

## Investing in Technology: Are Corporate Treasuries Generating Positive Returns?

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*A recent survey suggests that treasury either buys too much technology or does not buy at all, how can they make sure they make the right decisions when it comes to investment?*

Economically, acquiring financial technology is no different than the acquisition of any other type of investment in plant, equipment, research and development, etc, which is designed to boost productivity, efficiency and allow a company to increase its competitive profile. Each type of investment requires cash out upfront that is suppose to generate net benefits which usually occur sometime in the future. Even technology provided via an application service provider (ASP) is an investment, only one that is financed with a lease (i.e. multi-year commitment) rather than a purchase. Besides, there is still an upfront investment required to set it up, modify/customise it and train the users.

Regardless of the method of financing, any investment when properly utilised should be associated with a positive present value over a predefined time period. For corporate treasuries charged with the responsibility of managing a company's global liquidity and protecting it from risk, the concept of 'right sizing' an investment in technology and the generation of a positive return should be as important as the same decision would be for an operating area when it needs a new plant in some far away corner of the world.

- Buy too much - An overly ambitious plan (i.e. acquiring multi featured systems to address tomorrow's issues) may jeopardise attaining a positive return while increasing the risk of completion. A large complex effort can also divert treasury's historically small staff from managing today's 'crisis du jour'.
- Buy too little - Acquiring a less complex system with fewer features may cost less, but it also can leave corporate treasury unprepared for the future or leave it with a cloudy view of today's cash flows and exposure to market risks.
- Stay with today's systems - requires no incremental expenditure of funds but perpetuates a system which was designed to address historic business conditions or designed with no consideration for real time market risks, global cash visibility or integration with a business's future need for/use of liquidity.

### Priority of Issues: What is Important?

In today's business environment a company no longer has to be big to be global or expose itself to multiple liquidity and risk issues. According to a recent survey, even small companies (i.e. those with sales under US\$250m) operated in multiple countries.

Table 1: Percentage with operating presence in other countries

	Small (Sales < US\$250m)	Medium (Sales US\$250m - US\$1bn)	Large (Sales > US\$1bn)
US only	75	56	41
Other countries	25	44	59

Just like their bigger cousins, they have revenues or expenses in non functional currencies with even the small companies billing their sales in non-US dollar. For example, 15% of small companies bill 1-20% of their sales in non-US dollar according to Table 2.

Table 2: Percentage of sales billed in non US\$ currencies

	Small (Sales < US\$250m)	Medium (Sales US\$250m - US\$1bn)	Large (Sales > US\$1bn)
US\$ only	73	38	22
1 - 20%	15	26	33
20 - 40%	4	20	14
> 40%	8	16	30

A global company with sales or expenses in multiple currencies depends on its banks to assist them manage their liquidity. As expected, the larger companies utilise more banks than the smaller companies, but all use fairly sizable banking networks.

Table 3: Percentage of companies using US and international banks

	Small	Medium	Large

	(Sales < US\$250m)	(Sales US\$250m - US\$1bn)	(Sales > US\$1bn)
US banks			
1 to 10 banks	96	90	68
10 to 20 banks	3	7	11
> 20 banks	1	3	21
International Banks			
1 to 10 banks	92	85	53
10 to 20 banks	2	6	25
> 20 banks	6	9	22

In addition to managing a company's liquidity in its functional currency companies have learned to protect themselves from market risks in non-functional currencies by becoming more sophisticated in their use of derivatives to dampen volatility caused by operating in their chosen global markets.

Table 4: Percentage of companies using some type of hedging (e.g. forwards, swaps, options, etc.)

	Small (Sales < US\$250m)	Medium (Sales US\$250m - US\$1bn)	Large (Sales > US\$1bn)
No hedging	79	33	21
Some type of hedging	21	67	79

Since liquidity and risk are common needs, companies of all sizes are focusing on many of the same priorities regardless of the values at risk. In the case of the surveyed companies:

- Cash forecasting had the highest priority among all three sizes of companies as companies look to balance future sources with uses of liquidity.
- Almost all companies find the tasks below to be of increasing importance as companies grow. (i.e. cash forecasting becomes more important as the size of a company's sales increase).

Table 5: Ranking of top priorities (sorted by large company priorities) where 1 = highest priority and 5 = lowest priority

	Small (Sales < US\$250m)	Medium (Sales US\$250m - US\$1bn)	Large (Sales > US\$1bn)
Improve cash forecasting capability to reduce the risk of being in an over borrowed or under invested position	2.41	2.25	2.00
Act as internal consultants to advise corporate management and / or business units on such issues as cash management, FX, bank relationships, risk management, etc.	3.29	2.71	2.19
Increase treasury's visibility within the company.	3.17	2.71	2.24
Reduce and/or more efficiently manage the company's working capital position to reduce its need for external capital.	2.63	2.48	2.38
Seek out a role in the company's strategic planning/decision processes.	2.64	2.8	2.41

Note: Shaded area are the top three priorities for each sales size.

### Do Corporates Invest Wisely in Treasury Technology?

The cost of treasury technology is relatively small compared to the purchasing power of large multinational companies; therefore, most companies can afford to buy the biggest systems, supporting observations that most treasury technology investments fall into the 'buy too much' scenario where every possible feature is acquired in an effort to give treasury a global solution to its global needs.

Subverting treasury's strategy are the results from a survey question which highlighted the number of ERP or 'homegrown' systems still in use. When the large companies (i.e. those most able to afford the most technology) were asked what type of financial systems they used the surveyed companies responded by saying 63% used multiple ERP systems and 50% used 'homegrown' systems to manage their financials.

Perhaps as a result of the number of systems still in use 50 - 60% of the companies that actually had purchased third party, non-ERP system technology (i.e. treasury workstations) continue to be mostly or highly dependant on their pre-existing spreadsheets/ emails/ bank web sites for cash positioning, creating funds transfers, debt management and cash forecasts. This dependency may be associated with the sheer complexity of the interfaces and the structure of the data which can jeopardise the full and successful implementation of a single treasury platform no matter how expensive or full featured.

Another factor which could limit treasury's ability to employ the latest technology effectively is their historically small staffs; even among the large companies the average size treasury staff size according to the survey was five to seven people. Devoting even one or two individuals full time to a system implementation reduces treasury's current 'firepower' by 20 - 30%, a serious reduction in resources and one that is often unsustainable if the current workload is to be maintained. The result of this is that not all technology features get implemented due to lack of resources.

Finally, it is useful to look at the tasks within treasury that are considered least important when planning to wisely employ technology. Among the 25 treasury tasks each respondent was asked to rank those at the low end of the scale (i.e. least important) were:

- Reduce the number of banking relationships.
- Formal treasury training.
- Traveling to operating areas.
- Developing risk adjusted measures of performance.

Arguably, these low priority tasks should become higher priorities during a systems implementation if a company wishes to fully utilise the most powerful systems available such as risk management, banking relationship and forecasting features. For example, while a treasury workstation doesn't care how many banks a company uses, implementing interfaces with a larger number of banks increases the cost, complexity and risk of project failure leading to project scope 'shrink' or under-utilisation of a system.

## Conclusion

The successful implementation of all features acquired by a typical treasury in its quest to manage a company's global liquidity on a risk adjusted basis is jeopardised by several factors:

- Continued use of multiple financial systems making integration difficult.
- Small treasury staffs making it difficult for treasury to divert knowledgeable people to an implementation effort.
- Complexity of treasury operations (e.g. banking relationships, organisational structure) in a large company, those most likely to buy the biggest, most expensive systems.
- Low priorities given to certain existing business conditions (e.g. number of banking relationships, knowledge of operations which generate the largest share of a company's cash flow) which add to the complexity of successful implementation.

To overcome these issues treasury may wish to consider:

1. Clearing out the 'underbrush' - the continued use of homegrown or multiple ERP systems can jeopardise the successful implementation of any system effort. Reducing the number of systems or banks in use, planning for corporate wide changes in policies and procedures post implementation and gaining the cooperation of potential non treasury users can set the stage for a full and successful implementation.
2. A phased approach to acquiring and implementing treasury technology where the phases are driven by function and organisational structure. For example, rather than follow the 'big bang' theory of acquiring and implementing all system features at once, everywhere treasury should acquire and implement only selected features at selected locations. This 'buy then try' approach can also reduce upfront costs if it is determined during the early days of the project that the initial system selection process was flawed.
3. Devote the right amount of treasury resources to the effort. System vendors are only responsible for insuring that their system works according to the specifications they were given. If (or when) it is determined that the original specifications were wrong or missing only treasury and the project team can 'fix it'. Inevitably, the fix it period always conflicts with treasury's other responsibilities. Never the less, treasury must be prepared to fully staff this project over its duration if it is to earn the positive returns promised to management.