

A report from The Economist Intelligence Unit

The well-connected treasurer: Building value through relationships







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Corporate treasury departments used to have little visibility within companies—and were not always well understood by their colleagues. What treasurers actually did, which included managing corporate liquidity and interfacing with capital markets, was important and required considerable skill. But despite the nature of the contribution they were making, treasurers themselves were rarely seen as true business partners. "Oh yeah, you're treasury," said one person who entered the profession more than a quarter century ago, recalling the hazy understanding he often encountered when meeting colleagues for the first time. "You're the guys who open and close bank accounts. You write the cheques."

While this sort of pigeon-holing hasn't disappeared entirely, it is decidedly less common today. Increases in M&A and in overseas business have meant a more central role for the people who understand the intricacies of intercompany and crossborder payments, borrowing from credit facilities, investing excess cash and working with credit-ratings agencies. Furthermore, technology and automation have created a sea change in the information treasurers have and in how they are able to spend their time.

Treasurers today are able to devote more attention to how their companies use both bank- and non-bank systems, reassess payment strategies and instil discipline in the use of cash.

These developments don't mean there's been a wholesale redefinition of the treasury function. But they have created an opportunity for savvy treasurers to play a more strategic role, especially for the growing number that recognise the importance of the new data that's available and the power of relationships.

In order to build greater understanding of the role treasurers are playing in the transformation of their businesses, The Economist Intelligence Unit (EIU), in partnership with EuroFinance, convened a workshop composed of treasury executives across industries to discuss the challenges they face, how they use data and technology to optimise cashflow and visibility of working capital, and what this range of changes means for the future roles of treasurers. To expand on the themes developed in the workshop, the EIU conducted several additional in-depth expert interviews.

We would like to take this opportunity to thank the following workshop participants (marked with an asterisk) and interviewees for their time and valuable contribution to our research:

Ping Chen, senior director of international treasury, Pfizer Inc*

Walter Cirillo, vice-president and treasurer, AeroGroup International*

Alison Garritt, assistant treasurer, Cytec Industries Inc*

Guillermo Gualino, vice-president and treasurer, Agilent Technologies

Joanne Hart, treasury director, Cigna*

Ravi Iyer, assistant treasurer, Mallinckrodt Pharmaceuticals **Debbi MacDonald**, director of global treasury operations, Sealed Air Corporation at the time of the workshop* (now at Brother International)

Lars Erik Neverdal, vice-president and assistant treasurer of global liquidity, Tyco International*

Bob Novaria, partner, Treasury Alliance Group* **Elaine Paik**, vice-president and corporate treasurer, Colgate-Palmolive*

Bill Thomas, assistant treasurer, Sealed Air Corporation at the time of the workshop* (now at Fullbeauty Brands)

Graeme Williamson, assistant treasurer, Boston Scientific Corporation ■

About this report

The well-connected treasurer: Building value through relationships is an Economist Intelligence Unit report, sponsored by American Express. It explores how treasurers are using relationships to increase spend visibility and obtain higher-quality data.

The EIU bears sole responsibility for the content of this report. The findings do not

necessarily reflect the views of the sponsor.

We would like to thank all interviewees and workshop attendees for their time and insight. The event was organised by Rupert Keenlyside; the report was written by Robert Hertzberg and edited by Rebecca Lipman. Mike Kenny was responsible for the layout.



The treasury's core responsibility and why relationships are key

The treasury department has one fundamental responsibility: making sure the company has the cash needed to run its business. As Alison Garritt, assistant treasurer, corporate and Americas, for Cytec Industries, puts it, "It's almost like the canary in the coal mine. If the cash isn't coming through, you know there's an issue."

Cash forecasting is a key part of how treasurers fulfil this responsibility. By staying on top of how different departments are faring with their receipts and disbursements, treasurers work to ensure that individual departments meet their working-capital targets. The trick is getting good and complete information in a timely way. Treasurers must also know when to step in and take control in areas where there might be liability issues.

For treasurers, a lot of the challenge revolves around compiling the data needed for cash forecasting. Providing such data may not be the job of any particular person in a business unit, it may be the job of a new person not fully up to speed, or it may be an afterthought for an overworked business manager. At companies with international operations, the complexity of overseas

businesses may hinder the effort. A lack of standards, differences in incentives and an incomplete understanding of how each department's actions affect the wider company can be additional hurdles.

Even when the problems are minimised and the information is reliable, it may not be in a place where treasurers can readily put their hands on it. For this reason, treasurers often jump at a chance to move to a consolidated system and centralise information. For example, Joanne Hart, treasury director at Cigna, a global health service company, spent the summer of 2015 talking with Cigna's business managers about a new treasury system that she was helping to roll out that would add visibility and control to cashflow and which every department was encouraged to adopt. "We were informing them about the cashflow forecasts that the system would provide and how much faster they were going to get data than they did before," Ms Hart says. "We were selling them on the advantages of the new global system."

Few treasury departments have managed to get all of their forecasting information into their treasury workstations or treasury management systems (TMS). Very often the forecasts and data are put into spreadsheets, at which point they must be consolidated and fact-checked.

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Alison Garritt, assistant treasurer, Cytec Industries Inc It's a spreadsheet, it shouldn't be that difficult. The hard part is building that channel of communication every week, every month, with the right group or person, so that you don't have to send multiple emails and phone calls to say, 'Please, this is what we need.'

Walter Cirillo, vice-president and treasurer, AeroGroup International difficult," says Walter Cirillo, who has worked in financial positions at Pfizer and PepsiCo and is now the treasurer of AeroGroup, a manufacturer of women's shoes. "The hard part is building that channel of communication every week, every month, with the right group or person, so that you don't have to send multiple emails and phone calls to say, 'Please, this is what we need.' That's the challenge for treasury."

"It doesn't matter how good you are or how smart you are. You cannot work in a silo," says Mr Cirillo. "The best way to get cooperation is to build relationships so that people can better work with you and enable you."

"To me, building relationships within a company is critically important," Mr Cirillo adds. "Rather than working in silos, I think it's important to understand the business, understand the pros and cons of the current environment, how the business is growing, understand the operations because this way I can be a true business partner to people in other departments."

Many treasurers can remember instances where, because they did not have all the information available, there was a risk of something happening that might have negatively affected the business. "Ultimately, decisions have been resolved differently because someone who you have a relationship with effectively gave you new information that helped avoid what could have been a bad situation," says Graeme

Williamson, assistant treasurer at Boston Scientific, a manufacturer of medical devices.

Mr Williamson explains how, in one situation, he reached out to another department by focusing on that department's interests, rather than the treasury's. "My primary objective is cash visibility. However, I believed the company could also benefit from more efficient payment processing." He found the person in the company who dealt most directly with payments and proposed a collaboration. According to Mr Williamson, this benefitted both parties. "Before you know it you've now developed a relationship with someone who's in a role that's a very key element of what you're trying to accomplish."

Such collaboration can lead to improved ways of sharing data. "You've got so much in receivables coming in and payables that have got to go out and you need to manage that flow. And that information flow is coming from different departments, from different organisations, being impacted by different teams," explains Mr Williamson. Inconsistencies in data and payment standards start to emerge, and treasurers start to ask questions: Why are we paying people so quickly? Who is setting the payment policy? How does it get set? Are the facts and figures correct? How can we influence the payment terms? "Now you have to deal with the supply-chain organisation, asking why are we paying these guys in 30 days and others in 60? You can find yourself on a very worthwhile exercise of setting a firm-wide standard," he adds.



Influencing the whole organisation

authority to get an analyst from another department to help me with a project, but I prefer not to. I'd rather get the person to volunteer. The only way to do that is by clearly articulating the benefit his department is going to get if he buys in.

Guillermo Gualino, vice-president and treasurer, Agilent Technologies Boston Scientific's experience further highlights how better information flow can influence standards, and how relationship skills can be especially critical in getting cooperation from departments that don't report directly to treasury. Boston Scientific's accounts payable (AP) department—like many AP departments—was primarily concerned with paying invoices on their due dates, minimising errors and maximising efficiency. There was also a liquidity objective: the department was supposed to help the company hit certain working capital targets at the end of each month. However, with invoices continually getting processed, that turned out to be a hard goal to meet.

Boston Scientific's treasury department thought there might be a simpler approach for AP that could also help treasury meet its own core responsibility. "We said, 'Okay, what if we change things and give you a spend target, the amount you should pay out on a monthly basis?'" recalls Mr Williamson. The change required some discussion to determine a realistic total disbursements number but the back and forth made the end result more successful. "It was our idea," he adds, "but since we were trying to integrate it with folks outside of our organisation, we wanted to make them co-owners of it. When you do that, you're going to have a much better result."

Indeed, treasurers regard AP as a particularly crucial department with which to build relationships. Historically, the payables department has been separate from treasury. Most treasury executives recognise that the siloed nature of a function that affects liquidity so directly is suboptimal and try to increase their influence over it. "You have to be engaged with the AP group," Mr Cirillo says. "If you're not, it will impact liquidity and cash forecasts." Guillermo Gualino, vice-president and treasurer of Agilent, a provider of healthcare systems and services, says taking a collaborative approach is best: "I could use my authority to get an analyst from another department to help me with a project, but I prefer not to. I'd rather get the person to volunteer. The only way to do that is by clearly articulating the benefit his department is going to get if he buys in."

In addition to AP, treasurers need to interact with other departments that have a heavy cash component including accounts receivable, procurement and inventory management. Having conversations with these groups on an ongoing basis—and forging peer relationships even when there is nothing especially pressing to discuss—can help when potential problems arise.

For instance, suppose a division manager unilaterally approves a big customer's request to make a payment in 60 days instead of 30.

If you're extending your payment terms, then that means that somebody else is getting longer receivable terms. Or if you're getting shorter receivable terms, somebody else is getting unfavourable shorter payable terms. That's the kind of thing that comes up, where you have to do some educating.

William Thomas, former assistant treasurer, Sealed Air Corporation. Or that a quarterly forecast by a sales team proves too optimistic, leading to a build-up in inventory on the manufacturing side and a decrease in the company's working capital. "It's really a zero-sum game," says William Thomas, who has worked in treasury roles at AT&T and the packaging and container company Sealed Air and is now the treasurer of Fullbeauty Brands, a maker of plus-size apparel. "If you're extending your payment terms, then that means that somebody else is getting longer receivable terms. Or if you're getting shorter receivable terms, somebody else is getting unfavorable shorter payable terms. That's the kind of thing that comes up, where you have to do some educating." Other issues that often require intervention and education include the best use of

foreign-exchange hedges, questions about cash versus accounting budgets, and the importance of being disciplined about payment terms.

Some companies have gone further, putting parts of their payables departments under the management of their treasuries. Cytec's treasury department, for instance, had long worked closely with AP, approving AP's payment runs on a weekly and sometimes daily basis in order to maintain control over the company's cashflows. When the company was doing some other reorganising in 2015, it was a short step to have the AP payables team become part of treasury. The change has worked well, says Cytec's assistant treasurer, Ms Garritt.



Technology frees up time for highervalue activities and fosters better relationships

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Lars Neverdal, Tyco's vice-president and assistant treasurer of global liquidity. "Treasury's responsibility hasn't really changed," reiterates Lars Neverdal, Tyco's vice-president and assistant treasurer of global liquidity. "If you look at the core thing, it's funding. It's cash management. It is risk management. But now, we have additional tools. Technology development makes us more efficient and allows us to become an even stronger partner. We have information now instead of us chasing the information, which frees up resources to do more relative to the business than balancing a chequebook."

Along with giving the treasury function more visibility, the new and incoming generation of corporate treasurers is more receptive to implementing technology enhancements. These include technologies that introduce efficiencies into how payments are made and provide additional cash visibility.

Current systems alone do not always do this effectively. "For example, if ERP [enterprise resource planning] systems are not highly developed or current, you do end up where there is this lack of or delay in getting the right type of information at the right time, which can be harmful to cash forecasting," says Ravi lyer, assistant treasurer of Mallinckrodt Pharmaceuticals.

Adding new systems to existing ones can make a huge difference. For example, one

technology-related change many companies are starting to make is joining the Society for Worldwide Interbank Financial Telecommunication (SWIFT), a formerly bank-only payments network that became available to corporations in recent decades. SWIFT is eliminating tedious manual processes familiar to treasurers. The benefits of such automation can be especially powerful at companies that have a lot of complexity in their payment and reconciliation systems.

Consider Tyco, a fire and protection security company, where a tangle of almost 100 different accounting systems has made data-gathering and cash forecasting a bit of a nightmare. Partly to get a handle on this, the company in recent years has developed an in-house bank and is working on a payment factory, which will allow it to centralise payment execution and through that gather data. "Between SWIFT and our very good treasury system, we now have cash visibility," says Mr Neverdal, the company's liquidity VP. "We see things before the businesses see them and can say, 'Hey, your cashflow has changed; what's happening here?' That's a good position for treasury to be in, and allows us to be seen as a valued partner to the business."

Indeed, having updates on intercompany positions for virtually every company in Tyco's portfolio each morning has reduced the

amount of time different departments such as treasury or tax spends chasing down information. The data enables Mr Neverdal to focus on the overall business, see which divisions could benefit from more strategic advice from the treasury and with which business managers he should be spending his time.

New technologies developed by banks and alternative vendors also encourage treasurers in their growing role as data and technology stewards, especially when it comes to getting away from paper cheques and moving towards different payment types. Virtual payment cards, which have been around for a while, are among the non-paper mechanisms starting to gain traction. With a V-card, the payer generates a unique, random number that gets communicated electronically and can be used to draw down funds. V-cards are highly secure and are considerably less cumbersome than manual payment systems, says Mallinckrodt's Mr lyer.

"That is something that works very effectively." He says that Mallinckrodt often uses V-cards to make vendor payments. The company uses traditional payment cards, or P-cards, for small purchases, and uses a mix of other payment methods to meet customer needs.

Still, Mr Iyer says, "We're trying to move more and more people to accepting electronic payments." In an electronicpayables (or e-payables) system, a supplier can opt to get paid more quickly—the catch being that a lot of times the supplier must accept a discount on its invoices. Many treasury departments ask their banks to run their e-payment offerings, but some companies with the requisite financial resources and technology capabilities are developing their own e-payment portals. Sometimes banks or payment providers themselves will offer to do e-payables, whereby they'll actually go out to vendors and explain that, for a fee, they can receive earlier payment.

3

Bank relationships face new pressures

For all their technological experimentation, most big-company treasurers still see banks as their most important outside partners. Banks can still be a major source of short-term loans, and an important partner in foreign-exchange hedging. Banks, in their turn, used to line up to be part of companies' revolving-credit facilities, despite the minimal profits they got from being in this lending group. To be in the revolver, to be a "relationship bank", was to have an inside track on more profitable types of corporate-banking activity, including debt issuance, cash management and foreign-exchange hedging.

However, in the era of Basel III, with stricter regulations driving up lending costs, banks have gotten much pickier about which revolvers they join. And if they don't get the add-on business they are expecting, they might leave the revolver once their initial three- or five-year commitment period is over.

Such shifts, and the possibility of them, have frayed the once-indissoluble bonds between corporations and banks. At big companies nowadays, you'd have a hard time finding treasurers who rely on one banking relationship or have complete confidence in all of their banking partners. Though they may not talk much about it publicly, many treasurers have a plan B.

Agilent's treasurer, Mr Gualino, knows how important bank and bank-like capabilities are

and uses his relationship capital extensively to maintain these contacts. His goal is always to have multiple options in terms of banks he can rely on—whether he needs assistance for a cash-management programme that has had some glitches or he needs to replace an underperforming bank with one that's more capable, as Mr Gualino was forced to do recently in Latin America.

As a corporate-banking customer, Mr Gualino faces a dilemma familiar to many treasurers trying to get a bank's attention—that of being a small fry. Size is relative, of course; with 12,000 employees and \$4bn in revenue, Agilent is no mom-and-pop shop. But the Hewlett-Packard spin-off is located in the heart of Silicon Valley, a few minutes' drive from some of the biggest, most profitable and most famous companies in the world. "The question is, how can I compete with that?" Mr Gualino asks rhetorically. "Only if the bank knows that by doing business with me, they're going to gain more than just the FX programme."

Over his years working in treasury departments—at Agilent and at Flextronics, another company that doesn't have the celebrity of many Valley companies—Mr Gualino has succeeded at increasing his influence with bankers through what might be called super-reciprocity. On behalf of a bank that helped him set up a receivables-

This is what builds the relationship. I'm going to help you. And then you know what I expect in return: reciprocity.

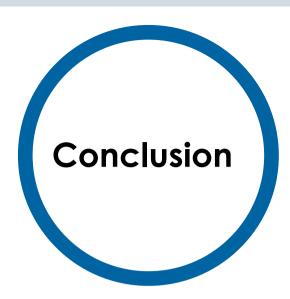
Guillermo Gualino, vice-president and treasurer, Agilent Technologies factoring programme, for example, he once flew from California to London to give a two-hour presentation to 50 of the banks' prospects. More recently, Mr Gualino says he spent upwards of ten hours answering questions that a high-profile internet company had about one of Mr Gualino's relationship banks. (That internet company later became a new customer of the bank.) It was an exceptional effort, but his high-energy advocacy allows him to ask much of the bankers that he helps.

"This is what builds the relationship," he says. "I'm going to help you. And then you know what I expect in return: reciprocity."

When it comes to their banking partners, treasurers want to have a primary point of contact that can get them answers no matter what problem arises. If the point of contact within a bank is not strong, it can create

problems. Some treasurers say banks assume they are never going to lose the business of a corporate customer and that this attitude sometimes manifests itself in less-than-stellar service.

In fact, in many cases, new payment and financing options are coming from institutions other than banks. Both traditional financial-service companies outside of banking, and start-ups in the fast-developing field of "FinTech", have introduced significant innovations in the last few years. And given the pace of technology change and the benefits treasurers are starting to see from it, it seems inevitable that more non-banks will appear regularly on treasurers' radars in the future. As that happens, there will be more and more disruption on the provider side, and more options that will work to the advantage of treasurers.



What it all means for the future

Because of technological and business changes that have raised their profile and removed some of the lower-level responsibilities they once had, treasurers have a chance to be much more strategic today than in the past. Here are some ways they can get there.

- Tap into other people's expertise. Treasury is responsible for ensuring liquidity, but it can't do the job by itself. It is hard to imagine a time when it won't be important to get information from non-treasury colleagues who either have a handle on important data or can explain a process that the treasurer needs to understand. Peer relationships are also important in keeping treasurers up to speed on developments relating to the profession.
- Teach business-side peers about cash management. The world is full of extremely talented businesspeople who don't fully understand the time value of money and who would flub a quiz about their company's cost of capital. At big, profitable companies in particular, there is often an assumption that cash and the

ability to fund activities will always be there. Treasurers have a duty to educate non-treasury managers about decisions that could affect liquidity and the impact of doing so. By giving others a better understanding of cash's role, treasurers help themselves.

- Become more visible. Because the treasury function is responsible for cash, it can gain the respect of the board of directors and has something to offer to most departments. Treasury professionals should get to know the leaders of any business units whose activities affect core treasury outcomes and look to be part of their discussions.
- Build relationships in ways that truly bind. People sometimes think that strong professional relationships are born of personal connections and nurtured through lunches, dinners and time on the golf course. While those things help, what really matters is helping one's connections achieve tangible business goals. Such tangible help creates meaningful IOUs.
- Take advantage of technology and data.

 As part of a more aggressive use of technology, treasurers shouldn't hesitate to ask technology vendors to come in and explain what they have to offer even if the treasurers have no immediate intention to buy. New software and systems, including those for electronic payments, can save companies money and provide faster access to more reliable data. They can also help with relationship building by allowing treasurers to spot liquidity issues early and have substantive conversations in time to take corrective action. ■

Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in the report.

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