

Liquidity steps up a gear

When times are tough the treasury focus must get back to fundamentals, Toyota Financial Services' Head of Treasury tells **Graham Buck**

As a major motor manufacturer with global operations, Toyota is responding to tough times by checking that its liquidity is as efficient as possible and that funding is of a maturity appropriate to meet its assets.

Richard Garry, Head of Treasury for Toyota Financial Services (UK), says that a downturn inevitably means a back-to-basics focus on where the company's cash is located and how its assets and liabilities compare. He hopes that the recession will prove brief, so attention can again return to areas such as mark-to market accounting.

Based in Epsom, Surrey his department looks after the group's treasury operations across Europe. So each country can look at its own business but he has an overall view of all business across the continent.

Garry observes that as the treasury function grows steadily more sophisticated, a specialist treasury management system (TMS) is more suited to the group's operations than a wider ERP system with a treasury module attached.

The department's system provider is SunGard and Toyota (UK) has used the group's AvantGard Integrity system for the past six years, initially for recalling treasury transactions, managing cash and accounting. With one UK-hosted server, the group chose Citrix to enable its European users to access the system, which Garry says is appropriate to Toyota's large infra-



Toyota UK is maximising the efficiencies of its back office processes

structure and major systems. However, he regards the ASP platform as well suited to the needs of most small and medium-sized companies and SunGard's hosted solution as a newer option that he would like to explore. "We're also a finance house and possibly use more structured financial instruments than would be the case with a typical corporation.

“We already have a much more holistic view of our liquidity...and connectivity is the key to getting this overview.”

"SunGard update the system on a quarterly basis and we have also created some custom reporting from time to time, however we use the system out of the box," he reports. "Our biggest area is reporting and the system is custom-built for our particular circumstances, with banking systems feeding into the treasury system so we check our cash and balances."

Garry says that, in common with most major companies, Toyota UK is working to maximise the efficiencies of its back office processes, using portals for greater interactivity with the market and developing processes such as automated confirmation matching.

"We already have a much more holistic view of our liquidity, helped by

using a market neutral and vendor neutral connectivity platform,

And connectivity is the key to getting this overview. That's the future! By comparison, an ERP system takes a more proprietary view of the world, rather than offering specialised functionality with connectivity points to the broader EcoSystem."

AvantGard solutions help customers connect the dots across a labyrinth of systems, processes and people. The solutions offer receivables, treasury and payments optimization and then foster collaboration through interfaces to other systems or exchanges.

However, for companies whose IT departments are feeling the squeeze

and facing a struggle to get their fair share of resources, deployment may be the answer.

Lucia Marchese, VP - Global Marketing for SunGard AvantGard reports that this has become a huge growth area, as companies economise by outsourcing their treasury infrastructure and management to the group.

"We're looking at how to best leverage hosted solution deployment, which has become one of the fastest-growing areas of our business," she reports. "And it's not only due to the IT squeeze - there are other major advantages to centralised deployment of the technology."

● Long term, over one year, where the forecast is by year.

As the time horizon extends, however, it becomes more difficult to forecast with accuracy and the usefulness of the forecast diminishes.

SENSITIVITY

Longer-term forecasts in particular should be subjected to sensitivity analysis, to quantify any uncertainties in the forecast and thus its reliability. The accuracy required will differ for different companies. If a company has ample headroom of credit facilities or a substantial buffer of cash it should be able to manage without absolute precision. For a company that is operating under stressed con-

ditions and is near to breaching any financial covenants it has given its lenders then close attention to forecasts is needed. The latter has been a feature of companies under private equity ownership where high gearing is common - cash forecasting and managing cash to target is crucial. The parameters driving forecasts may include:

- Differences in timing or amount of cashflows
- Exchange rate fluctuations
- Interest movements
- Changes in rates of inflation
- Economic influences
- Changes in the market place
- Competitor strategies

Companies will usually produce several forecasts based on a number of scenarios, ranging



Companies fail if they run out of cash or access to liquidity

from "worst case" to "best case". Given the current economic climate companies are learning to model some extreme stress tests, even incorporating highly unlikely assumptions, and then considering what extreme corrective measures can be taken.

FORECASTING USING A RECEIPTS AND PAYMENTS FORECAST

Receipts and payments forecasts are generally used for short-term forecasting. They provide a great deal of detail, but beyond about three months forward they become less accurate or useful.

CASH FORECASTING USING FINANCIAL

STATEMENTS

When preparing cash forecasts beyond three months, most companies base the forecast on projected financial statements. The two main reasons for this are:

- Beyond about three months receipts and payments forecasts become increasingly inaccurate; and
- Preparing the forecast from projected accounting data makes it easier to check that the cashflow forecast is consistent with the accounting forecast.

Forecast profit is an important input into cash forecasts but profit does not equal cash. Sales recorded typically do not turn into cash for several months if credit terms are al-

lowed for and in a recession the delay could become extended. Other costs are charged against profit but are not in themselves a cashflow, for example depreciation or provisions for potential costs.

EBITDA or earnings before interest, tax, depreciation and amortisation is often used as a proxy for sustainable cashflow from operations, but the fact is tax and interest will still have to be paid and in the words of Warren Buffett who pays for capital expenditure - the tooth fairy?

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