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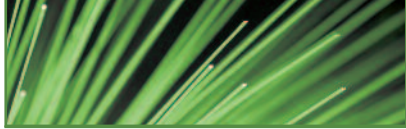
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Leveraging Technology to Drive Treasury Transformation at Alhokair

By Ziad El Khoury,
Treasury Director, Group
Fawaz A. Alhokair & Co

The business and consumer environment in Saudi Arabia has changed significantly in recent years in line with evolving economic conditions. Consumers have become more cautious in their spending habits and more price-sensitive than in the past when purchasing not only luxury goods, but everyday items too. Although Alhokair is the number one retailer in the region, we have transformed our business to become more competitive and focus more on international growth. Treasury is part of this transformation, not only in its own operations, but also by playing a key role in supporting the business to become more competitive and continue its international expansion.



Key Points

- The Saudi-Arabian Alhokair Group decided in 2015 to upgrade its treasury function to serve both its domestic and international operations more effectively, initially to manage trade finance
- A new TMS was needed to provide a single solution to support cash, liquidity, financing, investment and risk management across the Group
- Treasury Xpress's C2Treasury solution, which is cloud-based, was chosen, with a phased approach to implementation, rolling out a module at a time
- The author describes the wide-ranging benefits of the move from a manual to a digital treasury, which was a major cultural shift

Treasury evolution

Although Alhokair has had substantial international operations for some years, particularly in the CIS countries, the scale of these operations has not been sufficient to justify setting up a treasury function. However, when I joined the organisation around a year ago, I realised the potential value that treasury could offer in supporting both our domestic and international operations more effectively. Although our international operations represented only around 10 to 15% of our turnover, this is a substantial figure on a \$2bn turnover business, with foreign exchange risk becoming a more significant issue due to the need to manage local operations in each country and to settle supplier's dues in foreign currency.

While Saudi Arabia remains our core market, delivering 85-90% of our revenues, the new, more constrained environment means that our margins have been squeezed so we need to manage cash, working capital and shareholder value more carefully across our footprint.

We therefore made the decision to build a more substantial central treasury function to serve the group more efficiently, initially to manage trade finance, which is a substantial activity for us. For example, if we open a new store in Georgia, we need to set up a guarantee, which we now issue centrally from KSA. We now manage SAR1bn (equivalent to around \$300m) of guarantees, letters of credit and other trade finance instruments centrally. Group financing is also managed centrally, both upfront when a new store or entity is established, and on an ongoing basis. We also manage FX and interest rate risk, and around \$1bn in debt.

Currently, we hold our cash locally in each country rather than centralising it under one umbrella for a variety of reasons. Supplier payments are also made locally. In Saudi Arabia, all payments are centralised through a payments factory managed in treasury, and in time, we intend to expand the reach of our payment factory across our international businesses. In addition, central visibility over cash and risk across our business is essential.

Facilitating treasury expansion

We quickly recognised that implementing a modern, efficient treasury management system (TMS) was key to achieving our treasury and wider corporate objectives. Culturally, corporations in Saudi Arabia have been less focused on automation than those in other regions, particularly when high levels of profitability meant that managing cash, liquidity and risk were less of a priority. However, this is changing, not only from a treasury perspective, but as part of a wider social and economic transformation in Saudi. For example, while we have been accustomed to obtaining bank statements in hard copy in the past, and raising cheques for high value payments, we were keen to replace these with electronic banking systems and digital payments.

When deciding on a new TMS, we were seeking a single solution that could support our cash, liquidity, financing, investment and risk management needs across our domestic and international businesses, and integrate closely with our internal ERP and external partners such as banks. We reviewed several platforms, many of which provided very strong capabilities. However, given the changes that are taking place both within our business and the markets in which we operate, and the step change we were making in treasury to move from manual processes to an automated, best-in-class operation, we were particularly attracted to the flexibility that Treasury Xpress offered. I also had some prior experience of the system in a previous role, which gave me confidence that the solution and vendor would match both our functional needs and the culture of our organisation. As Treasury Xpress's C2Treasury solution is cloud-based and on-demand, we were able to take advantage of new functionality quickly, with a short implementation time and without large IT overheads.

Delivering value

In order to derive value from C2Treasury quickly, we took a phased approach to implementation, rolling out a module at a time in line with our business priorities. Cash visibility was an immediate requirement, as previously, we had to



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collect and collate account balance and transaction information manually from different systems. Now we have a single point of access to all of our bank accounts, greatly reducing the time it takes to create a complete view of cash and risk across the business, and minimising the risk of error or omission.

We also have clear insights into our trade finance portfolio, and far better visibility and control when setting up a new guarantee or letter of credit. Accuracy and timeliness is essential, as errors and delays hold up the transfer of goods, and ultimately the availability these goods in our stores. Consequently, treasury is now able to play a more proactive role in the supply chain, with regular, up-to-date reporting and efficient processes to support the business.

Treasury Xpress has also been valuable in facilitating enhanced cash flow forecasting, which has become essential to Alhokair. As this is the first time we have implemented cash flow forecasting, we wanted a simple framework and a straightforward process for maintaining the forecast, which we can now build on over time.

From a financing perspective, we used to manage bank facility terms, renewals and utilisation manually. Now, we have a central point for all information relating to bank facilities. Although Treasury Xpress is a modular system, all data is updated across modules in real-time, so utilisation of bank facilities is calculated and reported automatically, giving an immediate view of our debt position and better insights into capital structure.

Sharing experiences

The shift to a digital treasury has been a major cultural shift and therefore challenging to implement, particularly as people are generally resistant to change. However, given the wider changes in business culture, and the steps we are taking to become a more international corporation, the team has become more willing and interested in the opportunities that digitisation presents. It is not only our internal team that has been resistant to change: our banks have also been reluctant to move to the electronic exchange of information and transactions. We have

therefore had to work closely with both internal and external stakeholders to educate them on our transformation initiative, outline the benefits to our business and, in the case of our banks, the value of digitisation for the wider corporate community.

Looking ahead, we are keen to continue supporting the internationalisation of our business in whatever way we can, which includes gaining better oversight and control over cash and liquidity, financial risk, and operational processes. It can be difficult to identify and manage exposures outside our home market given the physical distances involved, but using Treasury Xpress allows us to bring together information in a consistent way from around the group. Furthermore, the system will allow us to expand our payment factory across the group, therefore reducing the cost and risk associated with payments.

The shift from a loosely defined, manual treasury department to a highly automated support function to the business has been transformational and achieved in a very short time. Over time, we will continue our efforts to connect more closely with the business, via our ERP, our banks and suppliers, enabling treasury to be more closely embedded within the supply chain and offer greater value. Saudi Arabia will continue to transform socially and economically, and as a leading corporation in the country, we need to prepare for, and to some extent drive this transformation. ■

Fawaz A. Alhokair & Co

Fawaz A. Alhokair & Co (Alhokair) is the largest franchise fashion retailer in the Kingdom of Saudi Arabia, with a substantial presence in Central Asia and the Caucasus, and the only publicly listed corporation of its type in the Middle East. Established in 1991, Alhokair Fashion Retail has grown considerably and now trades in more than 2,100 stores across 100 shopping malls in 17 countries, with a retail platform operating over more than 600,000 m of retail space. The firm currently represents 116 fashion brands including Aldo, Banana Republic, Clarks and Marks & Spencer, with more than 2,100 stores across 100 shopping malls in 17 countries and over 12,000 employees.

Ziad El Khoury

Treasury Director, Group Fawaz Alhokair & Co

In 2016 Ziad El Khoury was appointed Treasury Director of Fawaz Alhokair Fashion, the listed company under Fawaz Alhokair Group Holding, leading the treasury function as well as risk mitigation in relation to delivery of the company's strategic objectives.

Previously, he was the Group Treasurer of Azadea Group Holding, and he has held several roles in Societe Generale including Financial Consultant, Senior Forex Trader and Money Market Trader. He has an MBA from the American University of Science and Technology with a major in finance.

