

CASE STUDY

Company Name: **Chalhoub Group**

Industry: **Luxury Goods**

Employees: **12,000+**

Headquarters: **Dubai, United Arab Emirates**

Website: **www.chalhoubgroup.com**

Purchased System: **December, 2013**



Centralising the Chalhou Group's Treasury Operation

Based on an interview with James Adams, Group Treasurer, and Shiban Patel, Treasury Analyst, Chalhou Group

The benefits of centralised Treasury operations – and of in-house banks – are today of increasing interest to more and more successful corporations in the Middle East. This case study explains why the Chalhou Group built a new Treasury department, outlines how it was set up and automated, and summarises the benefits which are now being achieved. It concludes with a few recommendations for others who are considering similar developments.

economies of scale in the management of Foreign Exchange risk and of cash, and to improve the visibility and mobilisation of cash, in what was a typically decentralised corporate structure.

At the time, there was no centralised Treasury function at the Chalhou Group. Chalhou's management team did not have clear, up-to-date visibility of the organisation's overall cash balances, or of the group's financial risk due to the rapid pace of growth. Some entities were running cash surpluses, whilst others were overdrawn. Accordingly, the senior management team decided to initiate a project to create a new central Treasury operation, at the corporate head office in Dubai.



James Adams

Initiating the Group Treasury Project

The internal resources for establishing a professional Treasury operation from scratch were limited, so Chalhou commissioned one of the big 4 consulting firms to perform the necessary research and analysis. The firm reviewed the 'as is' situation, and proposed a target operating model for Treasury. Chalhou then built a team to establish the new department under these parameters. A key feature of the model was the implementation of a modern Treasury Management System ('TMS') to underpin operations, and to provide automated support for core activities, with the required security, control and transparency, and with high grade audit quality.

The project team consisted of a cross-functional

Why Build a Group Treasury?

About two years ago, the Dubai based Chalhou Group's sustained business success and growth caused the CFO and CEO to decide to establish a Group Treasury department. The primary reasons for doing so were to take advantage of the

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panel from the consulting firm and the Chalhoub Group. For the system selection and implementation processes, this also included Chalhoub IT and Legal specialists. There was a full time project manager to drive things forward, and senior management were actively involved in monitoring the direction and progress of the project, and to ensure that it was fully supported throughout the organisation.

The Target Operating Model

The target operating model identified four key business objectives for the new Group Treasury:

- Centralised cash management.
- Centralised FX risk management.
- Establishing best practice governance.
- Achieving the operating benefits of automation.

The structure of the new department that was created now consists of seven professionals, including legal, IT and accounting.

The Technology Investment

The team built the business case for the technology investment to secure a budget for the project. The business case needed to demonstrate a tangible return on the investment, as well as the intangible benefits of enhanced control and financial risk visibility. The business case was based upon the benefits of the better use of cash through pooling and cash concentration, and of improved FX transaction pricing.

Selecting a TMS

The team created an RFP, which was sent to an initial panel of five TMS vendors. RFP response analysis enabled Chalhoub to shortlist three vendors, who gave solution demonstrations to the team. Each vendor was provided with a pack of representative actual data, and the team scored the demonstration results.

The Chalhoub Group selected the Kyriba SaaS TMS, which was considered the best fit for the Group's business requirements and budget. 'The system is not too heavy, and it has a modular structure that can support potential growth requirements in the future. The fact that Kyriba has recently opened an office in Dubai verifies their commitment to the region,' explains Group Treasurer James Adams.

The Roll-Out

The Treasury project's high level sponsorship by the Group Executive Committee assured a smooth roll-out to the operating companies. This required educating all stakeholders about the benefits for both the operating companies and the Group.

The cash pooling roll-out involved onerous documentation, compliance and administrative processes. Chalhoub deployed a combination of notional pooling and physical cash concentration, according to their Partner Bank product offerings and the various regulatory requirements.



Left to right: Khalika Kharicha, Jerry Lorilla, James Adams, Shiban Patel



Left to right: Roshni Ramachandran, Jerry Lorilla, Emily Dimaranan, Shibhan Patel, Khalika Kharicha, James Adams

Chalhoub's Banking Network

At an early stage, Chalhoub reviewed and updated its banking relationships, to implement the quite complex cash pooling arrangements needed, and to set up the required credit facilities and structures. The Chalhoub Group now works with 19 different banks, operating about 200 bank accounts in 15 different currencies. Chalhoub has three core Partner Banks, and also works with local banks that can provide multiple branches to service the Group's retail business.

Robust SWIFT bank communications are outsourced to Kyriba, who are a SWIFT bureau.

Cash Management Benefits

The centralised structure gives Treasury real time visibility over the Group's network of bank accounts. Chalhoub has successfully set up cash pooling arrangements wherever permitted, meaning that they are now effectively using cash surpluses in some parts of the Group to finance shortfalls in others. This innovation has generated valuable interest savings, by minimising external borrowings, and by enabling surpluses to be aggregated for investment at the best available rates.

FX Benefits

The central Treasury now has full visibility of the Group's Foreign Exchange exposures. Treasury Analyst Shibhan Patel elaborates: 'we are now able to net many exposures internally, wherever feasible eliminating the need to buy and/or sell in the FX markets - and thus avoiding the related costs. We can easily identify the remaining exposures, and we hedge them in the markets in compliance with Treasury policy. As we aggregate individual

exposures internally, we need less frequent market interventions, and we are able to command finer prices for our transactions.'

Treasury Control

The Kyriba TMS provides the required automation support for Treasury's STP workflows, ensuring that bank connectivity and treasury management work together seamlessly, in compliance with treasury policy. The system's security and control facilities will ensure that system access rights are fully controlled, to protect the use and reporting of sensitive Treasury information.

In-House Banking

'Chalhoub Group Treasury has established an active in-house bank function to automate the organisation's key cash and FX management functions - which is quite a change from the highly decentralised situation of just two years ago,' James Adams comments. 'In-house banking is quite a new concept among corporations in the Gulf Region and the Middle East in general, where decentralised business models have generally been the norm. The Chalhoub Group's senior management team initiated and drove through the Treasury project to enable the Group to enjoy the benefits and efficiencies of international best practice Treasury operations.'

Future Growth Plans

There are numerous possibilities for Chalhoub Treasury to extend its use of the TMS, subject of course to a positive cost/benefit analysis for each alternative. These include automated bank account management ('BAM'), reconciliation, payments management and financial accounting.

Summary

There are many private companies in the Middle East that have grown rapidly over the past decade, but lack a clear approach to Treasury management. In some instances, this has created inefficiencies and several challenges for financial risk management, particularly in the current environment in which greater levels of automation and control are increasingly accepted as best practice. Chalhoub has taken the initiative by successfully creating a value-adding central treasury operation.

James Adams adds: 'If your senior management team decides that establishing a new Group Treasury is the best way forward, I offer the following recommendations to those responsible for the project:

- Take the time to research, define and document all the business requirements from the outset, so that the project can be accurately planned, measured and managed. This should minimise delays and errors.
- Do not underestimate the human resources needed for success! Work with your team to identify the necessary resources to complete the project as planned.
- Consider using an external advisor to provide the expertise you do not have in-house, to validate your planning, and to add value as specifically needed.
- Ensure that your detailed planning includes clearly defined targets and deadlines, so that you can measure progress accurately, can identify potential problems and delays, and can define and initiate any necessary adjustments and corrections.
- Ensure that you organise sufficient resources (including legal) to complete the demanding administrative processes required for setting up cash pools and borrowing facilities without delaying the project.
- Secure the backing and participation of senior management, to provide authority for the significant process change involved in implementing a new central Treasury.'

About James Adams

James is the Group Treasurer at the Chalhoub Group, a leading partner for luxury across the Middle East, expert in retail, distribution and marketing services. He is responsible for all aspects of Treasury, and has recently led several projects to establish the new function within the firm.

Prior to joining Chalhoub in 2014, James was a Senior Manager in the Deloitte Treasury Advisory team based in London. He has worked with Group Treasurers and CFOs at a variety of companies in the UK, Europe, Middle East, North America, Russia and Asia. His particular areas of interest are Treasury Systems, Risk Management and Treasury Strategy.

James is a Full Member of the Association of Corporate Treasurers (MCT) and a Chartered Management Accountant.

About Shibhan Patel

Shibhan is currently a Treasury Analyst at the Chalhoub Group. He has worked closely with the Group Treasurer to set up the new, centralised Treasury department within the Group. Whilst primarily looking after Front and Middle Office activities, he has also been involved in managing several projects ranging from implementing systems, to advising on Treasury best practice policy and governance.

Prior to joining the Chalhoub Group in 2014, Shibhan worked at ConocoPhillips and Phillips 66 in London, where he played an integral role in setting up the downstream company's Treasury team as the oil and energy giant went through a demerger.

Shibhan is also a member of the Association of Corporate Treasurers and has completed the certificate in International Treasury Management (CertiTM).

About the Chalhoub Group

The Chalhoub Group has been the leading partner for luxury across the Middle East since 1955. As an expert in retail, distribution and marketing services based in Dubai, the Group has become a major player in the beauty, fashion and gift sectors regionally.

With a growing workforce of more than 12,000 people, implemented in 14 countries, and a network of over 650 retail stores, the Group's success is attributed to its most valued asset: highly skilled and dedicated teams.

By demonstrating commitment to sustainable business, the Chalhoub Group was awarded in 2015, for the third consecutive year, the CSR Label from the Dubai Chamber of Commerce and has been accepted as a new member of the United Nations Global Compact Community.