Steven Standring: Hello, and welcome to this episode of Intercompany Financial Management Insights, our monthly discussion with intercompany leaders. My name is Steve Standring. I'm the Chief Revenue Officer at FourQ, the world's leading intercompany financial management solution provider. And today, I have the immense pleasure of talking to another really experienced finance leader who also has deep experience of the intercompany process, David Rusate, Founder and Principal of Rusate Capital Management.

David, fantastic to see you. It's a shame we're not in the same room, but travel is keeping us as we are at the moment. So, you've spent 25 years at GE as treasurer of the power and energy management division. And you've also served eight years on the New York Federal Reserve's Foreign Exchange Subcommittee. So, you certainly have a pretty stellar background in all things treasury. Perhaps you could start by just recalling the mileposts that you've been through in your treasury journey.

David Rusate: Well, thank you, Steven. And good day. My time at General Electric was very beneficial. I found it to be invigorating. We had transactions in over 100 countries. Many of them were intercompany as GE was located in well over 100 countries. We also dealt with third party customers. So, I'm very, very familiar with our intercompany billing processes -- what worked, what didn't work, things that we improved on over the years. And I can say that looking at the FourQ product and having worked with it previously, it was something that made our intercompany transactions go through much more smoothly and was quite enjoyable to work with.

Steven Standring: Right. Enjoyable is an interesting word. We don't often hear that. I like that. So, to kick off, Dave, what were the top three to five things that were top of mind for you as a treasurer of a division like that within an organization as complex as GE?

David Rusate: Okay. So, first and foremost, for all treasures, irrespective of what type of business you're in, whether it's product or services, liquidity. Liquidity is first and foremost. And many times, people tend to forget that and then an event like 2008, 2009 occurs, and all of a sudden it comes to the forefront very quickly. So, first and foremost, liquidity, whether it be with cash balances, ample credit lines, it's very, very critical to have liquidity, particularly during periods of crisis. And sometimes it's not a period of crisis. Sometimes an acquisition comes along, an unexpected acquisition, and having that liquidity quickly at hand to be able to complete that transaction is crucial. So, that's one of them.

Certainly, world affairs. We're a global company, we're a global company, GE and they still are. And many of our other peers and competitors are global companies. And being able to have your hands on the global issues that are impacting commercial transactions, it could be payment terms, for example. If a country is having financial difficulties, being able to execute on the right payment terms. It could be changes in tax regulations, that would be another key element on how you handle your transacting. And also, you have to have your hands on the financial situation of all of your affiliates.

So, if you have an affiliate that's sitting on a pile of cash in a low interest rate country, you want to do something called leading, where you shorten your payment terms so you can get the cash out of that affiliate more quickly to put to better use within the organization. Treasury needs to work closely with not only the other corporate functions, but the business functions as well. And one of the corporate functions that was extremely important for us to be in lockstep with was the tax group. Getting involved with the tax group on a particular transaction, whether it be an intercompany loan or a commercial transaction, early on is really important because if you don't get the tax path correct, at the backend, it throws out all kind of onerous outcomes that none of us wanted to work with. So, certainly, tax was one of the groups that we were closely connected with.

The other was the accounting team, making sure that our corporate controller and his or her teams were part of the process as well, because we wanted to make sure that we had the right accounting entries to get the right desired outcome and the right desired geography. And then third, but not least, with shared services. And with shared services, you could have the right game plan laid out, but if you can't execute, you fail. So, having a strong shared service team with a product like OneBiller that was able to invoice our customers in an accurate fashion with the right tax treatment and the right accounting treatment made this wing-to-wing process a winner.

Steven Standring: What, in your opinion, should multinational companies be focused on right now to improve the intercompany processes themselves? What do you think they could be doing better? It does seem to be a process that is beginning to get looked at more, but it doesn't seem to be one that's been optimized in many companies, as far as we can see.

David Rusate: No, you're absolutely right, Steven. And one of the things that companies can do to improve their intercompany process is better teamwork within the company. The handoffs need to be crisp, and when you can automate them in a system like OneBiller, it makes it all the more easier to do so. So, the handing off the working of the team in a cohesive fashion is important. Automating your processes are important. And then thirdly, being able to be fluid, be quick on your feet, because changes do occur both internally and externally. And I find that when you make acquisitions or divestitures, having a system that's easy to work with to make these changes is also crucial.

Steven Standring: Yeah. Now, that makes complete sense. And just speaking to that, I guess when one's optimizing a process, the first thing you should do is try and eradicate the ones that are unnecessary. Where do you think today that most of the costly errors are occurring and what do you think people could do, companies could do to eradicate them?

David Rusate: Yeah. Probably in the shared service area, not having good systems that are up to speed and flexible in working with other systems. We all know that when you bring in a new general ledger system or you bring in new systems, there are always some growing pains. The one thing I like about OneBiller and the cadre products that FourQ offers is they don't just dump the system on your lap and walk away. They're there to help you integrate to help you work through the bugs, to help you customize so that the integration is successful. We've all been part of, or heard stories of companies who have made significant purchases of systems, and then when they get them in, they don't see the vendor anymore, and unfortunately, they're not as successful as they thought. So, that's really crucial, I think, Steven.

Steven Standring: Yeah. And from a best practice perspective, when you look at the kind of key intercompany financial management best practices, what would you think they are as far as cash management and collection?

David Rusate: Yeah. So, on the cash management side, it's very important that good treasurer has his or her hands on where the cash is, where you have pooling. So, you can pool in various regions, for example, Europe, you can put in a cash pool where all of your affiliates in Europe are working with the same bank. As they collect their cash at the end of the day, if your company is flush with cash and my company is short of cash, we can do an intercompany borrowing through the pool, where you lend me money on an overnight basis at a better rate than we could get from a bank. And then if next month the situation flips, I could do the same with you. So, knowing where your cash is, having good pooling, having good forecasts. Forecasts are always a challenge when it comes to cash.

Even when you get down to the final strokes at the end of a quarter, sometimes the variances in collections are significant. And some of that has to do with the fact that you don't control your own domain on the third party receipts you have, but you do control your own domain on intercompany payments. So, having a good intercompany system that's set up with specific dates where intercompany due tos, due froms are going to be settled, is extremely important. And having that process automated as much as possible is key because you're talking about, depending on the size of the company, thousands of invoices that are being settled each month. So, this is something that you want to work through without any glitches so that the cash is moved to the parties that should be receiving the cash in a timely manner.

Steven Standring: Yeah. And that means having really good visibility of all of that cash, particularly from the intercompany stuff, which is much easy to manage, because it's internal anyway.

David Rusate: Exactly, exactly right. An now, we're talking about a lot of different currencies here. So, you have to integrate your foreign exchange process with your cash management process so that currencies can be changed so that the recipient is receiving their functional currency, the currency that they operate in.

Steven Standring: So, treasury is a pretty well-established role in big organizations now. In your view, as you look at other companies and how they work, do you think treasury practices are pretty well defined now?

David Rusate: I think treasury processes are well defined. Unfortunately, treasury has not been the go-to area for the young high pots coming out of university. They like M&A and they like other areas of the company, but the role that treasury plays in a company is extremely important. Any good CEO or CFO will tell you that. And as a result, I think that the ability to attract more talented people is one of, particularly early on in their careers, is one of the key things that treasurers can do a better job of. And I think, there's probably a couple of roles in treasury. There's a career path that's a pillar job where you're coming in and you're a specialist and you're highly respected not only in the company, but in the industry. And this is the job you're going to do for your career.

And then there should be other roles that are rotational, where companies come in, excuse me, individuals come into the company, into treasury, will do a three year assignment, learn that, and then these people become your foot soldiers as they move into the operating businesses. And then because of their treasury background, when they're doing other jobs within the operating businesses, they're sort of a foot soldier for you and they're singing the treasury song.

Steven Standring: Interesting. So, from treasury, we were talking about visibility just now, and to have visibility and to be able to take good strategic and tackle decisions, you'd need to collect the information from a lot of areas, don't you? Where do you get your visibility into all the information that you need to be able to make those decisions well?

David Rusate: Yeah. Excellent question. Again, part of it is internal. A big part of it is internal. Having good systems that can show you, okay, here are my payables that are coming up in various currencies to different parties. Here are the type of receivables we have coming in that's going to develop your cash forecast. Then cash on hand, where is cash sitting? Is it being invested on an overnight basis? Is it being invested on a longer term basis if your cash forecast shows that you're not going to have a lot of usage for that cash short term? Currency exposures, we've created a new currency exposure today because of a sale or a purchase, is that exposure hedged? So, it really comes down to having good treasury management systems, good products like FourQ offers with OneBiller and Paymaster, and then good intercompany accounting systems that give you visibility to this information as well.

Steven Standring: Yeah. So, I've actually been asked a specific question by a customer of ours, which I promised I would ask you. And they want to know what technology you consider to be the best solution for handling, say intellectual property and royalty payments and license, which seems to be a major area of concern for a number of companies. And what solution, if any, have you and your teams used in the past and why do you consider them effective?

David Rusate: Yeah. Certainly, to be able to invoice a customer for a product, I found nothing better than OneBiller. That incorporates all of the taxes. As far as intellectual properties go, there you've got a variety of things because you have royalty fees coming in, licensing. You need to be able to use a good treasury management system to do that. And unfortunately, there's about 200 of them. This is one industry that while it's attempted to consolidate, many of these systems have niches. Somebody's better at cash forecasting and cash management. Somebody's better at foreign exchange risk management. Somebody's better at interest rate risk management. So, there really hasn't been a consolidation. So, there's several good players in that industry that companies can use. And it really depends on personal preference for that system.

Steven Standring: It seems to me that the intercompany processes, and we talked a little bit before about how many different divisions it crosses over and how many different functional areas of the business it crosses over. In organizations wanting to get to grips with this, what do you think is the best part of a multinational organization that is best equipped to get under the hood of the whole process and manage it and why would it be them?

David Rusate: Well, it would probably be two teams. It would be corporate treasury because of the fact that they're managing the cash, both from an investment, as well as a cash movement perspective, and corporate accounting. And we can probably say shared service as well, because they're very involved in the invoicing process and many times setting up these entities within the framework of companies. So, I would say those are the three Musketeers, so to speak, that have to work together as a team to execute properly so that intercompany processes is working smoothly. And I don't want to not spend enough time on this because it's really important. With so many acquisitions, many times you're bringing in companies and they're using different type of general ledger systems. So, the ability to get them integrated from a treasury, shared service, accounting perspective quickly is really important. Because in order to get the synergies that you're looking to achieve through those acquisitions, the faster you integrate, the faster you're going to achieve those synergies.

Steven Standring: Absolutely. Brilliant. So, what are the golden secrets that you just wish you'd known 30 years ago, Dave? A tough question.

David Rusate: It's a good question and it's a long list. But from a treasury perspective, I would say having good systems was probably something earlier in my career I took for granted. And as I progressed through my career, I understood the importance of having good systems that were flexible to work with that worked well with other systems. They weren't clunky and only worked by themselves, they were able to interface with your general ledger system, with other systems. And I think that's the key, because as time progressed and as my career progressed, typically we were doing more with less people. So, we had to rely on good systems to make up for that differential. So, that's probably the one thing, Steven, that I came to appreciate over my career, good systems with good support that helped augment the manpower you had in your group.

Steven Standring: Yeah. Well, leading on from that, I mean, we are seeing people having to do more with less, certainly in shared services in large organizations. It's interesting, they've been through P2P and they've been through the HR and the payroll optimization and different processes, and we're still not seeing them on mass anyway, tackling the intercompany process although companies are beginning to look at the automation of that. Do you think that might be the next big thing for them to grasp?

David Rusate: I definitely think so. You've touched on an excellent point. Some companies, to illustrate your point, have gone after this in a big way and have been very successful at it. But I think that a number of companies are so behind the curve a little bit in this area, and I think it becomes the next big thing. I mean, certainly, technology is always going to be front burner, because as technology changes, you have to be quick to adapt, whether it be on the manufacturing front or in treasury or shared services. And I think FourQ is a perfect example of that. Their product is evolved, it handles invoicing. You can't get paid unless you have a good invoice. It handles taxes. Many, many companies have run into problems. Big companies with sophisticated tax teams have run into problems because they've relied on manual processes to implement the proper tax governance.

So, having an automated tax system and the way that FourQ offers it is extremely important. And then with all the supply chain disruptions the world is experiencing now, having a product like Paymaster that can pay your vendor on time, that knows all of the payment terms and payment details of your vendors so that you're paying your vendor on time, they're not holding up your shipments. There's no problems in settling invoices because of the automated infrastructure of Paymaster. So, I think those are all really key functions to having a successful, shared service treasury background, to settle intercompany purchases and sales.

Steven Standring: Yeah, and to that point with your important vendors, it's been really hard for businesses to process some of the bills with COVID, simply because there's been nobody in the office to actually deal with the papers. So, we're certainly seeing a lot of companies look at automation there as something that's critical to their success going forward.

David Rusate: Yeah. Artificial intelligence is a big part of that as well. And I think that the other thing we haven't touched on, Steven, are payment terms. So, if you were to make a sale to a company located in Japan. Japan is a financially strong country. You can sell to them on open account terms and get paid on time. If you're making that same sale to a country like Argentina, to a company in a country like Argentina, they have severe financial problems. So, if you make an open account shipment, you're not going to be getting paid. And when you get paid, you're going to be paid pennies on the dollar because the Argentine government is going through a number of defaults and it's more than likely it'll go through another.

So, being able to make that shipment on the right payment terms, confirm an irrevocable letter credit, for example, is going to allow you to get paid, allow you to continue to do business there and avoid write offs because of poor intercompany billing processes.

Steven Standring: Right. Yeah. Okay. So, I've got a couple of quick questions for you. They might not be quick answers though, I don't know. What meaningful changes do you expect in the areas most impacted by intercompany accounting today?

David Rusate: Well, I think that you're going to find that accounting standards change. So, I think that's going to be the most meaningful impact. The ability to be adept at adapting to change and having a system that is flexible and can incorporate that change quickly is going to be the biggest key. I don't see any other particular specific accounting change coming up that's going to be a world changer, but I see a lot of small tweaks that are going to be important that your systems are going to have to be adept in executing.

Steven Standring: Yeah. And we're certainly seeing, I think, countries evaluating tax, ways to recoup some money post-COVID with different tax treatments and things, which will all become relevant, I think.

David Rusate: Yeah. Certainly if a number of countries agree to one tax rate, that would be a big change. But to your point, they may agree on that point, but there are so many elements of tax. And there will be tax changes because if you look at the seven largest economies in the world, they all have a significant amount of debt. And none of them to date have demonstrated the ability to cut back on spending. That means they're only going to tax more and not only in the rate that they tax, but maybe more activities that your company performs where taxes have not been applied previously, could be applied in the future. So, that's an excellent point.

Steven Standring: Yeah. Do you think remote work is going to change the trajectory of the treasury function at all?

David Rusate: Yes. It was funny because just had LinkedIn up the other day and a couple things popped up and said, this might be a job you'd be interested in. And I just clicked on it just to see if their product was working correctly and I wasn't getting something for a salesperson, which I'm not. And certainly, treasury job, couple of them popped up. And I would say probably 40% of them all said remote work, as opposed to this job's going to be positioned in our headquarters in X, Y, Z city. So, certainly, this is here to stay. I think many companies have had good experiences during the COVID period with the productivity of their employees working from home.

And when you're commuting into a big city, whether it be New York or London, et cetera, traffic is an issue and cost of living is an issue. So, particularly for, we'll say younger professionals, they tend to have a longer commute because they can't afford to be close. So, you're picking up maybe an hour or two a day of productivity by working from home, eliminating your commute. So, the ability to have technology that works from person to person, country to country in a seamless fashion is critical. And I think we're moving more and more... I remember Warren Buffet speaking about this a year or two ago, when he said, "In five to 10 years' time, five to 10 percent of the population in the United States will not work."

And the question from the person who's interviewing him said, "Well, how will we be able to afford that?" He said, "Because of technology, productivity will rise so much that we'll be able to afford to pay for these people to stay home." And so, you're going to see the technology boom really take off and it's going to impact treasury, it's going to impact shared service, it's certainly going to impact accounting. And some of the work that's being done now, as we talked about earlier in our discussion, Steven, that it has been automated in the past, more will be automated in the future. And they'll be looking to have the jobs that we have in treasury be jobs where you're thinking, instead of executing.

Steven Standring: Right. Yeah, yeah. Well, the power of automation certainly leads that way.

David Rusate: Absolutely.

Steven Standring: My last question then, how do you benchmark where you're at risk tax-wise? And that seems to be quite a tricky thing to do.

David Rusate: It certainly is. And it has to be evolving, because two years ago, whatever benchmark you use is probably going to be different than this year. I think, similar to the question you asked me on what's the most important thing for treasury and I answered liquidity. If you asked the director of tax, what's the most important thing for tax, they will say the effective tax rate that their company pays for their operations. So, that's first and foremost. But to get to that final answer, there are a lot of subsets of that. So, it's the effect of tax rate you're paying in different countries. And then depending on what type of business you're in, if you're in a business that relies heavily on intellectual property, how that's taxed.

Where you domicile your operations, for example, you'll find that Pepsi has their operations for their sweetener in Ireland, in the Caribbean. Other companies have chosen to be in countries that are deemed to be more tax effective or offer better tax treatment depending on the product line that they're in. So, certainly, those are some of the issues. But I think countries are trying to get together and try to eliminate that so that you won't decide where you're going to be domiciled for tax reasons because the tax rate's going to be the same or very similar in all countries.

So, this is something we're going to have to watch and companies are going to have to be adept at making change and adapting. And when you come back to tax though, getting the lowest tax rate is important, but also executing on how you incorporate the various taxes into your invoicing process is crucial. Because we've seen some very, very large fines levied on companies that are sophisticated companies, large companies that, unfortunately, because of manual processes, haven't been able to execute properly. And again, FourQ provides this wide array of tax treatment consistently in the OneBiller invoicing process.

Steven Standring: Well, that sounds like a great line to finish our conversation on. Thank you, Dave. Thank you so much for your insights, and I found that really, really enjoyable. I learned loads there. And I hope as travel opens up, despite everybody working from home, that the next time we meet will be face to face.

David Rusate: Same here. I'm looking forward to that. And it's my pleasure to talk with you today.

Steven Standring: Thank you very much.