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improving treasury performance

Treasury in a time of coronavirus

Summary

It feels like we have fallen down the rabbit hole, but virus land is less tea party and more Jabberwocky. Rather than panic, this is a good time to take a deep breath and, although the virus has taken most of us by surprise, much of what we learned before is still valid, and much we have not done before is all the more urgent in this situation.

Ugly duckling

Sitting far from home, and with no idea when I might get there, it feels like a different world from where I wrote the last article. Everything has changed, it seems. And I was not prepared for this, more personally than professionally. I sometimes explain to people that being a treasurer is like being a professional worrier – "risk management is less accessible than worry.

Sounds like a black swan, doesn't it? Except plenty of people have been warning that a pandemic is a very pertinent risk, even though we got lucky with SARS and bird flu. This includes Professor Stephane Garelli at EuroFinance Geneva, whose two biggest worries were pandemic and cyber damage. (It's probably fair to say that most of us, while quite alert to cyber fraud, are not ready for a protracted internet outage.)

The term "black swan" is applied unthinkingly to anything we did not see coming. But, as Alex Danco eloquently explained a couple of weeks ago, there are three aspects to black swans:

1. Unpredictable: a pandemic has long been predicted.

2. Magnitude: even if we heard the warnings, we did not expect a major recession.
3. Retroactively explainable: we are still in this but we will probably find scapegoats reasonably soon.

Be prepared

The scout motto “Be prepared” is quite close to my role as professional worrier. Of course risk aversion often has a cost, and often next quarter’s results trump longer term sustainability.

Sustainability implies things like

- Multi sourcing rather than buying exclusively from the same cheapest supplier
- Making sure that suppliers and other business partners will be around when you need them
- Having enough staff to cover holidays and sickness coming together
- Paying for revolvers that seem unnecessary
- And so on…

Some of this is seen as flab by many managers. Indeed sustainability cannot be an excuse for inefficiencies like sloppy cash management and idle balances.

Supply chain finance brittleness

I have never got much traction with my concerns that supply chain finance can reduce supply chain resilience.

Buyers providing financial support to their suppliers either via third parties (banks and fintechs) or directly (dynamic discounting et al) are in normal times helping their whole supply chain. But in extremis, they risk a double whammy if both buyer and supplier (and even third party) find themselves liquidity constrained.

Of course, most procurement teams monitor the financial health of their suppliers, so hopefully this risk is not affecting supply chains too badly.

Real world recession

Another novelty of the current situation is that the slowdown is in the real world, not just in finance. Worrying about the financial well-being of suppliers may be moot when staff cannot come to work and logistics are in lockdown.

A lot of money is needed to ensure jobless people do not starve and of course that has financial implications. On the other hand, unlike the previous crisis, this situation cannot be fixed with financial corrections. Collateral damage from the virus can be alleviated by fiscal means, but no amount of money can keep the economy running in lockdown.

Back to basics

McKinsey has put cash front and centre of the CFO’s agenda: "the company’s primary finance focus during this period will be on implementing a ‘cash culture’."

In fact, this virus is changing treasury in unexpected ways. The urgency of ensuring liquidity brings us back to basics and the core of treasury. Analysts say the majority of companies have three to six months of cash sustainability, so let’s hope we can exit lockdown within that time frame.

(On a personal level, being unable to return home might get less amusing if it lasts longer than that.)

In this situation, every dollar counts. Cash visibility and cash flow forecasting have become critical for survival. In that context, my two previous articles on best of breed and accessible technology remain relevant.

Treasurers stuck at home, if they any have time to spare, might want to consider Bellin's offer of free TMS if they are still doing treasury by Excel.

Surviving

This will be a period of dramatic change. We are already learning to work remotely. We are dealing with loneliness through video conferences and Zoom parties. In fact, the compensations for remote working are so effective that apparently some introverts are feeling overwhelmed.

Technology will step up both with remote working and automation. Hopefully treasury by Excel will be an early and little mourned casualty of the virus.

Many businesses will fail. Hopefully this will create openings for new businesses to step into, rather than simply a reduction of economic activity as a whole.

There does seem to be a risk that larger companies will be better able to milk whatever cash governments are offering, leaving smaller businesses to die. This may be a threat to systemic resilience as well as to competition. In this view, the virus might accelerate the super profits of the world's largest companies.

Sustainability in its broadest sense may carry more weight – at least for a while. This speaks for maintaining a thriving SME sector. It will be interesting to see how quickly we revert to maximum extraction mode.

Thriving

We can already see that big tech is thriving through this crisis. The shortage of liquidity and the difficulty of in person communication will hamper start-ups, thus even further thinning big tech's competitive space.

On the other hand, hard to predict changes brought by the virus may create opportunities for newcomers, both online and off. Maybe some business school professor will write a book called "Grey Ocean Strategy", about filling niches left vacant by firms that proved insufficiently resilient to survive the virus.

Firms that have not felt motivated to digitise in the past are probably getting an intense lesson in priorities, now that face to face is no longer an option (and paper handling does not work well for people working from home). We can expect a major step up in digitisation world-wide. This will be good for the relevant providers, and will increase the general resilience of businesses. But the risk of cyber meltdown will become even more frightening.

Conclusion

We find ourselves thrust into a strange new world. It is worth taking a deep breath and remembering the basics that remain immutable: liquidity is key and requires cash consciousness, the world is digitising even faster than before, and we need to organise for sustainability – a wide term which will hopefully come to include nurturing our planet as well as our businesses.

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David Blair was formerly vice-president treasury at Huawei where he drove a treasury transformation for this fast-growing Chinese infocomm equipment supplier. Before that David was group treasurer of Nokia, where he built one of the most respected treasury organisations in the world. He has previous experience with ABB, PriceWaterhouse, and Cargill.

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