



# A Strategic Approach to Treasury Technology

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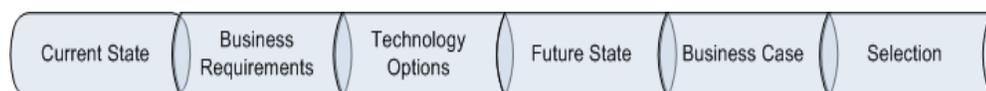
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## Introduction

Treasury technology has come a long way since the 1980's when vendors demonstrated systems to clients from a 5 ¼" floppy disk and connectivity often involved an acoustic coupler. Technology has directly enabled treasurers to send a mixed file of payment instructions to their banks for straight through processing in multiple RTGS systems. It has indirectly encouraged the use of physical pooling through the ability to automate the booking of the required intercompany loans and the zero-balancing of accounts. It has also presented treasurers with multiple ways by which to accomplish various treasury tasks, often with an accompaniment of confusion.

Take the humble payment which can originate from an ERP, a TMS or a bank's proprietary system. Traveling in NACHA, idoc or EDIFACT format (to name a few) the payment passes through a VAN or public internet connection (to name a few) to a bank processing gateway using HTTPS, SMTP or IP protocol with the benefit of a digital certificate or proprietary security – also to name a few. All this occurs before the bank releases the payment into the requested payment system for the ultimate beneficiary. The technology behind each element in the payment's path has complexity, and corresponding strengths and weaknesses, that in the aggregate challenge the most sophisticated technology user.

Fundamentally, whether initiated from a 1980's era standalone PC or from a multi-platform, multi-protocol payments engine the outcome is still the same. The company's account is debited and the beneficiary is credited. It is the theme of this brief paper that a strategic view of technology is necessary to successfully integrate the simplicity of your objective with the complexity of the means used to accomplish it. The following timeline represents one view of this strategy.



The strategic approach begins with a clear understanding of the current situation, business requirements and technology options. It also includes a well-defined view of the future state, or how the treasury will look once new technology has been deployed. Based on these elements you can develop a business case that proves the financial benefit of a particular approach and then conduct a search for vendors to deliver the required solution.

This approach is different from system selection, illustrated below.



Selection should occur when the strategic approach has been validated technically and financially. Even when experience and best practice suggest that a TMS is required and a selection project is indicated, the discipline of the strategic approach provides a framework that will endure longer than the typical vendor upgrade cycle.

## Current State

The approach begins with a clear definition of the current state of technology and business process within the treasury. Development of the current state is a good opportunity to carefully examine old assumptions and understandings. Do not simply inventory the systems you have and how they are used. Take this opportunity to find out why they are used. Was a client/server architecture stipulated by an autocratic former CIO who could not be bothered assessing the security of a hosted solution? Were the systems used installed in preparation for Y2K, the last time there was technology budget for the treasury? Old assumptions die hard, but, if you can accelerate the demise of the bad ones, you will free up your treasury. And the sunlight of a good current state analysis is an excellent disinfectant.

Take a look at what people like and do not like about the current technology. Getting and keeping people on your side is an important part of any successful project – particularly in technology where there are multiple stakeholders.

Understand the costs and that includes the full costs of people downloading pdf files, printing them and then rekeying information into a spreadsheet on a shared drive instead of downloading directly into the spreadsheet. And build a simple and clear one page diagram in Visio or PowerPoint showing how everything fits together. This will prove very useful when developing the business case.

## Business Requirements

There are three critical items to deal with as you develop a set of business requirements. The first is a survey of your stakeholders where you identify requirements that are “must have” such as the ability to consolidate all bank positions into a single global position and “nice to have” which reflect a department’s preferences. This is also the time when you think about the second item, including your stakeholder. Treasury, IT and accounting are commonly included but there are good reasons for including tax, legal and revenue management teams. A quick test on whether a function should be considered a stakeholder is the possibility of hearing the negative “We were never consulted” when a result is not to someone’s liking.

The final item is a brief gap analysis documenting the gap between what is required and what is available on the market.

Package your work in a document or spreadsheet that you can circulate – and update – frequently.



## Technology Options

At this point you know where you are (the current state) and have a complete set of what users require (business requirements). Taking a look at technology options is a first look outside the organization. The kinds of systems and architectures available to meet your requirements fall into three categories; leading edge, bleeding edge and legacy. Leading edge systems are innovative but have been proven in the field and are reliable. This is in contrast to bleeding edge systems – innovative but with the need to put in lots of fixes to accommodate something not entirely proven and developed. The third category, legacy systems, describes systems that are still viable but on their way out in terms of technology. New features for legacy systems are not being developed, or can not be developed and at some point a legacy system is sunset. A pleasant euphemism that lets you know that you are really on your own.

Financial viability is another part of the technology option and refers to the stability of the vendor. You do not want to build a mission critical enterprise application supported by a company that may outrun its venture funding, be acquired or undergo a change negatively affecting customers. There is no hard and fast set of rules for determining financial viability although the current business slowdown is helpful in culling weaker vendors.

In addition to financial viability, make sure you have identified any enterprise constraints on technology use. For example, if IT bans hosted applications, then you have some major problems to work through. If your treasurer is uncomfortable with hosted applications, you still have some work to do, but with help from vendors and IT it is an objection that can be overcome.

Finally, consider the availability of technical support. It is axiomatic that applications prefer to fail at the most inconvenient moment. Therefore, having clear and working support tools and escalation rules is important. You do not want to be describing the technology initiatives at your former employer.

## Future State

The Future State describes the technology in terms of approach and benefits across a number of dimensions that typically include:

- Functionality, the business processes that need to be supported
- Scalability, how the technology will support changes/growth in business needs
- Flexibility, the ease with which the technology can be adapted to your needs
- Security, the controls that need to be placed around the business processes
- Enterprise, dealing with any enterprise constraints or restrictions
- Cost, which includes the total cost of ownership, or TCO

It is a good idea to summarize the Future State with a diagram supported by text describing the dimensions considered and how they were evaluated.



## Business Case

You know what you have, what is possible and what you want. Building the business case is the part of the strategy process that helps you to get it. Get the data relevant to your strategy and structure. This includes license fees, maintenance fees, support fees, hardware costs, implementation costs and the cost of outside assistance if you need extra hands for a period of time.

It is now time to refer back to the current state part of this exercise which shows the costs and deficiencies of your current practices. Comparing these with the benefits and costs of the new approach you are now in an excellent position to calculate the benefits of your approach and demonstrate their impact on the bottom line.

Do not lose site of you objectives, be open to compromise. If the numbers do not work or something else is in the way of a good business case, be willing do drop some features or functionality for the sake of overall progress. You may not achieve perfect consensus, but compromise can help you avoid many slings and arrows.

## Selection

With all of the preparatory work in hand you can now embark on a system selection project, perhaps following the methodology outlined at the beginning of this paper. Selection is a tactical exercise where a primary mission is to preserve the strategy you have developed in the face of dazzling demonstrations and eloquent sales presentations. There are many excellent papers on the subject of system selection and the RFP process, but this concludes the examination of a strategic approach to treasury technology.

## Summary

In summary, if you have followed a good carpenter's maxim of "measure twice, cut once", your strategy will win acceptance and help you get the technology tools the treasury requires. Good luck.

## About Treasury Alliance Group

Since 1981 Treasury Alliance Group and its predecessor firms have provided treasury consulting services to more than 400 clients in 42 countries. Projects focus on the key responsibilities of liquidity, risk and working capital management, treasury structures and strategy, and technology. Our experienced consultants deliver practical, realistic solutions that meet each client's unique requirements.

Treasury Alliance Group clients include public and private companies and financial institutions worldwide. We welcome the opportunity to discuss how we can help you meet your business challenges. Email us at [contact@treasuryalliance.com](mailto:contact@treasuryalliance.com) or call +1 (630) 717-9732 for further information.