treasury position. The Holy Grail for many businesses during the credit crunch is flexibility, something few can achieve given the tightening of the credit markets. It's something Morrisons treasurer Tony Marsh spends most of his time trying to achieve and maintain.

'The only way you allow yourself flexibility is by keeping prudent positions elsewhere,' he says. 'That's because no bank will allow much flexibility if you're already towards the edge of your limit. So a prudent position on the balance sheet is key.'

'Banks, for whatever they've given you, expect other things in return,' he says. 'So they would expect you to do other lines of business with them to cover what responsibilities they've taken on in the lending arrangements.'

All that means that Marsh is crucial in ensuring Morrisons' banks are kept onside. So how does the treasurer make sure that his banking partners continue to look favourably on the retailer?

'We're trying to get more business for the banks within the organisation, so we do act as internal promoters for the banks around the business,' he says. 'It makes sense as it helps our relationship with the bank if we're helping them pick up business elsewhere.'

'PREVIOUSLY THEY WOULDN'T HAVE CONSIDERED THE FULL REPORTING OF OUR TREASURY POSITION TO BE PART OF THE CHIEF EXEC'S REMIT. IT USED TO BE HIDDEN IN THE BACK BIT BUT NOW IT'S FRONT AND CENTRE.'

To that end, in September 2008, a few weeks before the banking crisis went from shaky to meltdown, Morrisons signed a new deal for a significant facility with its bank.

'We got a really good price, and for five years,' he says. 'Granted, it was good timing but it was also an indication of the retailer's new direction.

At the heart of the supermarket's policy lies a belief that when it comes to managing cash, simplicity and clarity should be the watchwords.

'We have a treasury policy within the business that restricts the options available to us in every department which ties us to ordinary products,' says Marsh from the company's Bradford head office. That keeps us away from anything too complex and I'm happy to work like that to be honest. Keep it simple so that not only we understand it but it's easy for the rest of the business to understand, keeping things clear and precise for other people to follow.'

**Beneficial relationships**

Providing clarity has been crucial as the retailer has sought to navigate its way through steep declines in consumer spending and high street collapses left and right. Ironically, the difficulty of integrating Safeway in the two years leading up to the downturn may well have insulated Morrisons from the worst.

Ensuring that the supermarket has sufficient headroom is crucial after three years of a major effort at bringing Morrisons up to scratch with its competitors. The UK boasts one of the most competitive grocery markets, so surviving amid three long established rivals is no small achievement for a business that up until four years ago had no presence south of Birmingham.

For Marsh, this has meant ensuring the relationship with the business's banks is handled sensitively. Now even more so, given the current climate.

**The rise of the treasurer**

Marsh is now one of many treasurers who have found themselves – and their work – thrust into the spotlight by the credit crunch. Previously, most treasurers, even those at high profile FTSE100 businesses like Morrisons, can expect to receive little in the way of boardroom interference. For a large retailer, the emphasis will naturally fall on operational issues: pricing, supply chain and customer management.

But the past 12 months has seen the profile of treasury grow enormously in many businesses. For Marsh it's been an instructive time.

'Of course, we're part of the overall finance team but I would say that the profile of treasury within that has increased recently,' he says. 'You can see that in the report and accounts: the chief executive now mentions the facilities we've got, where the balance sheet is heading, how prudent we've been and so on.' It's a welcome change for Marsh, who believes treasury performs a vital and unheralded function in most large corporates.

So while the deepening economic gloom is hitting sales, marketing and business development professionals, for treasurers the downturn is unexpected chance to demonstrate their value to the business.

'Previously they wouldn't have considered the full reporting of our treasury position to be part of the chief exec's remit,' Marsh says. 'It used to be hidden in the back bit but now it's front and centre.'

All of which means that Marsh's treasury team is now seen as a more central player in the Morrisons story.

'I would say there's more influence and it gives you a level comfort that someone is taking a lot if interest in what you do,' he says. And by pursuing a policy of simplicity in treasury arrangements, Marsh is repaying that faith.

**Play it safe**

The supermarket has largely steered clear of riskier products, has retained a vanilla investment policy and has 'stuck to its knitting' since completing the Safeway deal. It's something the City has noticed, much to Marsh's satisfaction.

'The policy of prudence also stacks up with the ratings agencies as well: any sign of weakness now and they are a lot keener to downgrade you than before,' the treasurer reflects.

'They haven't come out of the banking crisis with their reputations entirely intact, but we've seen upgrades at the times when most people are experiencing downgrades which reflects well on the prudent policies we have.'

And it's not just investors who are happy. Supermarkets live and die by their supplier base, and Marsh is keen to point out that treasury has a role to play in managing these relationships. We don't speak directly to suppliers, but we do get contact with them through the buyers here,' he says. The treasury team backs up the buying teams by providing real time information on the supermarket's cash position. That makes deciding payment terms and determining contracts less of a risky business.

According to Marsh, Morrisons has traditionally been a good payer of suppliers because of its cash-rich background, and a fifth or more of its products come through its own subsidiaries, making it less exposed to as many suppliers.

'We do a large amount of our private label stuff ourselves, so there aren't as many supplier negotiations as many other of the Big Four.'

So while suppliers, investors and customers continue to get satisfaction, Marsh and his team will raise a (quiet) toast to the Morrisons success story. FDE

**TONY MARSH**

Tony Marsh has been treasurer of Morrisons supermarket since 2007. Before joining the company, he held various treasury positions at Hallmark Cards, Creative Publishing and tractor manufacturer JI Case. He completed the AMCT in the late 1980s and also holds the CIA qualification in internal audit.

# LOCATION, INNOVATION AND VALUE

The Association of Consulting Firms (AEC) is a business organisation that brings together Spain's major consulting firms. From this advantageous location it has developed a distinct model for providing IT services – one that differs from other technological outsourcing alternatives. This model is known as Value Shore®.

**While other localisation** options are based on low-labour costs and the training and level of their resources, Spain offers additional value through its knowledge of the business, specialising in project governance and developed sector-specific solutions. In addition, Spain's geographical and cultural proximity to European countries with significant technological demand makes it possible to set up closer collaborative working models based on the nearshore concept.

Together with the state-owned company Invest in Spain, part of the Ministry of Industry, Tourism and Trade, a competitive strategy has been created for the Spanish information and communications technology (ITC) sector. Called the Value Shore® model, this new and innovative approach to technological outsourcing combines the geographical and cultural proximity of Spain with the advantages derived from sector-specific specialisation and its highly trained human resources.

This Value Shore® model is based on the unique combination of one of the largest countries in the European Union, with a stable, healthy economy and a history of technological and business innovation, and relatively low costs, staff turnover and inflation rates. These characteristics qualify Spain to provide sustainable and skilled business solutions and ITC professionals to other European countries.

The Value Shore® model focuses on providing high value-added services based on best practices and success cases, as well as a community of highly qualified professionals with extensive experience in the sector. Together, these make it possible to achieve results with excellent value for money and risk. FDE

**Further information**
Tel: +44 (0) 7787 216503
Email: valueshore@valueshore.org
Website: www.valueshore.org

Issued by HSBC Holdings plc. AC15267

## Europe is open with SEPA.

The Single Euro Payments Area (SEPA) is redefining the way companies do business in Europe and HSBC is prepared and ready for this change.

With the ability to make SEPA payments to over 30 countries, HSBC is perfectly positioned to give you access to Europe, making business between countries quicker and easier, as well as giving you more confidence in your financial control.

Our network allows our customers to use a single bank account and payment instruction to make cashless payments across the region, meaning you can benefit from a Europe without borders.

To find out more about this service, visit www.hsbcnet.com/solutions

GLOBAL BANKING AND MARKETS

**You are fairly new to the role of chief executive at the ACT – how have you seen the treasury role evolve since your days as the finance director of Amec plc?**
I was a treasurer 20 years ago and then I was a career finance director at four companies, three of which were plcs. I went through treasury as my route to becoming a finance director. Without doing it this way, I don't think that I could have functioned as a finance director as well as I have. If people go into operational management having come through a finance function like treasury it helps them to understand financial risk. If you work in isolation from the operational side I don't think that you can help a board with the big decisions. Treasurers need to be plugged into that if they are going to make a real difference in these markets. In a benign market they could manage being slightly more remote from it – but not in this market.

**Cash pooling, especially physical pooling (cash concentration) seems to be gaining momentum as a way to optimise liquidity. Why do you think that is?**
Going back a year or two, if you were grossing up the balance sheet from one country to another or even from one company to another within the same group, the actual costs were quite low and you could argue that the costs of trying to bring the whole thing together wouldn't have justified it.

Today of course the costs of grossing up the balance sheet, depositing on one hand and borrowing in another country, are enormous. The spreads are so much more. The spreads are going to remain – they are not going to narrow to anything like they were in the past, so economically you are going to have to ensure that you have done all the pooling you can, wherever you can. The good news there is that, mostly, exchange control will allow you to do that. The big impact is the change in spreads.

# CHANGING LANDSCAPE

The main themes at The Association of Corporate Treasurers' annual conference this year were the broad brush strokes of 'adapting, diversifying and sustaining' in the downturn. Michael Jones caught up with **Stuart Siddall**, chief executive of ACT, to discuss the evolving role of the treasurer in dealing with the 'new normal'.

**Aside from pooling, what other innovative liquidity strategies should treasurers be considering in the current climate?**
The market underestimated the importance of credit insurance. Woolworths was a good case in point. As credit insurance for Woolworths was pulled, their whole working capital credit cycle became intolerable and the knock-on effects for them and their suppliers became impossible. However, there are other systems. You can take a large company that can borrow more cheaply than a smaller company that supplies them and if they can structure the trade in a way that enables the smaller company to effectively fund its receivables then that is going to be useful.

There are also large companies that have looked at how they can help their supply chain. The funding within supply chains, where large companies can use their balance sheet to work with their suppliers is going to be a route through the current crisis and certainly where smaller companies can benefit from working either through their big suppliers or their customers.

IAS 39 is not the cause of today's problems. It's difficult to understand IAS 39 but suspending it is not the solution to the financial crisis. Transparency isn't the only thing, but it will help in a complex world.

With accounting standards, there are good reasons why they have tried to bring uniformity across the piece and it will be a great day when we all use the same accounting standards. The IFRS concept of mark to market is absolutely right. Has it got over complicated? Yes it has and we have to simplify it. You just have to keep shouting about it.

**Is it the ACT's role to convey a message of positivity to members?**
I think members are reacting very proactively and I think that they've proved it. In a recent ACT survey earlier this year, the bigger companies all demonstrated that they can weather the financial credit crisis quite well. They can access different markets, they have good, robust banking relationships and they have sound documentation. I think

## 'WE HAVE IMPLEMENTED PROCUREMENT GOVERNANCE ACROSS THE BUSINESS AREAS WHICH CREATES FAR GREATER CONTROL.'

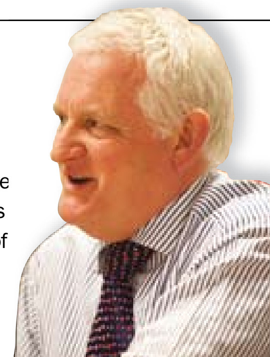
**In this type of economy should treasurers outsource short-term investing to fund managers instead of going directly to the market themselves, i.e. to invest in commercial paper?**
I think that one of the treasurer's roles is securing the capital value of the company's cash and I don't think that should be outsourced. I think it's perfectly legitimate for a larger company to consider investing in corporate paper instead of bank paper, if they use the usual criteria of ratings and look at the liquidity of the instruments themselves. Clearly, commercial paper is fairly liquid. I would not think for the short-term management of funds and capitals that treasurers should be outsourcing.

**In terms of accounting for derivatives and accounting standards, what is your personal opinion on something like IAS 39?**
I have to confess that I am in favour of mark-to-market as a concept. I think that there are occasions where you are definitely holding an investment and a derivative to maturity and mark-to-market may not be appropriate. There are others ways of going about it that can be done through disclosure. But generally I'm in favour of it, certainly where there is a speculative product – absolutely mark-to-market there. There are problems with that though; if there isn't a deep market or an opportunity to go and test the value and it does move into subjective mode. But you have to deal with it as best as you can through disclosure.

that the issue is actually reaching the smaller companies. We have got a senior member in 89% of the FTSE 100 companies. When you get to the FTSE 250 that drops to 60%. If big companies have been finding it tough in today's markets I worry about the smaller ones not getting enough treasury and financial risk knowledge. That's one of the challenges for us – to try and reach out and deal with that via non-executive directors and also to the directors of the smaller companies. That's right at the top of my agenda. The ACT is nearly 30 years old and when it started it needed large companies to help it develop. Today, we are in a position to help smaller companies too. FDE

**STUART SIDDALL**

Stuart Siddall, chief executive of the Association of Corporate Treasurers, is a fellow of the ACT. After his early career in accounting and financial role he was treasurer of BICC plc and has subsequently been finance director of several organisations, most recently at Amec plc. During his time there the company entered the FTSE 100.



# READY FOR DEFLATION?

The grinding process of deflation is on the horizon but, while this may cause difficulties for the global economy, corporations can use financial instruments to minimise risk as BNP Paribas's **Paul Mortimer-Lee**, **Luigi Speranza**, **Clive Banks** and **David Slater** (clockwise from top left) explain to Steve Dunkerley.

**The global economy** is witnessing unprecedented times and faces years of uncertainty, according to Paul Mortimer-Lee, global head of market economics at BNP Paribas. All companies, he says, should be planning for the future now.

'There is a massive global shortfall in terms of output,' he says. 'Unemployment is rising, wages are frozen and pay levels are set to remain the same. It is hard to see where the inflationary fears are coming from.

'We expect pressures towards deflation over the coming one-to-two years,' he adds.

If governments and regulatory authorities catch inflation quickly enough, he says, it can be dealt with. 'Yet it is difficult to deal with deflation. Given the choice, UK authorities would go for inflation.'

However, BNP Paribas sees a deflationary future.

'You don't get runaway deflation,' says Mortimer-Lee. 'It is more of a grinding process. And for sure, the tide is coming, slowly but surely, and it will come in. It is unavoidable.'

Luigi Speranza, head of inflation economics at BNP Paribas, highlights that central banks need to tread a fine line because expectations can fluctuate quickly. At the moment inflation expectations are well anchored, but as inflation grinds lower this could change suddenly.

'This can affect behaviour,' he says, 'with the risk of a deflationary spiral.'

A deflationary spiral, a situation where decreases in prices lead to lower production, which in turn leads to lower wages and demand, which then leads to further decreases in price, is considered a worst-case scenario for national economies. The 'Great Depression' is regarded by many as a deflationary spiral and no one wants a repeat of that.

Speranza says a protracted period of falling core prices is the most likely outcome in the Eurozone.

'There has been only a modest decline in core inflation to date,' he says. 'Core inflation is 1.5% below its cyclical peak of 2%, but we expect to see a three-quarter percentage point fall each year for the next couple of years.'

The problem with European policy makers, he adds, is that while the aggressive quantitative easing methods adopted in the UK have been successful to date, the policy is a taboo in Europe.

> 'The underlying economic concerns are simple: deflation is on the way and all companies should be planning ahead now if they wish to mitigate their risks.'

'It is a taboo because of what happened with the Weimar Republic in Germany,' he says.

As a result of First World War reparations, the German government's approach was to print money. This caused a loss in confidence and rampant hyperinflation. Yet the Japanese lesson of not acting quickly enough is there for all to see. Its 1980s recession took a decade to overcome.

It is clear that there is a theoretical divide between the Anglo-Saxon tradition and the Germanic, yet it is Germany that is facing the biggest problems (exacerbated by an upcoming election). Half the banking losses in the EU economy are expected to come from the German banking system, yet radical change appears some way off.

'The German government aims at stabilising the employment situation by subidising cuts in working hours to avoid job losses,' says Mortimer-Lee. But this could well be a mistake.

The bad news for the next British Chancellor, according to Mortimer-Lee, is that 'the UK is the basket case of Europe.' He continues: 'There are few economies in a worse state than the UK, particularly in terms of the fiscal situation. The next Chancellor, whoever he or she is, will have a terrible job on their hands. They will have to cut spending and increase taxes. They will be very unpopular.'

The problem facing CFOs, contends Clive Banks, head of derivatives and FX, European Corporates at BNP Paribas, is one of uncertainty.

'For organisations,' he says, 'if deflation exists, it means they will lean towards delaying investment, as values will drop and the break even point will be that much further off.'

Yet despite this deflationary economic forecast, he says that few companies have done a lot of work on the major impacts of either inflation or deflation.

'This generation of finance directors has not lived through these sorts of problems,' says Banks. 'And may not know what their balance sheet and cashflows look like in a non-benign environment. There are many factors to take into consideration, since revenues and costs behave in different ways. Not to mention rents behave differently to wages and the fluctuating costs

of raw materials. And there can be large timing differences in price adjustments. Balancing them all in an inflationary or deflationary economy or economies will prove difficult.'

**Protection versus premium**

BNP Paribas offers a range of products that can help corporate clients avoid the worst of the impact. It has witnessed an increase of corporate clients in the market for inflation-linked derivatives, particularly those from the real estate, utility and retail sectors, who are exposed to inflation risk in their corporate liabilities or cashflows.

The company offers a number of risk mitigation tools to corporates, from 'vanilla' swaps to volatility options to match the dynamics of underlying flows.

The swap will typically be agreed over a set number of years and based on a notional amount (representing the figure on which the inflation and the fixed rate payments will be paid). The swap is tailored to fit an exposure and can, in most instances, be a more suitable route than an inflation-linked bond (or 'linker').

In order to reduce the likelihood of being locked into a hedge, higher premium products, such as range accruals, caps and floors, may offer the necessary protection from volatility.

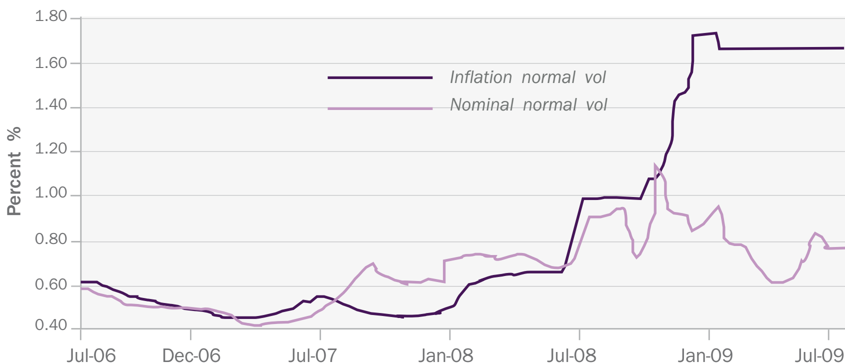
In terms of linkers, to date the overwhelming majority of issuers of these bonds have been government organisations. Corporates have tended to issue fixed-interest debt and utilise the swaps market to handle inflation.

**New IAS 39 exposure draft**

One further complication for corporates comes in the form of accounting standards, in particular, IAS 39.

To date IAS 39 has meant that inflation swaps do not qualify for hedge accounting and thus can introduce unwanted volatility into the P&L. In July the International Accounting Standards Board published an Exposure Draft relating to the re-classification and

**Volatility of inflation trading at double the level of interest rate volatility.**




Source: BNP Paribas

measurement of financial instruments. It proposes that rather than the current complex classification system, there would instead be just two measurement categories: fair value and amortised cost, along with a single classification system for all financial instruments, including financial contracts with embedded derivative features. This would, effectively, place all financial instruments on a level playing field and may mean that the hedge accounting constraint on use of inflation derivatives is removed.

'The detail is undoubtedly complex,' says Banks, 'yet the underlying economic concerns are simple: the inflation outlook is highly uncertain and all companies should be planning ahead now if they wish to mitigate their risks.'

This uncertain outlook is reflected in an increase in the market price of volatility. David Slater, head of inflation trading explains that volatility of inflation is now trading at double the level of interest rate volatility, whereas historically it has traded at closer to 60% (see graph). Whether you believe in deflation or inflation, we will be living outside the bands of low inflation we have enjoyed in recent years.

'For Mortimer-Lee, there is only one short-term risk, and that is definitely deflation. Although, if the authorities aren't careful, their efforts to curb deflation could lead to inflation at a later date.'

Mortimer-Lee agrees. 'It is not about inflation at all, it's about deflation.' And it is deflation, according to Mortimer-Lee, that governments and chief financial officers should be preparing for right now. Don't say you haven't been warned. FDE

**Further information**

BNP Paribas Corporate & Investment Banking
Tel: +44 (0) 20 7595 8914
Email: clive.banks@uk.bnpparibas.com

When *FDE* hosted the first of its new season of breakfast briefings in London, the discussion, with a key talk by CFO of INEOS Olefins and Polymers Europe **Philip de Klerk**, focused on driving improvements in working capital management.

# CASH IS KING

Philip de Klerk addresses delegates at *FDE*'s executive breakfast briefing at London's Park Lane Hilton hotel in June.

London's Park Lane Hilton hotel on 30 June was the setting for the opening event in a new season of FDE breakfast briefings. While previous briefings addressed primary finance concerns such as creating business impact through BPO and controlling the financial supply chain, this latest set of seminars tackled a maxim that has taken on particular resonance during the economic downturn: 'Cash is King'.

Attendees included senior executives from some of the world's largest companies, including BAE Systems, BG Group and BHP Billiton. They had convened to hear a talk from Philip de Klerk, CFO of the olefins and polymer business in Europe at INEOS, the largest division of the biggest privately-owned company in the UK.

The chemical giant has seen its sector hit badly by the financial events of the past two years. The combination of a covenant waiver request and a major competitor declaring Chapter 11 bankruptcy saw its credit rating downgraded twice in the space of six months. Rising costs and a slowdown in sales have forced the group into taking some tough decisions in an extremely short timeframe and de Klerk was in town to discuss how his organisation had addressed these challenges head-on.

Andrew Groth, vice-president and head of business development Europe at Genpact, co-sponsors of the event alongside Santander Corporate Banking, introduced the keynote speaker. He put the theme of this series into context, citing the Aberdeen Group's finding that companies with efficient processes improved DSO over their competitors by 25 to 40%.

'Take a company in the financial services sector with $50 billion of assets under management,' Groth explained. 'They can improve their losses ratios by $500 to 700 million. The importance of looking at all areas around cash and cash management, regardless of the business we're in, cannot be overstated.'

De Klerk agreed, saying that during times such as these cash has a particular resonance because of its value as an objective measure of a company's health. 'We used to focus on EPS or EBITDA and cash was more or less a second thought,' he explained. 'But it is truly measurable. Some companies choose operational or free cashflow, but at Unilever [de Klerk's previous employer] we changed the meaning of free cash flow every other year. Cash is the most objective measure you have for gauging how a business is doing.'

But financial events have made accessing and maintaining liquidity a major challenge for the CFO. A more risk-averse climate has seen suppliers demanding changes in payment terms, with INEOS losing €200 million of credit as a result. A steep decline in orders from September onwards has also forced the group to make some drastic decisions. A cash fixed cost reduction of 10% was made in the fourth quarter of 2008, with a further 10% planned for 2009. Cash available for CAPEX fell

from €600 million to €250 million virtually overnight. Working capital, particularly in regards to stock levels, was reduced by a further 25% in the first quarter of this year. Reporting, measuring and forecasting techniques were overhauled and investment was made in a new ERP system.

'There are trade offs,' de Klerk told the delegates. 'Can we maintain levels of customer service with lower stocks? Do we want to invest in working capital or spend on growth? The challenges are constant.'

One area where de Klerk was insistent upon compromises not being made was in the search for new customers. He cited the example of a large potential partner seemingly severing its ties with a previous supplier and approaching INEOS for business. Payment terms of 45 days were agreed only for it to become clear that after 44 the new client had financial problems.

'You need to be really careful these days when selecting your customers,' de Klerk explained. 'Some of our sales guys are eager to explore this new customer base and that makes it difficult for those of us in finance to tell them to hold off a while. Yes we need cash, but if they can't pay we have nothing.'

Such an approach is counterbalanced through the way in which trusted customers are treated. While de Klerk admitted that he studies the overdues every week, firing off calls and emails to ensure that the people responsible are aware events are being closely monitored, he also encourages a more holistic approach. He told the room of his regular conversations with the CFOs of his top ten or so customers, managing expectations and ensuring both parties were fully up to speed with developments, and the compromises for those in difficult positions.

'We know some of our customers are having the same problems in regards to relatively low supplier credit and the like,' de Klerk said. 'We ask whether there's anything we can do to help. For simple things such as covenants, some may need more cash in the bank at the beginning of June than they do in September. You can do a bit of wheeling and dealing and try to manage proactively. People are very appreciative that we're going the extra distance.'

This sentiment encapsulated a major theme of de Klerk's address: the importance of trust and its erosion as a result of the financial crisis. 'I am a great believer in the value of trust and as we emerge from this cycle suppliers, customers and banks are going to need each other more than ever,' he said. 'Open, transparent relationships are vital and I like to share the information I have on the company and our plans. INEOS is privately owned and hasn't always been as open as it should have been in the past, but we're getting there.

'Those companies that have been honest with their stakeholders will emerge stronger. We can't live with everyone on prepayment and it's therefore vital that levels of trust are re-established as soon as possible.'

There followed a short presentation by Genpact's vice-president of business process re-engineering, Lester D'Souza, on the key levers for optimising cash across receivables, payables and inventory. We then returned to a Q&A session with the keynote speaker, conducted by Andrew Morris, director at Santander Corporate Banking.

Much of the discussion concerned how de Klerk incentivised a cash-savvy mindset at a time when his company had imposed a payment and bonus freeze. 'You need constant communication,' the CFO responded. 'When you go through a cash-reduced cycle people become very concerned about the future and you must put a lot of work into keeping them onboard. This can't be entirely finance-driven; all stakeholders need to be aligned. Everyone now recognises the need to be cash-tight and emerge from this cycle in better shape than we entered it. Ensure the relationship between sales and finance is strong and that you're both after the same thing.'

*The next FDE breakfast briefing will be held in Q4 of this year. For further details please contact **Steve Dunkerley** on **+44 (0) 20 7753 4223** or **stevedunkerley@spgmedia.com***

## SHARED SERVICES – HORSES FOR SOURCES

As the meltdown softens slightly, CFOs can take a small step back from their obsessive monitoring of cash position to re-evaluate their business model, including the transactional processing part of finance. Cost reduction is a focal point at the moment and has prompted the re-evaluation of core competencies. While operating an in-house shared service organisation may seem an effective use of resources, the operating costs and capital expenditure required to build and run a centre may be losing companies their competitive edge and shareholder value.

The shared services week in Budapest, organised by the Shared Services & Outsourcing Network (SSON), featured discussions of this nature, a highlight being the panel hosted by Horses for Sources blogger Phil Fersht, featuring Graham Russell, global head of transaction processing at AstraZeneca, Chris Barney, F&A director at TPI, and *FDE*'s Steve Dunkerley. The session was the first of its kind in the industry to be streamed live on the Horses for Sources blog.

TPI's Chris Barney went on to examine the continuing trend of corporates selling their captive shared service operations to outsourcers. Philips and Aviva are examples of companies that have participated in asset monetisation deals. With outsourcers looking to increase their global footprints and seize opportunities to tie in long-term revenue streams, and corporates needing cash in the short to medium term, we can expect to see more of these transactions going forward.

*FDE* has recently entered in to a strategic partnership with SSON. The 4th Annual Shared Services & Outsourcing Summit is taking place 8-10 February in London.

**Further information**
www.ssonetwork.com
www.horses-for-sources.com
www.tpi.net

# SHIFT IN STRATEGY

For several years oil company OMV had enjoyed rapid expansion, but the market volatility of 2008 demanded a rapid review of just how quickly they could pursue their growth strategy. CFO **David Davies** tells *FDE* how the company has sought to maximise cashflow in hard times while maintaining investments in long-term projects.

Until the last quarter of 2008, Austrian integrated oil company OMV had seen five highly acquisitive and investment-focused years which had substantially increased its scale. For CFO David Davies, these were busy, productive years.

'We quadrupled our upstream production, doubled our refining capacity, doubled the scale of our gas business and doubled the market share that we had with our petrol stations,' he says. 'We invested substantially during the commodity price upswing, particularly in the Czech Republic, Romania, Bulgaria and Turkey, which are some of Europe's strongest growing markets.'

Then the company was hit with the year-end collapse of commodity prices that transformed the market, notably through access to credit from banks and other institutions. OMV responded by cutting its dividend by 20% and delaying investment of several projects, cutting two others entirely.

However, OMV is in no rush to cut its €2.4 billion debt and equity share with five other partners in the 2,000-mile Nabucco natural gas pipeline running from Turkey to Austria. Running through Bulgaria, Romania and Hungary, the project is expected to be given the green light later this year.

'We don't have excess cash as such,' says Davies, 'but we have the liquidity to invest where we need to. We also have a net debt as a group of around €2.5 billion.' OMV's balance sheet was considerably strengthened this spring with the sale to Russia of its controversial 20% stake in Hungarian oil company Mol (see box, right).

While OMV's revenues in its Eastern European markets have been holding up well in 2009, they have been declining in Germany and Austria for some time. Davies believes this was initially due to high prices, but also attributes it to a slump in demand.

'Freight and haulage businesses have been badly affected, which has substantially impacted the demand for diesel. In addition, there are fewer people taking flights, which has reduced the demand for jet fuel, a significant part of our business,' says Davies. 'These are the areas that have been most dramatically affected, as has the petrochemicals sector, which has suffered quite significantly, not least because of the increased use of plastics in motor vehicles.'

Another major challenge has been daily liquidity management.

'Quite frankly, the financial management and reporting mindset, and the IT infrastructure supporting it, were not connected. This had not been an issue in the past because companies had been able to rely on general cash generation and freely functioning money markets,' he says. 'However, by the last quarter of 2008, the money markets weren't functioning perfectly and the things that we had comfortably come to rely on in the past were simply no longer available and that caused a change in mindset.'

It was not, says Davies, a question of waving a magic wand and trying to reinvent SAP, but rather of putting parallel processes around the existing infrastructure to make it more efficient.

'In my 25 years in financial management, I have never worked in a company that could accurately forecast how much capital it was going to invest on a cash basis,' he notes. 'And over the last few years in this industry, when you had quarter-on-quarter oil price increases, this was a lack of certainty one could comfortably manage.'

However, when the oil price went into free fall and the credit markets were displaying 'Closed for Business' signs, OMV applied what Davies describes as 'shock tactics'. The company sought to establish where the liquidity was, reinforce capital discipline in regards to long-term cash forecasting and examine which projects needed to be re-prioritised to reduce 2009 capex from €3 billion to €2 billion in the face of a range of different market trends.

'When you start having that kind of dialogue with an entirely different sense of priority, it really wakes people up,' Davies says. 'In businesses, you have to

## 'IN MY 25 YEARS IN FINANCIAL MANAGEMENT, I HAVE NEVER WORKED IN A COMPANY THAT COULD ACCURATELY FORECAST HOW MUCH CAPITAL IT WAS GOING TO INVEST ON A CASH BASIS.'

### PROFIT FROM LOSS

OMV fought and lost a bitterly contested bid to take over its Hungarian counterpart Mol. However, David Davies says OMV came away from the deal with a €1.4 billion cash pile when in March the company sold its 20% stake in Mol to Russian energy company Surgutneftgaz. Though OMV sold its Mol shares for €37 million less than it had paid, Davies points out that the company broke even on the deal.

'As part of their defence against our approach last year, Mol dramatically increased their dividend which, as a 20% shareholder, we enjoyed significantly,' he says. 'It made a return of somewhere between 2.5% and 5%.'

## MATURE OUTLOOK

In January OMV was involved with a €500 million German private placement and a €1 billion Eurobond issue in April maturing in 2014. It also has unused committed facilities of €1.5 billion set to mature next year and €850 million ending 2012.

This, along with the Mol sale, has, says David Davies, given OMV strong liquidity, keeping in mind the fund manager he met in December who told him 'we are not looking for companies that are cheap because everybody's cheap right now. We're looking for companies that are going to be there in three or four year's time'.

ahead and think about what changing circumstances might mean for your customers in terms of credit risk.'

**Meet the challenge**

Davies looks back at the sobering realities of 2008 as a time when companies were forced to evaluate their market position.

'It was not the best of times to be perfectly honest,' he says. 'There were questions being asked about whether the world was going to survive. Like a lot of companies, OMV learnt a lot about itself during that difficult time.'

Davies admits that one of most challenging areas has been Days Sales Outstanding.

'The environment hasn't been benign,' he notes. 'We've had no significant credit write-offs, although there have been plenty of cases where we've had to be prudent in terms of the credit limit we apply.'

Davies also admits to being shocked at the sum total of the credit limits negotiated by OMV's sales people. Among these lines was several billions of unused credit which still sat on the balance sheet. The finance function identified customers who had not used their credit for six months and cut the lines.

'We took the view that this is not the environment to be winning market share,' he says. 'Of course, I don't mean we turned our back on business. But turning towards businesses which are only coming your way because the customer cannot get credit anywhere else was not the right strategy.'

Davies emphasises that OMV was not looking to tell its customers it wasn't interested in doing business with them. 'There were certain cases where we felt that the customer's industry was at the front line of the challenges we're all facing now, especially when we looked for parent company guarantees. If that was refused then we simply walked away from that business,' he says.

Though OMV runs shared services for collections, the primary interface with customers is through the business finance function. 'There's really only one division that has a substantial portfolio of third-party customers and that's the refining and marketing business,' Davies says. 'The upstream business sells all its oil through the trading business. Their primary interface is either the refineries that we operate or the external trading market. The credit limits are established by the corporate risk management team, but again the cash collection is a responsibility of the local business division. The rest of the sales are the industrial accounts with small operators and the super-majors – the BPs and Totals of this world – and again the collections are managed within the refining and marketing business.'

For Davies, the uncertainties of the market and volatility of oil prices has seen OMV focus intently on cash management. 'Clearly, the sale of the Mol shares was heaven-sent. Frankly, even the week before, we were not planning on that transaction. It came together very quickly and has consequently transformed our overall liquidity position. What we had been planning on and had executed successfully during the first four months of the year was an extension of the maturity profile of our debt.' FDE

### DAVID DAVIES

David Davies has been OMV's CFO since 2002. Previously, he held various senior finance positions at global corporations including The Walt Disney Company and Burger King. He was also CFO at the Morgan Crucible Company.

# FAST FOREX

In our globalised marketplace corporates are well versed in cross-border payments in foreign currency, but they still have room to improve the efficiency of multi-currency transactions. In challenging economic conditions CFOs are keen for banking partners to deliver efficient, error-free and information-rich payment options and, as **Rita Saverino** of FX4Cash explains to *FDE*, some banks have been listening.

**Foreign exchange transactions** are commonplace, especially as supply chains expand around the world and consumer markets become increasingly international. As such, they may not be an immediate priority in the search for efficiency gains, cost reduction or better risk management. But perhaps they should be.

Exceptions, errors and exchange rate volatility all pose problems for the finance team, and the onus has been on banks to provide a fast, efficiency platform for foreign exchange transactions. One bank has delivered just that.

'Cross-border currency payments are nothing new, but while they happen already they may not be efficient. Corporates may be focused on simply getting payments through but, if they look closer they will have issues around STP, reconciliation of accounts and efficiency. Any company will benefit from lower error rates,' says Rita Saverino, co-head of FX4Cash in the finance and foreign exchange division of Deutsche Bank.

FX4Cash addresses all of the concerns a finance director could have about multi-currency payments, building on the bank's role as a leader in cash management and foreign exchange markets. The flexible and resilient platform supports a range of access channels, currencies and payment options.

The technology maximises straight through processing (STP), particularly for small, dynamic and repetitive payments, in part because it provides direct host-to-host connectivity with ERP systems. It also leverages the market-leading research of Deutsche Bank's analysts to ensure that corporate clients have the very latest exchange rates and forecasts.

'Corporate clients now have access to many currencies, they can see and choose rates before a transaction, and reconciliation is greatly improved. From one account they can make payments in 125 currencies to over 160 countries. They do not need multi-currency accounts any longer,' says Saverino.

'FX4Cash addresses operational risk by improving STP and foreign exchange risk by providing real-time rates.'

## Safety, synchronicity and service

With FX4Cash, corporates transact all payments from one base currency account, which is simpler to manage and improves STP. There is a similar process for receivables, whereby companies can specify the currency into which they would like foreign currency payments made and, therefore, still maintain a single account.

For finance directors, the removal of complexity from foreign currency transactions enables a more comprehensive approach to risk as well as lowering costs and improving cash management.

'FX4Cash addresses operational risk by improving STP and foreign exchange risk by providing real-time rates. It also enables clients to improve their working capital by eliminating idle balances and exposure to currency devaluations,' says Saverino.

The FX4Cash platform is easy to set up and can be accessed in many ways, be it through Deutsche Bank's online banking platform, via direct file transfer to ERP systems or through SWIFT. It also features stringent access controls, ensuring that only those with authorisation can initiate transactions.

Technologically, such a platform is not beyond the reach of any major bank, but what makes FX4Cash different is that its backer has a prominent position in the key banking markets that make the system work.

Deutsche Bank is widely recognised as the leading player in the foreign exchange market, of which it has a 21% share, and a 40% share of the electronic trading market. Add in its status as one of the world's top clearers of euro and US dollar payments and it is clear that a big slice of the world's foreign exchange business passes through its system.

Furthermore, the bank has a huge global cash management footprint, and its global transaction banking division works in tandem with its foreign exchange division. No wonder FX4Cash has been so well received and is attracting new business from corporate clients every day. FDE

*FX market share rankings source: Euromoney FX Poll 2009.*

**Further information**
Deutsche Bank
Website: www.db.com/fx4cash
Email: fx4cash.team@db.com

# MORE DATA, MORE CASH

How can a company locate cash trapped within its accounts receivable portfolio? According to **Mark Wood**, vice-president and Order-to-Cash practice leader of Genpact, measuring lag indicators is not enough. It is analysing the data within lead indicators that is key.

**Since the beginning** of the US mortgage crisis, global financial meltdown and subsequent global market contraction, companies have run out of spending belts to tighten. With little-to-no revenue growth in sight, many CFOs are turning toward their accounts receivable area to help improve cash flow.

So how then, do you create more cash from your accounts receivable portfolio? In my travels, nearly every finance officer I meet tells me they would like to enforce shorter credit terms to achieve their cash goals but unfortunately, unless they own the market and their product is the next 'i-Something', this is largely an unrealistic endeavour.

Let's assume that you have had a year to focus on your balance sheet and have moved your DSO to levels above your industry's average by concentrating on performance within your credit and collections department. By now, you should have:

- standardised terms across your customer base and have enforced them aggressively
- measured critical indicators of your team's performance
- set and tracked continuously improving targets for the team.

You have probably also reduced costs by cutting staff. So what next? The simple answer to this question is data. Data, data and more data. It is what you need to understand the health of your business processes and where to focus your attention to turn the dial on DSO and other cash metrics.

Without data it is impossible to be proactive and predict the likelihood that you will be paid. Most of your customers, even in difficult economic times, want to maintain good credit ratings and pay invoices on time. The main reason for late payment in any business is upstream process errors. Most companies fix errors reactively while trying to collect their cash.

**Use what you already have**

There are several ways to get at your data and, while technology is always best, you do not need to spend millions to customise your ERP platforms. Much of the data you need may reside already in your existing systems but has not been aggregated, analysed and disseminated to key stakeholders of upstream processes. Before beginning your data collection efforts you must define the boundaries of your Order-to-Cash (OTC) processes. Where does it start and end and what other business processes impact each step in the end-to-end OTC process?

Once you understand this end-to-end view, you must figure out what goes wrong or can go wrong in the process and determine if you can measure those defects. Herein lies the challenge – most companies are very good at measuring lag indicators, such as DSO, % past due and bad debt, but very few master the art of measuring lead indicators. Lead indicators focus on measuring the speed and accuracy of the level 2, 3 and 4 processes and include metrics like:

- turnaround time for customer set up
- billing accuracy
- pricing dispute resolution time, etc.

Measuring these cash flow levers can be costly and difficult without robust workflow tools. However, capturing this data represents a real opportunity to find the king we call cash.

Best-in-class companies and service providers leverage workflow to manage processes that are prone to defects and require handoffs to execute. Workflow tools must be business performance management systems to deliver real value and transformation for a company.

> 'If you partner with the right provider and deploy a rigorous governance model, you can get at more data and gain better visibility to the lead indicators of your company's cashflow.'

**The Genpact method**

At Genpact, we leverage 2,000+ associates in our analytics practice to develop insights and prioritise improvement opportunities for our clients. These are some examples of insights we have developed.

- A 20% DSO improvement which can be realised by designing collection strategies based on a customer's previous payment habits. Additionally, you can eliminate 'self-cure' customers (customers who pay on time without reminders) from the workload freeing up focus on riskier customers.

- Offering your customers a self-serve invoice receipt and payment option will save €3.5-5 per invoice transaction and €18+ per disputed invoice while improving DSO and customer satisfaction.

- 13% of an average company's invoices are disputed due to errors such as pricing, quantity and logistics. Time to resolve these disputes and collect monies owed ranges from 7 to 145 days.

- Concealed shortages in the consumer products industry range from 0.5% to 2.0% of retail channel sales. Combining the right data and collection strategies can result in recovering 35-50% of these lost profits.

There is no sugar coating the fact that capturing data requires robust systems, typically more than the standard ERP implementation will deliver. The good news is that there are bolt-on tools that do not break the bank of your IT department. A typical €1.4 billion company with 25 resources in credit and collection can expect to spend €72,000-€108,000 on a robust deduction and dispute workflow platform and realistically be up and running in 3-4 months. The DSO and productivity benefits can easily deliver an ROI within a 12-month period.

**Outsourcing with greater visibility**

If your business lacks robust workflow systems and the budgets or IT experience to deploy them, then interestingly enough, outsourcing may be the way to go. When a customer chooses to outsource parts of its OTC process, a big concern is loss of control and visibility. To address this concern, a stable of service level agreements (SLAs) is established that revolves around speed and accuracy. In my experience, over 70% of SLA metrics we are asked to track have never been measured previously.

An outsourcing provider is forced to establish a performance tracking mechanism to capture metrics that not only tell the health of the outsourced process but also the health of the upstream business process. This can be an inexpensive way to capture the data needed to improve your shipping, service delivery and pricing processes. If you partner with the right provider and deploy a rigorous governance model, you can get at more data and gain better visibility to the lead indicators of your company's cash flow.

In summary, if cash is your king, then data is the 'round table of the knights', without which your cash will always be at risk. Measuring the lag indicators is a given, but it is the data lying in the lead indicators that will enhance your company's cash coffers. FDE

**Further information**
Genpact
Mark Wood - USA
Email: mark.wood@genpact.com
Andrew Groth - Europe
Email: andrew.groth@genpact.com
Website: www.genpact.com

# THE SIMPLE CASH POOLING SOLUTION

After operating a number of cash pooling systems with other banks, UniCredit Group was found to be the most efficient and supportive, maximising liquidity and catering to the company's very specific requirements, **Peter Rösch** from manroland AG and **Angelika Ertl** from UniCredit tell *FDE*.

**When manroland AG**, the world's second-largest manufacturer of printing systems and the world's market leader in web offset printing became an independent company in June 2006, it faced the cash management challenge of maximising its liquidity with cross-border cash pooling within Europe and throughout its markets in 75 other countries.

'We were looking for a solution that would allow us to work with one or two German house banks to concentrate our liquidity in a master account here in Germany,' explains Peter Rösch, cash manager.

'Equally, we wanted to be able to collect money from our many subsidiaries without losing any value.'

When manroland had been part of the MAN group, its parent had operated a series of different cash pooling agreements between a diverse range of banks for all its subsidiaries. Rösch says, however, that it had simply not been practical for the newly independent manroland, with 40 subsidiaries worldwide, 22 of them in Europe, to work with these arrangements. His treasury team's task was further complicated by accretion of diverse banking relationships that had built up as a result of a series of mergers and acquisitions.

'The cost of setting up individual pooling agreements with different banks was also an issue,' he recalls. 'Each bank makes its own charges and they all want to stretch the value date for transfers. So besides being complex, it also threatened to be expensive to increase the control of our cash.'

### Supportive from the start

There was a range of critical success factors for manroland's effective creation of its own cash pooling. Rösch recalls that the first task in establishing efficient cash management was to collect all the details of the different bank accounts operated by all manroland subsidiaries, their MT940 transactions, account statements and cashflows – whether in euros or foreign currencies.

> 'We defined the role we could play and as usual, we also created tailor-made solutions for our customers. That is very important for every cash management project that we do.'

'Before we could think about cash pooling, we needed to pool the core information.' He confesses that the task would have been long and arduous had it not been for manroland's banking relationship with HypoVereinsbank in Offenbach, part of UniCredit Group of banks. They offered to look at the challenge, define what manroland's treasury required, and offer a solution.

'They provided us with consulting support from the very start,' says Rösch. 'UniCredit came to us and worked quickly and efficiently.'

'This initial stage is of course very important,' explains Angelika Ertl, international cash management sales, Germany, at UniCredit.

'You have to investigate thoroughly the customer's goal of optimising liquidity. You have to identify the countries where cash pooling is worth doing. Then you design an overlay structure that embraces many different banks in many different countries.'

The normal approach, she adds, is that the customer seeking a cash pooling solution is obliged to open accounts with a single bank group that will link to the master account. But because of UniCredit's solution and its partnership with the 11 other International Banking – One Solution (IBOS) banks, this was not necessary for manroland.

### Speed and efficiency

After the initial research had been done into the tranches of cash going in and out worldwide with manroland subsidiaries, what really impressed Rösch was the speed with which UniCredit worked to implement its recommended solution.

'In less than four weeks they had helped us to arrange pooling contracts with our subsidiaries and their banks. When we started we had nothing. We were excellently supported by UniCredit. They helped us to start our pooling activities with the aim

that we collect the liquidity here in Offenbach, which is not needed by our subsidiaries and serves the subsidiaries from our side when they need liquidity. That meant it was not necessary to keep a credit line in a lot of countries with a lot of banks.'

'We set up a dedicated UniCredit cash management team in manroland,' says Ertl. 'We defined the role we could play and, as we usually do, we also created tailor-made solutions for our customers. This is very important for every cash management project that we do. There is no effective one-size fits all solution.'

The key to the swift and efficient implementation of European cross-border cash pooling, says Ertl, is UniCredit's own network of branches as well as its position as one of the 12 partner banks in the IBOS.

effective procedure to provide the liquidity for our own company and for our subsidiaries. But it is only workable if you have partner banks at both ends who are also aligned and have existing pooling agreements. It is very important to us that if we want to start a new pooling agreement with a bank, we can ask the people at UniCredit if it can be done, and if it can, how it can be set up.'

The cash pools established by UniCredit and UniCredit for manroland offer cheap, fully automated transfers with same-day value and late cut-off times.

The company now runs several physical cash pools with UniCredit and IBOS partner banks. UniCredit has set up pools for the company in Italy, the Czech Republic, Austria, Slovenia and Spain, while IBOS

### IBOS MEMBERS

1. Banco Santander
2. Banco Santander Totta SA
3. HSBC France
4. HypoVereinsbank (member of UniCredit Group)
5. Intesa Sanpaolo SpA
6. JPMorgan Chase Bank NA
7. KBC Bank NV
8. Nordea Danmark A/S
9. Royal Bank of Scotland
10. Scotiabank
11. Silicon Valley Bank
12. US Bank

IBOS is an international banking alliance focused on providing corporate customers with international cash management solutions. **www.ibosassociation.com**

'Once the arrangement is in place for automatic pooling, you check to see that it works and you never have to look at it again. You get the credit and debit information which links straight into our SAP systems.'

**Low maintenance system**

The cash pooling contracts among IBOS banks are standard agreements, says Rösch, easy and clear to work on. They have already been agreed by all IBOS banks. There is no need to re-negotiate to establish another cash pooling arrangement. Nor are there different and complex IT adjustments to be made to hook the new account into a treasury system.

'Once the arrangement is in place for automatic pooling, you check to see that it works and you never have to look at it again. You get the credit and debit information, which link straight into our SAP systems. This means that we can work with a very small number of staff to handle pooling and inter-company accounts. It is so easy and clear and a very

partner banks operate pools for it in Portugal, Spain, Belgium and Finland.

'All 22 of our European subsidiaries now have pooling agreements and only two of them are not with UniCredit or IBOS. One of those we cannot move because we have already have a good pooling agreement but the other one will be changed to the IBOS partners.'

Rösch says it is not easy to calculate the savings manroland has made by working with UniCredit and the other IBOS banks, in part because the company had no previous cash management structure with which to compare it. 'Nevertheless, with the workable pooling agreement that we now have, your subsidiaries are always able to pay their invoices when they want to. They don't have to negotiate a loan with a local bank for a month and run up fees and charges, because the money they need is controlled by UniCredit Group. On the other side, we collect the money from all our subsidiaries and deposit it with UniCredit, where we earn interest. We also use UniCredit's electronic banking platform here in Offenbach and among our subsidiaries.'

Rösch takes some satisfaction from the fact that manroland's cash management was established on a sound footing before the financial downturn.

'We had it right before things went wrong,' he says. 'Now if one of our European subsidiaries wants to open a bank account, it has to be with UniCredit or one of the other IBOS partner banks.' FDE

**Further information**
UniCredit Group
Email: angelika.ertl@unicreditgroup.de
Website: www.unicreditgroup.eu

# HELPING CUSTOMERS SUCCEED

The CFO wants IT to find ways to be more efficient so that even with less money a company can still deliver the strategy, **Paul Patterson** of HP Financial Services tells *FDE*.

**'An uncertain economy** is shrinking budgets and technology leaders are faced with hard decisions. Where do you cut? Where do you spend? How do you get the most from what you have? The choices customers make today will help determine whether your enterprise emerges from this downturn lean and competitive or emaciated and weak – a winner or a loser.

Customers are looking for vendors that can understand their business and help solve problems by offering solutions.

'We have on-going relationships based on understanding what our clients want to achieve and what we can do to help them. It is about building a total solution that also lowers the total cost of ownership,' says Paul Patterson, EMEA sales director for HP Financial Services, the leasing and asset management services arm of Hewlett Packard.

To lower the total cost of ownership, customers must examine the mix of their IT portfolio. There is no longer a need to own all IT assets. Today, most customers have a mix of owned, leased and outsourced IT assets.

Leasing affords customers the opportunity to expand or renew their IT infrastructure, independent of budget cycles, quite helpful in times when IT budgets are tight.

'We help customers get more for their IT dollars. By leasing, they pay for their use of IT equipment as opposed to paying for the actual equipment up-front. Our engagement with customers is broad and includes the acquisition of the technology all the way to secure disposal at the end of its useful life, including securely overwriting the data it contains,' says Patterson.

As a result, HP Financial Services focuses on understanding what the CFO and CIO are aiming for and grasping their implementation strategy over any given period. Now that cashflow has become a core consideration, such discussions need to be granular. Stemming from this, says Patterson, his people will offer a complete finance and IT package, tailored precisely to clients' demands.

**Changing demands**

The sheer pace of IT advances plays to the strengths of HP Financial Services, particularly with the arrival of low-powered chips and the rapid increase in the utilities concept, such as data storage. With these developments come key opportunities for a business to reduce power costs radically and slash their carbon footprint. Large multinationals with strong credit lines have been able to take early advantage of these developments. However, HP Financial Services also reaches corporates and channel partners with its comprehensive array of leasing and financing packages. These help clients boost free cashflow and their environmental profile much quicker.

> 'By leasing, they pay for their use of IT equipment as opposed to paying for the actual equipment up-front.'

Recent developments have included utility solutions and a performance-optimised data centre. These products address the challenges clients often face when connecting business outcomes to IT use or short-term needs for IT 'power' for projects, R&D, and high-powered data processing. In the desktop, printer or server estates clients recognise the risk of stretching existing equipment use for another six to 12 months. This stretching sometimes hides extra costs including maintenance, power and an increased chance of faults and wear.

**Technology and finance**

Patterson sees a strong continuing need for HP Financial Services' broad array of offerings.

'Organisations should challenge themselves on whether they really want to be in the IT asset management business. Should they own their IT when they often don't own their buildings or cars? Do they have the skills to recycle or re-market obsolete IT equipment? Why should they continue to maintain all their IT within their balance sheets?'

Another considerable advantage with HP Financial Services, says Patterson, is the company's close working relationship with its corporate parent.

'We have built a network of world-class partners, which gives us the ability to serve customers locally on a global basis.'

While developing a total IT solution, HP Financial Services will also finance more than just HP products.

'Some clients want third-party products to complete an IT solution,' says Patterson. 'We are there to support our clients and if that means third-party products, hardware or software then we seek an answer. It is important that our clients know that we are there for the whole solution, now and for the long term. The first objective for HP Financial Services is understanding the customers' needs and, secondly, doing everything we can to help them get there.' FDE

**Further information**
HP Financial Services (HPFS)
Website: www.hp.com/hpfinancialservices

# VALUE IN TECHNOLOGY

Involving the finance function from the outset on new IT purchases means that the business case is always at the fore and purchasers can obtain full value from new IT equipment and services, as **David Mitchell**, SVP of global IT research at consultants Ovum, tells Nigel Ash.

**IT vendors that** offer captive finance, such as Hewlett-Packard, are often more attractive to potential purchasers. Using bank money means that a separate evaluation of return on investment is needed, in addition to the internal business case. In the current climate bank funding is proving to be elusive and, even when it can be obtained, the terms can be expensive.

'One of the reasons why deals work better where finance is introduced at an early stage is that you simply cannot talk financing with a junior IT person,' says Mitchell, 'If you are a vendor, you need to be talking to the senior finance team from the get-go. That means there is a greater understanding of what the business really needs, as opposed to what some technical lobbyist down in the bowels of the business thinks that they need.'

The IT vendor team may include technologists, finance people and perhaps business consultants. Together they will be presenting a case to a CFO that should be light on technical jargon but strong on the tangible business benefits. It is more crucial than ever that it can be measured by the finance function.

Mitchell recalls: 'Recently, when talking to one of our clients, he said he had a vendor come to pitch to him and talk about potential head count reduction. His question in return was: "which heads, which cost centre and on which day?"'

Vendors need to able to answer these questions in detail, being very precise about where benefits will be found. In Mitchell's view, this level of clarity simply cannot be delivered at a 'marketing level.'

Big multi-year transformational IT deals that take two or more years to show whether they really deliver are now a rarity, Mitchell says. With the commoditisation of IT, projects of 90 or 120 days in duration are much more common. This allows the benefits of IT to be delivered much more quickly and errant projects to be curtailed quicker, avoiding runaway spending on expensive but fruitless projects.

> 'If a business has a good strong case for IT investments but does not have the funds, vendor finance is attractive, not just for hardware but also for business applications such as financial management systems.'

He believes that recession-hit companies have two main strategic options. They can sweat existing assets as long and hard as possible, or, if there are good deals in the market which they can be sure will deliver in the short-term, they can invest in new generations of energy-efficient technology that can be much cheaper to run. Here, for example, many new generations of IT are more environmentally friendly, using less electricity and less environmentally damaging materials than their predecessors.

'People tend to think of the word green to only mean ecology but it is also about economy and improving operational efficiency.' Mitchell points out that utilisation of an average data centre server can be as low as 3% and no higher than 15%.

'The rest of that asset is depreciating and doing nothing while the power bill still has to be paid. Using technologies such as virtualisation, which allows computer resources to be shared more efficiently, can take asset utilisation up towards 80%. So you are getting much more output from your equipment and you need to buy less of it. An average data centre can save tens of thousands of pounds a year on power alone. You can probably take 40-60% of the cost base down through a combination of engineering and green focus.'

The challenge, says Mitchell, is being able to invest in such savings, as it is often harder for mid-sized companies to access good banking lines.

'Bank money can be just another liability, which has no direct connection to the IT. This is good for the vendor. If a business has a good strong case for IT investment but does not have the funds, vendor finance is attractive, not just for hardware but also for business applications such as financial management systems. Instead of buying an application which will only be used at full capacity for three or four days a month, a company can purchase its standard usage and rent extra capacity for those few busy month-end days.' FDE

**Further information**
Ovum
Website: www.ovum.com

# ID ON THE CARDS

**David Blaszkowsky** of the Securities and Exchange Commission (SEC) explains to *FDE*'s Steve Dunkerley why CFOs at US listed firms need to pay attention to the SEC's interactive data (ID) mandate for the statutory filing of primary financial statements, notes and schedules.

CFOs from large multinational companies in Europe, which are also dual listed on US exchanges and report using US GAAP, will probably be aware of phase one of the SEC's ID mandate that began on 15 June. According to a recent survey of leading filing agents conducted by XBRL US, 340 out of the 500 or so companies affected by the mandate have converted to report using extensible business reporting language (XBRL), the primary technology underpinning interactive data (ID). This represents almost $7 trillion in market capitalisation, over 50% of the total for all publicly traded companies reporting to the SEC. 2011 is the target for all US listed companies to become XBRL compliant.

## XBRL and ID

While the term XBRL has been around for the last few years, the SEC has only recently started using the term ID to describe XBRL. David Blaszkowsky, director of the Office of Interactive Disclosure at the SEC explains: 'XBRL sounds a little more abstract, whereas ID describes the functionality, meaning what it does. We want to ensure that the information is in a structured format when it arrives, meaning it is readable by computer models and spreadsheets, so that investors and SEC staff can use the information more easily to extract intelligence. You can't do that with non-interactive data; on paper or electronic files,' he says.

'Finance directors and CFOs are not going to choose a technology for its own sake, they look for functionality and value, which for ID is making information readily available to make business and investment decisions. ID describes just that. XBRL itself is based on extensible markup language (XML) and there are roughly 300 named specifications within the XML world. XBRL was developed because financial reporting has specific requirements. For example, debits are always negative, credits are always positive.'

## ID and financial reports

Putting the terminology to one side, Blaszkowsky explains that tagging financial statements with ID helps investors more easily to consume and analyse financial reports. This is because the time spent having to sift through volumes of paper reports, transcribing data, and cutting and pasting online reports in pdf or html format would be drastically reduced.

'One of the really beautiful facets of ID,' Blaszkowsky says, 'is that it is data, so you can make comparisons across time and between competitors and sectors to identify whether the accounting is different or reporting standards are being applied differently, so you are able to interrogate the information more effectively.' He goes on to explain that 'rather than placing the onus on auditor assurance at this time, we can take advantage of the data aspect of XBRL and not require such assurance, although it is permitted and many companies may chose to use that. Also, our requirements are data-neutural; there is no additional information required because of reporting in XBRL.'

ID was conceived as a tool of transparency that directly promotes and enables regulators and market principles to understand and evaluate the market. It builds on the introduction of EDGAR (Electronic Data Gathering, Analysis, and Retrieval), which made financial statements available electronically in ASCII and HTML to the general public. For finance directors the real opportunity with the introduction of ID is that their content will be available in real time, in a consumable, machine-readable form, by investors all over the planet, regardless of language and company size.

A dual-listed company has an opportunity to participate in this kind of transparency and to have its information out there on the same terms as any other US listed company.

## ID and XBRL are here to stay

While XBRL has been in and out of the financial press over the last few years, Blaszkowsky is keen to point out that it has been building momentum. In countries such as Japan and the Netherlands it has been used in many applications outside of reporting. ‘Like many technologies, XBRL took a while to find its purpose and anything that describes financial reporting ultimately must become more complex,’ he explains. ‘It is not that XBRL is complicated, it is financial reporting that is complicated. There are a large number of tags to describe SEC reporting, FASB reporting and US GAAP because that’s what accounting requires.

‘In 2004 and 2005 XBRL was already being used in valuable but simpler applications. The SEC’s sister organisation, the Federal Deposit Insurance Corporation (FDIC) – the organisation in the US that guarantees bank deposits – was using XBRL to collect all of the monthly call reports from 8,200 banking institutions. Instead of relying on a collection process that lasted weeks, based on a range of communication technologies including fax, in using XBRL they have had zero errors and the process lasts just hours.

‘In Europe there has been use in the Dutch and UK markets (HRMC and Companies House) as well as in Japan, Korea and Israel. The SEC’s mandate was built around existing knowledge, then adapted for the SEC’s specific requirements. Now that we have done it, which has required some advances in XBRL technology, this has promoted the development of these tools in the private sector.’

‘Accountants and technologists have been interested in XBRL from the start but with the SEC mandate, software companies are now investing heavily in XBRL tools for filers and analytics for investors.’ And now companies and investors are jumping in and will benefit.

‘ACCOUNTANTS AND TECHNOLOGISTS HAVE BEEN INTERESTED IN XBRL FROM THE START BUT WITH THE SEC MANDATE, SOFTWARE COMPANIES ARE NOW INVESTING HEAVILY IN XBRL TOOLS FOR FILERS AND ANALYTICS FOR INVESTORS.’

## Flexible ID

While ID for SEC compliance is the big news, the underpinning technology, XBRL, has far more potential than just its use at the end of the financial information chain. What should be most interesting to finance directors is the standardisation that can be achieved when XBRL is mapped onto enterprise resource planning systems earlier on in the financial information chain, for example, when items are posted onto the sub ledger or general ledger.

This application is known as the Global Ledger Taxonomy Framework or XBRL Global Ledger (XBRL GL). According to XBRL International, XBRL GL is intended to enable the efficient handling of financial and business information contained within an organisation. Often this is scattered across disparate accounting systems. XBRL allows it to be brought together, analysed and used in a highly cost-effective way, overcoming the inefficiencies of different accounting systems or approaches. XBRL GL collects general ledger and after-the-fact receivables, payables, inventory and other non-financial facts, and then permits the representation of that information using traditional summaries and through flexible links to XBRL for reporting. XBRL GL can also help transfer the general ledger from one system to another, be used to combine the operations of multiple organisations, or bring data into tools that will do the consolidation.

XBRL GL complements XBRL for financial reporting, linking financial reports to the detail behind them, providing all the specific information required for audit work papers, budget planning, and detailed reporting.

In short it improves internal reporting and management accounting as information becomes far more visible, accurate and transparent. This leads to shorter month-end closing times and reduced indirect costs. Post-merger integrations become quicker and smoother from the interoperability of standardised ledgers. While XBRL GL case studies are few and far between, companies that have implemented XBRL GL and have experienced benefits include Wacoal and Fujitsu. It is clear that XBRL GL offers great potential especially as tooling features evolve to make the transitioning process smooth and the functionality too good to resist. FDE

*Visit **Steve Dunkerley’s** daily blog: www.stevedunks.co.uk*

**DAVID BLASZKOWSKY**

The Securities and Exchange
appointed David Blaszkowsky
its Office of Interactive Disclos
chartered to develop and impl
data standards for financial re
and to carry out strategies and
policies to improve disclosures
and their use through interacti
data standards.

# A UNIVERSAL REPORTING LANGUAGE

XBRL has implications far beyond the IT department, **Dave van den Ende** (right) and **Wim Scheper** (far right) of Deloitte Consulting tell Jim Banks. It is helping organisations to increase transparency, streamline the reporting process and, ultimately, improve their management of business information.

**Extensible business reporting** language (XBRL) is rapidly becoming a popular phrase in the financial lexicon. Tried and tested as the platform for more efficient reporting, it is enabling many organisations to lessen the burden of preparing, analysing and communicating their business information.

In essence, XBRL is an electronic language that supports different taxonomies to allow organisations to gather and prepare their data in a more accurate, reliable and streamlined way. It increases transparency in key value chains across industries and with a well-defined XBRL taxonomy there is a much lower need for explanation and clarification during the official reporting process.

Furthermore, XBRL enables organisations to rationalise the data stack that they have accumulated and focus more closely on the data that is meaningful and relevant to the reporting process. In the majority of cases the result is that an organisation need only report a much smaller, yet more relevant data set.

Consequently, the administrative burden of the reporting process is reduced and it becomes quicker and easier to create and file reports. The various data dictionaries and the taxonomies that define the data tags can also be directly linked to a company's reporting system.

'Different taxonomies can be tailored to particular industry sectors, or can accommodate company-specific requirements. Once XBRL is set up, reporting can be done at the push of a button,' says Dave van den Ende, director at Deloitte Consulting.

'Standardisation moves the focus to the real value add of the data being reported, instead of the cumbersome process of handling, converting, interpreting and publishing,' he adds.

The benefits of XBRL have been well demonstrated in the Netherlands, which has been a frontrunner in its implementation. The Dutch Government adopted XBRL three years ago, introducing a taxonomy enabling small companies to file most reports with the Tax Office, the Chamber of Commerce and the Bureau of Statistics.

XBRL's successful implementation by large public organisations such as the Water Board is encouraging other businesses to follow suit.

'After the Netherlands Water Board moved to XBRL there was a 25% increase in the efficiency of its reporting process, and we see similar figures in other industries. In Australia, a pilot project for one company has seen efficiency gains of up to 70%,' notes Deloitte Consulting partner Wim Scheper, a professor at Utrecht University.

> 'After the Netherlands Water Board moved to XBRL there was a 25% increase in the efficiency of its reporting process, and we see similar figures in other industries.'

So convincing has XBRL been as an enabler of more robust and less erroneous business reporting, particularly as it has evolved to encompass different accounting standards like IFRS and US GAAP, that it has been mandated by the US Securities and Exchange Commission (SEC).

**A surge of regulatory support**
The SEC have a programme of XBRL compliance that commences in June 2009 for the largest US and non-US accelerated filers (reporting under US GAAP with a $5 billion public float). The mandate will extend to all US filers (reporting both in US GAAP and IFRS) by 2011.

'As of this quarter, 500 of the largest companies in the US, indeed the world, must use XBRL (or what the SEC call 'interactive data') because of the transparency it brings,' notes Scheper.

'The mandate is about financial reports for the governing body, so it may seem as though there is not much added value for a company. But many are using it for the consolidation of financial reports of organisations across many locations. That is what the front-runners are looking at,' he adds.

For CFOs in Europe, particularly in dual-listed companies, the SEC mandate has a number of implications. Firstly, they face a choice of whether to outsource the preparation of their XBRL financials, or develop that capability in-house. In either case the company will be responsible for their accuracy.

Secondly, CFOs should recognise the strong currents in regulation that will drive more organisations towards XBRL.

'Following the credit crisis, a more coherent approach to regulation will be adopted across the EU and a better

co-ordinated approach to the supervision of large cross-border groups will be taken. Existing differences in national legislation will be removed and far fewer national exemptions will be allowed in future. There will be more regulatory oversight, greater focus on risk management and the use of models, a need for more and better stress testing and enhanced reporting requirements,' observes van den Ende.

The European Commission is proposing a new European financial supervision framework based on recommendations in the de Larosière report. Two new structures are proposed: the European Systemic Risk Council, aimed at macro-prudential supervision, and the European System of Financial Supervisors, aimed at micro-prudential supervision.

Furthermore, three currently purely advisory committees would become legal entities with specific and extensive powers, and the bodies that make up the European Supervisory Authorities would be working to develop binding technical standards.

'Our view is that XBRL is a serious candidate to enable this process by defining clear and distinctive taxonomies for consistent and transparent information exchange,' adds van den Ende.

## The future unfolds

Not only is XBRL attracting interest because of the SEC mandate in the US and its successful application to large organisations in countries like the Netherlands, but also through the development of new taxonomies that could make XBRL an indispensable tool for organisations of all kinds, regardless of size or industry sector.

For instance, XBRL Global Ledger (GL) is a developing taxonomy that delivers data for use in transactions as well as consolidated data for reporting. While it has not yet been implemented in Europe, it is garnering great interest among corporates because of the online transparency of the organisation's administration that it delivers.

XBRL GL essentially enables continuous disclosure reporting directly

linked to transaction systems. Once again, this opens up the opportunity to reduce reporting costs and simultaneously improve governance, especially for mature companies operating in a networked environment.

'GL is not competing with other transactional data standards, but is a bridge between transactional systems that enables continuous reporting. Companies need to disclose more regularly and focus on the quality of their data. GL is a good standard for that. It links reporting to transactions, so there is continuous disclosure, which brings down reporting costs,' says van den Ende.

Banks are also fuelling innovation in XBRL taxonomies. In the Netherlands, for instance, a banking taxonomy has evolved that covers the credit information that banks request when making loans. Some major commercial banks are currently exploring ways to improve their corporate lending processes using this taxonomy.

'What started as the government trying to reduce the administrative burden, especially for SMEs, is now seen as banks taking the lead. They are developing new applications related to transparency to get a better view of the companies they lend to, they are experimenting with online lending facilities using XBRL,' notes Scheper.

'XBRL is an enabler for discussion along the value chain to define data requirements. There are clear taxonomies that can be understood by all stakeholders in the reporting chain, so there is an opportunity to rationalise the data stack to find a meaningful and relevant reporting set and reduce the amount of reported data,' adds van den Ende.

CFOs that are new to XBRL should not hesitate to engage with it. XBRL is here to stay, and there is no time like the present to begin exploring how it will affect compliance issues around the reporting process and how it can be used to improve the management of business information across an organisation and its partners in the value chain.

'There needs to be work on taxonomies, and greater understanding of what they mean. People need to know how it will be different when using XBRL, so they know how to accommodate it. But Oracle and SAP have now announced XBRL filing capability in their ERP systems, and Swift has joined XBRL in the US, so we will see many more real-life applications,' says Scheper.

Every CFO should know what XBRL is, not only in terms of its effect on reporting compliance, but also on internal and external reporting along the supply chain. FDE

*Dave van den Ende is a member of the FDE group on LinkedIn. To join the group please visit* ***www.the-financedirector.com/linkedin***

**Further information**
Deloitte Consulting BV
Tel: +31 88 288 0208
Website: www.deloitte.com

XBRL filing seems to meet the concerns surrounding financial reporting, but has also been met with trepidation. **Olivier Servais** of the International Accounting Standards Committee Foundation seeks to dispel these concerns and demonstrate that corporations can achieve conversion with XBRL.

# GET TO GRIPS WITH XBRL

With the US Securities and Exchange Commission's ruling in February mandating the use of XBRL (eXtensible Business Reporting Language) for filings by corporations and mutual funds, along with the current global economic turmoil and the ensuing calls of the G20 nations for improved transparency, XBRL is being hailed by many as the solution for improving information exchange in financial reporting.

Yet despite this and the numerous successes in XBRL conversion around the world, there remains a considerable number of pessimists who, without the impetus of a jurisidictional mandate, are skeptical about the time and money required to understand and implement XBRL. This could be down to a fear of technical obscurity and rapacious resource consumption associated with XBRL and its implementation.

As a technology, XBRL was developed some ten years ago. It is a data-rich version of XML (eXtensible Markup Language) and like its most commonly-known sibling, HTML, XBRL involves the computerised tagging of data. However, XBRL sets itself apart through its structure and adaptability. This extensibility stems from XBRL's data tags, which allow information to be transmitted in a variety of formats and through a host of tools. XBRL is also a licence-free standard and therefore independent from software and hardware. Furthermore, data tags can be created, adapted and applied to virtually all reporting needs. Though XBRL's most recognised and common function is financial reporting, this is far from its only use; it can support all standard tasks involving both financial and non-financial business data.

There is irony in the fact that most end-users do not need to concern themselves with data tags and other technicalities but this is one of the main causes for concern surrounding XBRL. The technological aspects are the domain of developers, programmers and those involved in extracting the information contained within the data tags, not end-users. Their exposure to XBRL is generally limited to seeing its output on screen and on print-outs. Though I am not implying that the implementation of XBRL is an automated and overnight process, neither should it be a laborious time- and money-consuming affair, as some believe it to be. The calculated average cost and time required to implement XBRL for a typical US corporation is a few thousands dollars of out-of-pocket costs for software and filing agent services, and 70 hours to prepare filings in XBRL.

In contrast, the benefits can be substantial and are applicable to everyone in the financial information supply chain. The automated processing of financial data offers greater accuracy and speed (and therefore reduced cost) when collecting, storing, exchanging and analysing financial information. Issuers are able to swiftly compile financial reports with less chance of error, while preparers are able to make informed decisions as they have greater access to more timely and accurate data.

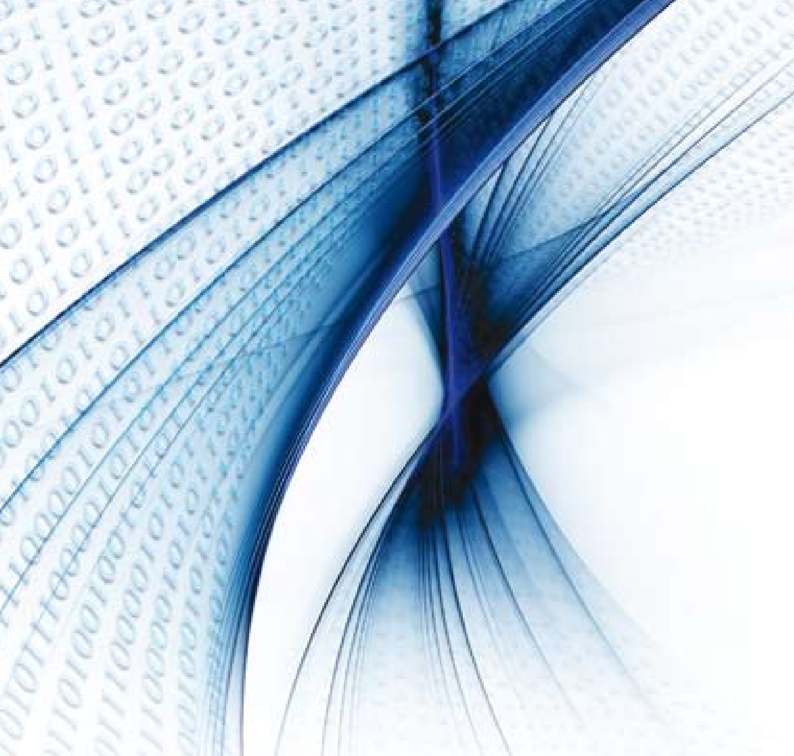
Users and regulators are able to spend less time gathering information, allowing for improved analysis. Furthermore, data tags can easily handle numerous languages, easing the burden of information translation, while descriptions within data tags allow for increased comparability. The time spent analysing a single financial statement could be reduced by 15% to 30%, without considering the improved accuracy of data.

**'THERE IS AN IRONY IN THAT MOST END-USERS DO NOT NEED TO CONCERN THEMSELVES WITH DATA TAGS AND OTHER TECHNICALITIES BUT THIS IS ONE OF THE MAIN CAUSES FOR CONCERN SURROUNDING XBRL.'**

There is a mood of trepidation surrounding XBRL, particularly over its implementation in the US. However, there are valuable lessons that can be learnt from the countries that are already undergoing or have undergone the transition to XBRL, such as Australia, Belgium, China, France, India, Italy, Japan, Poland and Spain. As a Belgian, it is a source of personal and national pride that all non-listed/non-financial companies in Belgium (around 235,000) have been filing in XBRL for almost two years, and without major disruption. In Japan, where XBRL filing was made mandatory in April 2008, over 3,000 listed Japanese companies have provided their periodic statements in XBRL format.

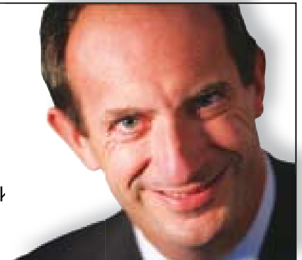
These are good examples of where the promise of improved financial information is being realised. In these countries the commitment and endorsement of high-level decision makers, the development of taxonomies and the availability of software solutions has resulted in XBRL becoming an accepted reality.

The results of a survey conducted in the US published in a paper by KPMG in February 2009 illustrates the current and widespread lack of XBRL awareness. In the survey 11% of corporations admitted to having no knowledge of XBRL, 44% admitted to only having just started researching the subject, while 79.2% did not have an XBRL expert on their financial-reporting team.



**OLIVIER SERVAIS**

Olivier Servais is director of XBRL Activities at the IASC Foundation. He has also been European director of XBRL International and a member of numerous global work groups and committees.



**Get to grips**

So how does an organisation start to reap the benefits of XBRL? The starting point is to embrace XBRL as a solution and not an enforced burden, and to get to grips with the fundamentals. Whether you choose to outsource or employ an in-house specialist, a thorough business (rather than technical) understanding of XBRL is essential to break the stigma of expense and dread associated with it, and for its implementation to succeed. Today, all major ERP vendors have made their solutions compatible with XBRL.

As the director for XBRL activities at the IASC Foundation, whose standard-setting body, the International Accounting Standards Board (IASB), is responsible for developing International Financial Reporting Standards (IFRSs), I am closely involved in the development and implementation of XBRL for international financial reporting.

We promote XBRL because we believe in the significant potential benefits it offers to a broad range of stakeholders and end-users. The IASC Foundation's commitment is to provide IFRS in XBRL format, at the same time as the publication of the IFRS, hence the development and maintenance of the IFRS Taxonomy. At present, more than 100 countries worldwide either require or permit the use of IFRSs and few are doing so without also considering XBRL. It is no coincidence that the main anticipated benefit of Belgium switching to XBRL was to ease the transition to IFRS.

XBRL is rapidly becoming the standard for electronic reporting, one which is growing in global adoption (through initiatives such as Standard Business Reporting in Australia and the Netherlands) and which has real potential to improve user-access to financial information and to increase the range of users. Today, XBRL is integrated into the development of the IFRSs and is considered a means of easing IFRS conversion, understanding and implementation.

The combination of XBRL and IFRS seems an ideal partnership to provide the transparency and accuracy that the world's financial markets are desperately seeking. However, in order to reap the many benefits that conversion can bring, corporations need to shed their fears and arm themselves with a sound understanding of XBRL and the tools and support to implement it. During the course of these preparations they will ultimately see that beyond the smoke and mystery, what at first appeared to be a beast is actually something far less frightening and much more manageable. FDE

*The opinions expressed are those of the author and do not necessarily reflect the views of the IASC Foundation.*


The Oracle|Hyperion
Consulting and Education Company

BUSINESS INTEGRATION

www.hyperionconsultants.com

# THE PORT OF THE MATTER

Globalisation presents many challenges for corporations, not least the operation of functional teams and management of human capital across geographically and culturally diverse regions. One company faced with this complex human resource challenge is APM Terminals, which serves over 60 of the world's container shipping lines. CFO **Christian Moller Laursen** assesses the impact of globalisation on the finance function with Steve Coomber.

Headquartered in The Hague, The Netherlands, and part of Denmark's AP Moller-Maersk Group, APM Terminals is one of the world's leading container terminal operations and management companies, with revenues of over $3 billion.

'Containerisation and ports are at the heart of our business and act as facilitators for globalisation,' says CFO Christian Moller Laursen. 'We have about 50 ports and container terminals in operation in 34 countries around the world and as CFO I am responsible for the finance function within that business unit. It is a global role.'

## Human capital

Laursen looks after a finance team of 20 at head office and a further 400 worldwide. There are three levels within the organisation: the business and corporate centre at The Hague, four regions, and then 50 terminals. Each level has its own finance function. One of the regions, the US, operates a shared services model, but every other terminal has its own finance department and its own finance manager reporting to that terminal's managing director.

## A global challenge

Besides the usual challenges talent management in a large organisation brings, Laursen is faced with managing the people resources in a finance function dispersed across the globe.

'The finance function is so spread out, over 50 terminals in 34 countries, that it is a challenge to create a finance community that cuts across this, where everybody works towards the same standards, and renders the same level of service to the organisation,' says Laursen.

Forging that sense of community requires excellent communication and a degree of face-to-face contact.

'Whether you bring people together in the context of training, an annual meeting, or a global project team, it doesn't matter too much, but the finance people need to be physically brought together from time to time,' says Laursen. 'When you do that repeatedly over a number of years, that sense of belonging to a community grows and we start reaping the benefits.'

There are other issues too. It is a challenge to spot the finance talent coming into the organisation, at a distance. It is, however, something that APM Terminals needs to be very diligent about, says Laursen, otherwise the young talent joining the company at one of its many locations may go unnoticed.

Managing many different cultures effectively can also be difficult. Inevitably, global organisations have very diverse teams. At APM Terminal's finance department in The Hague, for example, there are over ten nationalities represented.

'If it is done properly then diversity is the way to drive performance,' says Laursen. 'But it does require a level of accommodation from everybody. There could be a language barrier, for example, and sometimes we need to spend just a little bit more time on understanding where people are coming from when they express their views and make suggestions.'

Besides dealing with the talent needs of the finance function, Laursen has a complex business to run, in a difficult trading environment.

'We have to respond to the change in the global economic outlook,' he says. 'The ports business and container business was geared towards expansion. Now we have had to put a lid to our expansion programme ambitions and see what we could defer in terms of investments. The focus is on taking costs out of the existing terminal facilities.

But even here, there is an emphasis on talent management in the finance team. The finance skills that were required for expansion projects are not necessarily the same needed to pare down costs. Laursen must constantly adapt to the people's needs of the business.

'It has been like a 180-degree change of focus,' says Laursen, 'for the business, but also for the finance function.'

## COMMUNICATION, COMMUNICATION

Christian Moller Laursen believes that good communication is an essential part of effective talent management in a global organisation.

The primary line of communication at APM Terminals is between the centre and the regions, notes Laursen, and then between the regions and the terminals. It is rare for the centre to communicate directly with the terminals, but it does happen.

'We have a very active company intranet website; we make videos and issue regular updates, and we use these and other means to get out key messages to as many employees as possible,' he says. 'Then there are the annual or half yearly meetings between the centre and the regions. While in the regions, there are also meetings with the regional finance communities. We try to get out on a regular basis and attend these meetings and meet the terminal finance managers.'

Plus there are telephone calls with the regional CFOs and other members of the senior finance team around the world. 'It may not be daily, but we have regular calls on a fortnightly basis where we update each other on what is going on,' says Laursen.

## Global recruitment

Laursen describes his role as controlling the operations of the finance function, But, he says, he also needs to make sure that the finance team adds value to the business.

'We need to get involved in the important decisions at an appropriate time and at an appropriate level, so that they will be fact-based and the financial consequences can be analysed before decisions are made,' he says.

Part of the challenge of a global company is finding and recruiting the best staff. There is a group-wide, uniform global recruitment process, with all potential candidates going through the same assessment process. All vacancies are posted on the intranet, encouraging competition for positions.

'We hire internally and externally, with a slight preference for internal recruitment. If we have the right candidates internally we definitely seek to give them the chance. But if we can see that we have better candidates in the external markets, then we take them in.'

Graduate recruitment is global, usually taking postgraduates straight from business schools in the countries that APM Terminals operates in, but also graduates with experience.

'We will recruit into a regular job in the finance function,' says Laursen. 'I don't believe in creating trainee positions that do not have enough pressure from the start. Graduate recruits are given real responsibility from day one.'

For more senior positions, says Laursen, in addition to the appropriate experience and technical competence, he is looking for people who can step outside the finance role and become a business partner to the local managing director of the company that the candidate is being recruited into.

'If a candidate is so ingrained in the finance and accounting profession that they do not really show a curiosity about wider business issues, then they will fall short,' notes Laursen. 'We expect the finance people behind the CFOs to take a very active role in the wider management of the business.'

Finding recruits is just part of the process. Laursen also emphasises the need to ensure that staff are apprised of finance best practice in the industry, and that the firm develops a talent pipeline for the future.

## 'JUST THE FACT THAT WE DISCUSS OUR PEOPLE – WHO IS READY FOR ROTATION AND WHAT OPENINGS ARE COMING UP – MEANS THAT WE HAVE THOSE PEOPLE ON THE RADAR WHEN OPENINGS APPEAR.'

**Talent magnet**

With this in mind the company offers a number of training and development options for finance employees. For finance graduates that are joining the organisation there is APM Terminals' Finance Magnet programme.

'The purpose of the Finance Magnet programme is to provide some insight into the container terminals business, but also into the specific finance procedures and reporting guidelines that apply within APM Terminals,' says Laursen.

About ten people graduate from the two-year programme, which consists of four modules every year.

'There are two dimensions to the programme,' says Laursen. 'There is a finance professional dimension, when we talk about the business, our way of running it, our procedures and so on. But there is also some personal development training; some soft skills courses, such as team building, or how you motivate within an organisation, because, typically, fresh graduates are stepping into a junior supervisory role, and often have to manage people, a team, or a project.'

Further up the hierarchy, as finance staff step into general management, there is more in the way of formal training and development programmes. The in-house programme at this level is called the Magnum programme.

'It is not a specific finance programme, more like a leadership development programme within APM Terminals, where the finance managers will be trained more in people management skills, and participate in training with operations managers, HR managers and other cross-functional managers,' says Laursen.

People with the potential for more senior roles are also given the development option of an expatriate position, with young talent from the terminal finance departments working in the corporate finance department in The Hague, and young finance talent cross-posted into the regional offices and other terminals around the world.

The senior finance management team also gathers together once or twice a year, in a three-day formal meeting. The group discusses business data, the finance function and priorities for the coming year.

'We also spend time going through our people in finance, who are approaching the time when they should rotate to another position, because they need to take a step up, or a sideways move, or to try something else,' says Laursen.

'Just the fact that we discuss our people – who is ready for rotation and what openings are coming up – means that we have those people on the radar when the openings appear, and can plan these interim moves in the right way.'

Talent spotting within the organisation is largely tied in with the appraisal system. Everybody is appraised by their direct manager on an annual basis, with the information fed into a performance database allowing Laursen to quickly identify top and bottom performers.

That information then forms the basis of a people strategy meeting attended by the CFO, CEO, and HR director, which analyses performance against positions, identifies gaps and discusses how best to close these gaps.

The finance talent planning goes all the way to the top, and succession planning for the CFO spot, where Laursen is already taking measures regarding his own role.

'In many situations it is difficult to be too specific on succession planning. But I think. it is important that we look at the pipeline, and identify at each level whether we have sufficient strength. Then, if something should happen at the next level up, that there will be a handful of candidates for taking over that position'

To ensure standards are maintained, skills and knowledge are benchmarked both internally and externally.

'I can benchmark very easily against other business units within the AP Moller-Maersk Group, and also against other organisations through discussions with CFOs in other companies and through what we learn from people joining the organisation from other companies,' says Laursen. 'I think it is quite important that we have that external comparison to how we perform. This means we don't become too complacent and maintain focus on our long-term goals.' FDE

*Christian Moller Laursen is a member of the FDE group on LinkedIn. To join the group, please visit* ***www.the-financedirector.com/linkedin***

**CHRISTIAN MOLLER LAURSEN**

Christian Moller Laursen is vice-president and CFO of APM Terminals, based in the head office in The Hague, Netherlands. Prior to that, he has held positions as general manager, finance and administration for Maersk organisations in Indonesia, Pakistan, Taiwan and Singapore. In 2002, he became the regional chief financial officer for AP Moller – Maersk in South America, based in Sao Paulo, Brazil.

The large amount of documents produced has a twofold effect on the broader awareness of e-invoicing. On the one hand it enhances the basic level of awareness of e-invoicing but on the other it also decreases the awareness of its specific aspects.

A common complaint is that communications in e-invoicing present similar definitions and descriptions for different topics, and different descriptions and definitions for similar topics. When each document is claiming to be the leading document, it is hard to determine which is right. This confusion can dissuade companies from investing.

This demonstrates how people in the field of e-invoicing and invoice automation are using different languages when it comes to communicating or selling its product or services, regardless of the professional scope or industry it will be used in. Of course, the use of proprietary phrases underlines their ambition to sell the products and services. On the other hand, this singular approach scares potential customers away. The customer presumes it will be a complex product typical of large IT projects, which often include inherent risks, investments and delays.

It seems, then, that we desperately need a common body of definitions. These definitions should create a framework that identifies which phrases are best suited to use in communications and discussions based on its description and context. Such a framework would aid professionals to communicate a more common perspective on aspects of e-invoicing, thereby helping their customers understand what it is they are investing in.

**A common language**

So what should a framework for a common body of definitions look like?

First of all we could start with the way e-invoicing is currently applied. These are the models of e-invoicing:

| | |
|---|---|
| Buyer direct | Invoice processing |
| Consolidator | Self billing |
| Direct processing | Seller direct |
| Four corner | |

These are by far the most commonly used models when it comes to e-invoicing. And even at this early stage we can discover all kinds of other definitions and descriptions for these models. However, we should keep in mind that every definition for a model has its own context and this needs to be taken into account when using or developing a proprietary model.

Now, each model is built upon several processes that effectively take the invoice from the sender's administration to the receiver. This is where it becomes interesting. The table below lists all kinds of processes. Processes from this list can be found in a model. Each process is a building block and can form a part of a model:

| | |
|---|---|
| Authenticate | Pay |
| Communicate | Present |
| Consent | Print |
| Convert | Receive |
| Create | Reconciliation |
| Credit management | Route |
| Dispute | Scanning |
| Download | Store |
| Enhancement | Transport |
| Extracting | Validate |
| Factoring | Validating |
| Format | VAT declaration |
| Host | VAT declaration |
| Import | |

These processes highlight the need for a common body of definitions because almost each process is available with

# ON THE SAME PAGE

The potential of the standardised adoption of e-invoicing has been claimed to offer huge savings. But as **Friso de Jong**, chairman of the EEI Platform tells *FDE*, users need to address the concerns of their customers for it to prove successful.

E-invoicing has received a lot of attention in the last few years as one of the most promising means to soften the negative effects of the current economic crisis. But its potential to provide apparently huge cost savings has also created some misconceptions over its use, especially in regards to electronic invoices on the receiver side.

However, by taking a closer look at use of e-invoicing, with an eye on some next generation recommendations, the benefit of taking it on board remains clear for both the sending and receiving end.

**Defining principles**

The use of e-invoicing has been steadily growing and in turn has produced a large number of documents that come from a wide range of backgrounds and serve several purposes.

The large amount of documents produced has a twofold effect on the broader awareness of e-invoicing. On the one hand it enhances the basic level of awareness of e-invoicing but on the other it also decreases the awareness of its specific aspects.

A common complaint is that communications in e-invoicing present similar definitions and descriptions for different topics, and different descriptions and definitions for similar topics. When each document is claiming to be the leading document, it is hard to determine which is right. This confusion can dissuade companies from investing.

This demonstrates how people in the field of e-invoicing and invoice automation are using different languages when it comes to communicating or selling its product or services, regardless of the professional scope or industry it will be used in. Of course, the use of proprietary phrases underlines their ambition to sell the products and services. On the other hand, this singular approach scares potential customers away. The customer presumes it will be a complex product typical of large IT projects, which often include inherent risks, investments and delays.

It seems, then, that we desperately need a common body of definitions. These definitions should create a framework that identifies which phrases are best suited to use in communications and discussions based on its description and context. Such a framework would aid professionals to communicate a more common perspective on aspects of e-invoicing, thereby helping their customers understand what it is they are investing in.

**A common language**

So what should a framework for a common body of definitions look like? First of all we could start with the way e-invoicing is currently applied. These are the models of e-invoicing:

| | |
|---|---|
| C o | |
| r | |
| F | |

These are by far the most commonly used models when it comes to e-invoicing. And even at this early stage we can discover all kinds of other definitions and descriptions for these models. However, we should keep in mind that every definition for a model has its own context and this needs to be taken into account when using or developing a proprietary model.

Now, each model is built upon several processes that effectively take the invoice from the sender's administration to the receiver. This is where it becomes interesting. The table below lists all kinds of processes. Processes from this list can be found in a model. Each process is a building block and can form a part of a model:

| | |
|---|---|
| A | P |
| C o | P |
| C | P |
| | R |
| C | R e |
| | R |
| D | S |
| D | S |
| E n | |
| E | |
| | |
| F | |
| H | |
| | |

These processes highlight the need for a common body of definitions because almost each process is available with

a growing number of synonyms and descriptions. And the production rate shows no sign of decreasing. Instead, the growth of e-invoices in the last few years has seen an increasing need for proprietary definitions for identical processes.

Thankfully this can be made easier by looking at the context of a definition or phrase. The background for using a particular definition or phrase could be contextualised like so:

| Audit | Fiscal |
|---|---|
| Business (including sales and marketing) | Legal |
| Communication | Organisational |
| Data transfer | Policy/political |
| Financial | Supply chain |

At this point we can turn to technology, as this determines where in the process a phrase or definition has an impact on e-invoicing and invoice automation:

| Application | Transport/transaction |
|---|---|
| Transaction | Network/path control |
| Presentation | Data link |
| Session/data flow | Physical network |
| Document format | |

Source: CEN/ISSS E-invoice workshop Phase II

From the customer's point of view, it's a hierarchical list. The lower the level at which the phrase has its impact, the less interesting it is. Customers are typically only interested in the first three layers.

## Myths and fallacies

A common body of definitions can also help rid us of some of the myths and fallacies surrounding e-invoicing.

It was calculated by CAST that the EU could save an annual €243 million through a total adoption of e-invoicing. We should note that around 92% of EU companies are SMEs, 44% of which are SOHO companies with only one employee. These organisations are highly unlikely to use models with processes that will enable them to send out an invoice that can be easily processed by every customer. They would have to invest too much in technology.

The next issue to consider is the belief that standardisation will help overcome the lack of adoption of e-invoicing in the EU. Apart from standardisation, the lack of awareness and complex cross-country legislation on e-invoicing and digital signatures is often cited as a key barrier to its adoption. It is commonly believed that a standardised format of invoicing would generate large benefits. That is why the financial sector is arguing that the four-corner system is best suited for generating the financial benefits of e-invoicing.

When it comes to considering technology things get really interesting because customers have shown they are absolutely not interested in standardisation issues. Financial directors simply want to know which functionalities are available, what model they should adopt and why.

The discussion on standardisation of an UBL-XML-EDI-ISO-CII-like standard should be a non-issue for financial directors.

## The biggest myth of them all

There are a lot more myths surrounding e-invoicing but the fallacy of adoption stands out. E-invoicing is currently carried out from a sender's perspective, based on the financial and qualitative advantages that it promises. While it is easy to believe that with sufficient supply demand will automatically follow, this has not been the case with e-invoicing.

The receiver of an e-invoice plays a pivotal role. Legislation currently states that only when the receiver accepts an e-invoice can the sender proceed. So the sender can only start saving with e-invoicing after the receiver has accepted.

Now imagine that a sender wants all of its customers to accept e-invoices. Studies have found that the receiver can save four times more on an e-invoice than a sender can, under the condition that the receiver can conveniently process this e-invoice.

For e-invoicing to succeed, it is necessary for the sender to be able to connect to its customers, rather than the other way around. Standardisation does not help because it is a lengthy process aimed at the 6% larger EU organisations. The SMEs still have to deal with a diverse group of customers that won't be pushed around with a singular format approach.

## The next generation

To achieve massive adoption of e-invoicing we should avoid:

- developing proprietary definitions and phrases
- imagining that format standardisation alone will save €243 billion
- pushing one model or standard into the domain of financial directors and their customers
- disregarding the power of the receiver when it comes to the adoption of e-invoicing across Europe; instead focus on the effects of chain digitalisation
- disregarding the diversity of our customers; instead, we should develop a framework that enables every profession to understand what we are saying and create a mindset that e-invoicing is part of what is called 'networked economics'.

Finally, we must embrace the receiver of the invoice in the belief that they are a key holder for savings on both sides. FDE

**FRISO DE JONG**

After four years as a legal counsellor and IP/IT lawyer, Friso de Jong started his own company with a focus on e-invoicing and invoice automation. He also initiated the ELFA and EEI Platforms (www.eeiplatform.com).

# TRADE FINANCE: A TOOL FOR TOUGH TIMES

The economic pressure bearing down on corporates is pushing companies to wring every drop of efficiency and liquidity from their supply chains. Banks are finding innovative ways to help their clients achieve this, resulting in the re-emergence of trade finance as Deutsche Bank's **Axel-Peter Ohse** explains to Jim Banks.

**Linking the physical** and financial supply chain in companies is more important than ever as the economy weakens and liquidity is scarce. Finding ways to unlock cash from inventory and speed the flow of money along the supply chain would help many companies meet the challenges that arise from the downturn. Attitudes to risk have shifted and this has implications that ripple along the supply chain.

'The perception of risk in every industry has changed. In the automotive sector, for example, original equipment manufacturers are paying higher interest on borrowings in capital markets than mid-cap suppliers sometimes pay to their local banks,' says Axel-Peter Ohse, head of Trade Finance Germany for Deutsche Bank.

'In many sectors there are also liquidity issues with former outsourcing projects. Today, companies find themselves reliant on the availability of finance to their outsourcing provider, often in low-cost production locations, where there may now be funding problems. You essentially take on these problems with the outsourcing deal,' he remarks.

Ohse points out other pressures on liquidity, including a significant curtailment of trade credit insurance limits, which may force many corporates to change risk hedging strategies and procedures dramatically.

'Liquidity, in terms of available funds for making payments to trading partners, is a key constraint as is market liquidity. Whole markets such as the previously vibrant asset-based security and commercial paper markets have dried up considerably. When liquidity is scarce, the corporate treasury must be at the centre to coordinate with everybody,' he adds.

Deutsche Bank has a long tradition of helping companies optimise supply chains, services which are increasingly popular among businesses looking for liquidity with minimised risk. The bank noticed a change in the corporate attitude towards keeping and enhancing sustainable relationships with suppliers and their funding providers.

'There is clearly a transition to quality and sustainability. You must be able to rely on banks to stand by their services and the credit they give. Financing trade is about seeing liquidity flow through the supply chain. Buyers need to look through their direct suppliers to the supplier level below to ensure that liquidity can flow. Supplier scoring is becoming more granular and large clients now measure key performance indicators on financial sustainability along the entire supply chain,' says Ohse.

> 'Buyers need to look through their direct suppliers to the supplier level below them to ensure that liquidity can flow.'

## Inside and out

To successfully optimise its physical and financial supply chains a company's internal departments must work together closely. There must be clear communication between finance, procurement and operations in order for the organisation to function in an integrated way.

'Banks and finance teams need to better understand how procurement and logistics work. These parts of any business must understand how things like credit analysis work. Aligning their incentives will give an organisation more flexibility and improve the quality of linking up with the financial chain,' says Ohse.

'Today, there are a handful of global network banks offering trade finance, which can service nearly every market more efficiently than many local banks. Integrated industries are now looking to global network banks and using platforms such as Deutsche Bank's to build integrated processes and increase liquidity and sustainability,' he adds.

This will also enable organisations to take advantage of the new products and services that banks are developing for financial supply chain management in areas such as inventory management.

'The question is how to efficiently manage inventory and keep a hand on financing it. You can pass this on to the vendor, or you can manage it yourself – in both cases it is important to understand the degree of sustainable funding available. Trade finance solutions being short-term in nature and self-liquidising, offer transparency and moreover can minimise risk,' says Ohse.

For an organisation with the internal structure and external relationships that enable an integrated supply chain, trade finance could be the right tool in a tough market. FDE

**Further information**
Deutsche Bank
Global Transaction Banking
Email: gtb.marketing@db.com
Website: www.db.com/gtb

# CASH MANAGEMENT IS KING

For companies to ensure that cash is managed to minimise costs and maximise returns, they must clearly identify the categories of cash they control. **Roger Hill** and **Gavin Stewart** of Lloyds TSB Corporate Markets tell *FDE* that it is crucial to find banking partners that understand the different product solutions for operational, core and strategic cash.

**With global markets** in turmoil as a result of the liquidity and funding crisis, companies are at pains to make the cash they have work harder. They have a pressing need to ensure the right funds are available in the right place, in the right currency, at the right time.

While cash management services are widely available, the troubled global economy and constraints on the flow of capital through financial markets mean that many companies are looking for banking partners that do more than provide standard solutions for cash on deposit. There is demand for banks to not only show that they understand the layering of money within an organisation but to also tailor cash management solutions more closely to the needs of individual corporate clients.

'We've looked to ensure that we understand our client companies' cash management needs, in terms of protection of capital, maximising returns on cash and having the liquidity to meet short-term objectives. We help them to get the best advantages from offsetting cash and debit balances, but we also try to minimise administration and banking costs,' says Roger Hill, liquidity management, Lloyds TSB Corporate Markets.

'We are working on all of those issues and it is useful for us to talk to companies about what they need by way of operational, core and strategic cash. Then we can identify the right solutions to reduce cost and maximise return,' he adds.

Lloyds TSB's acquisition of HBOS, which led to the creation of the Lloyds Banking Group in January, created the UK's largest retail bank and a robust partner for corporates. The merger combines the capability of two institutions that prioritise cash management as a service for corporate clients.

### The right product solution

For each category of cash there is a range of standard product solutions on the market, and companies are looking for banks to advise on how these solutions might best fit the needs of their business.

'Its part of our culture to work in partnership with our customers. There is little to be gained from clever solutions if they are not grounded in customer need.'

For operational cash, which is cash required in the immediate term (within three months) an organisation will use current accounts, instant access deposit accounts or short period term accounts.

For core cash, which is cash required within three to twelve months customers will look to generate a higher rate of return using solutions such as fixed term deposits and liquidity funds.

Finally, when looking at Strategic cash, which is cash not required within a twelve-month time horizon, structured investment products are available.

Hill stresses, however, that corporate clients are beginning to look beyond the level of return and prioritise other criteria when choosing their cash management solutions. Transparency and security of cash have become far more important.

'Wrapped around all product solutions is the need for corporate clients to have better visibility of the cash in their business. They want to see where cash is and how it can be concentrated to reduce the cost of overdrafts or maximise the return on credit balances. That is why we offer multi-currency sweeping and balance pooling services,' says Hill.

'Protection and safety of cash are also increasingly important, especially as funds on deposit start to grow. It is essential that companies realise that not all cash vehicles are the same. They do not all have the same capital underpinning as core bank deposits,' warns Gavin Stewart, head of liquidity, Transactional Banking, Lloyds TSB Corporate Markets.

### Calling the cash consultants

Lloyds TSB Corporate Markets' approach to cash management is firmly founded on helping clients to optimise financial performance by enabling them to securely monitor and control the cash in their accounts. They offer a secure online service for day-to-day management of funds – whether the accounts are held by Lloyds or by another bank.

Through the service clients are

made aware of all same-day UK CHAPS payments and international receipts and can receive electronic statements and balance report data directly into accounting or ERP systems. At the same time companies can transfer money between accounts to reduce overdraft costs or maximise interest returns.

On top of this, there is the ability to search transactions, and generate and review balance reports for the last year. This transparency is one of the service's most appealing features as corporates try to improve the visibility of their cash.

As the world's economic health has declined, companies have sought more advice from their banks on improving transparency and, above all, protection of their cash. Never before has the safety of funds on deposit been such a hot topic.

'The conversations we have with clients have changed a lot in terms of what they look for in deposit solutions. Rates have been subsumed by the need to understand how safe their cash deposits are. As a result we are talking to our clients more about Treasury policy,' says Hill.

It is clear, therefore, that companies want a deeper relationship with their banking partners to ensure they are putting their cash to work in the most beneficial way.

'They need to look at what is in that policy and at how regularly it is refreshed. They also need to consider what sources of information they include when they are getting quotes. The conversation between bank and client is now much richer,' adds Hill.

One of the major trends emerging from these discussions is a more thorough approach to the enforcement of Treasury policy, which is not always in need of a major overhaul, but may need to be applied more strictly.

'In larger corporations we are seeing more rigorous application of what were previously background Treasury policies. There may not be big changes in policy, but there is certainly better governance to ensure adherence to the policies that are in place,' says Stewart.

**The rise of relationship banking**

Companies looking for more in-depth advice from their banking partners, going beyond product solutions to assisting with Treasury policy and transparency issues, need a financial institution that can offer a bespoke blend of products as well as a more open, two-way relationship to generate tailored approaches to cash management.

It is easy to spot the forward-looking banks that have prioritised the development of cash management services and have embraced this trend by developing solutions for different types of corporate client. Lloyds TSB Corporate Markets has, for instance, focused on the issue of managing client monies, recognising that the cash some organisations hold for their clients must be treated in a different way to their own operational, core and strategic cash.

'There is a big difference between the cash a corporation owns and the cash it is holding for other beneficiaries. We have recognised the need for client cash management solutions and have developed a range to meet those needs. If a company has a fiduciary relationship then safety is the paramount issue,' says Stewart.

'You need to ask yourself how slick your communications are with your banking partners. For a long time we have been working on maximising the safety and business efficiency that comes from working with a high street bank,' he adds.

In the bank's approach to cash management there is a strong recognition that the quality of the relationship is key.

'Its part of our culture to work in partnership with our customers. There is little to be gained from clever solutions if they are not grounded in customer need,' says Stewart.

'The placing of cash on deposit was commoditised, but now there is more interaction between banks and their corporate clients. We put forward structured solutions that go beyond the usual transactional discussion,' adds Hill.

Engaged relationships, reliability and a robust market position are what companies need from their banking partners, and it is clear that Lloyds TSB Corporate Markets is committed to providing all three. FDE

**Further information**
Lloyds TSB Corporate Markets
Tel: +44 (0) 20 7463 1218
Website: www.lloydstsb.com/corporatemarkets

# MAKE YOUR OWN LUCK

As an unexpected benefit of the downturn, harsh protectionism, trade disputes and increasing tariffs have led to numerous opportunities. Price estimates have decreased, supply bases are shrinking and suppliers are reducing costs. Michael Jones discusses the situation with AstraZeneca's CPO **Jon Kirby** at the Ariba Live! event in London.

**Michael Jones: With such market volatility, how much is commodity price risk an issue in AstraZeneca's procurement strategy and how does procurement at AstraZeneca interact with the treasury department to mitigate risks?**
**Jon Kirby:** In all areas we are establishing a far greater understanding of true cost incurred and implementing appropriate strategies to manage and develop total cost. We work closely with treasury and our suppliers to implement appropriate commodity strategies including hedging, raw material/ inventory management and ongoing alternative specification assessments. We are also implementing a formal supplier development programme that will drive greater collaboration and accountability for managing cost across the entire value stream.

**How much is price a factor in supplier selection? Is it more important for a supplier to contribute to AstraZeneca's brand equity?**
Every category is slightly different but evaluation of suppliers will always be against a set of value criteria, of which cost is a part. However, it will also cover risk, quality, reputation, and capability. Additionally, there are some clear 'go/no go' criteria in any supplier evaluation, such as the need for all our suppliers to comply to our Responsible Procurement standards.

**Which locations are you sourcing from and what are the global challenges you are facing?**
We are sourcing from suppliers across the globe. Additionally, we have established sourcing centres in Bangalore and Shanghai supporting the ongoing development of our emerging supply base, with responsibility for supplier identification, validation, management and development.

**How much of your time is consumed with direct procurement issues versus indirect procurement issues?**
Direct procurement, as defined for us within Pharma, would include R&D, operations and sales and marketing with my time split approximately 65% by 35%.

**In the procurement cycle, CFOs are particularly interested in the 'payment stage' and the invoice lifecycle. How**

**automated is procure to pay and the invoice lifecycle at AstraZeneca?**
We have automation across a high percentage of our spend but are continuing to develop P2P processes in both the mature and emerging geographies. We work closely with transactional finance to incorporate payment metrics into our supplier performance management processes.

**How do you track spending, particularly maverick spend, from indirect procurement?**
We have spent a great deal of time improving our spend visibility and analytics capability. We now have visibility of over 90% of our spend with the ability to segment as appropriate. For example, aggregate group, business unit, cost centre, supplier, category, etc.

**How does AstraZeneca categorise suppliers and what sort of supplier strategy are you adopting?**
Our suppliers are segmented into three categories: strategic, core and commodity. Each of the categories has a set of appropriate supplier management and development activities for the respective procurement and business stakeholders. Our supplier strategies will differ based on a category/business basis including multi-source for risk management/business continuity purposes along with an appropriate supply base at a local, regional or global level. However, at a high level we are working to rationalise our existing supply base to drive significant improvements against our core value deliverables of cost, quality, service, innovation and risk.

**Why is it so important to lead your procurement strategy with value rather than just cost?**
Cost will always be an important deliverable for procurement; clearly the core expectation of any board is for procurement to effectively manage the third party cost base. However, the role of procurement is to optimise the value that can be delivered from third party relationships and that runs across areas such as quality, service, risk, innovation, time to market and exclusivity. Procurement cannot engage with their internal customers on cost alone – we have to demonstrate how we can contribute to sales growth, new product development, emerging market expansion and improving customer satisfaction.

**How do you effectively manage several thousand cost centres? How can the three streams of cost reduction – renegotiation, demand challenge and strategic change – help?**
We have structured our organisation so that our procurement teams are close to the customers and dedicated to particular business areas, such as R&D. This structure, along with our analytics expertise, enables the team to prioritise and engage appropriately with the budget holders and requisitioners. In addition we have implemented procurement governance across the business areas which creates far greater control. The three activity streams provide the customers with a clear, consistent and simple understanding of how we will work with them to drive cost reductions. We have seen this dramatically improve interactions between the budget holders and procurement as it's easy to prioritise and create a simple and common language.

**You previously stated that the 'only way to get real engagement of experience with the customer is through data'. How does this preparation drive value?**
You cannot drive change in any business or relationship without a common understanding of the current baseline and a clear articulation of the 'to be' state. This applies to relationships with customers and with our suppliers. Very often the existing behaviours, preferences or perceptions of 'value' are as a result of a lack of knowledge of what is possible or why a current situation is sub-optimal. From experience, sharing clear facts and data with customers to explain the current situation, what improvements can be made and why, very quickly opens up the opportunity to drive change – as the whole decision making process is far more objective. In many instances a clear understanding can actually lead to the creation of far greater value. A good example is where you have high product complexity and the supplier has resorted to 'average pricing'. Marketing then sees the cost of a 'high specification' product the same as a 'low specification product' resulting in an increase in selection of the high spec products, which is actually more expensive to manufacture, therefore leading to an increase in overall costs. Once the true cost to manufacture has been shared with marketing they decide on a lower and more appropriate specification using the money saved to create greater value elsewhere. FDE

'WE HAVE IMPLEMENTED PROCUREMENT GOVERNANCE ACROSS THE BUSINESS AREAS WHICH CREATES FAR GREATER CONTROL.'

**JON KIRBY**

Jon Kirby became chief procurement officer at AstraZeneca Pharmaceutic in January 2008, where he is respor for $9 billion of the global external expenditure across all areas of the organisation. He also leads a global team of over 500 procurement professionals.

# FIT FOR PURPOSE

With the previously healthy Dutch pensions system ravaged by zero swap rates, recovery could be a battle. **Anton van Nunen** of Van Nunen & Partners and **Piet Duffhues** of Tilburg University share some practical solutions with *FDE* on getting pension funds fighting fit.

For two years, Dutch pension funds have seen their financial status, which is principally determined by the so-called funding ratio, deteriorate, requiring around half of them to present recovery plans to the regulatory authorities. Many pension funds indicate that pensioners will not be compensated for inflation for years, while others made it clear that they cannot fulfil their long-term nominal liabilities. Even worse, nearly all pension funds sold risky assets and bought long-term bonds or derivatives during the period of low equity and high bond prices, induced by the low funding ratio they had to report. The implication is that funds realised billions of losses and pursued a pro-cyclical policy of selling low and buying high.

In short, the renowned Dutch pension system has come under severe pressure and has seen its standing deteriorate rapidly.

However, it is possible to demonstrate that the condition of that the static funding ratio is incorrectly viewed as the correct indicator of long-term health. Replacing the funding ratio with better indicators should ease people's uncertainty and prevent an undesired, pro-cyclical investment policy by pension funds.

Pivotal to the Dutch regulatory framework is the funding ratio, the value of the investment portfolio divided by the discounted value of the liabilities. With the introduction of new legislation in 2007, the Dutch regulator arranged that, in calculating this ratio, the fixed discount factor was to be replaced by the market interest rate at the moment of calculation.

With this change, a devastating disturbance crept into the system. In case of a decline in interest rates, a decline of the funding ratio occurs. Due to a lax monetary policy and strong deflation caused by worldwide division of labour, relevant interest rates did decline. Within the regulatory framework,

Even more important is the fact that the Dutch regulator stated that pension liabilities should be valued using a credit risk-free discount factor and opted, arbitrarily, for the zero swap rate. There is no market for determining the actual price of pension contracts so models must be used, but the approach of funding ratios, based on swap rates, does not deliver consistent fair value.

Moreover, this rate appears to be very sensitive to supply and demand conditions. This situation cannot come as a surprise as in October 2006 the Organisation for Economic Cooperation and Development warned that 'new accounting standards may have set up a vicious circle of bond demand from pension funds'.

This problematic mechanism was already apparent in 2004-05, although it did not produce the dire consequences of 2008-09 when the credit crisis lowered the asset value of all pension funds. It seems, then, that an arbitrary choice can disastrously wound a healthy pension system. However, it cannot have been the intention of regulators to create such a flawed mechanism.

**Time to change**

The Dutch regulator prescribed a risk-free discount rate to indicate that cuts in pension rights can never be viewed as a regular steering mechanism. But pensions are always uncertain and pension liabilities are not without risk, although this inconvenient truth was hardly ever communicated to the public.

'THE TIME HAS COME FOR THE REGULATOR TO ENTER INTO CONSULTATIONS WITH THE INDUSTRY ABOUT PRESENT-DAY VIEWS AND EXPERIENCES.'

Because of this uncertainty, a discount factor incorporating a modest spread over variable government yield is much more appropriate than a risk-free rate.

Condemning the swap rate as unfit for purpose is not due to the negative effects it has on present funding ratios. It is based on two sound and fundamental reasons: theory (its risk premium is too low) and practice (the rate is too dependent on the behaviour of the pension funds themselves). A buying frenzy has led to a situation where the swap rate is lower than sovereign rates. The time has come for the regulator to enter into consultations with the industry about present-day views and experiences.

Pension fund liabilities are more comparable to AA corporate bonds. When pension funds experience weak investment results, and extra contributions are not to be expected, pensions may be cut, implying that debts are not redeemed fully. Therefore, the implicit yield on pension funds' 'quasi' bonds should be considered higher than the swap rate as the risk profile of a fund is higher than suggested by the swap rate.

Swap rates and spreads are determined in a distinct market that is not comparable to the AA corporate bond market. Prices reflect essential differences in risk while supply and demand are also different. To put it another way, when the swap rate has its own determining factors it should not be used as a discount factor to simulate yields on corporate bonds.

However, another rate is better suited to provide that simulation: the yield index of an AA corporate bond portfolio. This would dramatically ease the financial status of pension funds, where a positive spread would replace the negative one and where less volatility would occur.

**Re-visiting the funding ratio**

Our second issue is whether funding ratios should have a place in pension fund supervision. The funding ratio is calculated on the basis of a balance sheet, the outcome of which determines whether a recovery plan is necessary. It is defined as the ratio of assets to pension debts, the market value of pension provisions. However, this one-dimensional approach does not pay enough attention to the long-term goals of the funds. That is why it should be supplemented by information on solvency, which approach also is advocated by both finance theory and practice.

Banks, other creditors and investors have reviewed corporations using figures relating to liquidity and solvency. Both characteristics are important for pension funds because there is not so much difference between the financial institutions. Both are engaged in financial contracts with a balance between assets and liabilities and both have to invest to make returns.

**Summary**

Regulation and supervision based only on the funding ratio does not give enough insight into the balance sheets of pension funds. The liquidity of a fund is not recognised at all and the solvency is not judged adequately. The Dutch regulator, aiming to improve the stability and integrity of the financial system, should therefore restructure regulation by replacing the swap rate by a state-plus yield and by taking into consideration the set of alternative definitions in an extended supervision of pension funds. FDE

**ANTON VAN NUNEN**

Anton is the director and owner of Van Nunen & Partners, an advisory company for both institutional and private investors. After constructing, introducing and implementing a fiduciary structure, he plays a role in monitoring and evaluating fiduciary management at several institutes. He is an advisor to the investment committees of the pension funds of Campina, SCA, Provisum (C&A), Arcadis, Cosun/Aviko/Suiker and the industry-wide scheme of wholesale and retail.

**PIET DUFFHUES**

Piet Duffhues is emeritus professor of corporate finance at Tilburg University.

# NORMAL SERVICE RESUMED

The financial crisis led to a derailment in terms of outflows for six consecutive quarters, from the summer of 2007 to the end of 2008, but the situation is back on track, writes director general of the European Fund Asset Management Association (EFAMA) **Peter De Proft.**

The first impact of the financial crisis became apparent in August 2007 with the outbreak of the subprime crisis, due to the relative importance and success of the so-called enhanced money market funds. In a matter of weeks €70 billion was redeemed in funds predominantly from institutional investors; around 15-20 suspended redemptions for a short period, four of them were definitively closed.

From the summer of 2007 to the end of 2008, the European industry experienced six consecutive quarters of massive net outflows. Total assets under management of European asset management fell by some 20% in 2008 and declined from €13.6 trillion at the end of 2007 to an estimated €10.7 trillion at the end of 2008. The assets of investment funds domiciled in Europe fell by €1,567 billion (25.4%) in 2008.

This decline was driven by the developments in the UCITS market, which represents 75% of the investment fund market in Europe. Market losses impacted by nearly 77% the decline in UCITS assets, whereas net outflows were responsible for 23% or €336 billion of the UCITS assets decline.

Those overall outflows were driven notably by outflows in long-only funds due to a massive retreat to safety, deleveraging and market disfunctioning. Long-term products suffered over €400 billion of outflows in equities and even more in bond funds and mixed assets. 90% of the outflows originated from four countries: Luxembourg, where most of the UCITS are domiciled, Italy, Spain and France.

Falling growth prospects in Asia affected the demand for UCITS and the net sales of cross-border UCITS to Asia, which accounted for more than €22 billion in 2007, turned negative in the second half of 2008. Interestingly, about 40% of the outflows from UCITS were recorded in October when the liquidity crisis and the fear of credit and counterparty losses following the bankruptcy of Lehman Brothers were at their peak. In 2008 money market funds were the only class that had overall positive net inflows in UCITS funds of approximately €69 billion as well as in stable net asset value (NAV) funds. The main reasons that assets and funds were severely hit are threefold:

- The financial crisis had led to massive losses in worldwide stock markets and the meltdown of credit and money markets following the bankruptcy of Lehman Brothers. The financial crisis then turned into a global economic crisis with downward pressure on economic activity.
- An uneven playing field was triggered by unfair competition with structured notes (until mid-2008) and banking products (cash and deposits) especially in Spain, Italy, Greece and Portugal, amplified by national governments guaranteeing bank deposits.
- The nature of distribution in continental Europe, which is mainly bank and insurance-driven and where the distribution became a competitor for the fund industry.

Since October 2008 the situation has been improving and net outflows have stabilised, although gross sales have remained at a relatively low level and year-to-date net inflows are still driven by money market funds. Outflows tend to stabilise in long-only funds and are relatively small, offering further proof that investors believe that the bottom has been reached. The majority of fund managers expect a recovery of net sales of UCITS in 2009 in Europe in the first place, but also in other parts of the world.

**‘OUTFLOWS TEND TO STABILISE IN LONG-ONLY FUNDS AND ARE RELATIVELY SMALL, OFFERING FURTHER PROOF THAT INVESTORS BELIEVE THAT THE BOTTOM HAS BEEN REACHED.’**

## Impact on asset managers

According to the McKinsey Asset Management Survey in 2008, profits of asset managers in Europe during 2008 plunged to the lowest levels ever, below €13 billion of operating profit. Four key factors have been impacting profitability:

- the bear market, which led to a decrease in assets and overall, a significant decrease in fees
- margin pressure owing to increased investor scepticism towards asset management products and reduced negotiating power (many active/alpha products have not proven their value)
- rising share of low-margin products like ETFs and unfair competition, for example, structured notes
- over-capacity.

This dramatic profitability implosion is a serious challenge to asset management business models, leading to strategic rethinking. According to the McKinsey report, most asset management firms have already been going through, or are in the process of exercises in reducing costs, searching for new partners, launching new products and acquiring other asset management business.

## Regulatory and operational issues

From the industry’s perspective, three major points can be raised. Firstly, confidence risks have to be limited by intensifying fraud detection and improving the market organisation to mitigate systemic risk. The latter can be achieved by:

- creating more transparency in all markets, especially OTC markets
- bringing more standardisation and transparency in derivative markets
- making post-trade information available
- creating central clearing platforms for the continuous netting of positions
- improving straight-through processing in all sectors.

Secondly, weaknesses have appeared in the EU pattern. Despite some harmonisation efforts by directives, there remain considerable differences in EU markets in investor protection, and disclosure, and regulatory arbitrage does exist.

The home/host system has not delivered and too much reliance has been placed on non-binding cooperation between regulators. Cooperation is still weak, as was illustrated by the implementation of the short-selling rules.

Thirdly, a credible system of regulation and supervision has to be created as soon as possible. The present system has proved its limits, it is a bottom-up system, based on national competences, coordination works only be mutual recognition, home-host arrangements and cooperation. This leads to either double supervision or gaps in the system. And the system has proved unsatisfactory because the home-host system has not worked in the crisis: emergency action was ringfencing in some States, information flows are weak and cooperation is to be improved.

## Asset management and pension modernisation

Policymakers, including the next European Commission (EC), should take necessary actions within the next few years to prepare the pension system for the demographic challenge.

It is worth reading the 2009 Ageing Report, recently published by the EC and the Economic Policy Committee. The report confirms that the budgetary impact of ageing will be substantial in almost all Member States – 7% of GDP or more in nine EU Member States and 4–7% of GDP in eight others.

Dealing with a budgetary impact of this size is likely to be difficult for many Member States.

Pressures to maintain an adequate level of public pensions and healthcare systems will slow down reforms. Other issues are likely to set aside the ageing problem, in particular the need to deal with the current financial and economic crisis and to return to a sustainable level of budget deficits in the medium term.

While those are equally important policy goals, the Ageing Report confirms that taking no action will result in an unsustainable increase in age-related public expenditure that will sow the seeds of a major crisis of our public finance system.

To the extent that pension reforms need to be pursued further, encouraging people to save more for retirement is required in a large number of Member States to ensure adequate retirement income for households.

There is a window of opportunity, a period of five to ten years, for implementing solutions to increase the participation and contribution levels of households in occupational and private pensions. Those who are 40 today have another 20–25 years to build a supplementary source of retirement income. This may be long enough for many households to prepare for retirement.

A very heavy storm is building on the horizon and there are no more excuses for simply standing by and watching; the whole financial services industry should be committed to help Member States address the ageing challenge.

This motivation led EFAMA to finance two studies; on the risks and advantages of DC schemes, which was published in early 2007, and on solutions for the payout phase of funded pensions, which was published earlier this year. With both reports, the association hopes to contribute to the debate on the required evolution of pension systems in Europe.

In this vein, EFAMA confirms its readiness to contribute to a serious discussion on the lessons of the financial crisis, and the policy responses, for defined benefit (DB) and defined contribution (DC) pension plans.

The crisis has renewed focus on key questions, in particular, regarding DC schemes. Are DC pension plans too exposed to market risk? In which direction should governance and risk-management systems be improved? What can be done to facilitate individuals to make appropriate decisions when it comes to their pensions? What are the solutions to manage investment risk effectively? What kind of default options should be designed to be a reasonable choice for most people?

The reports offer answers to some of these questions and EFAMA is looking forward to working further on these questions with the EC and other stakeholders to contribute to the formulation of the right policy responses. The financial crisis and its impact on pension assets should not be an excuse for doing nothing. FDE

**PETER DE PROFT**

Peter De Proft is director general of the European Fund and Asset Management Association, a position he took up in October 2007. Prior to his appointment, he was CEO at Fortis Investment Management Belgium, where he was responsible for the development and implementation of the global Fortis investments strategy at Belgian level.

ND THE GAP

funds must invest at least 95% of assets in money market instruments, loosely defined as cash or near cash. On average, these funds have placed a slightly greater emphasis on achieving yield than the French variable NAV funds.

**Impact of the liquidity crisis**

The European money market fund industry therefore includes several fund types. These funds may have varying objectives, or simply a different emphasis on the same objectives of capital preservation, liquidity and yield. Consequently, the national industries across Europe are not necessarily directly comparable, even though all of their funds share the same label of 'money market funds'.

and the insurance trade body in the UK (Association of British Insurers, or ABI) recently consulted on proposed modifications to its money market sector classification.

However, there has not as yet been any proposal for pan-European regulation which would define money market funds, as there is in the United States with Rule 2a-7. In the absence of such, the European Fund and Asset Management Association (EFAMA) and the IMMFA have commenced work to agree a pan-European definition of a money market fund. This definition will impose quantitative restrictions on money market funds in order to limit their exposure to credit, market and liquidity risk. This is a significant enhancement when compared to the current situation.

'THIS DEFINITION SHOULD FURTHER CLARIFY THE TYPE OF FUND THAT AN INVESTOR IS PURCHASING, AND ENSURE THAT THERE IS CONSISTENCY ACROSS FUNDS OF THE SAME TYPE.'

Despite this diversity, the European money market fund industries operated independently and without issue until the events across financial services in September 2008. With the net asset value of The Reserve's money market fund in the US dropping below par and the suspension of several European dynamic money market funds, investors became concerned about the variety of products referred to as money market funds.

In some instances, shareholders withdrew monies because of fears over the security of their investment. Although these fears were generally unfounded, this action was taken at a time when the solidity of financial services firms was under extreme scrutiny. As each redemption request was received, the absence of market liquidity made processing more difficult, thereby putting downward pressure on prices and generating pro-cyclical risk.

The US authorities quickly implemented a number of specific actions to aid their money market fund industry. These, together with the broader and coordinated actions of governments across the globe, proved sufficient to placate any concerns of investors in money market funds.

The events experienced by the European money market fund industry in autumn 2008 were sufficient to warrant calls for action. The De Larosière report on the future of European financial regulation and supervision identified the need for 1) a common EU definition of a money market fund and 2) a stricter codification of the assets in which they can invest, in order to limit exposure to credit, market and liquidity risks.

**Working towards a common definition?**

Following the publication of the De Larosière report in February 2009, specific action has been taken in two European jurisdictions. The French regulator (L'Authorité des Marchés Financiers, or AMF) has issued a consultation on proposals strongly limiting the duration, credit and market risk of money market funds. The Spanish regulator (the Comisión Nacional del Mercado de Valores, or CNMV) has already put in place similar legislation. Other individual regulators may similarly follow suit,

**Investor benefit**

Prudent cash management is now more important than ever before, and money market funds provide a viable means of obtaining both security and liquidity. Investors in all money market funds, irrespective of the type, obtain the benefits of pooled investment: participation in a more diverse and high-quality portfolio than they could otherwise obtain individually. Money market funds also have the protections accorded by the UCITS Directive, including assets held by a separate custodian and the services of an independent auditor.

The implementation of an industry definition of a money market fund will provide additional tangible benefits to investors. This definition should further clarify the type of fund that an investor is purchasing, and ensure that there is consistency across funds of the same type. As such, investors should be able to more easily understand the nature of the fund in which they have invested and compare like with like. .

Given the breadth of choice available in the European money market fund industry, all investors should be able to identify products which are consistent with their objectives and risk appetite, and fulfil their cash management needs. The provision of a pan-European definition of a money market fund will facilitate this choice for investors and should therefore help improve the cash management activity. FDE

**GAIL LE COZ**

Before becoming CEO of the IMMFA, Le Coz was head of industry affairs at JP Morgan Asset Management. She worked on policy issues affecting the asset management industry, including UCITS IV, private placement, substitute retail products, pensions and retail distribution.

# PROSPEROUS PENSION PROVISIONS

The experiences of the second half of 2008 made it clear that the management of capital investments for pension provisions poses complex challenges. **Nikolaus Schmidt-Narischkin**, head of fiduciary management and **Martin Thiesen**, head of pension and investment solutions at DB Advisors, tell *FDE* why this highlights the necessity for a systematic approach and an efficient management process.

**The core elements** of a successful management process of plan assets are pension governance and risk management as well as the actual asset management. This division reveals an essential principle of risk management: the separation of functions. If, for example, the asset manager provides support in determining the possible risk budget and if as a result he is responsible for its efficient usage, an independent body should be responsible for the final setting of the risk budget.

The implementation of a strategy, the regular checking of the risk profile, as well as the drawing up and monitoring of rules for asset allocation, require some preparatory measures. Firstly, there is the harmonisation of data records and different reporting systems. The essential influencing factors on a capital investment must become just as transparent as the details of the individual commitments in relation to guarantees, options and the calculation of expected returns. Once the specific details of the pension plans and the accounting and regulatory requirements have been determined, general principles should be defined for determining the assumptions in the capital investments such as the returns of individual asset classes and liabilities.

The qualitative determination of the risk in the pension plans and the definition of the principles are followed by the quantitative consideration of the risk. This function represents the first pillar of the risk management of pension plans: a flexible risk measurement system is required to meet the complex requirements of various investment universes, pension plan designs and regulators. The provision of such systems is not the norm, even among sponsors of large pension plans. In many cases, simple stress tests are used, which may indeed be sufficient for risk quantification for small companies. A trend towards in-house development, the procurement of a ready-made system or the corresponding implementation by an expert consultant is, however, not to be overlooked.

‘Sufficient diversification and the risk-aware usage of the budget are essential components of the management of pension assets.’

The second pillar of risk management for pension plans is asset management. Once the risk budget has been set for the individual plans, it must be used efficiently. Sufficient diversification and the risk-aware usage of the budget are essential components of the management of pension assets. Ideally, the manager is already involved in determining the risk budget, for example, within the scope of a fiduciary mandate, and is therefore familiar with the influencing factors and the risk strategy. He can be assigned different objectives in this respect, depending on the risk strategy. If a global strategic asset allocation on the basis of the requirements from the liabilities and the accounting as well as regulatory restrictions has already been defined, then the asset manager has, on the one hand, the objective of exceeding his individual traditional benchmark. On the other hand, he should take the out-performance of the liabilities and ultimately the improvement of the level of full financing as the benchmark, which places a greater requirement on the management and the investment process of the asset manager.

If, in addition to risk budgeting, allocation consulting, asset management and risk overlays, the asset manager offers manager selection, administration platforms and customised reporting structures, he can make a significant positive contribution to the successful risk management of pension assets within the framework of a fiduciary mandate. FDE

**Further information**
DB Advisors
Deutsche Asset Management
International GmbH
Website: www.dbadvisors.com

# THE IMPORTANCE OF DEFINITION

The lack of a harmonised definition of money market funds in Europe has resulted in a variety of products sharing a similar name but using different parameters, which, as **Gail Le Coz** of the Institutional Money Market Funds Association (IMMFA) explains, increases the possibility of investor confusion. In order to tackle this problem, she says, it is important to understand the origins of the money market fund.

Money market funds were first created in the US in the early 1970s, as a result of regulation limiting the interest payable on bank deposits. These funds rapidly grew into a prominent sector, as they responded to investor demand for more competitive rates of return. In addition, money market funds provided security and liquidity, as well as simplified accounting through their constant net asset value (NAV).

Amendments were soon made to the 1940 Investment Company Act, the US mutual funds legislation, in order to include money market funds. This resulted in the development of Rule 2a-7 of the Securities & Exchange Commission (SEC), directly regulating money market funds in the US. Since the introduction of this Rule in 1983, the US money market fund industry has grown by over 20 times to approximately $3.7 trillion.

**The development of money market funds in Europe**

Money market funds in Europe developed slightly later than in the US, but for similar reasons. The first European money market funds appeared in France in the early 1980s, following regulatory restrictions on interest payable on deposit accounts. Unlike the US, French money market funds operate with a variable NAV, although they are broadly managed with the objective of providing a constantly increasing NAV. A small part of the market consists of 'dynamic' money market funds, which frequently seek to obtain additional yield by investing a minority percentage in riskier assets such as alternatives and credit instruments.

Smaller but more bespoke industries have also developed in other jurisdictions. The German money market fund industry (with around €75 billion invested) is predominantly retail-oriented, and these funds are defined by the core objective of performing in line with a money market benchmark. The strategies operated in order to achieve this performance may vary beyond investment in money market instruments. Industries of a similar nature have also developed in Italy (around €60 billion) and Spain (around €30 billion).

In the UK, both the investment management and life assurance industries provide money market funds. These

funds must invest at least 95% of assets in money market instruments, loosely defined as cash or near cash. On average, these funds have placed a slightly greater emphasis on achieving yield than the French variable NAV funds.

**Impact of the liquidity crisis**

The European money market fund industry therefore includes several fund types. These funds may have varying objectives, or simply a different emphasis on the same objectives of capital preservation, liquidity and yield. Consequently, the national industries across Europe are not necessarily directly comparable, even though all of their funds share the same label of 'money market funds'.

and the insurance trade body in the UK (Association of British Insurers, or ABI) recently consulted on proposed modifications to its money market sector classification.

However, there has not as yet been any proposal for pan-European regulation which would define money market funds, as there is in the United States with Rule 2a-7. In the absence of such, the European Fund and Asset Management Association (EFAMA) and the IMMFA have commenced work to agree a pan-European definition of a money market fund. This definition will impose quantitative restrictions on money market funds in order to limit their exposure to credit, market and liquidity risk. This is a significant enhancement when compared to the current situation.

'THIS DEFINITION SHOULD FURTHER CLARIFY THE TYPE OF FUND THAT AN INVESTOR IS PURCHASING, AND ENSURE THAT THERE IS CONSISTENCY ACROSS FUNDS OF THE SAME TYPE.'

Despite this diversity, the European money market fund industries operated independently and without issue until the events across financial services in September 2008. With the net asset value of The Reserve's money market fund in the US dropping below par and the suspension of several European dynamic money market funds, investors became concerned about the variety of products referred to as money market funds.

In some instances, shareholders withdrew monies because of fears over the security of their investment. Although these fears were generally unfounded, this action was taken at a time when the solidity of financial services firms was under extreme scrutiny. As each redemption request was received, the absence of market liquidity made processing more difficult, thereby putting downward pressure on prices and generating pro-cyclical risk.

The US authorities quickly implemented a number of specific actions to aid their money market fund industry. These, together with the broader and coordinated actions of governments across the globe, proved sufficient to placate any concerns of investors in money market funds.

The events experienced by the European money market fund industry in autumn 2008 were sufficient to warrant calls for action. The De Larosière report on the future of European financial regulation and supervision identified the need for 1) a common EU definition of a money market fund and 2) a stricter codification of the assets in which they can invest, in order to limit exposure to credit, market and liquidity risks.

**Working towards a common definition?**

Following the publication of the De Larosière report in February 2009, specific action has been taken in two European jurisdictions. The French regulator (L'Authorité des Marchés Financiers, or AMF) has issued a consultation on proposals strongly limiting the duration, credit and market risk of money market funds. The Spanish regulator (the Comisión Nacional del Mercado de Valores, or CNMV) has already put in place similar legislation. Other individual regulators may similarly follow suit,

**Investor benefit**

Prudent cash management is now more important than ever before, and money market funds provide a viable means of obtaining both security and liquidity. Investors in all money market funds, irrespective of the type, obtain the benefits of pooled investment: participation in a more diverse and high-quality portfolio than they could otherwise obtain individually. Money market funds also have the protections accorded by the UCITS Directive, including assets held by a separate custodian and the services of an independent auditor.

The implementation of an industry definition of a money market fund will provide additional tangible benefits to investors. This definition should further clarify the type of fund that an investor is purchasing, and ensure that there is consistency across funds of the same type. As such, investors should be able to more easily understand the nature of the fund in which they have invested and compare like with like. .

Given the breadth of choice available in the European money market fund industry, all investors should be able to identify products which are consistent with their objectives and risk appetite, and fulfil their cash management needs. The provision of a pan-European definition of a money market fund will facilitate this choice for investors and should therefore help improve the cash management activity. FDE

**GAIL LE COZ**

Before becoming CEO of the IMMFA Le Coz was head of industry affairs JP Morgan Asset Management. She worked on policy issues affecting the asset management industry, including UCITS IV, private placement, substitute retail products, pensions and retail distribution.

# EXETER SUCCESS STORY

Exeter is an ancient cathedral city with an extremely modern outlook and a successful broad-based economy. As **Richard Ball** explains, it has a city council that is fully focused on the needs of existing businesses as well as the requirements of companies considering moving themselves to an exceptional business location.

**Exeter has become** home to a wide range of important businesses, including Reuters, The Met Office, EDF Energy and Friends Provident's pensions operation. It has established itself as a light manufacturing, service industry and a centre for research, with a strong science base, due in no small measure to its strong business links with the University of Exeter.

The university's £80 million Science Strategy in science, medicine and engineering has been designed to turn its world-class academic research into marketable products and services. It is guided by an interdisciplinary approach that is addressing some big issues in, for example, climate change, systems biology and functional materials. This work is deliberately breaking down the barriers between academic schools.

The university is also leading a visionary £14 million research partnership with Bristol and Bath universities and ten other local higher education institutions to boost research in areas of economic importance to the region. Backed by the South West of England Regional Development Agency and The Higher Education Funding Council for England, Great Western Research has created new research opportunities including PhD studentships in cognitive neuroscience, economic psychology, materials research, nanotechnology and sustainability.

'The working environment here is second to none, but having the world-class facilities at the University of Exeter at our fingertips makes it possible for a high-tech company like ours to stay at the leading edge.'

**Peninsula College of Medicine and Dentistry**

This unique partnership between the universities of Exeter and Plymouth and the local NHS saw its first doctors graduate in July 2007. But the college was designed to be much more than a medical training school. It has invested heavily in research facilities. Among early successes has been the identification of a 'weight gene'. The college has also pioneered the genetic understanding of diabetes in newborn children, enabling tablets to be used instead of insulin injections. It has also run the largest controlled trial in the UK of cannabinoid use in multiple sclerosis.

In January 2009 the Peninsula College opened the National Institute for Health Research experimental medical clinical trials facility. Peninsula Bioventures is

**CASE STUDY: AUXETIX LTD**

When Patrick Hook, a racing car engineer, wanted to further his career he returned to the university to study Computer Science, for which he was awarded a first class honours degree and a Dean's Commendation. This was then followed by a PhD in Advanced Materials Engineering under the supervision of professor Ken Evans, a world expert in auxetic* materials.

The research, which was sponsored by Dow Corning, led to the discovery of an entirely new class of auxetic materials. It was soon realised that these had enormous commercial potential, and so Auxetix Ltd was founded jointly by the University of Exeter, Dow Corning, and Patrick Hook in 2003. Since then, the company has attracted commercial investment and has established a valuable intellectual property portfolio. It specialises in blast-mitigation and ballistic-protection materials, but continues to have a close relationship with the university. The chairman, Robin Jackson, is also the Innovation Centre's Director, whilst Exeter Advanced Technologies (the commercial wing of the School of Engineering) is running several research projects in collaboration with the company. These include a £660,000 Engineering and Physical Sciences Research Council (EPSRC), which funded the blast curtains project and various healthcare-based studies.

'Auxetix benefits tremendously from being situated in the beautiful countryside that surrounds the city of Exeter,' says Hook. 'The working environment here is second to none, but having the world-class facilities at the University of Exeter at our fingertips makes it possible for a high-tech company like ours to stay at the leading edge.'

**Auxetic materials become fatter when stretched and thinner when compressed.*

# SHAPING THE FUTURE BUSINESS

The FD is a critical player in any M&A project, from the initial investment stage right through the integration process. In the first of a series of articles addressing post-merger integration, **Danny A Davis** of Davis Consulting and **Stephen Dawes** look at how the FD helps to shape the strategy for future business.

Establishing strong financial planning and review processes before and after the completion of any deal allows the FD to support the CEO and other directors in their strategising and decision making. The better the quality of the information available to you as the FD the better placed you are to challenge people's thinking around which levers they should focus on. Better planning helps all the directors understand what they personally have to do to maximise return on investment.

The goal of this financial planning process is that everyone knows and understands why a deal makes sense commercially and how to make it a success.

If the FD can ensure this is clear and well understood then they will have played a key role in ensuring their business is well positioned for the future. They will also have increased the chances of success for any integration activity because a robust answer to this question acts as a blueprint for the integration team. A robust answer is one where the assumptions of the business case can be clearly stated in a way that means individuals understand what they must do to ensure success. If the main assumptions in an M&A business case can't be simply articulated then the integration activity usually lacks focus.

### Shaping plans for growth

The commercial leadership will need help from the finance team to create solid projections for the future. They should be helped to quantify their instincts about what the combined business is capable of doing and then challenged about what needs to happen in order for that to take place. You want them to own and understand their forecasts but you also need to know that these have been well tested. Scenario planning is invaluable; help them to compile pessimistic, optimistic and realistic forecasts and wherever possible get them to articulate the rationale behind these numbers.

What are your commercial teams assuming in terms of business growth? After the integration will one plus one equal two on the sales ledger? Or better still, two and a half? Or, as is so often the case, will it be more like one and three-quarters? If it is the latter then are there situations where that would be an acceptable result?

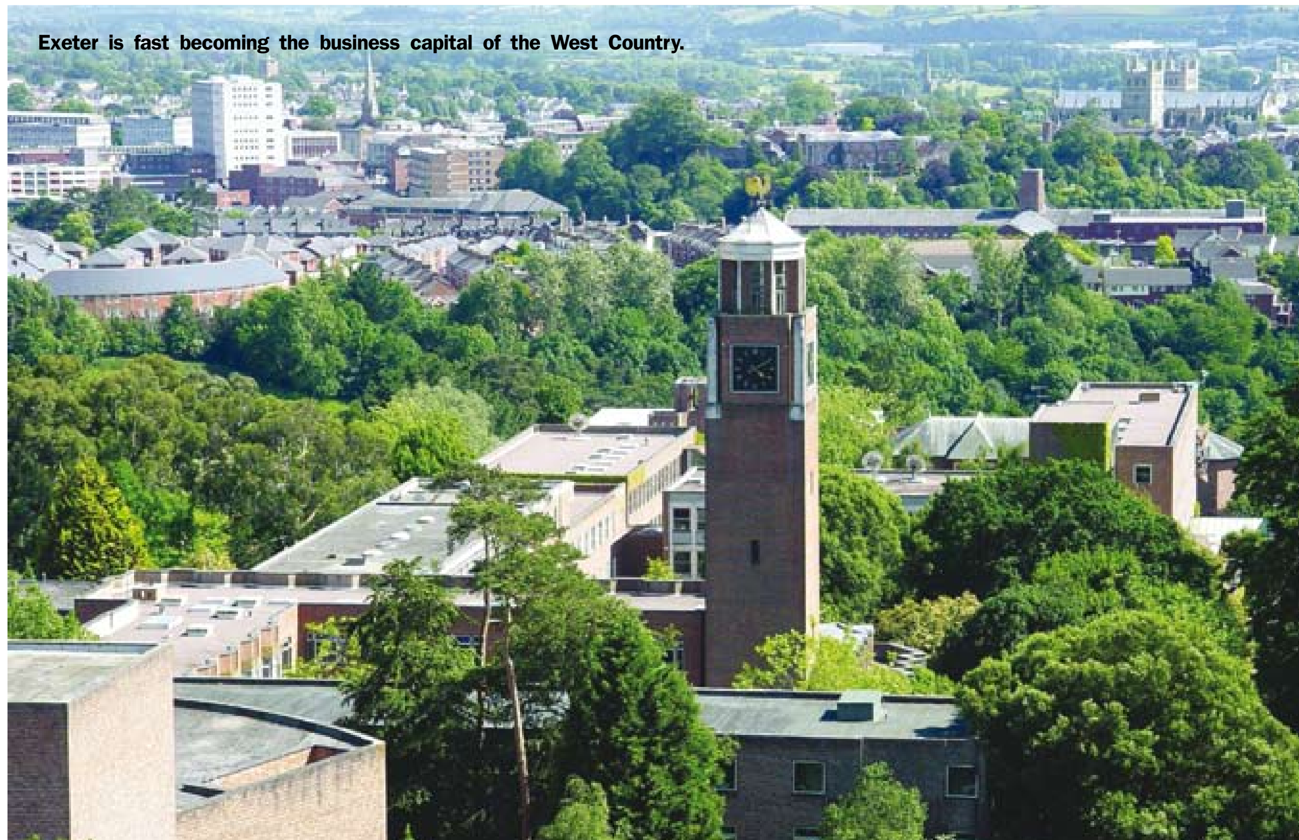
Also, do the two businesses have overlapping or competing product lines? Does the merger bring new desirable brands or will you trade under one brand? If you are removing brands from the market will that reduce your overall marketing spend?

### Investment and R&D

What investments are you making in new product lines or R&D? Are there projects that no longer make sense because the acquisition has effectively replaced a piece of R&D? Can these projects be closed down and funds released for use elsewhere?

### Divestment

It is also worth questioning whether you are inheriting non performing product lines. If so, how are your colleagues planning to handle them? Do they have skills to restructure them into


Exeter is fast becoming the business capital of the West Country.

the technology transfer arm set up to identify the commercial opportunities of all research and to develop collaboration with industrial partners. Such translational research will increase commercially important licensing and spin-out opportunities. A number of international pharmaceutical companies have already taken out licences on research done at the Peninsula College.

**Third Generation Science Park**

Exeter is building a 24-hectare Science Park that will become a centre of excellence by attracting companies seeking innovative and incubation support as well as those already at the forefront of technological scientific research.

The Science Park will bring the number of business and industrial parks created in an around the city to eight.

The latest is the 37-hectare Exeter Skypark being built to the North of Exeter International Airport alongside the M5 motorway. FDE

**Further information**

Exeter City Council
Email: richard.ball@exeter.gov.uk
Tel: +44 (0) 1392 265140
Website: www.exeter.gov.uk/relocate

**DEMOGRAPHICS**

The city of Exeter, located in Devon, has a population of over 122,000 and lies at the heart of a wider economic region of over 457,000 people. There are more than 17,500 businesses in Exeter and its economic area, which has created over 195,000 jobs. There are proven advantages for recruitment and retention from among the local workforce.

**TRANSPORT LINKS**

By road Exeter is served by the M5 motorway, which links it with the Midlands and via the M4 to London. It is an hour's drive further east than the West Country's other principle location, Plymouth.

By rail, London is just over two hours away and Bristol, with its key hub airport, only an hour's journey. There are also fast, comfortable and regular services to the rest of the UK.

Exeter International Airport has a 2,100 metre runway. In 2008, the Airport handled around 1 million passengers, two thirds of which travelled on scheduled services to over 50 national and international destinations. Flybe, Europe's largest regional and the UK's number one domestic low-cost airline has its headquarters at the Airport. From here, Flybe runs its flight training and engineering school, soon moving to a new on site state-of-the-art facility, which opens in 2010.

**COMMUNICATIONS**

The intensive communication demands of local businesses, not least those of the Met Office and Reuters, are met by high capacity fibre optic cables that pass through Exeter. Both businesses measure their commercial success by their ability to deliver information within milliseconds.

# SHAPING THE FUTURE BUSINESS

is a critical player in
A project, from the
vestment stage
itegration
t of a series
ing post-
**Danny A**
sulting and
ok at how
ape the
business.

E before and after the completion of any deal allows the FD to support the CEO and other directors in their strategising and decision making. The better the quality of the information available to you as the FD the better placed you are to challenge people's thinking around which levers they should focus on. Better planning helps all the directors understand what they personally have to do to maximise return on investment.

The goal of this financial planning process is that everyone knows and understands why a deal makes sense commercially and how to make it a success.

If the FD can ensure this is clear and well understood then they will have played a key role in ensuring their business is well positioned for the future. They will also have increased the chances of success for any integration activity because a robust answer to this question acts as a blueprint for the integration team. A robust answer is one where the assumptions of the business case can be clearly stated in a way that means individuals understand what they must do to ensure success. If the main assumptions in an M&A business case can't be simply articulated then the integration activity usually lacks focus.

**Shaping plans for growth**

The commercial leadership will need help from the finance team to create solid projections for the future. They should be helped to quantify their instincts about what the combined business is capable of doing and then challenged about what

place. You want them to own and understand their forecasts but you also need to know that these have been well tested. Scenario planning is invaluable; help them to compile pessimistic, optimistic and realistic forecasts and wherever possible get them to articulate the rationale behind these numbers.

What are your commercial teams assuming in terms of business growth? After the integration will one plus one equal two on the sales ledger? Or better still, two and a half? Or, as is so often the case, will it be more like one and three-quarters? If it is the latter then are there situations where that would be an acceptable result?

Also, do the two businesses have overlapping or competing product lines? Does the merger bring new desirable brands or will you trade under one brand? If you are removing brands from the market will that reduce your overall marketing spend?

**Investment and R&D**

What investments are you making in new product lines or R&D? Are there projects that no longer make sense because the acquisition has effectively replaced a piece of R&D? Can these projects be closed down and funds released for use elsewhere?

**Divestment**

It is also worth questioning whether you are inheriting non performing product lines. If so, how are your colleagues planning to handle them? Do they have skills to restructure them into

profitable lines or do you need to close them down altogether?

These questions are a flavour of some of the challenges your team will need to put to the business as they develop their financial plans for the combined future. They are not intended to be an exhaustive list because each deal and each project will be different. However, they are drawn from checklists based on our experience to help people sanity-check their integration plans. If you have an established planning cycle that asks these questions regularly then this will be easy for you. If your business doesn't operate in this way or is not large enough to justify dedicated planning and analytical resources in the finance team then you will have more work to do to create the models you need.

**Shaping the cost base**

Post-merger integrations also present a chance to radically rethink parts of your operating model and cost base. Sometimes this will be driven by the necessity to remove duplication within the entities you are merging such as overlapping management structures or duplicate support structures. On other occasions the merger just represents a good time to streamline parts of the business that have needed it for some time. Again, the FD and the finance team can take the lead in helping individual directors understand and develop their cost plans for the future business.

After tackling areas of obvious duplication, people usually start to ask whether the acquisition gives them the ability to leverage economies of scale. These could come by absorbing work from one office or location into another, significantly reducing the overall size of the workforce or, perhaps through increased purchasing power with suppliers. Indeed, even if you have not substantially increased purchasing power, a full audit of supplier contracts and pricing agreements across both businesses may well yield differences in pricing that open up opportunities for renegotiation. When looking at duplication and economies of scale the creation of shared service centres for support functions such as HR, IT, legal and finance is often a popular way to increase overall productivity.

Many businesses also use integration as an opportunity to consider outsourcing non-core aspects of their operation. This is sometimes because outsourcing can dovetail with parts of a divestment strategy. Could you, for instance, package up parts of the operation for divestment into an existing outsourcer – eliminating the need for large scale redundancies and significantly reducing your overall cost base as a result?

Variations in compensation and benefits, pensions and pension liabilities are often areas that need to be closely scrutinised and can impact the overall balance of costs favourably or unfavourably. You may find some geographies are cheaper to operate in than others and this may influence your operations strategy. Or, perhaps you will uncover additional costs associated with harmonising pension schemes or compensation and benefit schemes to achieve equality across the workforce. If this is the case it is better to understand those risks early in the process before they can significantly impact your plans.

Process efficiency and use of technology is another area that should be investigated. Does one of the two operations bring with it more efficient processes or perhaps better technology for getting the same task done? If so, what can be saved by migrating the whole business onto that way of working?

The cost challenges are usually a little easier to evaluate than the growth ones. The data is often more concrete and the actions, while sometimes difficult due to the nature of the restructuring involved, can often be more straightforward to plan. The key once again to ensuring that this financial planning sets the integration on the right footing is that at the end of this process the levers for success are clear to all.

**30 days post-completion**

There are also some key actions that need to be undertaken in the early days of the integration. In this period the FD will need to get control on large areas of scheduled expenditure and also ensure that appropriate financial reporting exists to validate the key assumptions of the plan.

These include a full review of the current R&D activity; instigating reviews of all ongoing projects to understand where they are in their lifecycle and what expenditure they have scheduled; getting control on existing department spending plans and checking how these fall in line with future plans; understanding what is committed in terms of marketing or business development budgets and again, evaluating how this falls in line with the agreed brand and go-to-market strategies.

Some of this will have started during due diligence but access to information is never perfect at that stage and so once you have full access to the people and data you should act quickly to validate your understanding of existing commitments.

Once these review processes are in place the FD can exercise early control over expenditure and encourage directors to bring their functional spending in line with the agreed future plans.

**Plan ahead**

With good quality financial planning and analysis the FD is be able to offer a lead by challenging the rest of the management team about what sort of performance they expect from the future business and what size it needs to be to achieve this.

This financial planning process then needs to be backed up with the implementation of early reviews and controls to help validate the projections and assumptions in the business case.

By doing both of these the FD is able to help steer a course towards a profitable future where acquisition value has been maximised rather than destroyed. FDE

*To receive a free CFO checklist, email* ***danny.davis@ddavisconsulting.com***

**DANNY A DAVIS**

Danny A Davis is an M&A integration and separation specialist, delivering training, plan delivering across all functions and businesse from very small to mega deals.

**STEPHEN DAWES**

Stephen Dawes worked for GE Capital for 11 years and has been involved in post acquisition integration in three countries. Most recently he integrated Five Arrows Commercial Finance into GE Commercial Finance's UK operation.

# EVENTS

## SEPTEMBER 2009

**8-9**
12th Annual Asian Shared Service & Outsourcing Week 2009
Singapore
www.ssweekasia.com

**15-17**
Capital Creation 2009
Monte Carlo, Monaco
www.wbresearch.com

**17-18**
Controlling & Reporting Management Excellence
Barcelona, Spain
www.axiomgroupe.com

**17-18**
Financial Shared Service Centres
Barcelona, Spain
www.axiomgroupe.com

**23-25**
Investment Trends Summit
Texas, US
www.opalgroup.net

## OCTOBER 2009

**1**
The Asset Management Conference: Investing for the Long-Term in a Short-Term World
London, UK
www.conferences.theiet.org

**15-16**
Emerging Managers Summit South
Texas, US
www.opalgroup.net

**19-21**
European Alternative and Institutional Investing Summit
Monte Carlo, Monaco
www.opalgroup.net

## NOVEMBER 2009

**2-5**
Procurecon
Brussels, Belgium
www.wbresearch.com/ProcureconEurope/

**16-16**
Financial Reporting Outlook 2009
London, UK
www.financialreportingoutlook.com

## DECEMBER 2009

**6-8**
European Investing in Distressed Securitization Summit
California, US
www.opalgroup.net

**We will shortly be announcing the date and venue of the next *FDE* executive breakfast briefing. Check the website for details!**

# DIRECTORY


## a

**ASSOCIATION OF CONSULTING FIRMS (AEC)** 18
www.valueshore.org

## b

**BNP PARIBAS** IFC
www.cib.bnpparibas.com

## c

**CIMA** 4
www.cimaglobal.com/executive

## d

**DB ADVISORS DEUTSCHE ASSET MANAGEMENT INTERNATIONAL GMBH** 59
www.dbadvisors.com

**DELOITTE CONSULTING BV** 38
www.deloitte.com

**DEUTSCHE BANK** 29
www.db.com/fx4cash

**DEUTSCHE BANK GLOBAL TRANSACTION BANKING** 49
www.db.com/gtb

## e

**ETISAL INTERNATIONAL** 11
www.etisal-int.com

**EUROPEAN BANKING FORUM** 15
www.ebfforum.com

**EXETER CITY COUNCIL** 62
www.exeter.gov.uk

## g

**GENPACT** 30
www.genpact.com

## h

**HP** 34
www.hp.com/hpfinancialservices

**HSBC** 19
www.hsbcnet.com/solutions

## i

**INVEST IN BOGOTA** 11
www.investinbogota.org

## l

**LLOYDS TSB CORPORATE MARKETS** 50
www.lloydstsb.com/corporatemarkets

**LOGICA** OBC
www.logica.com

## m

**M&Y DATA SOLUTIONS** 11
www.mydatasolutions.com

## o

**OVUM** 35
www.ovum.com

## q

**QNH** 42
www.hyperionconsultants.com

## s

**SHARED SERVICES & OUTSOURCING NETWORK (SSON)** 7
www.ssonetwork.com/FDE

## t

**THE INTERNATIONAL OUTSOURCING FORUM** IBC
www.tioforum.com

## u

**UNICREDIT GROUP** 32
www.unicreditgroup.eu

MIOF
MAURITIAN INTERNATIONAL OUTSOURCING FORUM

2-3 October 2009, Hilton Mauritius Resort and Spa

# Outsource to MAURITIUS

15% flat tax rate

Around 265 companies operational, employing over 10,000 people

Political and economic stability

World Class physical and telecommunications infrastructure

Talented and bilingual population

**www.tioforum.com/mauritius**

Evaluate your outsourcing opportunities in Mauritius and network with the industry leaders. Benefit from a conference programme including independent speakers, presentations from the Mauritian Government, live case studies and some hands-on experience with a site visit to the local IT Park.

**Places are limited. Contact Vasena Kularatna today on +44 (0)20 7915 9620 or iofmarketing@spgmedia.com to find out how you can be a part of this innovative event.**

# We support multinationals to optimize their finance function

Logica delivers innovative and compliant finance solutions to: reduce operational costs; improve visibility and control; and, improve cash flow and asset utilization. That's why Spring Global Mail chose Logica to help them optimize their finance function.

Wouter Hijzen, CFO Spring Global Mail: **"Logica provides us with the opportunity to migrate continuity risks in our F&A process, with the benefit of increased quality. The contract also provides our transferred people in The Netherlands, United Kingdom, Germany, Spain, France and Italy, with access to a more professional F&A environment and enhanced career prospects".**

## Who is helping you?

Would you like to know more about our intelligent finance solutions?
Please contact: info@logica.com