



JULIA BERRIS EXPLORES WHY TREASURERS SHOULD CONSIDER ROLLING OUT ENTERPRISE RESOURCE PLANNING SYSTEMS.

Time to look at ERP

Updating and modifying treasury technology can be a tiresome and daunting affair. The hassle and the time involved in selecting the best system for your company and ensuring that it will allow your department to adhere to the multitude of accounting, functionality and regulation requirements laid on it are enough to give any treasurer a headache.

As more technology appears to provide improved functionality such as effective straight-through processing (STP), treasurers are benefiting from an increasing amount of choice. With some companies opting for enterprise resource planning (ERP) software, which can help in the control of many business activities and attempt to serve all parts of the company rather than just individual departments, should more treasurers be favouring this method? Or would they do better to stick to the specialist treasury management systems they know and love?

AUTOMATION OF BUSINESS PROCESSES Software companies such as Oracle, JD Edwards and PeopleSoft – all of which have now merged – provide ERP systems for a range of different companies worldwide.

“ERP systems as a whole reduce costs through the automation of business processes across the enterprise,” says Oracle Vice President Folia Grace. “They increase visibility into critical factors for success through aggregation and real-time reporting of enterprise data and streamline interaction with people and systems.”

ERP solutions are typically associated with larger corporates which operate in a number of countries. However, many smaller companies

Executive summary

- Enterprise resource planning systems are management information systems that integrate and automate many of the business practices that have traditionally been ignored by treasurers. ERP suppliers claim that some systems are beginning to emerge with a performance to rival that of established treasury management systems. But doubts remain.

which may not be able to afford or need the whole ERP package (which is typically a collection of integrated but independent ‘modular’ applications) can opt to buy a small number of the modules in an ERP suite in a bid to improve some of their processes.

Management Consultant Peter Charles says: “What smaller companies tend to do now is buy the bit of the ERP system they want and then bolt on specific systems sitting on the outside depending on what their requirements are.”

Larger companies are better equipped to implement an entire ERP suite for their business operations. “To implement an ERP system you are talking about big money and expensive consultants,” explains Charles. “People use ERP implementation to change the way they run their business. It tends to be large organisations operating across the world.”

The idea of ERP is to provide a central source of data that is relevant



to all departments in an organisation and which can be accessed by all departments. All an ERP suite's modules – for example, logistics, HR and treasury – would be linked into one central system.

"Many people feel that you get a much better managed system where there is a process flowing across all areas of the business," says Charles. "The problem is that while it may be effective once it is working, an ERP system is a very difficult system to implement and to maintain."

RELYING ON YOUR SYSTEM Treasurers need streamlined and efficient systems which are easy to use and can be updated as and when accounting, functionality and regulation needs change, without having to buy expensive new equipment and pay for further installation costs. The treasury world simply moves too quickly to have a system that is complicated and pricey to change to suit new situations.

James Quinn, Treasury Risk Manager at Tate & Lyle, says: "When considering a new system you need to make sure that it covers all the basics including foreign exchange management, cash management and interest rate management. On top of that there are various ancillary considerations.

"International accounting standards are very important. For us, IAS 39 is a very important consideration. We have to be able to rely on our system for a good audit trail."

So does ERP have a place in the world of treasury technology? Not surprisingly, ERP suppliers say yes. Grace claims that ERP offers strong treasury modules to rival treasury management systems, providing increased cash visibility, improvements to processes at a lower cost, and secure and controlled treasury operations.

"ERP can offer cash and treasury management applications that increase return on investment and decrease cost of financing," she says. "ERP allows treasury departments to manage global treasury operations with improved efficiency, profitability and control."

But if ERP offers all these advantages, why is it that the treasury world is still not at all sure about trading in their treasury management systems for it?

Charles says: "If a company wants to put an ERP system in place, they need to make sure that any key changes for the business are completed first. To have a successful ERP system in your company, you need to know you won't be changing constantly."

TREASURER SCEPTICISM It is not too hard to see why there is a lot of scepticism about the treasury modules in ERP systems. From a treasurer's perspective, the department needs a system that will not work efficiently unless everything is fixed and unlikely to change. Treasurers need flexibility and quick, cost-effective updates.

"In terms of ease of use, you need flexibility if you need to look after interest rate and FX requirements," says Quinn. "The quicker you can put a deal through and do all of the ancillary work for that transaction, the better. If you are struggling to find where things go on the system there would be severe delays."

Grace, though, says there is a different reason why the treasury world has not taken to ERP in a big way: "Since it is only in recent years that ERP vendors have had robust cash and treasury offerings, there is a generation of users who are more familiar with the specialist offerings and may prefer to stay with what they know.

"Enterprise treasury activities generate a high volume of bank transactions. ERP can provide accurate recording and reconciliation of these activities, which is essential to guard against errors that can result in significant costs to your company."

ERP was originally used by the oil industry in a bid to control their

extensive operations. The ERP systems enabled oil companies to roll out a streamlined system, allowing them to manage a wide range of activities across multiple locations.

Charles explains: "The first systems were able to organise the orders of how much petrol goes to which locations, the tankers required and work out how much oil needs to be refined months before in order to fulfil these requirements. This is essentially the enterprise resource planning idea which has developed to what we see today.

"Over the years ERP has come to mean a group of high-end systems that have high-end capabilities."

Charles argues that an important issue to consider when deciding whether to implement an ERP system or a more specialised system in a particular area is whether the company is prepared to change its processes to accommodate the new system.

He says: "One of the big debates is, do you devise a system and then manipulate it to fit your process or do you bend your processes around the system? One way of doing this quickly and effectively is to hire good consultants who will be able to adapt your processes to fit a really good system?"

Many treasurers would argue that this process may work perfectly well for other departments but would not be appropriate for a successful treasury department. A treasury system has to deal with a specific set of requirements that cannot easily be adapted to fit into the rest of the company.

SHARING TREASURY EXPERTISE Treasury has come a long way in recent years and as a result of a broadening of responsibilities many global companies have decided they want to adapt the approach of the treasury department. Global companies are increasingly finding that a more centralised approach to treasury is beneficial in terms of efficiency and cost. Most treasury departments no longer operate as individual entities but have good communication with regional departments and the rest of the company as a whole.

"Successful enterprises shift to global treasury systems that centralise operations and IT requirements," says Grace. "ERP cash and treasury management solutions help you consolidate treasury activities and expertise in a shared service centre, so that you can run your organisation better, faster and cheaper.

"You can easily share treasury expertise across diverse organisations and geographies with multiple languages, currencies and cultures."

Working via a global solution does seem to be effective for many companies so what are the pitfalls that treasurers should consider?

"One issue is different time zones," says Charles. "When do you do your backup when you are operating in three different time zones? Another common problem is that many country managers don't want to have a system of working imposed on them from the worldwide centre. Convincing people that a new system will be just as good or better than the current system they use is a very hard thing to do."

Ultimately ERP is pitched as a way to connect your global locations in all departments with ease and efficiency. Charles argues that you do not opt for ERP to gain the best in terms of service, but to take advantage of the worldwide links to all parts of the company that the technology can provide.

"Once ERP is installed, it is a system that works well," says Charles. "But each department is slightly worse off. Departments all lose about 5% of the function and processes that they would really want, but the whole company gains coordination across the board. All the benefits are at the centre and all the disadvantages are at the local level."

Julia Berris is a Reporter on *The Treasurer*.
editor@treasurers.org