

UniCredit case study: Carl Zeiss



World-leading optics and optoelectronics firm Carl Zeiss turned to UniCredit when it wanted to introduce its new global cash pooling and payment structure in Central and Eastern Europe

Carl Zeiss Group is famous the world over for innovation and leadership in the optics and optoelectronics markets. The company generated revenue of about €4.16 billion in the fiscal year 2011/12 and employs around 24,000 people. Carl Zeiss is present in more than 40 countries worldwide with about 40 production sites, over 50 sales and service locations and approximately 20 research and development centres. Carl Zeiss Financial Services, which is a 100% subsidiary of Carl Zeiss AG, headquartered in Oberkochen, Germany, runs the global treasury function of the Carl Zeiss Group, including its in-house-bank and payment factory.

Three years ago, the company decided it wanted to make some big changes to how it managed its treasury operations. "We had a small shared service centre in Germany for payments that also did some tasks for our operations in Switzerland, France and the UK," explains Holger Lehmann, senior manager finance at Carl Zeiss Financial Services. "However, we had different banking solutions for each country where we operated: we used more than 30 payments systems. As a result, administration costs were high, management of so many different systems was cumbersome and there were numerous compliance concerns, regarding signatories, for example."

Carl Zeiss decided it wanted set up a payment factory that could introduce standardized processes to all global subsidiaries of Carl Zeiss. Most importantly, it planned to use a single tool across its global operations to interact with its banks instead of multiple proprietary electronic banking systems.

SWIFTNet, a bank-agnostic protocol used to exchange financial

Holger-Ingo Lehmann,
Senior Manager Finance,
Carl Zeiss Financial Services
GmbH



messages, was selected as the communications channel. As the company uses SAP across its operations (two different up-to-date versions that are a similar release level), it chose to use the ERP provider's Bank Communication Manager module, which not only facilitates communications with banks but also allows authorization of payments, monitoring of transaction status and statements. Carl Zeiss also decided to use a single format, XML. At the same time, the company wanted to introduce cash pooling worldwide (with UniCredit responsible for CEE).

Drivers for change

The rationale for Carl Zeiss's decision to change its bank communication and pooling structures radically was primarily to improve efficiency. However, the replacement of local payment and collections instruments across Europe with Single Euro Payment Area (SEPA) instruments – set to occur in February 2014 – was an important driver of the timetable for implementation.

"SEPA was an important reason for us to think about electronic banking tools," says Lehmann. "We knew that we would have to make changes simply to comply. The choice was whether we should just make changes in Europe or use the opportunity to adopt a global approach and replace domestic electronic banking systems worldwide."

Carl Zeiss recognized that it would be impossible to introduce a single interface for operations in every one of the more than 40 countries it operates. For example, SWIFTNet is as yet unable to recognize Chinese characters and other Asian countries have similar problems. Equally, in some countries there are issues with tax formats or cheque imaging, for example. Nevertheless, the company's intention is to implement its single interface in every market globally where it is possible.

Streamlining bank relationships

UniCredit was already one of Carl Zeiss's banking partners before the company embarked on its centralization project. "However, as a result of our decision to roll out a global approach to bank connectivity – and because some local banks were not able to meet our requirements – we decided to rationalize our banking relationships," says Lehmann. "As a result, we ended up with seven core banks worldwide."

As Angelika Ertl, international cash management sales, Germany, at UniCredit, explains the bank was elevated to a core bank because of its capabilities, the commitment it could make to implementing SWIFTNet and its willingness to make its balance sheet available to Carl Zeiss. "Given our network in CEE, where Carl Zeiss has operations in nine countries, we were a perfect fit for its ambitions in the region," she says.

A successful migration

Implementation of Carl Zeiss's cash pooling and bank connectivity solution occurred on a country-by-country basis and in a series of stages (preparation for which necessarily overlapped with other stages).

In CEE, the first step was to close accounts with local banks and open new accounts with UniCredit where necessary. Then the necessary documentation and technological structures were put in place to facilitate cash pooling from various entities within a country and from the country account to a header account at holding company level in Germany. Carl Zeiss has adopted a zero balancing structure, so that country accounts are emptied at the end of each day, eliminating the need to pay debit interest.

The final stage was to implement the necessary payment solutions and SWIFTNet. UniCredit uses a platform called EuropeanGate that allows UniCredit to send a single file for all payment types as well as bank account statements to UniCredit in Munich. It then checks the destination and format of each payment (for instance, whether it is international or domestic) before distributing them to the relevant countries. Once SWIFTNet was implemented, all that was required was to shut down legacy systems.

Overcoming challenges

One of the most significant challenges in implementing a global solution involving XML was that, although XML is a standard global format, each bank has implemented a slightly different version of it. "Often data fields are slightly different for each bank," says Lehmann. "While an MT101 [request for transfer] looks almost the same, each bank has different fields



Angelika Ertl, Director,
International Cash
Management Sales Germany,
UniCredit

While much of the project remains to be implemented, Carl Zeiss has already achieved several benefits. "The number of bank accounts we have in use has decreased, which has reduced complexity and the amount of time and effort that must be spent administering them in the payment factory," says Lehmann. "We have also achieved straight-through processing from our ERP to the bank, with no uploading or keying required – just one signature is necessary."

Carl Zeiss's cash pooling structure, when fully implemented, will enable it to use its excess cash for strategic initiatives or give it the option to make investments, rather than the cash simply sitting in country bank accounts. "There are also a number of benefits that can't be measured,

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that relate to the urgency of the request and whether or not it is a high value payment, for example." Equally, there are many local variations in XML data fields. "We accepted that as this is an evolving format some of the problems still have to be resolved," says Lehmann. "However, at least we have just one format to work with."

Other country-specific problems included the requirement in some countries for payments to be authorised by an individual named in a contract – who may not be the daily signatory in practice. "Fortunately, UniCredit has a dedicated team in place to ensure a smooth transition and overcome any problems of this nature," says Ertl.

Given the scale of the project, it might be assumed that the documentation and agreements with UniCredit across CEE would be an onerous requirement. "That proved not to be the case as UniCredit has a standard contract in every country where it operates," says Lehmann. "That makes things a lot easy."

Delivering benefits

Given the impending SEPA deadline of February 2014, Carl Zeiss chose to focus on Europe first: Germany will be completed by the summer, with France and Italy scheduled to follow in September. Non-SEPA CEE countries and other markets, such as the US, will follow in 2014.

such as compliance, more robust authorization rules and improved fraud protection: no single person can change or remove any data in the new system," says Lehmann. "UniCredit has been supportive and proactive at every stage of the solution. We appreciate having a single point of contact and a global relationship manager with responsibility for the solution. UniCredit's global implementation team understands our needs and goals, which has made the process easier."



Angelika Ertl
Director, International Cash Management Sales Germany
UniCredit Bank AG
Tel: +49 (0)89 378-26887
angelika.ertl@unicreditgroup.de
www.unicreditgroup.eu