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Taking on New Dimensions

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Tomorrow's treasurers will need a global outlook, a strategic mind-set, an analytical approach, broader shoulders, a team spirit and agile technology that can increase visibility and control.

The stock market is up. So are foreclosures. Jobs are still disappearing. Short-term interest rates are effectively zero unless you are renegotiating a bank revolver. Goldman and Morgan Stanley are operating under bank charters and bank regulation. Over-the-counter derivatives are on death watch. Washington is at war with itself. What in the world will the future bring for sensible treasury executives who are trying to plot a safe course in a topsy-turvy environment?

It may be okay. 2010 will be the year we leave behind all the dislocations caused by the financial crisis, predicts Anthony Carfang, founding partner of consultancy Treasury Strategies in Chicago. "Treasury staffs will go from trying to keep the company on liquidity life support to helping the company rebuild its business." Unfortunately, they won't be able to hire the staff they need to tackle their expanded duties and opportunities, he adds.

But expect some dislocations to continue and even get worse. The financial crisis has set the stage for a return to a level of currency volatility not seen since the 1980s, predicts Wolfgang Koester, CEO of Phoenix-based FiREapps. "A lot of treasury pros don't remember how wild it was in the mid-80s, when a currency might swing quickly by 40% in value." He suggests currency markets are in for some erratic times. "Look what Chavez did in Venezuela, cutting the country's debt in half by devaluing the currency 50%.

"Don't bet the farm on the dollar's continuing slide," Koester warns. "There could be a real upswing." Don't even count on the euro being around in the future, he says. "The euro could break apart." The recent Greek crisis shows the kind of dramatic and unexpected event that could disrupt the euro, and multinationals need to be prepared.

People

There's some consensus that the people who rule the treasuries of the future will have different temperaments and skills. "We're already looking for people who are exceptional across a broad range of abilities," reports Tammie Konsmo, business manager for treasury at Microsoft. Experience and specialization count for less than the capacity to grow. "We expect to need fewer specialists and more cross-functional people who have the capacity to move beyond a traditional treasury role," she says. Look for this practice to become more common: Microsoft has treasury pros swap jobs for six months at a time to give them additional experience. Recently one person who worked exclusively with business risk swapped jobs with another who worked exclusively with financial risk, Konsmo reports. Microsoft has found such opportunities improve morale and reduce turnover, she notes.

"Look for people who have cross-functional skills and thrive on change," says Steve Wolgamott, director of global treasury for Canton, Ohio-based Diebold. "The worst thing you can do is hire people like yourself." Building a strong, diverse team will allow treasury to expand its mandate, and the broader mandate will justify team-building, a formula that has grown Diebold's treasury from two to 194 people over 16 years, he reports.

The biggest rewards will come to people who "can respond quickly, who are independent thinkers, decisive and not tied up doing repetitive chores," says Craig Jeffery, managing partner of Atlanta-based consultancy Strategic Treasurer.

While the concept is not new, the key to a successful future treasury is to tame the essential tactical tasks and then give serious attention to developing a strategic role that aligns the treasury and senior management agendas and moves treasury into a role as trusted confidant to the CFO, the CEO and even the board, explains James Haddad, vice president of finance for Cadence Design Systems in San Jose, California.

"The credit crisis and the importance of liquidity and access to capital have raised the treasurer's profile, making him more visible but also more vulnerable," Haddad says. "It's important to understand and accept broader responsibility, including taking over certain responsibilities delegated from the CFO, and to do it right."

A worldwide vision and the ability to operate globally are likely to be the skills that will be most in demand. "The crisis proved that we live in a global economy. Few treasuries can ignore global influences," Carfang notes. "The treasury professionals who will be most successful over the next decade are those who know how to gather, analyze and act on data. Analytic skill and critical thinking will matter more than ever," he concludes.

In keeping with globalization, some treasuries may decentralize their staffing to have local people in key locations like China and India, but rely on global systems so that information is centralized and visibility is available to everyone, explains John Tus, treasurer and vice president at Honeywell. Besides local knowledge and technical treasury skills, treasury pros will need broader business skills so that they can counsel business units and help them perform better, he adds.

Organization

Treasury pros in the future will work within a different organizational structure, most visionaries predict. They will be "far more integrated into the fabric of their companies," says Craig Saxer, senior vice president for treasury management business development at PNC Bank. "Increasingly, they'll take ownership of AP and AR, and they will be more involved in supporting sales and production. They'll move far beyond traditional financing duties."

In the wake of the credit crunch and liquidity crisis, treasury now has that seat at the table it has always wanted. "The question is what to do with it," says Tim McDannold, Diebold's treasurer and vice president, who plans to take Diebold's treasury deeper into managing cash flow and working capital.

Treasury traditionally has focused on cash flow and working capital from the outside, McDannold notes, monitoring and analyzing but not really controlling what happens. "With the right skills and the right team, treasury can own the groups that drive working capital," he says. At Diebold, treasury already owns "the complete order-to-cash cycle, which drives our [days sales outstanding]. With that control, we have been able to reduce DSO over several years."

Successful treasury groups will become "less siloed by finding ways to leverage their analytical skill sets and financial market knowledge to add value to their companies in areas such as strategic investing, financing and insuring business risks," says Google treasurer Brent Callinicos.

While treasury has critical functions that will always have to be performed well, the real opportunities lie in improving the decisions of knowledge workers throughout the corporation, which means more dotted lines on the org chart, suggests Wei Shi, head of treasury and finance and vice president at Toyota Financial

Services in Torrance, Calif. By offering what treasury knows—transfer pricing, cost of funds, cost of capital, for example—it can empower business decision-makers, particularly in decentralized organizations where local knowledge is critical. It can also provide the transparency that helps to align various decision-makers and make them accountable for their decisions. “We need to move beyond the functional level and become integral to governance,” he says.

Travel management, procurement and AP are now usually three separate corporate functions. Look for them to converge under the direction of treasury, suggests Kurt Adams, senior vice president for strategy and program management in USBank’s corporate payments group. And that convergence will make it commonplace for treasury to release a single payment file for all vendor categories and all payment types, including card payments, he says.

Today, many treasury departments split down the middle between operations folks and capital market folks, and they often don’t work well together, says Bruce Linn, managing partner of Financial Executives Consulting Group in Darien, Conn. “One looks at external markets while the other focuses on operating cash flow,” he notes. In the future, the two groups will have to merge mind-sets.

In addition, treasury staffs “will have to work closer with the financial planning and analysis people,” says Linn. “FP&A usually works directly for the CFO and often doesn’t talk to treasury.” There will be more connection between cash flow and planning in the future, he predicts.

Look for corporate boards to separate risk management from audit committees and form separate enterprise risk committees, predicts Jeff Wallace, managing partner of Boulder, Colo.-based Greenwich Treasury Advisors. “It’s an emerging trend,” he says. “It doesn’t really make sense to combine risk and audit.”

More intricate organization within treasury will be a hallmark of future effectiveness. The deluge of information will force treasury, more than ever, to operate as a team, Haddad says. “Success will be determined by how good the team is, by how much you trust each other and by how well you work together.”

Technology

One safe bet is that treasuries of the future will have different, better technology. The financial crisis created high-level concern about the visibility of all cash and a willingness to spend on technology that can provide it at a global level, Carfang says. “Treasuries know that they need to be able to react quickly—and CEOs and boards also know this—and they will become even more automated and centralized in the future, because that provides the quickest reaction times.”

The prospects for do-it-all ERP systems or treasury workstations are fading as specialty software dazzles and integration barriers fall. “Treasurers won’t buy one system for everything,” says Bob Stark, director of marketing strategy at Thomson Reuters. “They will shop for best-of-breed solutions. But they want a single sign-on and a single point of visibility. Wiring everything together could be done by an internal IT department, but more often one systems vendor that provides key pieces of the mosaic will take on the role of super-vendor and partner with other best-of-breed providers to deliver their functionality through the super-vendor’s gateway.”

Even large companies that have stuck with installed software will switch to more flexible arrangements, predicts Mark Lewis, director of corporate treasury at Wall Street Systems (WSS). “It’s already starting to happen,” he says. “They will use hosted systems and outsource maintenance to people who do it for a living.” Even today WSS gets 88% of its revenue in recurring payments from existing clients, having moved well away from depending on big sales for revenue, Lewis explains.

With the growth of secure Web capabilities and SWIFT, treasuries will become less dependent on large infrastructures and will be able to move more quickly and economically to alternatives as they become available, PNC’s Saxer predicts.

Technology increasingly will provide more and more timely information but in hard-to-manage quantities. “Part of the job of a future treasurer will be to define what parts of the information overload are critical and what parts are not,” Cadence’s Haddad says. That will make dashboards more important than ever, he adds.

The past decade has seen great strides in bringing information to treasuries. The next decade will turn that accumulation of information into “actionable analytics,” predicts Gary Greenwald, chief innovation officer at Citigroup. “We’ll move up a continuum from reports to analyses to modeling to predictions.” Banks often get information in the process of supporting treasury operations (i.e., executing payments files) that isn’t needed to complete the transactions but could be valuable for analytics, he says. “We will start making analytic use of all that stored data.”

Armed with more sophisticated technology, treasury will progress from cash forecasting to predictive modeling, Saxer says. Rather than predict a number, they’ll offer “ways to track key variables and show how to affect them to get the desired outcomes.” Treasury’s role in risk management will expand to include market risk, sovereign risk and reputation or brand risk, he adds. “It will be very enterprise-wide and very strategic.”

Technology will also be used to improve performance metrics. Treasury organizations will learn to measure value-add in areas outside of easy-to-measure portfolio management, says Google’s Callinicos. Quantitative, risk-adjusted measurement is the key to “getting management support for initiatives and resources.”

One clear sign of the readiness to embrace technology and automate more manual processes is the quick uptake of SWIFT’s prospective electronic bank account administration message set (eBAM), notes Al Briand, managing director of global product management and strategic development for the treasury services business at Bank of New York Mellon.

> *“I’ve been surprised at how fast this is moving,” he says. “We’ll see dividends sooner than expected. Administering bank accounts manually and communicating with banks individually has been a morass. People are eager to bring change.”*

Now Briand thinks it’s time to consider the use of SWIFT for healthcare communications. “People are starting to talk about it. SWIFT has progressed from banking to corporate treasury, and now there is interest in moving deeper into certain industries,” he says. It’s too soon to speculate on what standardized messages would be developed and who the senders and receivers would be, he adds.

The spectacular gains in the popularity and capabilities of mobile devices won't leave treasury untouched. "The functionality available in devices like the iPhone opens up a whole new world," says Jeff Tinker, senior vice president and head of the wholesale Internet and treasury solutions group at Wells Fargo Bank. "It's come a long way since we introduced treasury mobile services just a couple years ago, when it was only equipped for fairly basic activity." Now some of his colleagues think the iPhone should replace the PC. However, mobile phones still don't work well for viewing PDF files, Tinker notes. "They look like postage stamps."

Another voice predicting a mobile future comes from Jennifer Ceran, treasurer and vice president at eBay in San Jose, Calif. "We are getting closer to revolutionary changes in payments that will create huge efficiencies for companies in the procure-to-pay and record-to-close spaces," Ceran says. "We have not seen a sea change in this area in a long time. The mobile phone will be an enabler of innovation."

Further out in the future, the impact of technology will be even greater. Technology that has transformed the personal lives of treasury staffers—Facebook, Twitter, Skype, BlackBerries—has barely touched their professional lives, but that will change, says Citigroup's Greenwald. "It will profoundly change the way we work. It will transform interaction among the contact points in the physical and financial supply chains, but it will take time to evolve."

In the short term, there will also certainly be steady progress to seamless straight-through processing, says Erlend Asker, senior vice president of treasury solutions at SunGard in Parsippany, N.J. "There are still plenty of friction points between treasury and all the providers of information that treasury should get," he says. As software is built around open technology standards, it will become easier to link systems and approach STP across multiple systems at multiple companies. Vendors may provide the communication hubs where systems come together, he says.

Security concerns will drive more treasury staffs to use virtual private networks, predicts Joe Spatarella, vice president of sales and marketing at Online Banking Solutions in Atlanta. "The commercial browser is a point of weakness. That's where malware is sneaking in. We'll see a lot more pushing pre-approved files back and forth between corporate treasuries and banks using secure Web channels," he suggests. Emerging standards will facilitate the process, Spatarella says. "XML is becoming the great equalizer."

Visibility

Increasingly, companies will focus their technology spending on achieving more perfect visibility. Treasuries discovered their need for better eyesight during the crisis and now companies will spend to get that. "Boards underfunded IT spending for treasury operations and now will pay to catch up," says Lewis from Wall Street Systems. "Every board meeting now includes discussions about treasury exposures, liquidity and access to cash. Visibility will be a top priority." Merck's treasury, he notes, recently went from using 400 banking interfaces to just one, a SWIFT connection.

We're approaching the age of treasury optics, says Strategic Treasurer's Jeffery. Such optics bring visibility of cash balances around the world, of course, but will also peer into various internal systems that historically have been opaque, as well as real-time market data and key systems of suppliers and customers to open a line of sight up and down supply chains, he explains.

For example, optics will make it easy to spot loan covenant violations before they happen, Jeffery says. “Data consolidators are helping. So is SWIFT. But this will go beyond bank data. It will include credit default swap rates. It could include customer inventory levels,” he says. Microsoft is starting to get there with its 360-degree view of risk model, Jeffery says. “But most treasuries are still flying blind or going to a lot of trouble to get a static piece of data that could already be out of date.”

Interest Rates

Interest rates are almost certain to rise, and when they do, the emphasis on maximizing cash balances, now near an all-time high, will switch to using cash to expand the business and earn a return, says Melissa Moore, CEO of treasury services at JPMorgan Chase. “There will be more thought given to where to put it.”

Treasuries that are accustomed to simply storing cash in safe places will have to relearn short-term investment strategies that find the right balance between risk and return, liquidity and yield, says Dub Newman, treasury and liquidity sales executive for the global corporate bank at Bank of America.
But they won’t simply go back to their old tricks. “In the past, when rates were rising, corporate cash investors were quick to go off-balance-sheet,” he says. “I think they’ll be more cautious about doing that in the next up cycle.”

Cash managers should be prepared for a sharp rate increase, Carfang suggests. “The Fed is working overtime to keep short-term interest rates low, but they won’t be able to,” he says. “A tsunami is coming.” That puts treasurers in a bind for now, he points out. They don’t want to go out the yield curve to pick up 3% and 4% returns for fear they’ll lose principal when rates go higher. And they are reluctant to borrow longer-term because parking the money won’t earn a significant return. In the future, maybe not the distant future, treasurers will have to navigate dangerous interest-rate waters, Carfang concludes.

Banks and Credit

Banking relationships will also change. The swing toward bank diversification will continue, encouraged by companies’ concerns about the risk of depending too much on one super-bank and by the growing ease of using SWIFT to get the benefits of banking concentration without taking the risks, says Greenwich Treasury Advisors’ Wallace. “SWIFT lets you keep your local banking relationships and still see balances and move money centrally,” he notes. “You can pick the best of the locals, country by country, and still consolidate funds upward.”

When it comes to buying banking services, treasuries will divide their work between large wallet and small wallet, suggests Michael Gallagher, executive vice president and head of payments and cash management for North America at HSBC. Small wallet will be the work with low volume and low value, which treasuries will standardize and concentrate with one provider, he predicts. Large wallet will be the high-volume, high-value activity, and treasuries will also seek to standardize it through channels like SWIFT but use the channel to disperse the work to avoid concentration risk and also to move quickly from one bank to another when circumstances dictate, he says.

Expect to pay more. Bank fees will keep rising, Carfang says. “Pricing power has shifted to the providers. Banks have to rebuild a lot of capital, and they do that partly by selling stocks and bonds but partly with retained earnings from higher prices.”

The shift in power is rooted in credit scarcity, which will change treasury staffs' traditional use of bank revolvers as "dry powder, something that is there just in case it's needed," says Linn of Financial Executives Consulting. Now that banks are shrinking revolver capacity, treasury will "have to be more concerned with where cash comes from and take a deeper dive into real cash flow."

Corporations will continue to de-lever as credit remains scarce, and they will rely more on internal efficiency and cash generation and less on banks and even capital markets, predicts Jim Colby, Honeywell's assistant treasurer.

The changes will lead treasury into unfamiliar territory once assigned to accounting, Wallace says. Fair value accounting will spread in the future, and if that's not a treasury concern, it should be, he warns. "If treasurers don't know how to apply the standards, how will accountants?" Wallace asks rhetorically.

Accounting issues will loom larger for future treasuries, agrees Ann Svoboda, treasurer for the Americas at Parsippany, N.J.-based Cadbury, which recently agreed to be acquired by Kraft. "[The Financial Accounting Standards Board] is moving in the direction of more cash flow disclosures, and treasury will be in the center of that transition," she says. "Treasury people will have to deal with the realities of fair-value accounting and become more involved in advocacy in the accounting world."

Treasury will have a better future if practitioners get out of their offices occasionally and spend time with the people who will shape financial regulatory reform, says Jim Kaitz, president and CEO of the Association for Financial Professionals (AFP). "These people need to be educated about cash flow and liquidity and risk and hedging, so they make balanced decisions about accounting rules or over-the-counter derivatives or whatever. They need to understand how finance works at a practical level." The better legislators and regulators in Washington and state capitals do their jobs, the better future treasuries will operate, he notes.

Streamlining Future Supply Chains

Treasury staffs and technology providers will push technology to streamline workflow and bring efficiency to their supply chains. The crisis-driven obsession with liquidity has kicked off a transformation in financial supply chain management that will continue to build momentum. "The financial supply chain management best practices that companies have adopted in response to the crisis are expected to become core ingredients for how they will manage their strategic supplier relationships going forward," says David Conroy, managing director and Americas head of trade finance and cash management for corporates at Deutsche Bank.

In spite of years of touting electronic payments, payables remain mired in paper checks, so the paper-to-electronic revolution for payables remains a future vision. "We ask treasury practitioners at our advisory council meetings if they are where they want to be with payables, and we always get a laugh," says Wells Fargo's Jeff Tinker, senior vice president and head of the wholesale Internet and treasury solutions group. "We've never had one say 'yes.' They're still writing way too many checks. Both payers and payees like electronic payments, but they have to figure out how to connect with each other or wait for some third party to pop up and facilitate the conversion."

Electronic invoice presentment and payment (EIPP) was introduced, partly by Bottomline, "ahead of its time" and languished, but it is starting to gain momentum "as a subset of broader market developments," says Sarah Jones, London-based head of business development, international payments and cash management at Portsmouth, N.H.-based Bottomline Technologies. “It’s changing with interoperability. We’re still a great believer in networks and collaboration.”

Look for treasury to gain more control over working capital management, Jones says. With interest rates near zero, the relative value of prompt-payment discounts has soared, she notes, but companies will “need efficient invoice approval systems to be able to pay in time to get the discount.” Greater treasury control would faciliate this more productive use of cash, she says.

It’s a Complex World After All

As companies become more global, the challenges involved in maximizing the value of cash will grow, says Melissa Moore, CEO of treasury services at JPMorgan Chase. “As they expand outside their home country, they have to work across many groups to manage cash.” Banks like Chase are building platforms that “will have a common technology around the world to make it easier to see information, develop forecasts, move cash and optimize working capital,” she says.

The shrinking world is evident in the $1-trillion-a-day foreign currency markets, Wolfgang Koester, CEO of Phoenix-based FiREapps, points out. Today, sales are often made in whatever currency the customer chooses, with treasury informed after the fact, but that will change to strategic partnerships, he says. “The currency of a contract is a financial decision, and treasury needs to be involved before contracts are signed so it can proactively manage the financial impact on the company.”

Although the focus for the past couple of years has been on counterparty risk and credit risk, “we’ll see growing concern around interest-rate and foreign exchange risk,” says Anthony Carfang, a partner at Treasury Strategies in Chicago. “Australia has had three interest-rate increases in the past year. The U.S. has had none. That can swing exchange rates. And the FX markets are sniffing sovereign risk for the first time in quite a while and building credit spreads into exchange rates.”

In keeping with the increasingly global nature of treasury is the increasingly global complexion of treasury staffs. “It’s a sign of the times that treasury is now a very international group of people,” says James Haddad, vice president of finance at Cadence Design Systems in San Jose, Calif. “Staffs simply have to be internationally savvy and technology savvy.”

