

Case study: WPP

With a collective cash balance of \$30m, bringing WPP's 20 Turkish subsidiaries into the group's European cash pool was an exciting prospect. HSBC's local expertise, global reach and world-class systems made it a reality.

Global marketing services group WPP is a vast family of 150 businesses operating in 107 countries worldwide and employing more than 135,000 people. Between them its companies work with 345 of the Fortune Global 500, 29 of the Dow Jones 30, half of the NASDAQ 100 and 33 of the Fortune e-50. It's also a financial powerhouse with annual billings of £37 bn. It's one of a select few companies that can borrow and spend billions of dollars to further its corporate strategy. But in an environment where finance is hard to come by and credit terms are becoming increasingly rigorous, it's crucial that the group is able to make every penny of cash in its many businesses work hard.

"WPP runs four different treasury centres around the world," explains Thierry Lenders, Director, WPP Group Services at WPP. "We have the UK headquarters; a regional centre in the US that handles the Americas; one in Hong Kong for AsiaPac; and my office in Belgium, where our role is to develop and implement cash pooling for WPP's continental European operations, as well as the Middle East and Africa."

Not every country provides a favourable environment for cross-border liquidity management. Much depends on local tax and insolvency regulations, with Turkey falling into the "difficulty" category until January 2007 with the introduction of the new corporate tax laws. During the annual review of financial management of the 22 WPP companies based in the country, it became apparent that changes in the tax code meant cross-border pooling was now a possibility. With an average cash balance of \$30m across those entities, Lenders needed to respond quickly.

Getting started

"We collected information from each company's finance director [FD] on their cash position, payments, accounts and so on," says Lenders. "Then we presented that data to HSBC. We had a kick-off meeting with representatives from HSBC's London Customer Implementation team and their people in Turkey at the start of 2008, and they designed a new approach."

The solution was a phased strategy, with local entities gradually moved over to HSBC bank accounts in Turkey. As well as providing a uniform approach to local banking, this allowed for a straightforward sweeping arrangement, bringing surplus cash into a notional pool in the UK, denominated in Turkish Lira. This allowed Lenders' team to maximise interest on cash balances, as well as repatriate funds much more easily.

"That means we can use it to manage group debt much more efficiently and avoid substantial borrowing requirements," says Lenders. "The ability to repatriate cash on a daily basis was quite a revolution. In the past we would have collected the money annually as dividend and while we continue to have dividends paid annually in line with WPP policy the ability to fund positions in Turkey and to repatriate surplus cash daily has significant economic benefits for WPP."

"The electronic statements are all there, in one place, so we can always see the cash available," says Lenders. "Of course, we've been using HSBCnet with other cash pooling networks for some years and we've seen constant improvements in the way it works."

Selling the pool

Although the benefits for the group treasury team were compelling, selling the idea to the local FDs was less straightforward: "Each FD in Turkey had been free to choose their own banking arrangements," Lenders explains. "Turkey has an extremely competitive market and they were used to splitting accounts between four or five banks to get the best service for each of their requirements."

Although that meant the Turkish FDs were under pressure – collectively managing between 140 and 150 different accounts, in Turkish Lira, Euros, Dollars and Sterling – they also felt they had a lot of control.

"WPP as a group is de-centralised. Local FDs are relied upon to control their own cash positions."

That put the onus on Lenders and HSBC to sell the new approach: "We had to demonstrate the benefits in terms of available interest rates and reduction in banks charges," he says. "The new set-up meant we could offer them a single, unique tariff for all the Turkish businesses, which was a major reassurance."

"HSBC conducted a number of face-to-face meetings with local FDs of the numerous WPP companies operating in Turkey, in order to present a high-level overview of the liquidity solution and demonstrate the underlying domestic banking solution tailored for local WPP companies," says Ibrahim Erkman, Payments and Cash Management Sales, HSBC Turkey.

"The solution incorporated a special WPP group tariff, designed to demonstrate economies of scale that could be achieved, as well as additional value added services to assist the FDs' current operational processes and procedures. These were welcomed by the local FDs and greatly smoothed the transition of banking to HSBC."

Partnering with HSBC, which had made substantial investments in its Turkish network as well as being a genuinely global banking partner, made all the difference. And thanks to HSBC*net*, local FDs could see exactly what they had committed to the notional pool, reassuring them that their cash was still available.

Efficiency and good relations

The secret to making the transition work was clear communication between the different parties – WPP's treasury centre, its local businesses, HSBC in London and the local banks. "For the system to work well, all four have to have great relationships with each other," says Lenders. And the local FDs realised they would still have responsibility over their daily cash flows. "They still have to administer their payables and receivables. And it's absolutely critical for the success of any cash pooling solution that working capital for each entity is accurately forecast. Their fears about the new arrangements have certainly been allayed now it's up and running." The Turkish businesses use their forecast of working capital requirements to determine what cash they can sweep into the pooled account.

Strength in numbers

Ultimately, any cash pooling arrangement thrives on economies of scale. Because WPP was already using the HSBC*net* system, adding new territories is relatively low-cost. It's not zero cost, of course, but in addition to greater visibility, the ability to leverage cash previously squirreled away in local accounts and the speed of repatriation, simply stripping out the cost of local banking arrangements made the new approach an easy decision once the legislative framework allowed for it.

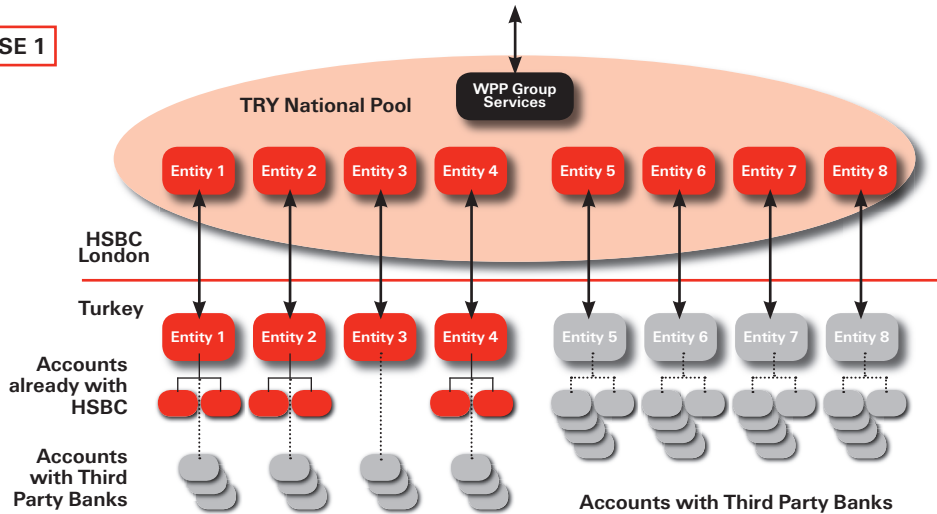
Better still, WPP has brought into the fold a territory that is growing fast and becoming an increasingly important market. As its Turkish operations – and the local economy – grow, additional cash can be making an immediate contribution to group liquidity.

"With the liquidity constraints now gripping the world, potentially there are many other multinational companies that could benefit from consolidating their accounts with a single bank," says Sacha Deal, Director, Corporate sales at HSBC. "In particular there are active opportunities in Turkey."

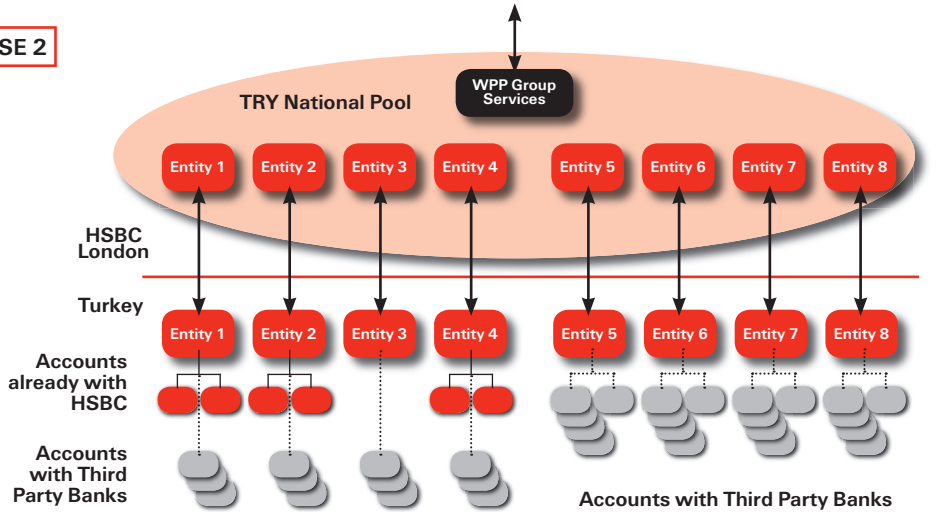
"Like most companies, we are looking at all trapped cash situations at the moment," Lenders adds. "As a group, it's important that we can lay our hands on any cash outside our pooling systems. For a group like WPP – with many entities in each country – it's especially important. And it's vital to ensure the cash pool is running at maximum efficiency."

APPENDIX:
The Three-Phase Proposed Liquidity Structure
for WPP operations in Turkey

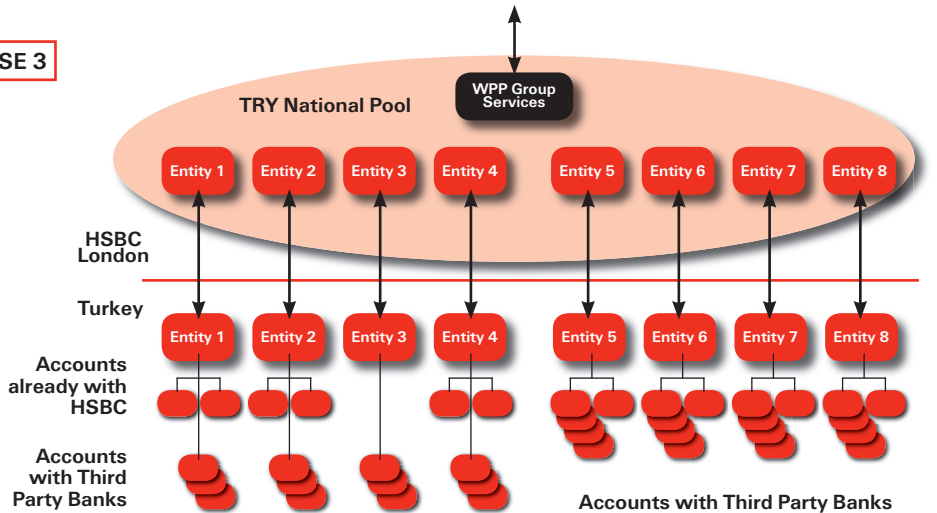
PHASE 1



PHASE 2



PHASE 3



KEY	↕	= Transfer using HSBCnet	↓	= Transfer to consolidation account (automated)	⋮	= Transfer to consolidation account (other)
	↕					

Next steps

If you have any questions relating to this services discussed in this case study or would like any further information:

- Speak to your HSBC Relationship Manager
- Email pcm.enquiries@hsbc.com
- Visit www.hsbcnet.com/solutions

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