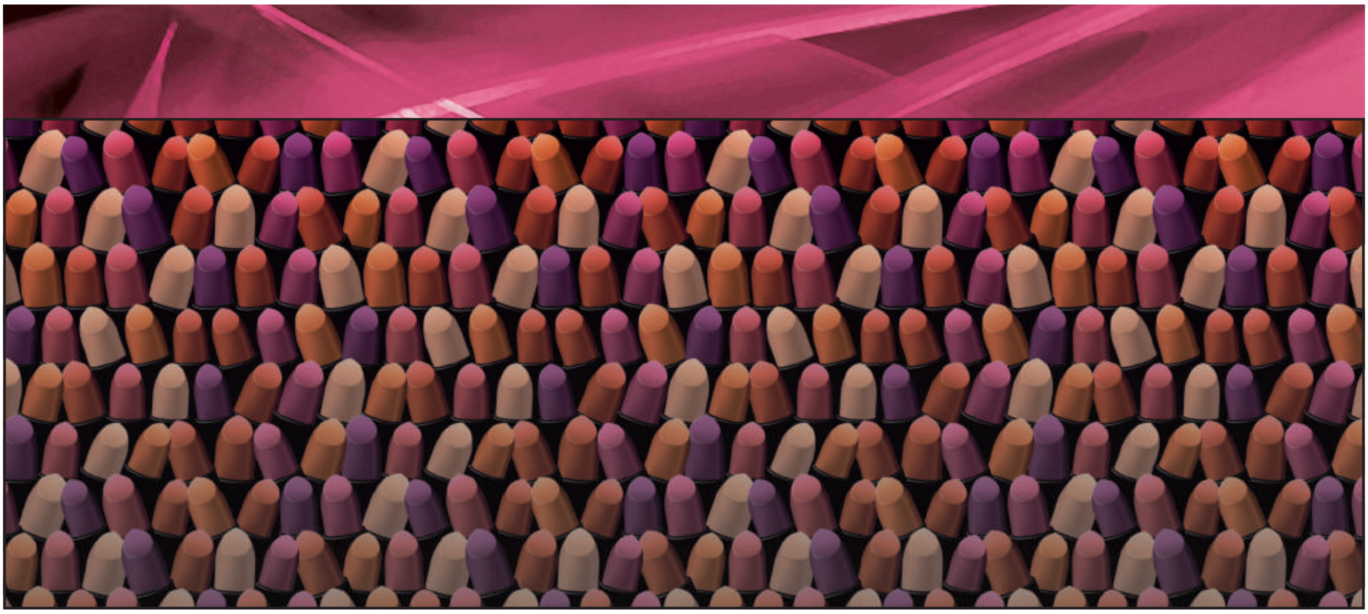

Transforming European Cash Management at Estée Lauder Companies

by Bart Taeymans *(right)*, Executive Director, International Treasury Centre, the Estée Lauder Companies Inc. and Hugh Davies *(left)*, Director, Zanders Treasury & Finance Solutions

Estée Lauder has established a global reputation for high quality, premium beauty products, but the group's commitment to quality and excellence applies across the full reach of its activities. Treasury is no exception. As Bart Taeymans, Executive Director of the International Treasury Centre for the Estée Lauder Companies Inc., and Hugh Davies, Director of Zanders Treasury & Finance Solutions outline in this article, a series of projects has resulted in a highly efficient cash management organisation that also forms the foundation for future innovations.

Treasury organisation

As a professional treasury department that acts as a service function to the group, our aim is to create incremental value for the company and our shareholders in whatever we do. This includes implementing efficient, best in class processes, reporting and systems, providing sophisticated analytics and insightful thought leadership, and acting as an expert business partner to the organisation. We have a centralised treasury organisation with treasury centres located in the United States and Belgium. Our corporate team in the United States is responsible for

Audience polls: top results

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US cash management, capital markets, pensions, insurance and a range of other activities. Our international treasury centre in Belgium manages global cash (outside the US) and risk management.

Catalysts for change

Over the past few years, the company has been setting up a single instance of SAP globally which creates both cost and operational benefits across the group, including treasury. This project has been a catalyst in our treasury organisation to maximise the benefits of a single, cohesive technology environment and phase out both our non-SAP systems and non-standard processes.

We were also fortunate in that the timing of our project coincided with the mandatory migration to SEPA (Single Euro Payments Area) for payments and collections. As we were therefore updating our systems, processes and formats in line with SEPA requirements, we could also take advantage of the opportunity to harmonise formats based on XML ISO 20022 and increase financial and operational efficiency.

Treasury roadmap

We partnered with Zanders to develop a treasury roadmap to outline our future direction, but with a focus on what was practical and achievable. Zanders applied its seven-step approach to achieving transformation in a structured way, from analysis of current states through to identifying objectives, selection of partners and finally execution. As part of this evaluation process, we recognised that two areas in particular: systems and banking, were sub-optimal.

Looking first at our systems infrastructure, for example, we had a central treasury management system managed in the US which was accessed from both treasury centres. However, we also had a number of other systems in place that we used for daily operations. In addition, we also had a variety of disparate means with which to connect to our banks. In treasury, we used SWIFT via a service bureau, whereas our global finance teams still relied on a variety of bank portals. Related to this, our banking landscape had become fragmented, particularly in EMEA. This was due in part to the growth we have experienced as a business, with local affiliates appointing their own banking partners. This was less the case in Asia Pacific and Latin America where treasury had been more closely involved in making, or supporting the choice of banking partners. Our roadmap therefore laid out short-, medium- and long-term plans to overcome these perceived limitations.

Bank rationalisation

We recognised that a rationalised technology infrastructure would only partially enable us to achieve our objectives. We also needed to review and rationalise our cash management banks and solutions, and the formats in which we exchange transactions and information. Previously, we had 32 banking relationships in Europe with nearly 200 accounts, which inhibited the efficient centralisation and control of cash, restricted treasury's ability to automate processes, and led to unnecessary counterparty risk. To overcome these challenges, we decided to consolidate cash management using our core financing banks wherever possible. In addition, this approach would also allow us to centralise payments and collections more easily in the future.

The first step was to issue a request for information (RFI) from which we derived a shortlist of five banks. We evaluated these objectively and ultimately selected two European partner banks, including BNP Paribas. One of our criteria was to be able to centralise cash through a physical cash pool into our international treasury centre, which would enable us to control our cash more effectively from the centre. Secondly, our banks needed to support our local transaction needs. For example, our stores operate on a standalone basis, and therefore have requirements such as petty cash, cash transport services etc. so we had specific needs in each country that we needed our banks to support.

We are now close to completing the implementation of our pan-European cash pool with BNP Paribas, which has already resulted in considerable advantage to our business. This originally comprised 9 countries and 14 entities, but this has been increased to 24 entities following acquisitions. The number of accounts that we manage has also increased as a result. We have also been able to reduce the number of banking platforms we use to two, and significantly streamlined both incoming and outgoing flows using standardised formats.

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Wider benefits

Although reducing costs was not our primary objective, these improvements have resulted in considerable savings and more standardised pricing with our banks that is easier to manage and reconcile. Of equal if not greater importance, we now have a standardised approach to cash management across our international operations. Our account and liquidity structures are leaner, more transparent and easier to manage, and set the basis for further improvements to automation, controls and connectivity. Currently, for example, our local subsidiaries use Connexis for electronic banking. Once we have fully streamlined and bedded down our processes, we can then look at the most appropriate means of routing payments, such as expanding the use of our SWIFT connection more widely across the organisation.

Lessons learned

As a complex project with a range of dependencies and stakeholders, there were inevitably various challenges to overcome. Given that treasury is a support rather than sales function, it is sometimes difficult to encourage other parts of the business to prioritise the project and convince them of the benefit of changing banks, for example, when they may see no direct reason to do so. Balancing priorities, overcoming resistance and setting out a vision across the organisation is challenging, but it is essential to manage stakeholder objections and priorities carefully. BNP Paribas was instrumental in helping us to do this. Together with the local BNP Paribas team, we visited each of our affiliates, so that local finance teams would meet their new contacts and build relationships quickly.

Future plans

In the future, we will be able to extend the value of our cash management investment further, such as implementing a payment factory that operated on a payments-on-behalf-of (POBO) basis. Greater standardisation of information formats will also facilitate greater automation, such as more sophisticated statement processing and automated reconciliation. ■

Estée Lauder

Estée Lauder is a global leader in prestige beauty with a diverse portfolio of more than 25 brands. The company sells its products through a limited number of distribution channels across more than 150 countries and territories, reaching more than 500 million consumers each year. In 2015, the Estée Lauder group companies generated sales of $10.78bn, and employed more than 40,000 professionals worldwide.