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SPECIAL ISSUE TREASURY, PART 1



IAFEI Quarterly

Special Issue Treasury

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Dear Financial Executive,

You receive the **IAFEI Quarterly, Special Issue, Treasury.**

This is another issue of the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes. This journal, other than the IAFEI Website, is the internal ongoing information tool of our association, destined to reach the desk of each financial executive, or reach him, her otherwise, at the discretion of the national IAFEI member institutes.

The corporate treasury function has been, and is being, directly and immediately impacted by the ongoing worldwide financial crisis with its many diverse facets.

This present **Special Issue Treasury** provides you with a number of case studies of successful specific core activities of corporate treasury operations. The case studies are from famous corporations from several countries. Some of these corporations are represented through membership in IAFEI member institutes.

All case studies are self explanatory and reflect the high state of professional art in corporate treasury functions in the business world.

All case studies have been presented at the ACT Annual Conference, May 10 – 11, 2011, in Liverpool, United Kingdom, organised by **ACT, the Association of Corporate Treasurers, United Kingdom.** To this association, several IAFEI member institutes maintain good relationships, and through these IAFEI has got access to these case studies.

IAFEI is thankful for having received permission from the Association of Corporate Treasurers as well as from all individual corporate presenters of case studies, to include these case studies in the original form in this

Special Issue Treasury.

Once again, I repeat our ongoing invitation to IAFEI member institutes, and to their members, to send us articles for inclusion in future IAFEI Quarterlies, and to also send to us your suggestions for improvements.

This **IAFEI Quarterly**, like its predecessors, offers a variety of subjects. Enjoy reading them.

With best personal regards



Helmut Schnabel

ACT Annual Conference 2011

Building a centralised treasury function



Gerrit Willem Gramser

1. About AkzoNobel

Our company in brief

- The world's largest paint and coatings company and a world leading chemicals producer
- Committed to delivering Tomorrow's Answers Today
- Global Fortune 500 company
- For five consecutive years listed as one of the leaders of the Dow Jones Sustainability Indexes (Chemical sector)

Values

- Focusing on our customers' future first
- Embracing entrepreneurial thinking
- Developing the talents of our people
- The courage and curiosity to question
- Integrity and responsibility in our actions

www.akzonobel.com



1. About AkzoNobel

Key facts

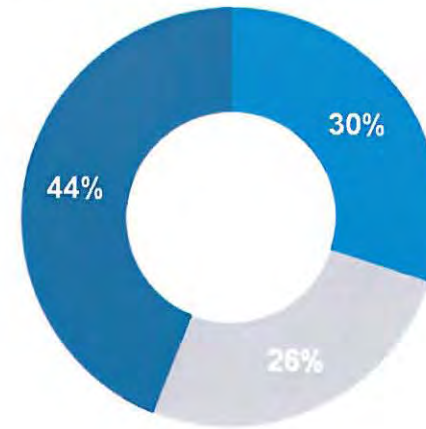
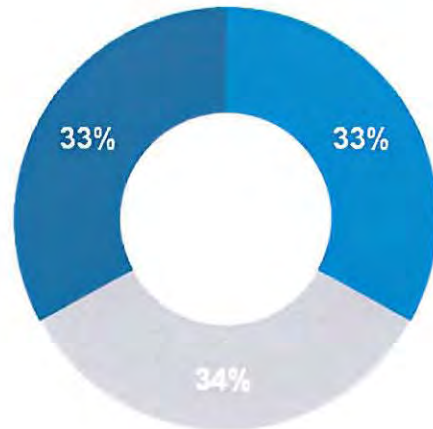
2010

- Revenue €14.6 billion
- Around 40 percent of revenue in high-growth markets
- Over 55,000 employees
- EBITDA: €2.0 billion*
- Net income: €0.8 billion
- A leader in sustainability



Revenue by business area

EBITDA* by business area



- Performance Coatings
- Decorative Paints
- Specialty Chemicals

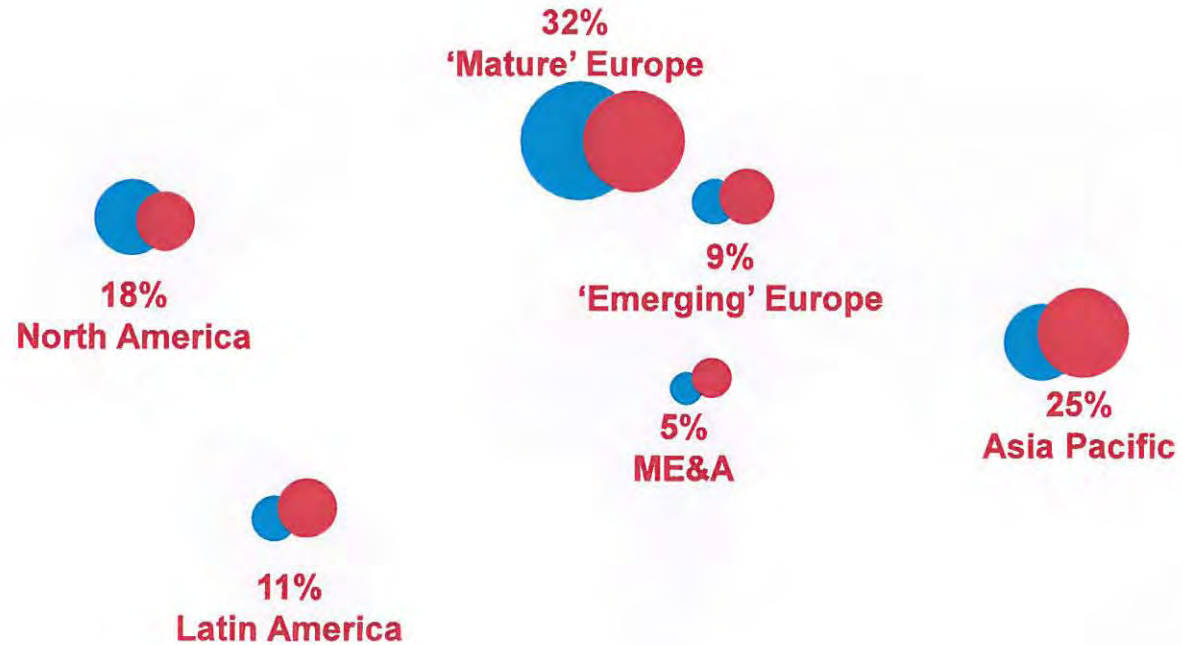
* Before incidentals



1. About AkzoNobel

High-growth markets will become more important

% of revenue, indicative



High-growth markets will be around 50% of revenue in this decade

1. About AkzoNobel

Our medium term strategic goals



Value Accelerated growth

- Grow to €20 billion revenues
- Increase EBITDA each year, maintaining 13-15% margin
- Reduce OWC/revenues by 0.5 p.a. towards a 12% level
- Pay a stable to rising dividend

- Top quartile safety performance
- Top position in sustainability
- Top quartile performance in diversity, employee engagement, and talent development
- Top quartile eco-efficiency improvement rate



Values Sustainable growth



1. About AkzoNobel

Trusted portfolio of global brands



2. Where do we come from

The history of AkzoNobel since 1646

AkzoNobel, as we know it now, stems from centuries of business development and innovation in 4 main legacies:

- Akzo
- Nobel
- Courtaulds
- ICI

All the narratives come together in 2008 and mark the start of a new era. After many (drastic) portfolio changes, CEO Hans Wijers has created a focused coatings and chemicals company.

To symbolize its transformation, Akzo Nobel rebrands itself in 2008, acquiring a new logo and changing its name to AkzoNobel.

Our new brand promise Tomorrow's Answers Today™ embodies the fact that we have clear ambitions for the future. Including Treasury.



3. Treasury Transformation Project

Treasury transformation...

Treasury Transformation launched in 2008.

The program was set-out as follows:

Ambition – Ambition to create a world-class treasury function that is in the top quartile compared to peers by the end of 2010.

Objectives

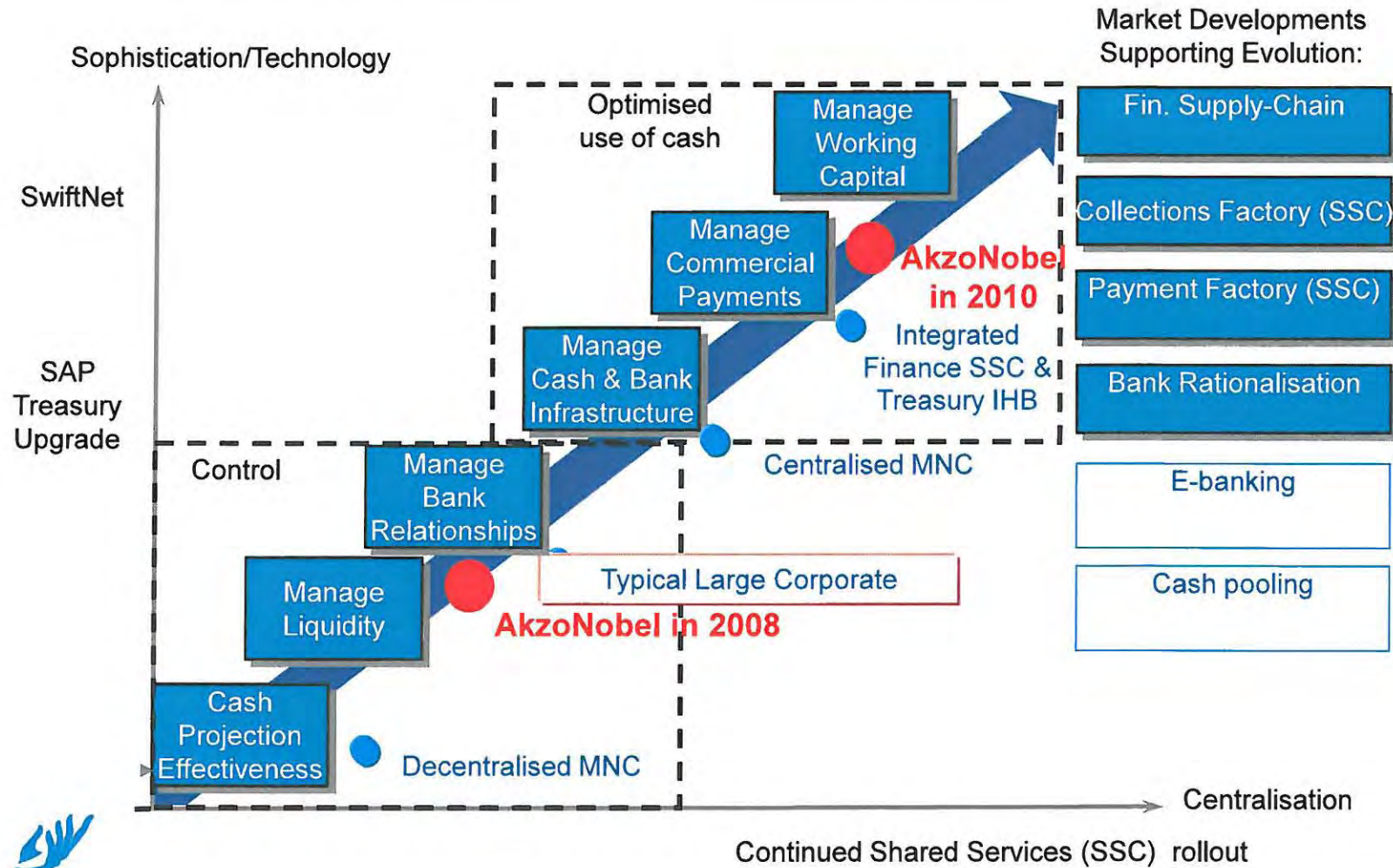
- People – develop people capabilities and skills
- Policy Framework – new policy framework
- Process – become best practice
- Technology – new system across the function (SAP)
- Banking Infrastructure – new bank & cash management infrastructure (TBI)
- Bank relationships – rationalise global banking relationships

Timeframe – Strategy: Q4 2008 ; Implemented: Q4 2010



3. Treasury Transformation Project

... should lead to a major shift in just 3 years time...



3. Treasury Transformation Project ... while managing the crisis

At the time the Treasury Transformation program prepared the organization for massive change, the ongoing targets were:

- ICI integration + National Starch carve out
- Refinancing AkzoNobel debt (incl. ICI debt)
- Share buy-back
- Smooth running of treasury operations

... but the **crisis** changed the rules of the game.

- Cut-down on expenses, e.g. travel, training, consultants, IT investment
- Project MIRO was launched; an extra headcount reduction for the corporate center. Target for treasury was an extra 6 FTE.
- Tight financials markets
- ... but also a focus on cash plus the understanding that all the cash in the company is 'for the CFO', which supported the treasury ambitions.

Despite all challenges, the Treasury Transformation took shape following the 6 original objectives, which became pillars in their own right.



4. People

Challenges

- Manage the integration of ICI treasury in London with AkzoNobel treasury in Arnhem
- Reduce headcount to bring in ICI integration synergies and lower costs for managing the crisis (project MIRO)
- Try to secure the best-of-both-worlds in terms of capabilities and processes, while making a big step forward
- Create a new fit-for-purpose organization and culture out of 2 very different treasury legacies;
 - ICI: 94% graduates, high salaries, small central team,
 - Akzo: 25% graduates, low salaries, regional hubs



4. People

Our solution

- Business case for new central location: London, Amsterdam or Arnhem
- Meticulous HR process for ICI integration and MIRO.
- New organisation design and job descriptions. Employees invited to apply. Via interview and evaluation process, best person for job selected. If needed, external candidates are recruited.
- People that are made redundant receive extensive support to find different jobs and/or financial compensation.
- Communication throughout the processes to all involved

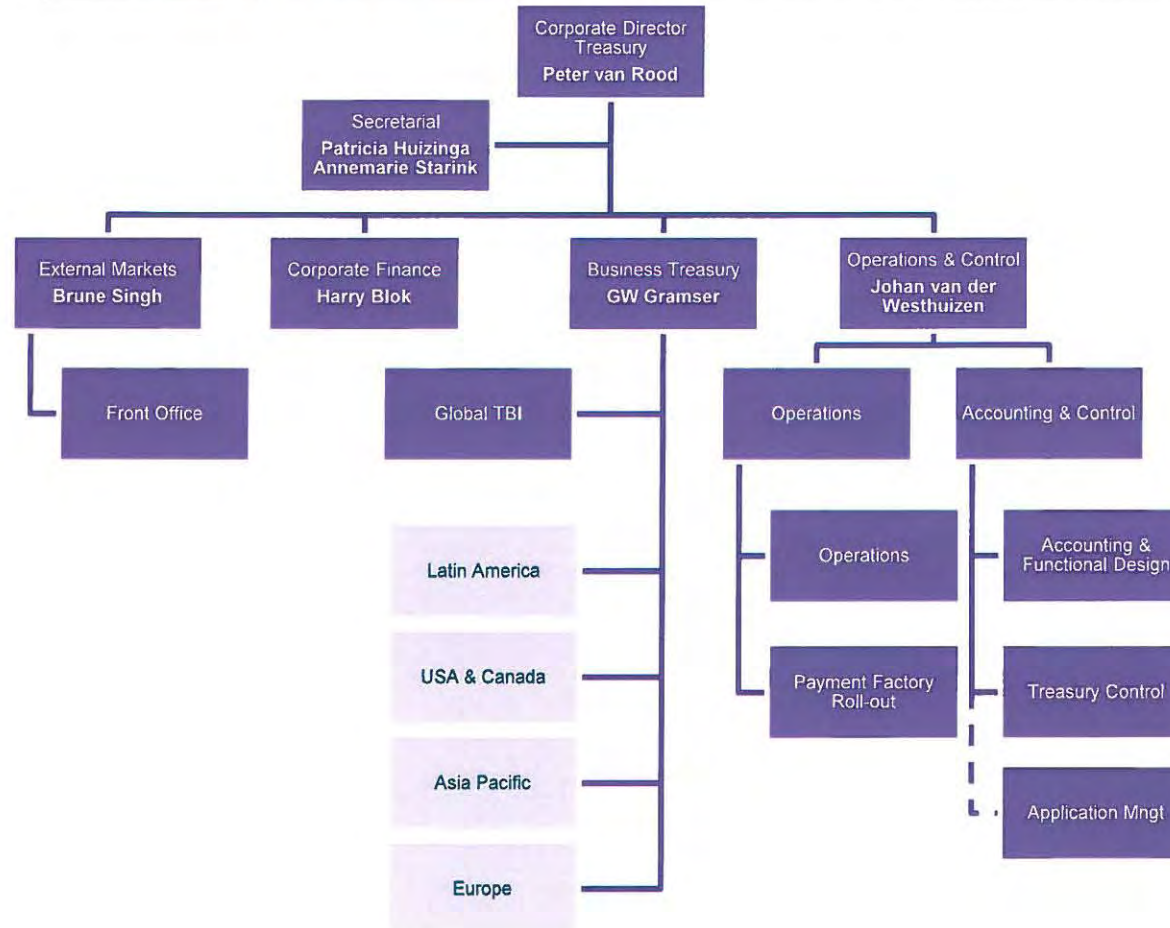
Results and benefits

- ✓ Arnhem selected as central location and ICI activities integrated
- ✓ Smooth headcount reduction from 52.5 to 32 FTE
- ✓ Management team is mix of talent from ICI, AkzoNobel and outside
- ✓ 40% of current staff from outside. New mix of people brought new capabilities and skills and created a new culture of energy and trust.



4. People

Treasury organization



Challenges

How best to support the business needs with:

- Multiple ERP systems in use in the business: 50% SAP-based-various versions, 20% Mfg Pro, 30% others
- Multiple treasury systems in place: Wall Street Suite (February '06) to be upgraded, Misys, SAP, Coprocess Netting
- Many, many Electronics Banking Systems in place
- In-House Bank system is outdated – mainframe based (Cobal), support is expiring and only 1 person knows the details
- Manual checks, corrections, reconciliation



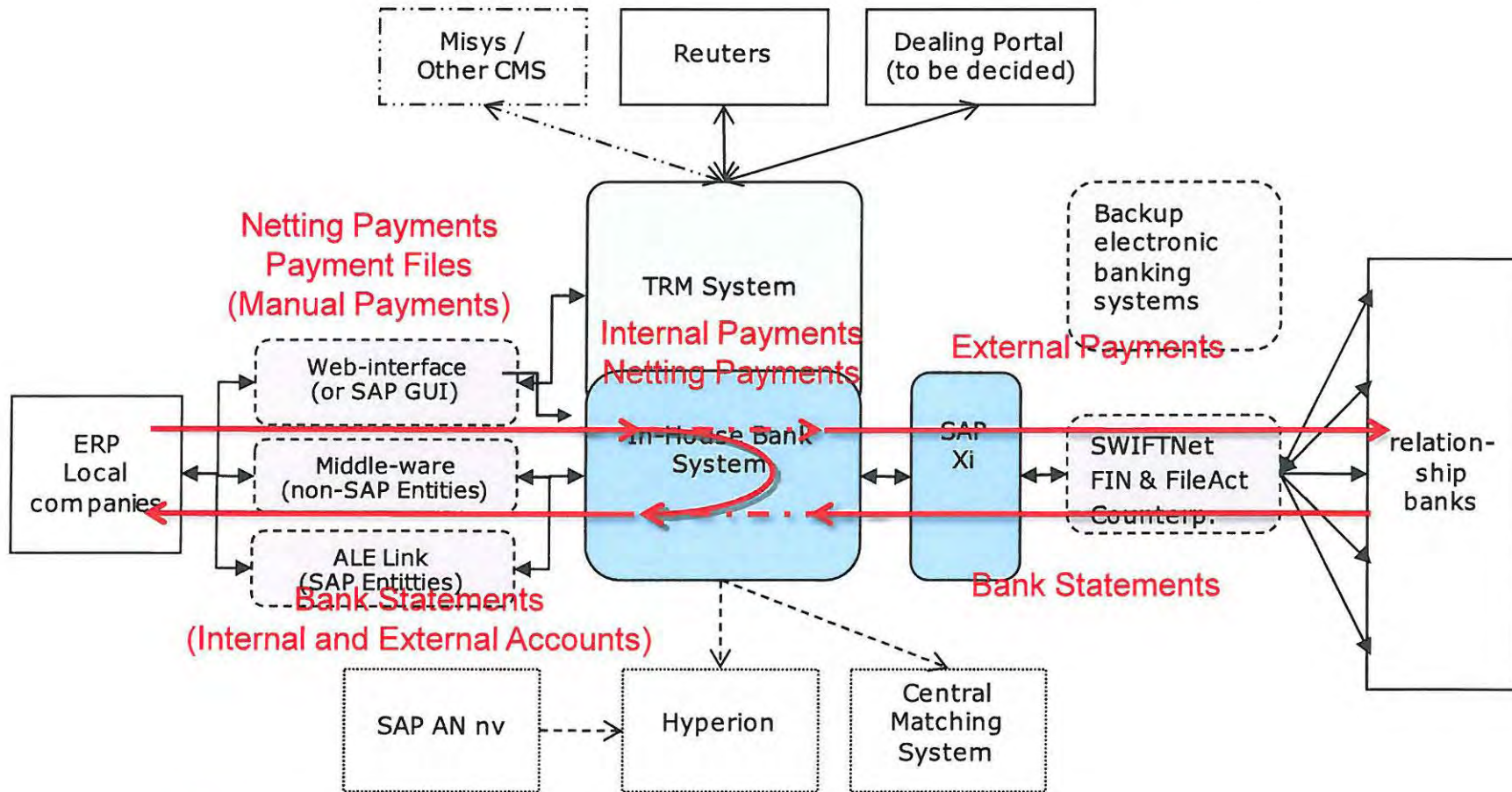
Our solution

- Wall-to-wall, cutting edge SAP technology for all treasury processes, including In-House Bank (IHB) and Payment Factory. Primarily standard SAP to be ready for seamless integration with business SAP systems and to speed up implementation time by limiting bespoke development.
- Technology chosen:
 - SAP treasury and risk management with SAP FI, SAP cash and liquidity management, SAP in-house cash and SAP bank communication management – joint development with SAP
 - Interfacing with banks via SWIFTnet and XML
- Implementation partner chosen is Zanders & partners.
- Payment factory is set-up to centralise processing of all payment files and bank statement uploads for treasury and businesses. Including:
 - ✓ Validation , bulking and de-bulking of payment files into the most efficient size and payment dates
 - ✓ Routing of payments in the most efficient way
 - ✓ Conversion of x-border and foreign currency payments into payments on behalf using treasury accounts
 - ✓ Integrated bank statements – combining all internal and external transactions in one statement



5. Technology

System illustration of payment factory



Results and benefits

- ✓ All SAP technology for central treasury processes live in April 2010
 - ✓ Central SAP platform is also available to the treasury people in the hubs (in Chicago, Sao Paolo and Singapore / Shanghai) which enables a standard way of working for the full team.
 - ✓ Payment factory roll-out to the countries is in progress. Main countries in Europe are live per April 2010. USA live in Q2 2011. Asia in 2012 and Latam in 2013.
 - ✓ Bank independence through SWIFTNet (one connection to the banks) for payments, statements and correspondence messages
 - ✓ Fully integrated functionality between treasury management system, IHB / payment factory system, cash management, banks and accounting
 - ✓ Benefit from increasing global SAP landscape within AkzoNobel. And automatic interfaces to various ERP systems both SAP and non SAP.
 - ✓ A shared service environment was created within AkzoNobel for messaging (a SAP PI environment).
 - ✓ The treasury platform is future proof and ready to extend to a collections factory and further process enhancements across the group
-



Challenges

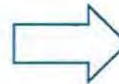
- Decentralized management culture. Sub-optimal liquidity management with limited central visibility and control over cash.
 - No desire in business to change from local bank
 - No possibility to collect detailed banking information in the short term
- Business model of Decorative Paints includes many local retail outlets, which requires in-dept local cash management capabilities
- Limited or no cash forecast within the various entities.
- Country monetary restrictions with legal and/or tax regulatory constraints
- Financial institutions under pressure (credit crunch environment)
- Various local banks with different level of maturity, capability and service levels



Situation

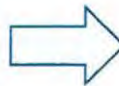
EUROPE

- At least 57 banks and 1032 (external) bank accounts
- 95% of revenue: Italy, Spain, Germany, France, Sweden, UK and the Netherlands
- Principle: One automated ZBA/pooling in-country with one main bank, manually repatriated to the NL.
- The cash pool (ZBA/NP) is either owned and managed locally, owned locally and managed by the NL, or owned and managed by the NL.
- Variety of payment instruments



ASIAPAC

- At least 47 banks and 608 bank accounts
- Emerging markets and small companies located in industrial areas
- Variety of local payment instruments
- Specific commercial practices (open bank account at same bank of customer, etc.)
- Local NP or CP (Australia, China, Japan, Singapore)



Challenges

- Principle different from reality:
 - Multiple in-country pooling (UK, FR, BE) or some countries with no CP/ZBA
 - Multiple local bank relationships, with main bank often not best-in-class bank
- Limited in-house bank and payment factory
- Variety in ownership/management of ZBA/pooling
- No overall visibility/control of cash
- No standard cash management policy
- Trapped cash in joint-venture

- Large number of banks and bank accounts
- Multiple countries with no local pooling scheme
- No cross-regional liquidity structure
- Active in a lot of restricted countries
- No overall visibility/control of cash
- No standard CM policy
- No IHB/ payment factory



Situation

US

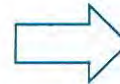
- Treasury centre in Chicago (3 people)
- One preferred bank for the US, with separate receipt & disbursement account structure
- Short-term funding from other banks

CANADA

- One main bank
- Notional Pooling, with active management of cash surpluses with main bank (MM funds)
- Starting to integrate ICI entities in the pool
- No cross-border pool between Canada and the US (tax inefficient). Cash transfer to The Netherlands once a year

LATIN AMERICA

- At least 35 different banks and 191 bank accounts
- No main regional bank
- Ex-ABN Amro in Brazil being taken over by Santander



Challenges

Region in better, but:

- Limited visibility and control of cash
- No cross-border liquidity solution between US, Canada and The Netherlands
- No standard policy
- Main banks not challenged (price, services, etc.)

- Too many banks and bank accounts
- Multiple countries where cash is not pooled
- No overall visibility/control of cash
- No standard policy
- Not included in IHB and payment factory
- Santander was not one of the core bank relationships

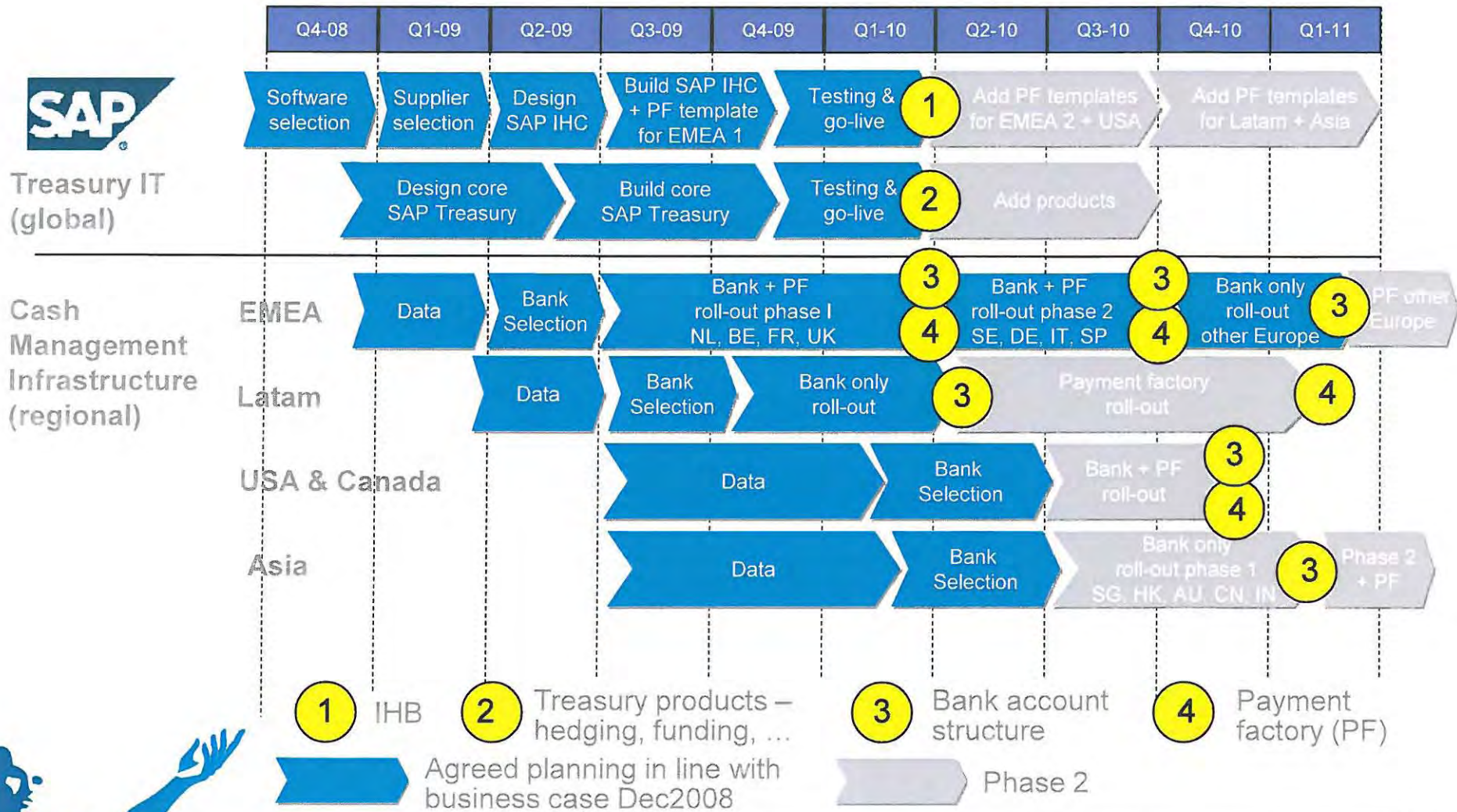


Our solution

- The goal to achieve benefits in the area of:
 - Financials – e.g. optimize return with cross-country multi-currency pooling
 - Process efficiencies – implement new way of working, e.g. support switch to most efficient payment method
 - Compliance – increase transparency in cash, funding and hedging
 - Other – flexible account structure and link to balance sheet support
- Robust bank selection and implementation processes are set-up
 - Internal banking requirements are validated with the local businesses to really understand the local needs (especially retail outlets).
 - External best-practises are inserted via PwC
 - Best-in-class requirements were put in Request for Proposal (RFP) and distributed to major relationship banks. Followed by short listing, beauty parade, etc. This process is run 4x by different regional teams. PwC assured the internal consistency and quality of the different projects.
 - Implementation teams are mix of internal people from treasury and the businesses plus the banks.
- Our selected banks are partners. They meet both immediate and future requirements. In addition, they offer balance sheet support.



6. Banking infrastructure Time lines & key milestones



Results and benefits

- ✓ New regional banks selected for Europe (ING), Latam (Santander), Canada (TD Bank), USA (Bank of America) and Asia (HSBC and Deutsche Bank).
- ✓ Europe phase 1 went live with payment factory in April 2010
- ✓ Latin America banking infrastructure live by end 2010
- ✓ USA live with payment factory in Q2 2011
- ✓ Asia started. First countries live with bank statement hub and banking infrastructure by end 2011. Majority to follow in 2012.
- ✓ Comfortable levels of balance sheet support are secured
- ✓ Annual savings > EUR 15 million



7. Treasury now A great team...



7. Treasury now

...working on Tomorrow's Answers Today in Treasury

- ✓ System standardization – eliminate multiple ERP's
- ✓ Reduction of Legal Entities
- ✓ Centralize the controlling and liquidity management on Treasury HUB via Electronic Banking system
- ✓ Centralizing bank account management
- ✓ Improvements on control and compliance monitoring
- ✓ Centralize the treasury activities at HUB as much as possible

“Never ending search for cost reduction, processes improvement, best practices and people development”

