SEPA as a Catalyst for Change

by Federico Focardi, Group Finance Director, Salvatore Ferragamo S.p.A.

Salvatore Ferragamo Group

Salvatore Ferragamo S.p.A. is one of the world's most prestigious brands with a commitment to quality and integrity that extends throughout every stage of its supply chain, from the sourcing of materials and manufacturing inputs to the point of sale. This same commitment extends to Ferragamo's internal processes, such as cash and treasury management. In this article, Federico Focardi, Group Finance Director at Ferragamo, discusses how the company has leveraged its SEPA migration project to embark on a transformation project, including the appointment of a global cash management bank and the centralisation of payments through a highly efficient payments factory.

Project background

We have around 32 legal entities that have relationships with suppliers, each of which has historically been responsible for its own payments. We recognised that this approach was leading to some inefficiencies. In particular, it was difficult to standardise processes and controls in each country, given fragmented bank relationships and technology systems. Payment approvals were also cumbersome, and often required senior management time to engage in manually-intensive processes, particularly when multiple banking systems were involved.

Catalyst for change

The introduction of SEPA and the obligation to migrate to the new payment instruments provided the opportunity to address these challenges by centralising payments and implementing efficient, standardised processes. We made the decision to implement a payments factory as a related initiative to our SEPA migration – not only would this enable us to improve efficiency and reduce costs associated with payment processes, but it would also help us to manage liquidity more effectively. The payments factory would operate using a 'payments on behalf of' (POBO) model, where a single entity (the mother company) makes payments on behalf of European subsidiaries, supported by the correspondent recording on intercompany accounts. We would also benefit from a reduction in the number of bank accounts required, as we would need only one account per currency, and leverage ISO 20022 formats – which enable the entity on whose behalf a payment is being made to be recorded on a payment and passed through to the beneficiary to assist with reconciliation.

A partner for change

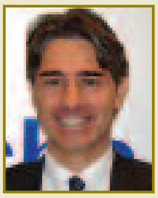
The appointment of a cash management bank that would support both SEPA compliance and our wider payments transformation objectives – initially in the euro area, and ultimately on a global basis – was a key requirement. We approached a variety of banks to assess the resilience of their payments processing, strength of their cash management solutions and the depth of market knowledge. Following a rigorous process, we made the decision to appoint Deutsche Bank. In particular, we were impressed by the quality of Deutsche Bank's advisory approach to, as well as the Bank's technical support in areas such as XML ISO 20022 implementation, payment centralisation and SAP integration. Deutsche Bank also had a proven track record of working with comparable corporations on a global basis.

Ferragamo

Salvatore Ferragamo S.p.A., founded in 1927, is the parent company of the Ferragamo Group, one of the major players in the luxury goods industry, which focuses on the creation, manufacture and sale of footwear, leather goods, clothing, silk products, other accessories and perfumes for men and women, all made in Italy.

With over 3,300 employees, an extensive network of 606 single-brand stores, and a presence in the world's most prestigious multi-brand department stores, the Ferragamo Group sells its products to customers in 92 countries globally.

The luxury goods market in Italy



The fashion and luxury sector, with an estimated market worth in excess of EUR 200bn, is one of Deutsche Bank Italy's strongest industry portfolios and a strategic area of focus for future growth. We see an increasing demand from group treasurers in this sector, who face unprecedented pressure due to the financial crisis, market turbulence, counterparty risk and regulatory issues to review their payment organisation and process chain.

Currently, there is a strong focus on developing markets with higher long-term growth potential, but with this also comes regulatory, economic and foreign exchange (FX) risks at a time when consumer behaviour is changing. Technology is now being used in the payment and shopping process, which is acting as the catalyst for many Italian treasurers to take a more efficient and innovative approach to their cash management, and to leverage cash balances in one country or region to invest in another.

We see the Italian market at a different stage of progress in terms of leveraging the current market opportunities – on a local, regional or even global basis. While some treasurers are re-engineering their payments chain value from card acquiring (POS-eCommerce) and cross-currencies payments, to liquidity management in regulated markets, others focus on ERP system integration.

To remain competitive, treasurers need to align the development and challenges of their business across the markets with the ongoing assessment and restructuring of their treasury strategy. This encompasses the introduction of common standards; simplified processing without compromising internal security; understanding of the documentation process requirements in all the different markets; improving cash flows; reducing costs and facilitating access on a domestic and cross-border basis.

Treasurers are looking for advice and support from their banks to ensure that central expertise is made available locally.

In Italy, SEPA migration is viewed by many treasurers not only as regulatory requirement, but more important as an extraordinary opportunity to introduce innovative and efficient Payments Services Centre for the 'Next Payments Generation' ('payments on behalf of' (POBO) and 'collections on behalf of (COBO) integrated to FX). Centralised and streamlined cash management processes, a more accurate overview of short-term liquidity on account balances and achieving economies of scale are all imperative today.

Thanks to our market-leading transaction services, global network and commitment to state-of-the-art technology, Deutsche Bank is the trusted cash and trade solutions advisor of choice for many Italian companies in the luxury goods sector.

Tiberio Cesaroni
Head of Cash Management Corporates, Italy, Global Transaction Banking, Deutsche Bank

“Technology is now being used in the payment and shopping process.”

> Thanks to FX4Cash, we will be able to increase the efficiency of our organisation's day-to-day operations.

Organisational and technical impact

We have already implemented SAP's In-House Cash module, which allows us to manage the inflow and outflow of payments, and used as the basis for the payments factory. This module enables us to streamline and automate the external financial flows – as well as the associated intercompany transactions when making payments on behalf of group entities– and is now closely integrated with Deutsche Bank's web-based electronic banking solution.

Group subsidiaries have responded very positively to the introduction of the payments factory. In the past, not only did local finance teams need to input payments information into SAP, but they also needed to manage – and navigate – local banking relationships and systems. Under the new arrangements, group companies simply need to input or upload payments into SAP, with no further need for them to maintain local systems and bank relationships. As all payments-related information is held in a single system, there is also no need to manage different user security rights and passwords. At the same time, users have complete access to payments-related information, including the ability to drill down into payment details to access a complete set of information in SAP. Critical to the success of the project was the support of all the functions involved, in particular the administration and IT department.

Project progress

We have now completed the first phase of implementation – including the centralisation of payments for all seven companies in the euro area, a single point of access to bank account information for our European entities, and migration to SEPA Credit Transfers (SCT) using XML ISO 20022 formats.

The next step is to roll out the payments factory to our businesses in the UK and Switzerland (started in September 2013), culminating in the inclusion of all our global European entities and centralised FX payments.

The ability to manage foreign cross-currency payments and receivables has become an integral part of our organisation's day-to-day operations. Using Deutsche Bank's innovative, cross-border and cross-currency payments platform, FX4Cash, to execute our foreign currency payments directly out of a euro account was critical, and also allows us to maintain only those currency accounts that are really needed. Thanks to FX4Cash, we will be able to increase the efficiency of our FX dealings, by streamlining the process of settlement and improving transparency for all FX conversions, even in non-deliverable currencies. We will achieve significant costs savings through the consolidation of accounts, elimination of idle local cash balances and aggregation of FX trades.

In some regions, such as China, there are both regulatory and demographic complexities, so we will rely heavily on Deutsche Bank's market expertise and international connections to achieve our operational and financial objectives, whilst observing the relevant regulatory requirements.

Success factors

Although there were inevitably some challenges, as expected with a project of this scale and complexity, these were overcome quickly through the efforts of our internal team and Deutsche Bank. For example, the Bank has been able to offer significant expertise on ISO 20022 formats, shared experiences on successful SEPA migration and advice on best practices.

We have already obtained a variety of benefits from our payments factory. While business processes were fragmented and inconsistent in the past, necessitating significant manual intervention, we have now achieved streamlined, automated processes based on a single technology platform, reducing costs and risk of error, and in addition strengthening the authorisation monitoring process. We have two payment cycles each month and only a few urgent payments and some local payments such as tax payments that cannot be centralised, which fall outside of these cycles. We have a single banking system (db-direct internet) providing a single point of access for account balance and transaction information, which will include all our accounts globally as we roll out our project from Europe into the Americas and Asia Pacific.

With centralised cash and payments processes across the Eurozone, we have reduced our bank costs by rationalising bank relationships and accounts, and leveraging SEPA payment instruments. SEPA migration, appointing a cash management bank and centralising our supplier payments were the first steps in our transformation process. These steps form the basis of a wider programme of cash and treasury transformation. For example, in addition to rolling out our payments factory globally, we will be seeking to optimise our cash pooling arrangements. Now that we are exchanging XML ISO 20022 messages for our SEPA payments, we can leverage the same format not only for payments in other regions, but also for centralised collections. For example, we are looking to centralise collections for the euro area based on XML formats on a 'collection on behalf of' (COBO) basis, which will permit greater efficiency, control over collections and simplified cash management arrangements.

In conclusion

It is unlikely that we would have been in a position to justify the budget and resource requirement to embark on this project had it not been for SEPA. SEPA is an opportunity and a catalyst for change – not simply a compliance issue – and we have already obtained considerable operational and financial advantages, including both direct cost savings and an enhanced ability to manage cash and working capital effectively.

Federico Focardi
Group Financial Director, Salvatore Ferragamo SpA

Focardi is in charge of the overall financial administration of the Group, including funding, investments, intercompany credit and debit relationship. In addition, he is responsible for the co-ordination of the company group treasuries, interest rate risk management, forecasting and final financial reports, financial accounting and the management of relationship with Italian and foreign financial institutes. He heads a team of six people.

Focardi holds a Bachelor of Science degree in Economics and Banking from University of Siena.