Working With Supply Chain

The global focus on working capital management has raised the profile of corporate purchasing managers. Recast as supply chain management or strategic sourcing, these professionals are a key element in controlling costs, assessing supplier viability and ensuring objective decision-making. The benefits of this approach to acquiring goods and services are clear—but there are challenges, particularly in treasury where specialized services and complex integration are the rule, not the exception.

Corporate treasury managers often require services from vendors in standard categories such as banking, consulting, software and technology. Although these disciplines may be generic, treasury needs are very specific and highly specialized and only a small number of vendors offer these types of services. Cost and functionality are important, but a delicate approach to negotiation and selection is essential. Get it right and the company will have the benefits of supply chain discipline and treasury expertise. Get it wrong and treasury will be saddled with systems or vendors that cannot effectively meet treasury's complex needs. The good news is that treasury requirements and supply chain imperatives are not mutually exclusive and this brief paper makes some suggestions on how to get the best of both worlds.

So what is the best way for corporate treasurers and strategic sourcing to work together? A good place to start is with a quick look at the purchase to pay cycle (P2P), illustrated below.

In the collaboration between treasury and the supply chain professionals some areas within the P2P cycle are more likely to rest largely with one area than another. Strategic sourcing is unlikely to have the expertise to identify suppliers for treasury needs, such as global pooling solutions, and treasury does not have responsibility for issuing purchase orders. In other areas, such as pricing and purchasing terms, there is the opportunity for greater collaboration.

Treasury must do its homework and develop a clear set of business requirements and vendors capable of meeting them. Consider the difference between the need for an "FX system" and a software solution capable of handling swaps, options and more complex instruments. Or between a developer of ERP systems that happens to offer a module with treasury functionality and a specialist firm that understands debt and investments. Would you like an IT consultant whose expertise is in configuring ERP systems for integration with treasury or a more skilled treasury consultant able to evaluate treasury processes and strategy?

Business requirements spell out what the organization is trying to do, i.e., acquire a system to help manage treasury operations, find a SWIFT service bureau, or revise the global banking network. They also include the needs of the various stakeholders. In the case of a Treasury Management System, or TMS—IT might require that the system be installed on company servers, Treasury may insist that it accommodate 38 users globally and Legal can demand that only domestic providers be considered for security reasons.

Business requirements are sometimes categorized as must have, nice to have and neutral. Categorized or not, they provide the chance for all stakeholders to have their say—at the beginning when the project planning takes place. Requirements can change during the project, but project managers are less at the whim of stakeholders when there is a formal document in place.

Following are some representative business requirements for TMS, banking and services RFPs.

- TMS
  - Enable visibility over company's global cash
  - Provide platform for global cash forecasting
  - Facilitate bank account management
  - Support multiple users in multiple geographies
  - Operate within a SaaS model
- Banking
  - Provide in-country accounts with direct links to high and low value payment systems
  - Meet company account needs with a bank's own branch structure
  - Support the account structure with necessary overdraft and FX facilities

- Third Party Services
  - Integrate with current banking partners
  - Protect confidential employee data
  - Licensed to operate in all relevant locations

A well-developed set of business requirements will help treasury prepare a list of prospective vendors. If supply chain wishes to include others or exclude some treasury has identified, the business requirements can justify why certain vendors should be included or why others clearly cannot meet the objectives that have been laid out.

After developing the business requirements, treasury needs to help strategic sourcing understand the market for these services. For example, the number of viable Treasury Management System (TMS) suppliers can be counted on the fingers of two hands, with fingers to spare. These vendors will compete ferociously but in ways that might be unfamiliar to the team from strategic sourcing. An aggressive negotiating approach at the outset may make vendors reluctant to work with you going forward and this is not good when there are only a small number of potential candidates in the first place. It is not that your requirements are mutually exclusive—it is simply a question of approaching the selection task from different starting points.

Another way in which you can help strategic sourcing get the best value for your company would be to explain pricing in the TMS space. A number of factors—including the modules selected, the number of users, implementation support required and the volume of activity will determine the price. But it is a virtual certainty that neither the company nor the vendor know the final configuration, so an early focus on price is counterproductive. Price matters, but in this case price is the total cost of ownership (TCO) for comparably configured systems.

Staying with the TMS space, vendor financial viability is critical. But many TMS vendors are privately held and do not have audited financial statements or are unwilling to release any financial information early in the process. Why not wait to assess vendor viability until you are sure the vendor is someone you are interested in working with? Even if a vendor does not meet strict requirements of your company, many alternative approaches, such as holding source code in escrow, can be adapted to address sourcing's concerns.

Discuss this with your supply chain team and work to accommodate their requirements with your needs. Then it is time to learn a bit from them.

Vendor selection and contract negotiation are skills that supply chain uses on a more frequent basis than the treasury team. While treasury's sourcing needs are different than purchasing fuel for company trucks, many of supply chain staff skills have relevance. For example, they have contracted with consultants for other parts of the company. Marketing strategy and treasury strategy are different, but managing teams of contractors and the liabilities they represent are not and strategic sourcing can ensure that best practices prevail. They have access to data on rates for comparable services and can be more objective negotiators than a treasury manager who wants the TMS installed by the end of the next quarter.

The key to success in working with supply chain is to do your homework so that you have a business case for all your requirements and foster collaboration so that the outcome reflects your mutual expertise.

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