CUSTOMER STORY

A continuous journey to operational excellence

METSÄ GROUP
With nearly €5 billion annual turnover and sales across four continents, Metsä Group is one of Finland’s most prominent companies. Part of that success is due to the efficiency of its treasury team. Take just one example: through its collection factory, the treasury can now access 98% of group funds on demand, with a greatly reduced number of bank accounts. But how did it get here, and when did its journey begin? Ulla Nurminen, VP Cash Management and Treasury Support, Metsä Group Treasury Oy, tells the story.

**First steps: a centralised treasury since 1997**

Metsä Group’s roots in the forest industry can be traced back to 1934. Traditionally, each of Metsä’s sub-groups had its own treasury personnel at its headquarters and financial controller and accounting personnel in every mill. But by 1997, Metsä Group sought to unify the business by moving towards a more centralised treasury structure. This would make it easier for the Group to implement common treasury policies and processes for the organisation as a whole and to gain economies of scale. But, as Nurminen explains, “we needed to take care in the centralised treasury to not lose the close dialogue with the real-world business that the local finance teams had built up.”

Throughout the treasury’s transformation journey at Metsä Group, it could count on support from Nordea. In Nurminen’s words, Nordea had been one of the Group’s main cash-management partners for a number of years: “Nordea has been a very strong banking partner in many parts of the business.”

**Improving internal cash flow: internal bank and payment factory**

Metsä Group’s business operations cover the entire value chain, from raw materials to finished products. The cooperative company’s raw materials, for instance, are predominantly purchased from its 104,000 member owners, and
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later sold on to industrial business areas, such as Metsä Group’s plywood and sawmill sites, or to its pulp mills. Transferring payments from one subsidiary to another at each stage of this value chain was often inefficient and inconsistent. The nature of the organisation meant that the Group was continuously processing huge numbers of internal invoices using external bank accounts.

It knew there had to be an easier way. In 2005, the next logical step in the Group’s transformation was decided upon: Metsä Group would set up a group-wide internal bank with a payment factory to process both external and internal payments. It was also decided that the treasury would own the internal bank and use the treasury’s external bank accounts for its transactions.

“For us, an internal bank solution was the clear choice,” explains Nurminen. “When our peers visit us to learn more about our setup, we emphasise the importance of the payment factory in Metsä Group’s business model. Many of them don’t necessarily need a payment factory, as they themselves can manage fine with a simple cash pooling structure that lets them centralise liquidity. But for us it is very important; we’ve been able to flow so much internal invoicing away from bank accounts and settle it in our internal bank instead.”

Metsä Treasury began by rolling out the payment factory to those business units that had the highest number of transactions and the biggest payment flows. “Initially, we used the system, in addition to group internal payments, for euros and cross-border payments for each participating subsidiary. But it has taken several years to bring all the different countries into the system — and we’re still bringing smaller companies into the internal bank setup even this year, working with our cash-management banks, such as Nordea,” says Nurminen.
Working towards a more unified group: on-behalf collection factory
In 2007, after the treasury had successfully centralised the group’s internal payments, Metsä Group’s business leaders started a strategic project to centralise all other support functions. “At that time, top management felt there was room for the Metsä Group as a whole to strengthen its bond,” explains Nurminen. “We needed more common processes and a more unified way of doing things as a group.”

Creating a collections factory was the natural next step. Metsä Group’s financial operations in Europe were at that time organised regionally in five different locations, each responsible for the posting of collections. The idea to centralise came from the top management in finance and administration, but the treasury was involved in the planning phase and working out the finer details of the collection factory implementation. “At the time, each business area had its own ERP system, and it was decided to implement one Group financial platform where the internal bank, with payment and collection factories, would sit,” Nurminen says. Treasury was to run the internal bank and own the new joint collection bank accounts.

The project involved a joint financial ERP, joint credit-management processes, rationalising Metsä Group’s collection accounts, and expanding the internal bank to accept incoming payments. It was an ambitious project, but the treasury would be able to reduce the number of cash management banks and external accounts and make significant savings on bank fees, reconciliation work and posting automation. “We have a technical collection factory setup using standard functionality in our ERP system,” says Nurminen. “Nordea played a key role in understanding our processes and providing cash pool and limit solutions corresponding to our global targets.” Metsä Group’s collection factory went live with the first business units in 2009, just after the peak of the financial crisis, when many banks were withdrawing from Finland. But Nordea carried on supporting Metsä, and was chosen as a key cash-management partner. “In those tough times, Nordea was the most reliable banking partner and showed a willingness to support us,” says Nurminen. “We have plenty of lively and open discussions with Nordea — for us, that’s the essence of a good relationship.”

One step further – shared service centre and group-wide common finance processes
By 2011, Metsä Group was reporting strong financial progress. It was time to embark on the next leg of the journey. “We conducted a cost-benchmarking exercise on finance administration and found that we were better in terms of cost than our peers, but there was still room to improve cost efficiency,” says Nurminen. Metsä Group discovered that by expanding the joint financial ERP to all business units, and by extending the internal bank’s services to cover different local payment formats, it could attain a very high level of centralisation. It kicked off a project to create a European-wide shared service centre (SSC) in Gdansk, establishing joint finance processes and expanding the treasury’s payment and collection factories. The result was substantial process benefits for the treasury, the business units and the shared services centre. “Through offering the payment and collections factory, we’ve helped the SSC go from 40 eBanking systems just in Europe to a handful. This project has produced yearly cost savings of around 4–5 million euros compared to 2011,” explains Nurminen.

Putting the treasury in control with continuous centralisation
Just over ten years since the creation of the payment factory, Metsä Group’s in-house bank is running €2 billion worth of internal transactions, plus the vast
majority of external payments, as well as collecting all its customer payments.

But the volume of transactions doesn’t tell the whole story. One of the shining successes of the project is the shared services centre, which in addition serving all the European subsidiaries, now looks after Asia and the United States as well. And the SSC is playing a key part in shaping the future internal bank: “Widening the offering in the internal bank really helps the SSC in its work,” says Nurminen. “The SSC has even got a wishlist of features it would like to see in the internal bank, and we work to develop the systems so they can serve our group companies even better.” As a result, the treasury has developed the internal bank to make local payments in the UK, Poland, Sweden, Norway, Denmark and the Czech Republic.

Overall, the transformation has brought Metsä Group an extremely high level of centralisation and greater quality control. With the current model of the collections factory finalised, Metsä Group has realised annual savings of €300,000 in banking fees alone.

One of the biggest advantages of the joint financial ERP and SSC is overall harmonisation and better control, both in systems and in daily processes. Nurminen explains, “We used to see outgoing payments being made in dozens of different places and hundreds of people adding incomplete account information to the system, but now everything’s in one place, it’s much better. The same goes also for payment formats — we aim to use only one XML payment format in our joint system, no local ones.”

Nurminen also explains how Metsä Group has gone from having several hundred collection accounts around the world to just 28 today. “Each mill used to have its own account, but now treasury has just one joint account for each currency, country or region. In treasury, we love having the incoming and outgoing payments in our own bank accounts as it enables very efficient group-level liquidity management,” explains Nurminen. “We’ve closed more than 300 bank accounts — and also terminated several overdrafts that we had in various global banks. In the process, we became a more significant bank customer with more pricing power.”

Looking ahead
As for the next part of their journey, Metsä Group’s treasury team is currently exploring the role technology can play. “Technology is going to become an even bigger part of the treasury’s role, and it’s important that we learn how to use our systems fully,” says Nurminen. “But at the same time, although we’ve been going through the technical systems and adding other, more operational benefits, we have the same basic treasury function as 20 years ago. Its reason for existing has not changed and will not change: it’s all aiming at the fundamentals of risk and liquidity.”

Metsä also knows that regulatory and compliance issues will remain critically important; one can not compromise there at all. As a part of that well-established and regularly updated treasury policies and guidelines must be the basis for everything that the treasury does.

“Technology and digitalisation are clearly big themes today and we, like our peers, are trying to understand what digital can do for us,” says Nurminen. But banks must play their part too. “We collaborate with cash management partners who are technology leaders, and we’re eager to see constant improvement — because that’s how we work ourselves.”

“We’ve got a strong and open relationship already with Nordea, and we’re particularly interested in following its technology investments and seeing what results it can bring to the market over the next couple of years – perhaps in terms of connectivity or eBanking – to help treasuries like ours get the most out of its systems.”

About Metsä Group
Metsä Group is a globally-operating forest industry group, which uses premium quality Nordic wood to manufacture wood- and paper-based products. Headquartered in Finland and owned by 104,000 local forest owners, Metsä has a €4.7 billion annual turnover across 30 countries and employs 9,300 personnel in four continents.

www.metsagroup.com

With special thanks to: Ulla Nurminen, VP Cash Management and Treasury Support, Metsä Group Treasury Oy