

Cash collaboration

Intercompany and external collaboration is key to a successful cash-pooling project. *Finance Director Europe* catches up with Christian Duder, Constantia Industries' head of group treasury, to discuss how such a project was executed involving internal treasury teams across five countries and external banking partner **UniCredit**.



If the past few years have taught finance directors anything, it's that cash is king. After years of uncertainty in the eurozone and volatility on stock markets, everyone involved in finance knows just how important a strong, thought-out cash-management strategy can be.

The worst of the financial crisis might be over, but with negative interest rates and constant regulatory pressure, life remains difficult for corporate treasurers. Understanding how a company's cash position works remains as crucial as ever, but what solutions could multinationals that want to take charge of their liquidity position be using?

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One solution that has become especially popular over the past few years – with the need to maximise sources of capital and improve the efficiency of company bank accounts – is physical cash pooling, or zero balancing. Under this method, the subsidiaries of a corporation maintain their own bank accounts, which are then linked to a master account. Every day, at the end of trading, money is moved into the main account, where decisions can be made about what to do with it.

It's a system that provides multiple benefits; the cost of bank transactions are lowered, excess cash drawn into one master account can be invested more efficiently, and money can be stored in an area that is favourable in terms of tax.

Global thinking

One company looking to take advantage of these benefits is Constantia Industries, a large family-owned industrial holding company headquartered in Vienna, Austria, with a history that goes back 70 years. It wanted a solution that could work for a large multinational organisation.

“We're a global company,” says Christian Duder, the company's head of group treasury. “In 2013, we had approximately €630 million external revenue. Worldwide, we have 20 production sites and 32 entities consolidated in our group as of 31 December 2013. We have approximately 2,900 employees. Therefore, we took the decision, after having

a euro cash-pool in place already for years, to centralise the US-dollar liquidity and also to see how we could reduce our cost. We needed a tailor-made cash-management solution that would work for us, so we issued a call for tender with a mixture of national and international banks. The goal was to find a set up with the zero-balance solution in the US, but also have an overdraft line in Austria. This was one of the key points in the tender phase.”

To do this, the company turned to UniCredit, a leading European commercial bank with a presence right across the core CEE countries, but also a strong cash management team in US. The bank has a number of different cash-pooling systems, and offered to maximise Constantia's liquidity and cater for its specific needs.

Decision-making

The decision was made to implement the project in the US, as approximately 10% of Constantia Industries' business revenue and costs are based on US-dollar cash flows. But it involved the implementation of a US-dollar zero-balancing solution for eight different entities of the company. The master bank account was placed in the US by the UniCredit New York branch. The pool header, a non-resident account, was based in Austria with Constantia Industries AG. And other countries involved in the project included Mexico, Romania and Spain.

It had a number of special technical features, but one in particular stands out. While the cash-pooling accounts are held at the UniCredit New York branch, the funding line is agreed with the UniCredit Bank Austria. That means the US-dollar funding line agreements are subject to Austrian law, and can be closely managed and observed by the global account manager in Austria.

This was, Duder says, the fundamental challenge of the project – finding a technical solution that could offer an overdraft account in Austria and a cash-pool master account in New York.

“One of the major requirements was to have a zero-balance solution and an overdraft line in Austria,” he says. “Not too many banks were able to offer that. UniCredit had the right structure that could offer us pooling, payments and transactions in the US, but a local overdraft line at our headquarters in Austria. The reconciliation between both accounts is managed by a cash-pool engine that is fully automated and based on the electronic account statements. The credit interest is calculated by the cash-pool engine and then charged automatically. This package, together with a competitive price, was outstanding compared with the others.”



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Absolute zero

Like any other change in the finance process, moving to a zero-balancing solution posed challenges. For Duder, part of that was internal. Presenting local subsidiaries that are used to using cheques and physical branches next to the office with such a different way of doing things wasn't easy. But he soon got round it.

"Showing them a solution that involves no branch network was challenging, but due to the substantial price reduction, we did get their support. In the end, the benefits speak for themselves."

Those benefits became apparent to Duder almost immediately. Liquidity was centralised, which enabled cash to be used internally and externally. The uncompetitive pricing from smaller local banks in the US was no longer an issue and daily liquidity statements were now made available on the treasury system for eight different companies in the US-dollar accounts.

"Before our cash-pool project, it was mainly done by manual transfer of liquidity back or forth, which we did maybe once or twice a month," Duder says. "A huge disadvantage, of course, was that at every point of time we always had a very sizable amount of liquidity decentralised, which gives a headache to every treasurer. It was not the optimal situation. Now there's much more transparency. I can monitor every flow, every

exposure. I can check the internal financing limit that I grant to the subsidiaries on a daily basis and see

"The complexity of this cross-border project meant that UniCredit had to work closely with Constantia to create legal and technical solutions. The collaboration was rewarding for both parties and it was personally a great pleasure to be part of the project."

Dieter Feiertag head of CM sales international customers, UniCredit Bank Austria AG.



if there is any limit breach. There's also a parallel project that we started due to the fact that we wanted to implement the US-dollar cash pool with one system, bank and interface. That gave us major benefits especially for the smaller companies that are involved in the cash pool, as soon almost all cash flows will be reconciled automatically in SAP, minimising the manual entries to almost zero."

System of organisation

The new system also meant Constantia Industries' traditionally decentralised organisational structure wouldn't impact on the treasury's core function.

"Constantia Industries is an industrial holding company with several independent group companies," Duder says. "We have a high-standard centralised treasury-management system and a high degree of automation. This decentralised structure of our group companies, however, was one of the major issues around the US-dollar cash-pool implementation. Our IT infrastructure is heterogeneous, so it was important to implement the cash pool with a bank that could offer us a tailor-made solution to bring all interfaces and data flows into one big picture, and let it work in the most efficient way."

Having worked together in the past, both companies had a relationship that helped the project achieve its desired outcomes.

"We also had a pre-existing association with the bank in Europe that was very strong," Duder says. "The global accounts manager was excellent and we also worked with two very professional cash-management teams in Austria and New York." ■

Further information

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