

Ericsson

BETTER CURRENCY INFORMATION DRIVES SMARTER
CURRENCY DECISIONS

“ *With FiREapps what we get is combined exposure data and analytics, quickly. The gain really is to shorten the process and improve quality.*

MAGNUS ATTOFF // Head of Financial Risk Management/Controlling, Ericsson

An Adam Smith Award Winning Project

Challenge: Growing Scale and Complexity

Ericsson has always had to deal with a complex currency environment as a telecom infrastructure provider with operations in nearly every country (180+). Over time, Ericsson built a successful but complex global currency risk management program. This program, while effective, began to show cracks and erode due to increasing scale and volatility. As a result, Ericsson decided to take action to change.



ABOUT ERICSSON

Industry: Telecommunications

Annual Revenue (2014): \$27.3 billion

Business Landscape: Operations in more than 180 countries; exposure to more than 500 currency pairs

ERP Environment: SAP

CASE STUDY HIGHLIGHTS

Ericsson is a world leader in communications technology – providing equipment, software and services that some 40 percent of global mobile traffic runs through. More than 1 billion subscribers around the world rely every day on networks managed by Ericsson.

Challenge: Growing Scale and Complexity

- Manual, time-consuming, error-prone processes
- No real time for strategy
- Inefficient hedging

Solution: Process, Technology, and People

- Shift from a model where all risk was pooled to the central hub to one where risk is distributed across regional hubs
- Implement FiREapps' currency analytics platform to automate the extraction, validation and distribution of balance sheet exposure data out of SAP
- Onboard 70+ global team members

Results: Faster, Better, Lower-cost Decision Making

- Saves over 180 workdays worth of human capital annually
- 33 percent faster decision making cycle
- Protect firm from more risk with less cost (\$6.7 million in savings)

Ericsson: Better Currency Information Drives Smarter Currency Decisions

There were 3 main issues with the legacy program: 1) Manual processes were time-consuming and error-prone. 2) These processes left Ericsson's talented treasury team with little time to act strategically in the risk management cycle. 3) The lack of time for strategy and a lack of confidence in the accuracy of the exposure data often led to inefficient hedging strategies and higher costs, plus too much unpredictability in the FX P/L.

The root cause of the challenges was the time involved and manual nature of individual business entities gathering and reporting their own FX data to a central team. This structure was effective for including local insight in the process, important given the range of regulatory environments and seasonal challenges that Ericsson operates in (non-regulated, regulated, and restricted markets). But the structure also created fundamental timing and accuracy challenges.

Challenge: Manual, time-consuming, error-prone processes

Since the individual business entities were in charge of gathering their own data and manually entering it into a consolidation system to send upstream, the central team had no way of verifying the accuracy of the data (at least not in a timely fashion). In addition, getting a big picture view of exposures across the globe was a time-consuming manual process that took six days after books closed each month.

By the time exposures were defined six days after books closed, the decision on what to hedge (and how) needed to be made as quickly as possible. Ericsson had a stated target of an FX gain/loss as close to 0 as possible and 100% hedge coverage. But the time-consuming and error-prone processes made achieving

that target nearly impossible and the risk of over-hedging due to incorrect exposure data was high.

Challenge: No real time for strategy

Because most of the risk management team's time was spent gathering and validating exposure data, there was little time left for strategic risk management. That is, value-adding activities like identifying organic hedging opportunities and discussing operational hedging opportunities with accounting, tax, supply chain, and other business units.



If the person who is to do the analysis is also doing all of the gathering then they probably come late to the party, don't have enough time and are probably tired of the data/information already.

MAGNUS ATTOFF

Head of Financial Risk Management/
Controlling, Ericsson

Challenge: Inefficient hedging

Manual, time-consuming, error-prone processes and a lack of time for strategic risk management increased the chances of inaccurate (or unmerited) hedging. Inefficient hedging decisions drove more cost and complexity than necessary. It also meant that if volatility increased, the team was not equipped to respond efficiently.

Solution: Process, Technology, and People

Facing those challenges, with a growing global company and rising volatility in global currencies, Ericsson undertook a currency risk management transformation. The transformation involved, broadly, two categories of change: 1) a new structure and 2) a technology platform that frees the people to be strategic.

During this transformation, Ericsson's financial risk management and operations team, headed by Magnus Attoff, managed to fundamentally change their risk management structure, implement a new software platform for FX risk management, and identify more efficient ways to hedge. This was all done while optimizing ongoing program performance across \$20.46 billion of volume in hedges.

Solution: New structure

The first step in the transformation was to shift from a model where all risk (where legally possible) was pooled to the central hub, to one where risk was distributed across regional hubs. Reporting and management of currency risk is now conducted in five regional hubs who are equipped with the ability to make decisions regarding their reporting entities' balance sheet exposures and hedging activity.

This new model was adopted to balance the right mixture of local (regional knowledge) combined with the appropriate high-level view of the larger risk picture. This structure also allows for efficient navigation of the myriad of regulatory environments Ericsson's risk team has to comply with.

Ericsson: Better Currency Information Drives Smarter Currency Decisions

Solution: Technology to unleash talent

To increase autonomy, free up strategic mindshare and drive collaboration, Ericsson's hubs needed distributed access to accurate exposure data as early in the monthly cycle as possible. This is essential to the ability to quickly maneuver within complex regulatory environments and volatile currency markets.

“ *The main thing is to be quick to change.
If circumstances change, you need to change as well.*

MAGNUS ATTOFF // Head of Financial Risk Management/Controlling, Ericsson

Getting there required a new technology platform that would automate exposure data collection and validation. It wasn't a hard sell. While Ericsson is a 140-year old company, it is one of the early adopters of the Treasury 4.0 mindset. That mindset emphasizes leveraging technology and automation to empower the organization's biggest asset: its people.

On the people side, Ericsson brought more than 70 global team members onto the platform, leveraging FiREapps' currency analytics platform to automate the extraction, validation and distribution of balance sheet exposure data out of their SAP system.

The FiREapps currency analytics platform provides distributed, on-demand access to a comprehensive view of the company's exposures. It serves as a central point of truth and collaboration for teams around the world and as a key piece of Ericsson's overall platform which includes FXall, Ericsson's single bank trading platform (SEB Trading Station), and Wallstreet Suite for currency execution.

As a central repository for all exposure data, FiREapps provides each hub individual access to the central repository, giving them the power to simply verify – not manually gather – their individual currency risks and exposures. Each hub can then note any trends that the central team should be aware of and the data is then instantly available (upstream or downstream) for everyone.

Results: Faster, Better, Lower-cost Decision Making

Ericsson's currency risk management transformation yielded significant results, including eliminating the challenges of manual, time-consuming, error-prone processes; a lack of time for strategy; and inefficient hedging. Specifically, results include saving over 180 workdays worth of human capital annually, a 33 percent faster decision making cycle, and \$6.7 million in avoided transaction costs.

Result: Saving over 180 workdays worth of human capital annually

The risk management program transformation with FiREapps enabled Ericsson to eliminate 120 hours a month worth of work – time freed up for the teams to add strategic value and optimize the program to cover more exposure for less cost. By automating previously manual processes, Ericsson freed its people to focus their talents on strategic analyses, dig into smart analyses, collaborate on exposure-creating/eliminating business decisions, and add real consultative value to the organization.



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Head of Financial Risk Management/
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Ericsson: Better Currency Information Drives Smarter Currency Decisions

Result: 33 percent faster decision making cycle

By equipping each hub with automated access to review and analyze their individual data (versus manual gathering and reporting), FiREapps helped Ericsson reduce monthly FX reporting cycle time from 6 days to 4 days. In a market in which major world currencies have been known to move more than 2 percent in a day, 2 days earlier every month can mean materially reduced market risk.

It also means increased focus on strategic management, and increased ability to react to changes in the market and the business.

Result: Covering more risk, plus \$6.7 million in savings

By implementing a platform for collaborating around the comprehensive risk picture globally, Ericsson is able to both support and adapt to each local environment (and their quickly shifting conditions) and deliver smart answers and quick insights when trying to decide where and how to manage a risk based on market type, liquidity, and regulations.

As one example of the benefits of the power of the platform: The regional hubs have been able to identify cases where exposures they previously thought were offsetting were in fact not. In Thailand for instance, the team

identified an A/P cash balance in dollars that they previously thought was offset by an A/R balance. With deeper visibility and the time to be strategic, the team discovered that the A/R was actually a non-deliverable forward, which does not offset the A/P cash balance. That exposure is now managed in a fundamentally different way.

Today, Ericsson's risk management program is optimized to make smarter hedges – or no hedges at all in the case of organic offsets that are now more easily identified. As a result of smarter hedging, Ericsson has been able to reduce capital spent on transaction costs on their yearly basket of hedges by nearly 43 percent – for savings to date of \$6.7 million (~\$2.2M/yr).

Ericsson realized these savings concurrent to broadening the scope of their risk management program – from covering the risks of 30 internal subsidiaries to those of more than 100. Concurrent to the transformation, the risk team managed to execute more than \$20 billion in hedges. Ericsson now protects the firm from more risk and pays less to do it.

Bottom line

Ericsson's currency risk management transformation was driven by 1) foresight and a desire to be prepared for ever-increasing volatility; 2) a desire to be nimble enough to strategically manage a myriad of regulatory environments; and 3) a desire to get the most from the company's largest asset: strategic thinkers.

Implementing a new risk management process with the FiREapps platform as a central repository for all exposure data, Ericsson was able to achieve all three goals and realize very tangible time, money, and strategic savings in the process.

Adam Smith Award Winners

In June 2016, the Ericsson team was awarded Treasury Today's 2016 Adam Smith Award for the Best Overall FX Risk Management Solution - The award celebrated their industry leading implementation and best practices covered in this case study.

As a point of reference - Treasury Today is one of the leading treasury publications in the world, with more than 15 years in market. Their 'Adam Smith Awards' are considered the ultimate benchmark for true treasury talent and judged by highly respected industry experts, the award is presented based on innovation, creativity, outstanding insight, thinking 'outside the box' and real business impact.

The award celebrated Ericsson's best-in-class corporate currency program and the power of the Deutsche Bank and FiREapps partnership which remains one of the leading providers of end-to-end, integrated, electronic, work-flow solutions for Corporate clients worldwide.

