

Building a Global Payments Factory at Pirelli

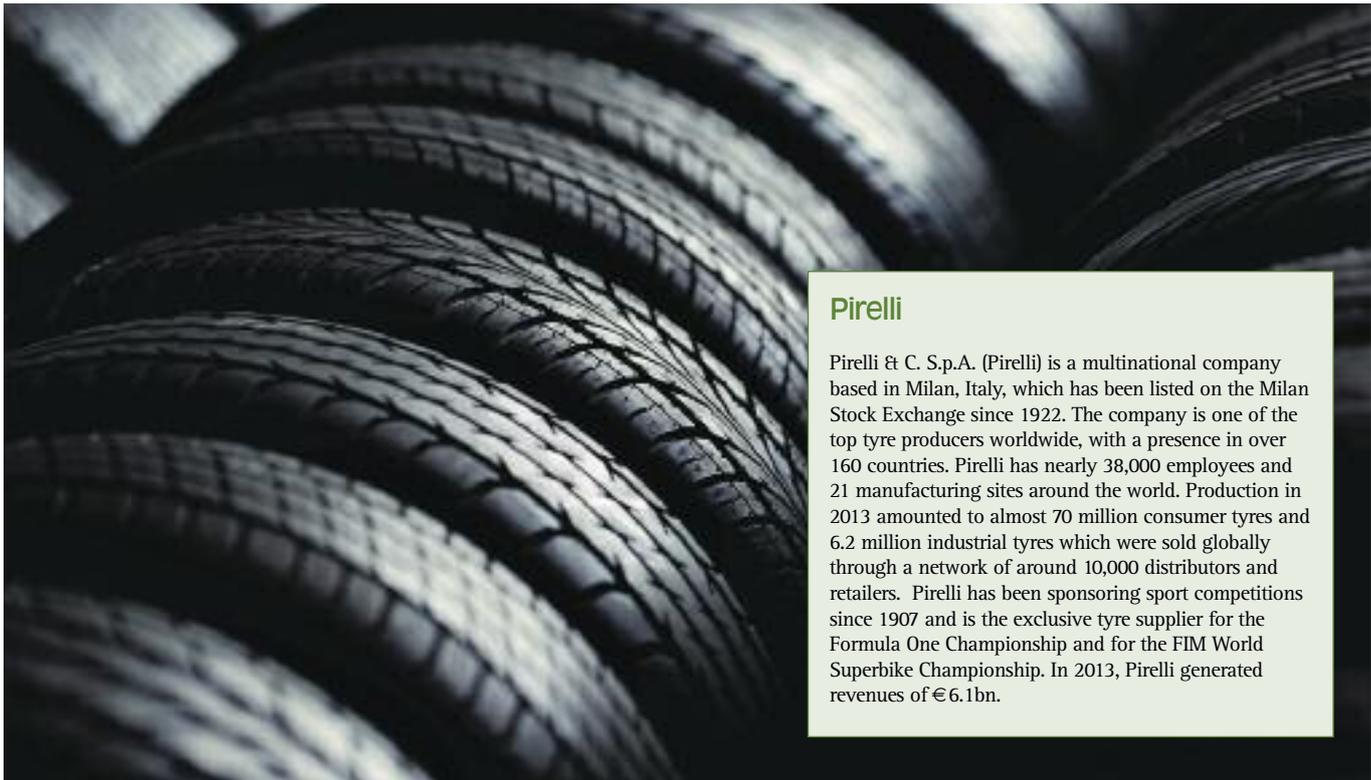
by Luca Nava, Head of Cash Management and Treasury Back Office, Pirelli



Like many companies, SEPA migration was a priority for Pirelli between 2012 and 2014. However, while many companies treated SEPA primarily as a compliance project, Pirelli took the opportunity to centralise and optimise payments processing, not only at a European level but globally. In this article, Luca Nava, Head of Cash Management and Treasury Back Office, discusses the rationale, solutions and outcomes of the project so far.

Treasury organisation

Although Pirelli is headquartered in Milan, treasury and finance activities are located in three centres: London, UK, Milan, Italy and Sao Paulo, Brazil. In the London-based treasury centre, Pirelli International plc, a team is responsible for financial planning, dealing, funding, liquidity and centralised payments (payments factory), while in Milan, there is a team focused on global



Pirelli

Pirelli & C. S.p.A. (Pirelli) is a multinational company based in Milan, Italy, which has been listed on the Milan Stock Exchange since 1922. The company is one of the top tyre producers worldwide, with a presence in over 160 countries. Pirelli has nearly 38,000 employees and 21 manufacturing sites around the world. Production in 2013 amounted to almost 70 million consumer tyres and 6.2 million industrial tyres which were sold globally through a network of around 10,000 distributors and retailers. Pirelli has been sponsoring sport competitions since 1907 and is the exclusive tyre supplier for the Formula One Championship and for the FIM World Superbike Championship. In 2013, Pirelli generated revenues of €6.1bn.



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back- and middle-office activities for Pirelli International plc and some other European subsidiaries. Finally the Latam treasury and finance centre based in San Paolo, Pirelli Pneus Ltda, is fully dedicated to South American subsidiaries

Concept and reality of a global payments factory

Our idea of building a global payments factory at Pirelli was conceived some years before SEPA became a reality, but by the time the implementation came about, the timing was such that SEPA instruments and formats could be incorporated from the start. Before embarking on the project, we identified a number of key criteria for a successful payments factory.



Global reach - Given the regulatory complexity in some markets, such as China, Russia and Latin America, not every entity could be included in the payments factory. However, the aim was for the global payments factory to incorporate as many countries and companies as possible across the Pirelli group. So far, we have been able to incorporate 52 companies across 40 countries.

SAP-based infrastructure - As Pirelli was one of the first Italian companies to implement SAP, and as SAP plays an

integral role in our business, the payments factory needed to be SAP-based. So an early task during the project was to implement SAP's treasury and payments factory modules.

Standardisation - The use of standardised formats both within the Eurozone and more widely was essential in order to achieve the efficiencies we were seeking. We therefore became early adopters of XML formats. While XML ISO 20022 is not yet fully established as a global standard, there has been considerable progress made so far, not least because it underpins SEPA payment instruments, and we anticipate future development in the way that we can use these formats.

Bank connectivity and formats - We have a specific BIC code for Pirelli, and we wanted to connect our global payments factory with SWIFT in order to achieve multi-bank connectivity through a single channel. Treasury made the strategic decision to manage the SWIFT architecture in-house rather than outsourcing to a service bureau in order to keep control of all the infrastructure elements involved in the efficient operation of the payments factory.

Project phasing

There were three key project phases for implementing the global payments factory, the first of which was intercompany flows. Given the large number of entities operating across the globe and a centralised approach to business functions such as purchasing, there is a high volume of intercompany flows, so there were significant benefits to centralising this activity. Intercompany flows are settled individually, rather than netted. Although we recognised that reconciliation tools were improving, we decided that it was easier to monitor and reconcile intercompany payments individually. Business units send instructions to the payments factory which we then check and, as long as all the instructions are correct, execute on the following business day, with account postings taking place automatically.

The first phase of the project, including building the global payments factory infrastructure, was completed in May 2012 with the first step of intercompany

payments, which was quickly followed by cross-border third-party (supplier) payments in 2013, and latterly domestic payments in 2014. Some payments processing had already been centralised in treasury, but the legacy infrastructure was not sufficiently scalable. However, as payments centralisation has been a long-standing ambition, it was far easier to co-ordinate this with each entity than in companies where the concept of centralisation is less consistent with company culture. Indeed, most business units recognised the benefits that centralised payments would offer.

Project progress

The large majority of entities' payments have now been integrated into the payments factory, so our focus now is on the final 10% of countries and currencies that are subject to more complex regulations. Some payments still take place locally, such as salaries, customs duties and tax. As the payment mechanisms for these country-specific payments often differ significantly, there is little value in concentrating them into the payments factory. Consequently, the focus of the payments factory remains the more standardised payments such as supplier and intercompany payments.

For us, SEPA represented both a compliance requirement and an opportunity to realise a long-held ambition to centralise and optimise payments processing. So far, XML formats have been implemented with our five primary banks, with local formats retained elsewhere; however, we recognise the potential that XML offers not only for standardisation at a European level but on a global basis. Furthermore, we are not yet using the full range of options that XML offers until there is further clarification on new SEPA rulebooks shared by all stakeholders. For example, XML offers not only payment transfer information, but also remittance data that can be used to automate reconciliation.

Outcomes and benefits

As a result of implementing this project, we have achieved a world-class, global payments processing centre with the highest standards in efficiency, control

Luca Nava
Head of Cash Management and Treasury Back Office, Pirelli



Luca Nava joined Pirelli Group in 1989 holding several roles in the treasury area. Since 2004 he has been a member of an industry focus group, ABI Confindustria. He played a key role in the implementation and development of a system to automate the centralisation of the management of foreign exchange risk, spending time abroad with Pirelli's European subsidiaries. During this period he was also appointed project manager of the payments factory.

In his current role as Head of Cash Management and Treasury Back Office Luca leads a team of professionals.

and security. We have reduced our costs considerably, whilst improving consistency and control over global payments, with a rigorous approach to efficiency and security. Cost advantages are both internal and external, such as enhancing the way we use our internal resources, and creating economies of scale with our five partner banks. The benefits extend beyond payments processing. For example, the accuracy and timeliness of cash flow forecasting has been improved, which is a major advantage, enabling better financial planning and more confident decision-making.

The role of UniCredit

UniCredit has been our second key partner throughout the implementation and ongoing operation of our global payments factory project. It was an important requirement of the project that the payments factory should support SEPA direct debits (SDD).

SEPA direct debit's task was one of the most critical and challenging elements of the project. But thanks to an excellent team with a very high level of expertise, UniCredit was able to anticipate, understand and overcome potential difficulties. UniCredit is among the banks with whom we have a long-standing relationship and that we consider as a business partner too.

Future plans

Looking ahead, we are planning to implement the cash management module in SAP across our entities globally. While we have improved our short-term cash flow forecasting (up to one month maximum), our objective now is to improve our medium- to long-term planning. In parallel with this, we will be expanding our use of SAP into the front

"The project with Pirelli is a flagship example of how UniCredit works on a highly integrated basis with its customers, with a single project team and common objectives. Pirelli had an ambitious project with a global scope, a huge range of local specificities that needed to be managed, and the need to comply with the new SEPA requirements. Despite these challenges, the project has been extremely successful, both in achieving its immediate objectives, but also establishing a robust, secure platform for future expansion. UniCredit is proud to be a partner of Pirelli and our relationship continues to go from strength to strength."

Stefano Gemelli, Head of International Cash Management Sales, Italy, UniCredit

office to facilitate a more efficient dealing process.

Although there are some countries that are currently outside the scope of our global payments factory, such as China and Russia, we are constantly reviewing changes to the regulatory environment with a view to integrating our payments in these countries whenever it becomes feasible to do so.

Success factors

Based on our experiences so far of implementing a global payments factory and migrating to SEPA, we would emphasise the importance of senior management commitment to the project. This is essential to ensure that all the relevant business functions and entities are motivated to give the project the appropriate level of priority. We shared targets and objectives across the whole project team, including local personnel, to avoid interrupting project momentum or fragmenting resources.

Secondly, we started the project with a detailed analysis of our business flows in each country, recognising that it is impossible to centralise flows without first having a detailed understanding of our flows, and the specificities in each country. By having this detailed understanding, we could then work closely with each

business unit to decide which flows to centralise, and make sure that these could be processed efficiently and correctly, rather than simply trying to roll out a default model that disregarded the specific needs of the business. In reality, while centralising flows is extremely valuable in improving efficiency and control, it is important not to be blinded by a vision of an ideal model, when the reality is that no such ideal exists. Instead, by being sensitive to the needs of the business, it is possible to implement a model that is pragmatic, highly efficient and welcomed by the business. □

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Stefano Gemelli has worked at UniCredit Italy since 2006. He oversees client advisory and solution structuring for cash management activities, assisting MNC and large corporates. His main activities range from internal and external consultancy related to eBanking and SWIFTNet connectivity to domestic and cross-border pooling and setting up payment factories.

