

Charting a Successful Course Through 2012

There is no reason why a company cannot chart a successful path through 2012 by taking an agile, flexible and measured approach to its cash and treasury management. If treasurers are confident and consistent, and are able to draw on the commitment and capabilities of their banks, they will be in a good position to deal with whatever challenges 2012 brings.

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These first weeks of the new year are traditionally a time for resolutions. Both personally and professionally, our thoughts turn to what we want to change and what we want to do differently in the months to come.

In reality though, and just as it was for much of 2011, businesses that are consistent and stable, and take a measured approach, will be best placed to weather what could be another stormy year. Companies that have come out of 2011 with good risk management principles and processes, and robust cash management practices in place, are well-positioned to enter the new year with the confidence to face the challenges and opportunities that lie ahead.

The Journey Thus Far

We witnessed some tumultuous events in 2011. At a macro level, Standard and Poor's (S&P's) downgrading of US debt, which was once thought inconceivable, occurred in August. The eurozone was in crisis for most of the year, and questions around what form the common currency will take in the future persist. Furthermore, natural disasters, such as the Japanese tsunami and New Zealand earthquakes, exacted immense human and financial costs.

The instability that these events created was felt by the markets, impacting ordinary consumers, suppliers, trading counterparties and companies large and small. This volatility is still being felt, and choppy waters undoubtedly remain in our path this year. We have experienced a deep, lingering, recessionary environment, and limited gross domestic product (GDP) and economic growth are anticipated in the developed world until at least 2013.

Changing Course or Staying Put?

Against this backdrop, it is natural for companies to have serious and strategic conversations about where their 2012 priorities lie. Many are faced with challenges around how to maintain revenues and market share as well as how to contain costs. The companies we've been talking to say they are focusing on their core business, risk mitigation and activities that can deliver tangible value rather than embarking on initiatives that are more opportunistic, as they might in other markets.

Interestingly, for 2012 best practice in cash and treasury management is no different to what it was last year or even three years ago. It's about managing the basics well. Cash visibility and agility are a treasurer's mantra at the best of times, and during any period of uncertainty they become even more significant.

Best practice today means that treasurers need to have, or be working towards, full visibility and transparency

of their accounts. As many businesses have become increasingly global in their operations over the past decade, in some ways this has become more challenging because it requires a truly global perspective. For some corporates, this is resulting in structural changes to their organisations that were previously difficult to achieve - and this is fast-tracking a more centralised approach to treasury.

We've seen significantly increased demand for the ability to report liquidity positions on an intraday basis, and not just to conduct overnight checks on balances and flows, because treasurers have been asked to give ever more frequent updates to their boards. This also requires having technology in place that can deliver enriched data, in a format that interacts with other systems and with key personnel, which can be acted upon promptly. Being armed with an understanding of exposures on a continuous basis is hugely powerful in a volatile environment, as it enables a company to act swiftly and take decisions in an informed way should market or macro circumstances change.

2011 also brought a greater appreciation of the need to diversify risk - be that market, operational or counterparty. It has always made sense for a company to regularly sweep its cash into one central point, located in a financial hub that aligns with that business and its footprint. Any company that does not have such a systematic process in place should make this a top resolution for 2012. In most cases this will involve rationalising the number of accounts they hold; in some it might also entail diversifying across the number of counterparties with whom they work to spread risk. In all cases however, the end goal must be for their cash to be visible and to be in the right place for their business. Companies should look to their banking partners for advice and practical support in achieving this.

For those companies with strong cash management practices already in place, the best course of action for 2012 is likely to be maintaining a steady and watchful hand. What will also remain the same this year is the importance of the treasury function. Treasurers occupy a vital and unique position within their company, in that they have a broad purview across all operations and the ability to capture board level attention, coupled with a deep understanding of how cash is flowing and risk is distributed throughout their firm.

Speaking to clients last year, we found that many treasurers found it immensely valuable to be able to share their experiences, challenges and ideas with peers in different organisations, as well as drawing support from their providers. Outside the established circuit of industry events and conferences, in 2012 I'd encourage cash management professionals to look out for any forums, be they formal or informal, which provide a platform to share ideas and impressions and discuss best practice with others in similar positions.

Broadening Your Horizons

If there is one thing that the last three years have shown us, it is how global and interconnected the marketplace has become. Many companies, from retailers and healthcare businesses to car manufacturers and insurance providers, have looked to the growing personal wealth of emerging market countries, targeting this audience to increase their footprint and customer base.

In 2012, being global and international is no longer simply a nice to have; it can be vital for the stability of a business. As consumer and business confidence in developed markets remains low, having a steady revenue stream from other markets diversifies both revenue streams and risk. However, this can also present challenges. Working in multiple currencies creates the need to hedge against volatility in the foreign exchange (FX) market. Monitoring the performance of suppliers and distributors in different jurisdictions can be difficult and time-consuming, and there will undoubtedly be local regulations and cultural and working practices to also navigate.

Businesses need to be confident that the banks and suppliers with whom they choose to work are as agile and as stable as they are, and are experts in their given markets, to avoid taking on any extra undue risk. We have already started to see the emergence of creative solutions to these types of issues, mixing supply chain financing (SCF) with selective acquisitions in order to secure the supply chain and bring a greater degree of comfort and control.

Companies will continue to ask their banks to bring new trade finance ideas and funding innovations to the table in 2012 that help to mitigate these challenges, and enable them to continue to operate and grow. We've found that the most effective and creative conversations happen when we have built up a strong, open and transparent relationship over time, and have a deep understanding of the needs of the organisation.

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Every company will have its own priorities and focuses for 2012, depending on its size, sector and geographic footprint. At a broad level the important themes for most will be stability, security and sustainability. It is likely to be a year of continued focus on core business rather than one of embarking on new projects or making grand new resolutions. Dark clouds remain on the horizon and a number of political and economic issues will need to be resolved before companies regain a true sense of confidence, with greater stability in the eurozone chief among these.

That said there is no reason why a company cannot chart a successful path through 2012 by taking an agile, flexible and measured approach to its cash and treasury management. If treasurers are confident and consistent, and are able to draw on the commitment and capabilities of their banks, they will be in a good position to deal with whatever challenges 2012 brings.

Despite the headwinds, we remain optimistic and see the future of the industry, clients' and our own business sustained by long-established, developed relationships. No doubt it will be a challenging year - but it will be rewarding too.



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