Treasury Outsourcing Case Study: GeoLogistics Corporation

GeoLogistics Corporation was formed in February 1996 as a global provider of logistics and transportation services for manufacturers and distributors in industries such as technology, communications, business equipment, medical and aerospace/defense. The company has grown rapidly, executing five major acquisitions within 30 months, bringing 1999 sales to $1.5 billion – about 50% of which is derived from outside North America. The company is now a global organization with operations in 32 countries, predominantly in North America, Europe and Asia.

Brief outline
In response to increased trends in globalization, centralization and outsourcing across a wide range of industries, the founders of GeoLogistics sought to create a global organization that would provide an alternative to a corporation’s inhouse transportation/logistics departments. To do this required the acquisition of far-reaching resources and a lean, efficient network to connect those resources, in order to maximize the efficient use of cash and working capital.

Although the formation of GeoLogistics’ worldwide network and the various acquisitions allowed the company to expand its operations globally, it also created a complicated financial and treasury structure. This forced the company to integrate several disparate treasury functions into a single, international treasury operation. The company needed to streamline operations and improve efficiencies, but faced a challenge familiar to many multinational companies: executing effectively with limited resources. With a clear plan outlining strategies, priorities and selection criteria, GeoLogistics set out to identify the best solution to meet its needs, the end result of which was the establishment of an efficient, outsourced international treasury operation, thus creating a platform for future growth.

Project definition
For many large multinational companies, the tremendous resources needed to manage global treasury operations effectively are readily available. But for some companies of lesser size it is often a challenge to find workable solutions that meet both their needs and their budgets. Now, however, a variety of financial structures are available that companies can take advantage of to accommodate such issues.

As GeoLogistics continued to grow its network through acquisitions, the need for greater control over international treasury operations quickly became obvious. With more than 80 banks serving 30 countries in Europe and Asia alone, there was a clear need to improve international cash management, reduce global debt load and trim the number of banking relationships. Also, subsidiaries needed to be encouraged to trade more efficiently among themselves.

All these circumstances had led to the creation of an international corporate treasury structure that was complex and unwieldy, with high costs and low efficiencies. As a newly formed company, GeoLogistics had no established treasury strategy or cost-mechanism in place, so it would have to start from scratch. Recognizing that it faced challenges that could not be solved in one fell swoop, it set three main objectives to initiate the structure: reducing debt, improving settlement practices and increasing the efficiency of cash management.

On the basis of the above objectives, it was decided early on that GeoLogistics needed to establish an international treasury centre outside the US to complement its US treasury function. In addition, because of a lack of internal resources, GeoLogistics determined that it would be best served by entering into a partnership with a treasury service provider to assist with the establishment and management of such a treasury function.

The international treasury solution
GeoLogistics had a clean slate on which to draw up the ideal treasury structure. The plan was to start simple and build a platform for future growth. The ultimate decision was to establish a centrally managed international treasury services centre in the most operational and tax-efficient jurisdiction. Once this was accomplished and initial successes were achieved, it would be easier to justify future initiatives.
The two critical issues that needed to be considered with respect to establishing GeoLogistics’ international treasury centre were:

(i) Selection of the corporate treasury location and
(ii) Selection the treasury service provider.

Choosing the corporate treasury location

Although GeoLogistics is headquartered in the US, it has multiple subsidiaries and agent partners around the world. The decision on location would therefore have to take into account a number of important considerations (tax, treasury and business). To help it arrive at a decision GeoLogistics established a selection criteria matrix, as follows:

Tax considerations: including the taxation treatment of the treasury centre income; access to tax treaties to minimize withholding taxes; favourable treatment for capital, stamp and transfer taxes; the availability of rulings; a low cost exit strategy; and regulatory support.

Non-tax considerations: including the availability of a sophisticated banking infrastructure; local IT and telecommunications capabilities; government co-operation; access to experienced employees; labour costs; the availability of an agency structure (i.e., outsourcing); participation in the EU/euro; and time-zone considerations.

There are numerous locations worldwide where a company can establish an international treasury centre. The most developed offshore funding and financing vehicles, however, are located in Europe – partly as a result of the fact that many US multinationals established their first overseas operations in Europe, and partly due to Europe’s developed financial and political environment, not to mention the willingness of European governments to offer integrated financing structures, tax treaties and cash management practices.

The main international treasury locations in Europe are Belgium, Germany, Hungary, Ireland, Luxembourg, the Netherlands, Switzerland and the UK. Some of these jurisdictions are pure financial centres (Germany and the UK), whereas others have developed around favorable fiscal incentives. GeoLogistics’ preference for a jurisdiction that could provide sophisticated treasury expertise and the appropriate fiscal incentives narrowed the choices down to Ireland and the Netherlands. These two countries not only offered the most favorable tax environments, they also had sufficient agency (outsourcing) capabilities to meet GeoLogistics’ needs. The Irish agency structure, however, was the more developed of the two locations, as there is a large group of treasury outsourcing service providers in Dublin. More than 400 agency treasury structures are currently being managed there (50% from North America) and, despite the availability of a greater number of treaties in the Netherlands, the choice for locating GeoLogistics’ new centralized treasury service centre became Dublin, Ireland.

The Dublin International Financial Service Centre (IFSC) was established by the Irish government in 1987 with EU backing. It provides licenses to financial institutions, which are then able to offer treasury agency services to foreign corporations. The agent bank supplies the staff and resources to perform a full range of treasury functions, giving customers access to products, services and expertise without the overhead investment, in addition to a favourable taxation environment.

Under this structure, all administration, reporting and compliance activities, as well as functional operations, are managed and executed on a day-to-day basis by an outside service provider. An ideal arrangement for mid-sized corporates with limited internal resources, outsourcing reduces administrative burden and costs and increases flexibility by providing access to state-of-the-art treasury systems and experienced banking professionals to manage operations. The following figure provides an outline of the proposed treasury structure.
Choosing the service provider

GeoLogistics requested proposals from several large financial institutions that have agency capabilities under the Dublin IFSC. It used specific criteria on which to base the final decision, including how significant its business would be to the selected service provider and the bank’s ability to provide the personalized attention that GeoLogistics desired. In the end, the choice was ABN AMRO Bank, which had an established IFSC agency capability, an international network and the treasury outsourcing expertise necessary to achieve the objectives established by GeoLogistics. In addition, LaSalle Bank, a subsidiary of ABN AMRO, is part of the company’s domestic credit facility with the capability to provide domestic cash management and banking services.

ABN AMRO’s IFSC is staffed by experienced banking professionals with specialized skills in accounting, operations, treasury and administration. GeoLogistics was assigned a dedicated account team composed of a key relationship manager and supporting members representing each important day-to-day function required in managing a treasury department. A governing board of the treasury vehicle (an Irish legal entity) oversees the account team and approves all decisions. This board is made up of a director from ABN AMRO, a member of GeoLogistics’ treasury department and legal advisers.

The responsibilities of the service provider and the company are laid out in a detailed agency services agreement. In addition, the daily management of the treasury centre is governed by operating guidelines developed and approved by the service provider and the board of directors. These guidelines were established for all activities, and both the service provider and GeoLogistics retain control over certain functions: the service provider performs all execution tasks as detailed in the operating guidelines and GeoLogistics controls decision-making via the governing board.

The operating guidelines outline policies for investments, lending, funding, foreign exchange, disbursements (including third-party payments) and financial and management reporting. A list of the activities that can be provided by a service provider is outlined in below.
ABN AMRO’s IFSC provides a selection of these services to GeoLogistics with respect to the management of the corporate treasury function.

**Implementation**

Working with the objectives that GeoLogistics had initially established, the board identified three priorities for reaching the desired level of efficiencies:

1. **Reduce international debt levels and place all inter-company lending through the IFSC.** Certain sacrifices were required to achieve this target, but the group companies were expected to benefit. In addition, the company as a whole gained a lower cost of debt, a simplified structure and increased flexibility for the future. In complying with certain debt covenants it was necessary to reduce the company’s debt by a targeted amount and within a relatively quick timeframe, without compromising capital requirements. Fortunately, the individual borrowers throughout the company had relatively modest needs and this allowed it to spread the benefits across a wide base of subsidiaries.

   It was also important to keep it simple to avoid confusing the process and utilize cashless transactions whenever possible to help simplify cash-flows. The execution plan allowed for two or three rollovers to break in the subsidiaries that were not expected to react positively to the change. By easing them through the transition, their concerns were alleviated and the programme had time to reach a steady state. In addition, the plan called for strict adherence to the designed system to increase the level of discipline.

2. **Establish a netting system for inter-company settlements.** GeoLogistics processes a large number of inter-company transactions, which makes the establishment of an efficient netting system an absolute necessity. The previous netting system had become expensive to administer and there was a lack of discipline in adhering to settlement practices. To ensure the success of the programme, foreign exchange providers, but the company began enforcing settlement disciplines, decreased the number of settlement dates and measured performance on a regular basis.

3. **Design and install a European cash pool and rationalize the group’s bank structure.** A key challenge associated with this task was to keep the daily/weekly pooling activities separate from the inter-company lending conducted by the IFSC. The board would also have to determine the extent of outsourcing involved...
with this function in relation to the administrative requirements. Other considerations included the seasonal cash flow patterns inherent in the freight forwarding/logistics business and the impact on existing bank relationships.

This would be the most difficult of the three initiatives on which to gain agreement. To secure buy-in, the benefits had to be real, clear and measurable. The key was to encourage the member subsidiaries to participate in the pool and to develop an understanding of the benefits over time.

**Results and future opportunities**

In its first year, the outsourced treasury operation more than lived up to GeoLogistics’ expectations. To date, the results are as follows:

- Reduction of idle cash by approximately US$20 million, with a corresponding reduction in external debt.
- Centralization of all inter-company lending activity through a single IFSC vehicle, combined with uniform hedging of foreign exchange exposures and interest rate management.
- Establishment of a monthly netting system, resulting in significant cost reductions and improved flexibility.
- Design of an effective euro-based cash pool, which is currently being installed.
- Increased control with a simplified structure, reduced costs and increased liquidity.

With each success, GeoLogistics realized the tremendous potential of the IFSC operation and began planning for future initiatives that would expand the use of the IFSC and associated benefits. Specifically, the company targeted more effective use of Asian cash resources, enhanced foreign exchange management capabilities, utilization of leasing and financing opportunities and the establishment of a European credit facility.

**Conclusion**

The most important lesson that came out of this experience was that it does not take the resources of a huge, multinational conglomerate to implement a successful international treasury programme. Many of the strategies and tactics employed by the treasury team are tried and tested by large US-based international corporations. What made this situation unique was the creativity applied to come up with the solution. From the start, the GeoLogistics team set realistic expectations for progress and results and, with each success, confidence in the system grew. The end result of this initial phase of implementation was a strong, flexible treasury structure poised for further growth and development.