Finance & Management

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The monthly newsletter for members, with news, views and updates on current topics.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

Faculty of Finance and Management

'A MAN WHO HAS NO OFFICE TO GO TO... IS A TRIAL OF WHICH YOU CAN HAVE NO CONCEPTION' – GB Shaw

FORTHCOMING EVENT ...

Implementing IAS

September 2 – Are you ready for international accounting standards (IAS)? Listed companies will have to prepare consolidated accounts for periods beginning on or after 1 January 2005 – and comparative figures will be required. Unlisted companies cannot watch from the sidelines. Hazel Powling, recently appointed as head of IAS implementation at the Institute, will review the key issues at an evening lecture in London.

For further details – see page 11

IN THIS MONTH'S MAILING ...

Management Quarterly

Issue 20

Corporate social responsibility

STRATEGY
- Why CSR is relevant to your business

REPORTING
- Dealing with the demand for transparency

COMMUNICATION
- Getting the CSR message to stakeholders

ACCOUNTING
- Environmental accounting – tracking progress
- A finance director's practical guide

FINANCE FUNCTION

How the FD can create a better impression

Why do finance directors have such a dull image? More importantly, what can they do to improve it? **Kerry Hallard** offers some advice to the presentationally challenged.

Much of corporate Britain believes image to be everything, with millions spent on developing, strengthening and protecting brands. Yet although reputation, brand and goodwill now feature prominently on their balance sheets, many finance directors (FDs) have still to address the problem of their own image. They continue to be viewed as unapproachable bean-counters, lacking in personality.

The FD of tomorrow

Changes afoot within many boardrooms of UK plc mean that this preconception has to change. Those that don't make an effort to alter the negative perceptions may well find themselves confined to the role of financial controller, as the traditional bean-counter gets passed over for a multi-disciplined communicator.

Although their numbers skills remain paramount, FDs are increasingly being turned to for everything from corporate finance through human resources to information technology. Strategic vision and communication are now high on the list of required skills. FDs cannot afford to ignore these new areas. Also, an increasing trend to class finance as an overhead means FDs need to be seen to add value. What better way to do that than by moving into these other areas?

The problem is that the transition is not easy. Few FDs are good at presenting themselves or communicating, and as such find it difficult to evolve their roles. Those that do evolve their roles, then fail to communicate the fact. This all feeds the 'grey man' stereotype.

There are good reasons why FDs find themselves in this predicament:

- *accounting regulations* – restrictions which prevented professional practices from applying modern marketing methods were only lifted in 1984. This created a culture gap between the marketing and accountancy worlds which remains rife among those FDs who were in practice at this time;

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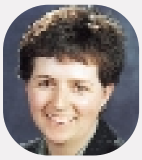

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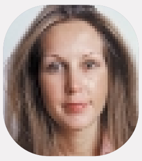

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All Faculty membership enquries should be addressed to Jo Kinlochan (details above)

Members' needs survey to be updated in 2003, Pearce tells AGM

At the Faculty annual general meeting on 12 June, chairman Christopher Pearce said that the 2002 members' needs survey will be updated this year to ensure the continued relevance of the Faculty's output.

Pearce welcomed newly-elected committee members Tony Powell, an independent consultant on intangible assets management, and Patricia Spreull of BTC, along with re-elected member Colin Whipp. They will all serve until the 2006 AGM.

He also thanked the two members standing down – Lois Bentley and Kevin Bounds – for their past contributions, and the Faculty executive team for its continued exertions on members' behalf.

The chairman went on to describe the Faculty's various initiatives during the accounting year 2002, including the well-received change in the format of all its magazines to full colour, the addition of a new *Executive Summary* publication, and the expansion of the 2003 events programme to Manchester and Birmingham, with the possibility of including other regional centres in 2004. F&M

Reader's letter

Spare the consultants! (continued...)

Sir – The short retort by Richard Lee in *Finance & Management*, issue 98, regarding an article in issue 97 is just typical of the historical low to which our intellectual discourse has sunk.

There is absolutely no reason for any consulting firm to be irritated by any objective discussion or comparative study that seeks to highlight the fact that many services provided by consultants can be done in-house with a little bit of brainwork.

As Richard rightly pointed out, the fact that consulting revenue is a 'big time' business is testament to the strength and market acceptance of the said profession.
In fact, are we going to expect a letter from a human resource practitioner requesting *F&M* to lay off by virtue of the essence of the article on value adding by human resource in issue 19 of *Management Quarterly* ('Do human resources really add value to a business')?

I hope *F&M* will continue to critically evaluate our set way of doing things; only then we can improve.

I go by some wise words from a lecturer of mine – "it does not matter if people think you are stupid as long you are not". In my part of the world, we say "whoever eats chilli will feel the spice".

RK Vengadasalam, ACA
Senior finance manager
Selangor, Malaysia.

Letters for publication or comments from readers on any subject should be sent to Chris Jackson (see contact details at left). F&M

Library & Information Service – Summer closure

The ICAEW Library & Information Service will be closed from Monday 4 August until Tuesday 26 August 2003. While the Library is closed you can still: use the extensive on-line information services at www.icaew.co.uk/library; return books by post or leave them with the security staff at the Copthall Avenue entrance to Chartered Accountants Hall; or get help with urgent information needs by leaving a message on 020 7920 8620 or e-mailing library@icaew.co.uk – these will be checked twice daily by LIS staff.

For more information about alternative services visit www.icaew.co.uk/library

The FD – *from page 1*

- *training* – marketing is not taught within accountancy and few have an inclination to learn about it outside of the qualification. When many of today's FDs entered the profession they did so in the knowledge that it was not a communicative role;
- *personality traits* – accountants tend to be a shy breed. On the whole they have logical rather than creative brains, preferring to hide behind the numbers;
- *gender* – the fact that the profession itself, not to mention the boardroom, has been heavily dominated by men, has furthered the stereotype; and
- *the media* – the bean-counter image has proliferated within the media, in the absence of any counter-balancing positive voice from the profession.

Historic factors notwithstanding, it is now high time many FDs changed their image. The FD of tomorrow needs to be a front for the company, responsible for communicating with numerous audiences – investors, shareholders, customers, prospects, staff and suppliers. This is a big role. People do business with people. They also size each other up within minutes of meeting, so how you act, speak, carry yourself and dress on the first meeting makes a lasting impression and could, ultimately, determine whether you win or lose a contract or investment. The stakes are high, so you must get it right.

Times have changed – but have you?

The following is intended to help in your efforts to project a better image.

Self analysis

Before one can go about changing one's image, there are three essential steps to undertake:

Step 1. Develop a firm understanding of how you would like – and indeed need – to be viewed, to successfully carry the evolving role. This involves making a list of the attributes which it is important that others recognise in you and the personal values you wish to be associated with, as well as those you don't.

Step 2. Identify and understand your own personality type. There are a number of established behavioural self-assessment exercises in the market. One easy tool to use is Spark and Torch** which, by impulsively selecting one value/adjective to describe yourself from each category, classifies you into one of four personality fields – amiable, analyser, emotive and driver – or as a hybrid of two of these. The 'emotive' is at the opposite end of the spectrum from the 'analyser' and as such they naturally tend not to get on so well together.

Understanding the personality trait of the individuals you are working with, in addition to your own, enables you to tailor your personality accordingly to ensure you work in better harmony.

Step 3. Understand how your target audiences view you. The only true way of finding this out is by asking them. If the idea of 360 degree appraisals does not sit comfortably with you/your company then there are a number of lighter personality exercises that can be undertaken.

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At Buffalo we use a 'behaviour box', a glossy name for what is little more than a sheet of paper with 100-plus adjectives on it. Copies are circulated to as wide and diverse as possible a group of peers, colleagues, or even friends/relatives if you prefer, who are asked to ring which values they would definitely associate with you and cross out the ones they would not, leaving the remainder unmarked. This can be done on an anonymous basis. The findings are revealing. Collating the results will show strengths and weaknesses.

By comparing and contrasting your Step 1 wish list with the results of Steps 2 and 3 you can highlight the shortcomings to be overcome if you are to successfully make the transition from old image to new. Changes in perception cannot happen overnight. It is a gradual process of education, consistent communication and consistent behaviour, but it is never too late to make a fresh start.

Four areas for change

Most common shortcomings can be grouped into four areas – approacha-

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* *Buffalo provides strategic advice on developing and promoting the right messages to further company and individual success. Buffalo's consultancy services include brand and messaging development, public relations and marketing services, and presentation training and development.*

** *Spark and Torch is a programme run by Haynes Consulting. Tel: 01926 485266. (www.haynesconsulting.co.uk)* bility, communication, image and presentations.

Approachability

These are useful guidelines:

- *mingle* – many FDs stay locked away in their ivory towers, dealing with heavy workloads, but it is essential to show yourselves more and get out and integrate with the team. Count the number of times you leave your office just to mingle!
- *show a wider interest* – FDs are typecast as finance people. You need to involve yourself in more areas of the business. Don't let time pressures stop you. Attend a broader range of meetings. Go in with an open mind, think objectively and listen and learn;
- *demystify* – FDs tend to hide behind figures, bamboozling much of their audience. Bring finance to the people. People are naturally negative and sceptical about what they do not know/understand, so offer interpretation. Use simple words and terms to demystify this subject and give confidence to others;
- *open up a little* – revealing the real person behind the title will help breakdown preconceived perceptions. Talk a little about life out of work. Lift conversation with anecdotes of things that have happened to you. Have pictures/photos in your office to show a little humour or your personal side. Attend social events so people can meet you in an out-of-work context;
- *soften the 'no'* – FDs are perceived as 'no'-men. If the answer is 'no' to a budget request so be it, but how that 'no' is delivered can make a world of difference to people's perceptions of you. Listen to requests properly without dismissing them out-of-hand. Deliver your response with respect for the time they have invested and their own feelings and take the time to explain your reasoning. People accept 'nos' if they understand why they are getting them and are more likely to comeback positively in the future;
- *show positivity* – Edward de Bono's 'Six hats of creative thinking' highlights the importance of people listening to, and thinking positively about, even ill-fitting ideas, to fuel further discussion. Careful wording should be applied in rejecting ideas;
- *convey positive body language* – maintain eye contact and look as though you are listening by concentrating on the speaker. Do not clock watch, but by all means set time quotas for meetings. Sit openly and use positive hand gestures;
- *be available* – operate an open-door policy, and remember that a clean, clear office is much more welcoming and the image of space conveys creativity and thought. Mounds of papers give off negative vibes and convey cluttered thoughts; and
- *actively open up dialogue* – and participate in others' conversations.

Communication

To discourage the view that you are a bean-counter you need to promote the multi-dimensional nature of your role:

- communicate positively, without bragging, about the value that you create – this will counter the negatives of the 'nos' you deliver;
- ensure your biography conveys the full breadth of your role and includes terms which are non-financial to describe what you do;
- include a slide at the beginning of any internal presentations you give, detailing your remit;
- host seminars on the strategic aspect of your role – this will break down barriers with your staff, whilst at the same time conveying what you do;
- be eloquent in your speech. Use short sentences and everyday words to be both authoritative and succinct; and
- ask questions to show interest and build rapport. Find out more

The FD's rules – dress correctly and no scratching!

1. If you are short in the leg, do not wear turn-ups, but if you are lanky, turn-ups or wider trousers disguise this.
2. Trousers are worn at a slightly longer length these days, covering the majority of the shoe for women and the laces for men, when standing.
3. Long jackets help disguise short bodies.
4. Ensure jackets are the right fit and do not gape or strain. They should look good both open and done-up. Men should show a little cuff at the end of the sleeve.
5. Pay attention to detail. Men should remember to wear belts and cuff-links. Women should select complementary jewellery.
6. The least attractive zone on men is the area between the ankle and the knee, so wear socks that keep this covered, even when you cross your legs. Keep shoes polished and avoid 'fun' socks (and ties for that matter) as these portray arrogance or immaturity.
7. Do not forget accessories. Plastic watches devalue your look, as do plastic pens and folders. Use briefcases or folders which zip close – overflowing files look disorganised. Do not put weighty objects in pockets and do not overfill handbags. Keep glasses smudge-free.
8. Look crisp and fresh and not as though you have slept in the office for the last three days (even if you have). Take care over your shaving and your hair – stray hairs can detract attention from what you are saying and make you look unkempt. Hands and nails are important too. Men should keep nails short and clean. Women should avoid very dark polish and avoid polish full stop if they do not have time to repair chips.
9. When dressing down avoid 'scruffy', and in particular T-shirts emblazoned with words. Opt instead for something plain. And apply the same 'hygiene' levels on dress-down days.
10. Pay attention to mannerisms. Portray positive body language. No scratching, leg-wagging, fiddling, etc.
11. Think about how you enter meetings. Be confident, open and amiable. Don't enter and slam down piles of papers onto the table.

about the people you are working with, to develop personal, as well as business, relations.

Presentations
Delivering a company presentation may be the only time some people see you – use the opportunity as a promotional tool. Here is some advice:

- be selective about what you present, but do not pass over the opportunity in its entirety;
- get one of your team to present the figures so you can present more of the strategy;
- introduce visual representations rather than just figures and if using Powerpoint, keep the words to a minimum;
- always rehearse your presentation, preferably with a dictaphone. If your style sounds monotone on replay, try again whilst pretending you are in front of a class of school children – raise and lower your tone; exaggerate it. It will sound ridiculous to you at first, but quite normal when played back. Likewise, if you tend to gabble, rehearse imagining you have an audience of deaf people who need to lip-read; and
- do not read the presentation parrot fashion. Interact with your audience and maintain good eye contact.

Image
Images are formed within the first few seconds of meeting. Caring for your image serves a double-whammy. Not only does it create a good impression, but it gives you more confidence and makes you feel better about yourself.

People who look too serious and take themselves too seriously, simply do not inspire confidence and lose touch with the workforce. Yet those who do not pay enough attention to their image do not build respect. This is especially true for women who do need to look the part, and act it. So:

- use the initial greeting to create the best image possible. Smile, make eye-contact and give a firm handshake; and
- dress to suit your audience. Don't be too conservative – safe dressing does not show creativity and dark pinstripe suits look severe and daunting. People are more likely to open up to you when you are wearing non-threatening shades.

Capable, confident and well-presented – but today's FDs should also beware of taking themselves too seriously...

The dot.com boom and the rebranding of the 'Final Four' accountancy firms led a change in office dress for the profession, with dress-down now widely accepted. Embrace this, but know when to be formal:

- brighten up your clothes and your image by adding a little colour and contrast, but be careful with patterns. Wear colours to contrast and compliment your own natural colouring – if it is strong, you are best wearing contrasting colours; if naturally light, you should avoid wearing clothes that are too dark;
- don't be 'dated'. Be ruthless with your wardrobe. Throw out items you have been wearing since the early 90s and invest in new suits. Double-breasted jackets have long since gone 'out'; and
- dress to suit your shape. If you have put on weight, face up to it. Clothes look much better when they are slightly loose and make you look slimmer to boot. It is a false economy wearing tight clothes in the hope that you will fit into them at a later date – invariably you don't, and besides you look awful in the interim. Suits should be carefully selected to flatter. There are certain rules and 'no-no's (see box opposite).

The future
Things are improving. Universities are now teaching accounting within marketing. The Final Four are leading a sea change, not only with their new branding and dress down codes, but with their provision of new value-adding services.

The development of new tools is helping to change perceptions too, delivering business information quickly and in easily digestible formats. This allows FDs to make key data visible faster, and add value by proposing alternative strategies.

All these reflect well on FDs, and the old image is sticking less, but FDs cannot afford to rest on their laurels and wait for these changes to take place. Take a good hard look at yourself and be ruthless in removing your self-erected barriers to future success. F&M

Managing the cost of IT – a practical guide

Although generally one of an organisation's largest distinct costs, information technology is often seen as a financial black hole with the link between investment and business value unclear. **Alastair Eadie** offers practical guidance to getting your IT costs under control.

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(The views presented in this article are his own, not necessarily those held by Accenture.)

IT has the unusual ability to enhance revenue at the same time as creating an annually recurring cost base (revenue generating investments generally being discretionary). As a result, linking IT-related incremental revenue at the customer end to the matching IT investment and annual cost tends to be more 'art' than 'science'.

Yet the ability to understand the cost base and its impact on the business is key to managing IT costs and optimising investment spend.

Establish a framework

To support programmes for increasing 'value' from IT, an operational framework should be established, bringing a commercial focus within the IT organisation and ensuring the trail from IT cost to value can be followed. The framework has three phases – gain control, manage cost and manage 'profit'.

Phase 1 – gain control

In this first phase management's activities should be focused on:

- separating discretionary and non-discretionary spend;
- understanding the cost base by the major types of spend;
- baselining costs;
- putting in place control and governance frameworks; and
- recovering costs through a simple recharge mechanism.

Separating discretionary and non-discretionary spend

Separating discretionary and non-discretionary costs enables the cost structure of IT to be understood in order to direct cost reduction activities or to ensure investments are prioritised and assessed appropriately.

Understand cost by major type of spend

Understanding the costs by the major cost types is likely to be the easiest task, given accounts (management and financial) are generally structured in this way. It is also the most natural way to manage costs. Costs by type should be available at individual cost centre level and at consolidated level and should be split into staff costs (separating out permanent staff and contractors), contract costs (hardware, software etc), asset costs (leases/depreciation) and overheads (administrative staff, premises etc).

Baselining costs

Cost baselining is used to measure IT costs for a given level of output (what services, at what level of service, at what volume). This is not a trivial exercise with the difficulty being that costs tend to be planned and 'viewed' on an annual basis during a year in which volumes consumed, the type of services provided and the service levels required vary. In addition, there may be cost reduction activities or investments masking the underlying cost baseline.

Also, to capture changes and distinguish between services in production and those introduced/delivered during the year, a service variation process must be embedded. This process will illuminate the extent to which new projects add to the ongoing annuity cost of IT operations.

Figure 1 Matching supply and demand

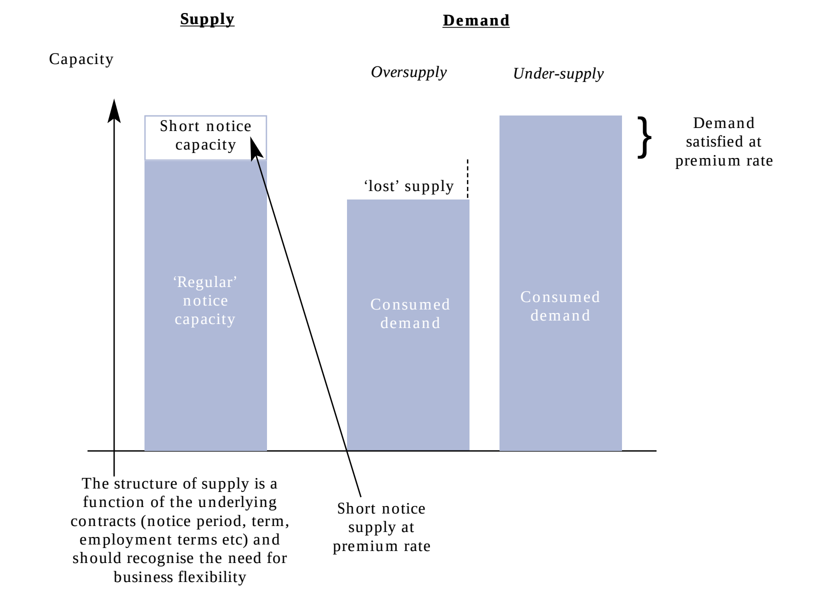
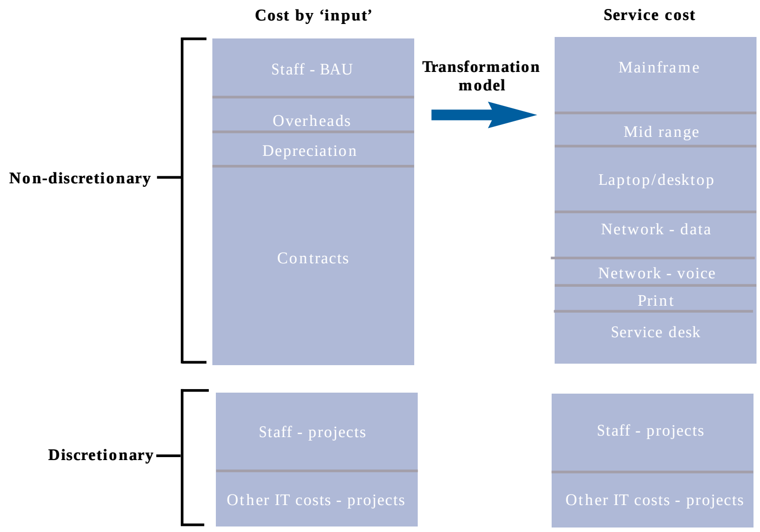


Figure 2 Service charging – transforming input costs into service costs



Put in place control and governance frameworks

Cost control includes traditional process driven procedures such as:

- establishing monthly financial reviews and challenges with those accountable;
- understanding variances on past performance and agreeing/monitoring any corrective actions;
- establishing headcount approval processes for both permanent staff and contractors;
- ensuring cost centre managers build their own plan as part of the planning cycle;
- implementing regular re-forecasting of headcount and financials (at least quarterly);
- establishing project appraisal, approval and monitoring; and
- capturing contract commitments, terms, notice periods etc in a contract database.

Governance

A governance framework is typically set up to make, sponsor and enforce the right IT decisions to create lasting value. The framework components generally include a suite of committees/boards, an accompanying set of processes (eg planning) and key performance indicators (KPIs) with which to measure effectiveness of IT investments.

Recover costs

There is a natural inclination to recharge/allocate IT costs back to the business units, to reflect the resources each consumes. Invariably business units want a detailed breakdown to justify the charges and alleviate the nagging concern that one unit (theirs) is subsidising another.

However the effort to produce this allocation of costs can be a huge distraction from the issue of gaining control as business units often delve into the underlying cost base. Thus as control of costs is being sought, establishing a simple yet effective method of allocation is desirable. This might involve, say, allocating total costs based on employees.

Phase 2 – manage cost

Only once control of the cost base is established can management of costs really take place. It is approached by:

- *managing demand* – having captured the needs of the business in terms of demand (volume of service and service level), the cost base must be set to match it. It is important to establish a robust planning and re-forecasting process to capture demand (in terms of key metrics such as 'man days', skills, 'machine inputs per second' etc) as this will instill a discipline which ensures capacity is matched appropriately to demand (see Figure 1, opposite). It should be accompanied by an appropriate approval mechanism (linked to the governance framework) to ensure demand (eg project days) is authorised and has a corresponding business benefit;
- *managing the cost base* – with a given demand and matching cost base, traditional means of managing cost can be used (some of which may require investment), eg consolidating and rationalising contract suppliers, performing regular supplier reviews and tendering, rationalising the recruitment supplier base, introducing cost challenges to cost centre managers (eg 5% cost reduction), performing activity value analysis to establish which processes might be dispensable, reducing contractor levels, outsourcing non-core activities, automating manual processes etc;
- *service charging* – costs should reflect the consumption of services; service charging is a mechanism to allocate costs fairly to users (see Figure 2, above). This will require the move away from a simple allocation of the whole cost base (through a key such as employee numbers) to allocating costs by appropriate keys for a number of different technology service lines/platforms eg number of pcs for workstations, MIPS for mainframe processing etc. Service charging is still a full allocation of costs, with no risk of 'loss' – variances due to poor control of costs are still passed back to the business. However it at least ties back the demand plans (ie how much will be consumed) to costs, something for which there is often no causal link – this enables variances to be understood. Implementing service charging will require cutting each cost type (eg staff, contracts, depreciation) in to a technology platform or service (eg workstation support or mainframe processing); and
- *service definition* – to manage costs, it must be made clear to the customer what they are buying for what charge; otherwise it is extremely difficult to introduce changes to costs. This service baselining should be co-ordinated with cost baselining.

Defining services and their associated service levels will avoid disputes with the customer; it is effectively part of product development and will help ensure the services being provided are those required by the customer. With supporting cost baselining, it can be used to 'price' (or cost) different service levels and give the customer the choice in how to buy different services, eg "it costs me £X for this service, do I really need such a high level of service? What will I save if I downgrade?".

Phase 3 – manage profit

Whilst a well controlled and managed IT department can operate efficiently as a cost centre and allocate costs, further benefits exist in moving from a cost to a 'profit' centre.

The objective of creating a profit centre is to align operational and fiscal responsibilities and drive behaviour using incentives; this will result in better matching of supply with demand and improved IT efficiency.

The advantage of pricing services is that the buyer – the business unit (BU) – is forced to think about what and how it buys services from the business's perspective, and the seller – the IT delivery unit – can focus on the best way to buy the components of IT. It decouples the buyer from costs and moves the IT organisation closer to a commercial arrangement with the customer/business.

The pricing mechanism needs to allow the buyer to control costs through:

- the volume of consumption of the service, ie a price per unit of consumption;
- defining services required; and
- determining the appropriate level of service, eg 'gold' or 'silver'.

Moving to pricing also enables comparability with external benchmarked services; for global companies, an internal benchmarking exercise across geographies can be implemented.

The pricing of services rather than simple cost allocation also allows the service provider to price strategically to drive the right behaviours. For example to encourage the use of a standard pc, non-standard items could be priced at a premium over the standard pc. The three key steps are:

- *develop a pricing model* – setting out the framework and principles, the technology 'service lines' and metrics used for pricing;
- *refine organisational and governance models* – ensuring alignment of responsibilities and accountabilities and the balancing of 'power'; and
- *align the service catalogue and service level agreements (SLAs) to the pricing model* – ensuring scope and levels of services are priced appropriately

Observations

As businesses mature and evolve through the phases, there will be benefits and downsides at each stage (see list below). However, some key lessons to learn are:

- be realistic on timescales – organisations require time to adjust to new ways of operating, at least a year for each phase;
- don't underestimate how difficult it is to baseline costs into the most basic categories – distinguishing between project and non-project costs is vital;
- financial and operational control are invariably inconsistent and dysfunctional – check to see who controls and is responsible for what and identify the 'untended' costs;
- the organisational resistance to control when it has been absent will be huge – this will require significant and powerful sponsorship; and
- do ensure there is sufficient governance to minimise any imbalance of power.

Conclusion

Whilst moving all the way through to Phase 3 may not be appropriate for all businesses and will depend on such things as maturity, business model and general 'appetite', it is clear that introducing robust controls and commercial practices into IT can deliver huge benefits in value through optimising investments and reducing ongoing costs. F&M

Benefits and downsides in each phase

	Phase 1 – Gain control	Phase 2 – Manage costs	Phase 3 – Manage profit
Benefits	• Fewer financial surprises • Better understanding of cost base and its dynamics • Pre-requisite for Phase 2	• Real cost reductions • Customers gain better understanding of costs • Better demand management reduces wastage	• Further cost reductions • Tighter matching of supply and demand • Alignment of management and fiscal responsibility • Customer has greater scope to manage its own cost base • Introduces commercial drivers
Downside	• Effort may not deliver tangible savings (control rather than £s)	• Investment required to support cost reduction • Additional complexity (governance procedures, charging) with incremental cost to business – outweighed by benefits	• Greater complexity within organisation which can drive up cost but is outweighed by the benefits

MARKETING

All together now...

Alan Mitchell writes extensively on marketing and finance, and is a former editor of Marketing magazine.

With consumers' greater access to information about products and services, persuading them to buy yours is a much more complicated business. One solution to which companies are turning is the concept of co-marketing, as **Alan Mitchell** explains.

Back in 1965, Procter & Gamble could reach 80% of its target audience with just three 60-second adverts. Today, it calculates it needs 115 30-second ads to do the same job. "No one can afford that," comments chief information officer Steve David. Trends like that, coupled with ever more educated and informed consumers with ever easier access to information to verify companies' claims or to seek out superior product and service options – plus fragmenting media channels – means that nowadays companies face an 'overwhelming convergence' of challenges, according to Sloan School of Management professor Glen L Urban.

Companies are responding in a variety of ways – focusing resources on a small number of megabrands, diverting funds into more measurable direct marketing programmes, attempting to build closer relationships with customers. None of these is problem-free. Now another approach is rising up the agenda – 'co-marketing' – joining forces with other brands to create far more bangs for far fewer bucks.

Segments

Co-marketing works wherever brands can target the same customer segments with similar overall marketing messages, in ways that cut costs or add value. The 'Intel inside' advertising strategy is a classic example: Intel builds its brand by piggybacking on its customers' messages – and helps cover the costs of their ads in return.

Nectar, the joint loyalty card scheme combining disparate players such as Barclaycard, BP, Debenhams and Sainsbury's delivers a double whammy of reduced administration and marketing cost – and shared customers. Sainsbury's can identify BP customers living close to – but not shopping at – its shops, and can then use a Nectar mailing to lure them in, for example.

The Star Alliance (between BMI, Air Canada, Lufthansa, Singapore Airlines and many more) probably wouldn't exist if governments were prepared to see national 'flag' carriers disappear into international mergers. But as it is, it works well as a consortium of brands, allowing members to share marketing and operating costs (such as ticketing systems), share customers through code sharing, and improve customer experience (eg via single bookings for multi-leg journeys).

> Budget pressures make this an up-and-coming trend

More recently, Daimler Chrysler joined forces with luxury goods maker Richemont to create a stunningly ambitious global marketing platform in the form of the Laureus global sporting awards. The awards themselves, related sporting events and editorial such as the glossy sports magazine Laureus, are all designed to have one common effect: create a perfect editorial environment for the promotion of the sponsors' brands. Neither company could afford such an ambitious scheme by itself – or generate credibility as a sole sponsor.

Elsewhere, 'collaborative customer relationship management' (CCRM) is becoming the hot new idea. CCRM is being promoted especially by ECR [efficient consumer response] Europe, an umbrella body of European retailers and big brand manufacturers. The basic idea – two heads are better than one. Get retailers and manufacturers to share data on target customer segments and to use the shared insights to generate joint marketing initiatives designed to boost both store and brand loyalty. "Experience indicates that it is more efficient and effective to execute this task collaboratively than as separated elements of the industry value chain," declares a recent ECR Europe report.

On a more modest scale, direct marketing consultancies, such as Tesco-owned dunnhumby, are cutting clients' costs by producing joint mailings from non-competing companies. Meanwhile high profile brands such as *The Sun*, *News of the World* and Walkers (crisps) have joined forces in joint 'cause-related marketing' exercises such as 'Free books for schools'.

Platform

Whether it's simply cutting the cost of a straightforward ad, jointly developing a completely new marketing platform for your brands, or creating fully fledged alliances with long term implications for operations and strategy, co-marketing clearly creates a wide range of opportunities. It's never easy. It requires creative win-win thinking, takes marketers out of the comfort zone of their internal decision-making structures, and requires good project management skills. By definition, alliances create extra complexity, perhaps even the creation of new 'metabrands' such as Star Alliance, Laureus and Nectar that can only work on the basis of higher order appeals. And inevitably, they involve delicate negotiations over who stumps up how much for what benefit.

Nevertheless, the familiar pressures on marketing budgets mean that co-marketing is an up-and-coming trend. Its potential is only limited by brand managers' imagination. F&M

TREASURY

Does the board understand treasury management?

Chris Mansell is a former treasurer and is now a director of several companies.

In his latest Update on treasury matters, **Chris Mansell** looks at the level of understanding by boards of treasury-related issues, and also at the difficultiy of funding working capital at the right level.

Do your directors understand what treasury does? According to a recent survey of treasury management conducted by the Association of Corporate Treasurers and Ernst & Young, the answer is 'probably not'. In the current environment of focus on risk management within the organisation it might be expected that the board would typically display a significant level of interest and involvement.

In fact, board level monitoring of treasury activity was found in less than half the companies that responded and more active involvement, through for example a treasury committee, in less than a quarter. Only a limited number of respondents monitored activity through regular performance reporting and a surprisingly high proportion felt that it delivered no added value.

Treasury reporting to the board also reflects a lack of active management, with only the funding position being reported in a large majority of companies. Cash levels, foreign exchange exposures and the position on banking covenants were only reported to the board by between a half and two-thirds of respondents.

With regard to reporting the principal risks to the board (ie foreign exchange, interest rate and commodity prices), the proportion reporting was broadly in line with the proportions of respondents exposed to those risks:

- foreign exchange, 62%;
- interest rates, 55%; and
- commodity prices, 13%.

Exception reporting was relatively unusual; with less than half of the respondents reporting on non-compliance with policy and on breaches of limits. The survey also found that only 26% of respondents reported credit exposure to the board – surprisingly, given the currently tough economic conditions in which the rate of default has been increasing.

Understanding of treasury risks at board level was also relatively weak, 40% of treasurers reporting adversely on this area. Reasons for a poor understanding at both board and executive management levels were:

- lack of treasury and finance skills (50%);
- treasury not seen as a priority (33%); and
- having a preconceived view of treasury (17%).

Where there was good understanding at board and executive management levels, this derived from either having good overall experience of management (47%) or having a treasury specialist on the board (41%).

Treasurers cannot escape responsibility for this situation. Treasurers who promote their services and act as an advisor to the business raise understanding of the risks, and how treasury manages those risks. The evidence however suggests that this is already happening in many cases, but maybe the style of presentation is not as intelligible as it needs to be. By the same token treasurers need also, according to the survey, to be more proactive. F&M

Keeping up the pressure on working capital levels

A recent survey of the largest companies in the US and Europe suggests that businesses believe they commit an average of 20% to 30% more cash to working capital than they actually need. Ineffective debt collection routine, purchasing terms accepted on the nod and defensive inventory buying are typical of the habits that lead to a remorseless build-up of net current assets.

The difficulty is that the devil is always in the detail and conventional measures fail to capture the nuances that are so critical. Take days' sales outstanding for example, the conventional measure of debt collection. Has there been a deterioration in product quality leading to customers withholding payments? Is the invoicing system up to scratch? Is there a change in the mix of the sales? And, always, are the basic figures actually right?

Because of the continuous nature of working capital management – or rather actions which directly bear upon it – even the finance manager gets remote from the detail and review meetings tend to be not as informed as they should be.

There are no easy solutions. For debtors, the starting point is the terms of business and the quality of control to ensure that these terms are being achieved in the marketplace. Whether a separate hands-on purchasing manager, much used by European companies, is worth the effort and cost is open to debate. There is much evidence that this just creates divide-and-rule opportunities for the supplier.

FORTHCOMING FACULTY EVENTS

To attend any Faculty event, please fill out the form which adjoins this page, remove it by tearing along the perforation, and mail it or fax it to the services manager at the Faculty's address given on the bottom of the form. If you have any queries relating to these or other events, please contact Jo Kinlochan on 020 7920 8486.

2 September
EVENING LECTURE (Chartered Accountants' Hall, London)

'THE IMPLEMENTATION OF IAS' – HAZEL POWLING, ICAEW
Listed companies will have to prepare their consolidated financial statements in accordance with international accounting standards (IAS) for periods beginning on or after 1 January 2005. Comparative figures are also required. Will you be ready? Hazel Powling, recently appointed as head of IAS implementation at the Institute, provides an overview of the issues involved. Registration 5.45pm; lecture 6.00pm; buffet and networking 7.00pm.

23 September
ALL-DAY CONFERENCE (Walkers Stadium, Leicester)

'EAST MIDLANDS RISK MANAGEMENT CONFERENCE' – VARIOUS SPEAKERS
The Institute and the Law Society in the East Midlands are staging an all-day conference on risk management with various speakers from law and accountancy, as well as other risk experts. There will be five half-hour lectures before the lunch break and three break-out sessions in the afternoon. Registration 9.00am; introduction 9.15am; closing remarks 4.15pm. Cost: £110 for Institute members.

30 September
EVENING LECTURE (Chartered Accountants' Hall, London)

'INTRODUCTION TO CULTURAL INFLUENCES IN THE INTERNATIONAL BUSINESS ARENA' – KEITH WARBURTON, GLOBAL BUSINESS CULTURE
As global trade increases, people find themselves working with colleagues, clients and suppliers from different cultural backgrounds. This talk by Keith Warburton, director of Global Business Culture, looks at the pitfalls and at ways of building good communication patterns. Registration 5.45pm; lecture 6.00pm; buffet and networking 7.00pm.

9 October
EVENING LECTURE (Chartered Accountants' Hall, London)

'BRAND VALUATION – MEASURING AND LEVERAGING YOUR BRAND' – DAVID HAIGH, BRAND FINANCE
How do you put a value on an intangible asset, such as a brand, to enable balance sheet reporting? David Haigh, chief executive of Brand Finance, will review strategic branding and valuation, plus its impact on business. Registration 5.45pm; lecture 6.00pm; buffet and networking 7.00pm.

21 October
EVENING DEBATE (Chartered Accountants' Hall, London)

'CORPORATE SOCIAL RESPONSIBILITY – THE REALITY' – VARIOUS SPEAKERS
Sustainability, corporate social responsibility (CSR) and environmental accounting are terms that were unknown to accountants only a few years ago. Now they are well-known, but does this reflect a real change in management or is it a public relations exercise? A panel of speakers – including a politician, a City figure, a business leader and a finance director – will look at the latest developments in this area. Registration 5.45pm; lecture 6.00pm; drinks and networking 7.30pm.

12, 26, 27 November
MORNING LECTURE (Manchester, London, Birmingham)

'TRANSFORMING THE PLANNING AND BUDGETING PROCESS' – MIKE BOURNE, CRANFIELD SCHOOL OF MANAGEMENT
Mike Bourne, director of the Centre for Business Performance at Cranfield School of Management, will provide insights from Cranfield's research into planning and budgeting in a lecture at three locations in November – Manchester (venue tbc), London (Chartered Accountants' Hall) and Birmingham (venue tbc). Lecture 9.00am to 12.00pm. The lecture is sponsored by ALG Software.

THERE WILL BE NO FACULTY EVENTS IN JULY AND AUGUST 2003

RECORDINGS OF FACULTY LECTURES IN 2002/03

The following lectures and conferences held by the Faculty in 2002 and 2003 are available, in both **audio** and **video** format.

To obtain a recording, please tick the audio and/or video box on the tear-off response form opposite.

There is a charge of £5.00 for audio recordings and £10.00 for video.

8 OCT 2002 — ENTERPRISE PLANNING (ERP) SYSTEMS – DO THEY MEASURE UP?
Dennis Keeling of BASDA, the international software standards body, explores the pros and cons of these systems and looks at software industry trends.

3 DEC 2002 — REALITY CHECK – STRATEGY'S ROLE IN CREATING WEALTH
Bob Gorzynski of Bristol University looks at what went wrong with 'new economy' companies and at the role of strategy.

22 JAN 2003 — LINKING VALUE WITH VALUES
Malcolm Lewis of Strategic Value Partners argues that the 'organisational soul' can affect a business's value creation.

27 MAR 2003 — THE CHANGING ATTITUDE TOWARDS RISK MANAGEMENT
Richard Sharman, head of risk management at KPMG, explores ways to assess the real value delivered by your risk management framework.

Standards – the road to convergence

So far there has been no clear guidance on whether, or when, unlisted UK companies will be required to adopt international financial reporting standards (IFRSs). However, the indications are that UK GAAP will evolve into something very similar, as **Hazel Powling** explains.

Hazel Powling is the Institute's head of IAS Implementation.
E-mail: hazel.powling@icaew.co.uk

For UK listed companies adopting international financial reporting standards (IFRSs), the deadline of 2005 has been established. But how will unlisted companies in the UK be affected?

On 2 September 2002 the DTI issued a consultation document on 'the possible extension of the European regulation in international accounting standards'. In simple terms they were asking commentators' views on whether all or a sub-section of unlisted companies in the UK should be required or permitted to adopt IFRSs. The DTI expressed no preference, choosing instead to sit on the fence.

The consultation included the statement that 'the government expects to come to a decision on the options early next year in the light of this consultation', and we eagerly await that decision. In the meantime where does that leave unlisted UK companies, with 2004 already rapidly approaching?

The Accounting Standards Board (ASB) has already issued nine exposure drafts and three consultation papers on the back of publications from the International Accounting Standards Board (IASB). If published as UK standards then the international rules will affect all UK companies – including unlisted ones – by default, becoming UK GAAP and replacing existing UK standards where appropriate. And although the standards could be said to be similar in many respects to existing UK GAAP there are differences that become apparent from the detail.

Exemptions

If the ASB is adopting 'improved' IFRSs in the UK as they are published by the IASB then why not jump the last hurdle and go for full adoption of IFRSs in the UK? Although that might sound a straightforward route to take, to do so would mean, for example, that there could be no UK-specific exemptions. Although subsidiary companies losing their exemption to prepare a cash flow statement might be a small price to pay for convergence, what about the compulsory adoption of IAS 39 on accounting for financial instruments with its detailed rules on the wider use of fair values (basically, requiring the 'fair valuing' of financial instruments)? At present, the ASB is in a position to cherry pick or tweak the revised and new standards being issued by the IASB.

For now, the signposts remain rather blurred. A 'period of calm' has been publicly announced by the IASB, as it highlights the importance of having a 'stable set of standards in place by early 2004'. Meanwhile the ASB's intention is to align its standards with the revised text published by the IASB where appropriate, retaining its flexibility to make changes to the international text for its non-listed audience.

The parallel roads taken by the IASB and ASB over recent years are now converging. Regardless of the direction that the DTI consultation takes, it seems inevitable that UK GAAP will largely be the same as IFRSs anyway. Hence UK companies must keep an eye on the road ahead. F&M

For the latest information on IFRSs, go to: www.iasknowledge.com

IN FUTURE ISSUES...

Finance & Management

- Innovation – the challenges ahead
- Risk management – latest thinking
- Networking – the benefits and how to do it
- Supply chain management – plus case study

IN AUGUST'S MAILING...

Manager Update

- Strategy – winners and losers in technology revolutions
- Marketing – consumer decision-making
- Human resources – organisational identity
- Accounting and finance – raising equity finance

Finance & Management

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