

How GSK tackled treasury integration

In December 2000 Glaxo Wellcome and SmithKline Beecham merged to create GlaxoSmithKline and a choice had to be made between two different treasury management systems. *Adrian Bates*, assistant treasurer at GlaxoSmithKline, describes the decisionmaking process and how the chosen system was rolled out.

At the beginning, the merger of Glaxo Wellcome and SmithKline Beecham was a rather stop/start affair. Originally planned for August 2000, it was delayed twice as several hurdles had to be negotiated, including those set by the regulatory authorities. One of the benefits of these delays was that they did at least give us more time to plan how we would create one corporate treasury management system once the go-ahead was given.

Before the merger, both companies ran different treasury management systems. SmithKline Beecham used SimCorp's IT/2, while Glaxo Wellcome used SunGard's Quantum.

As part of the merger process, an independent review of the two rival systems was undertaken by PriceWaterhouseCoopers. The brief was to analyse the merits of each system, particularly the ability to cope with what would become a significantly more complex treasury management operation and advise which would be the best to implement within the newly merged company.

The use of consultants brought an independent line of thinking and eliminated any emotional ties from the decision-making process. We wanted the best system overall.

The sheer scale of the undertaking was challenging: transactions for 10 companies had to be recorded within the treasury system; the system itself had to encompass more than 800 accounts, 900 counterparts and approximately 2,200 settlement instruction templates.

The consultants conducted interviews with key personnel in both merging companies as well as with the suppliers of both systems. As a result of this process, the consultants advised that IT/2 was the superior product for the new company.

Functionality played a part, as did the fact that SmithKline Beecham had integrated its system much more than Glaxo Wellcome had. This latter point made it more practical to select IT/2 as migration would be faster and easier. The Glaxo Wellcome companies were included within the existing structure of IT/2, whereas if Glaxo Wellcome's system had been chosen it would have effectively been a completely new installation.

The task of creating a single new treasury management system was further complicated by the fact that three weeks after the merger Block Drug, an American consumer health-care company, was acquired. This meant having to con-

stantly re-evaluate where our priorities lay. We were migrating all the daily bank balance management processes carried out in the United States back to the UK, not only for the Glaxo Wellcome US company, but also for the newly acquired Block Drug business.

However, once we got started, the process of implementation across the whole operation went very smoothly. In May 2001 we decided that we would have a three-month concentrated effort and, by July, we were able to turn off the former Glaxo Wellcome system.

While both companies' treasury departments had a pretty similar culture, there were differences when you looked closely at the detail. An example would be in inter-company settlement – SmithKline Beecham had implemented an inter-company, multi-lateral netting system to settle its inter-company debts each month, whereas Glaxo Wellcome had not.

Migration was undertaken company by company. All of the transactions within each company were documented, static data was set up, and the settlement processes were set up to straight through process as much as possible. Interfaces were developed where it was logical to do so. Other processes were changed to accommodate the new requirements, whilst maintaining required control levels. Lastly, deals were input and settlements made. It helped that there was previous experience of such migrations.

Timeline: The GlaxoSmithKline merger

Dates (2000)	Event
17-Jan	Proposed merger of Glaxo Wellcome and SmithKline Beecham.
3-Feb	GlaxoSmithKline executive team announced.
8-May	EC approves merger.
10-May	Glaxo Wellcome and SmithKline Beecham consolidate sites from 10 to 3.
3-Jul	GlaxoSmithKline announce senior executive appointments.
5-Jul	Publication of merger reports to shareholders.
23-Jul	Further senior executive appointments announced.
31-Aug	SmithKline Beecham announces divestiture of key drugs to comply with merger regulations.
11-Sep	Announcement of delay to the merger beyond initial date of September 25.
12-Dec	Merger completion date set for December 27.
18-Dec	Merger approval from the US Federal Trade Commission (USFTC).
20-Dec	Merger approval from the UK High Court.
27-Dec	GlaxoSmithKline merger is complete.

Within SmithKline Beecham, an IT/2 installation in the Philadelphia office had been migrated into the London system during 2000. It also helped that there was not a large volume of transaction data within the Glaxo Wellcome system because it did not operate a foreign exchange cover policy and so there was not, for example, a large number of forward foreign exchange deals. Most of the transactions tended to be long-term debts or investments.

Most important of all was the fact that the coding structure developed within the SmithKline Beecham system was adaptable and able to incorporate the Glaxo Wellcome and Block Drug companies and transactions. For me, the key to creating a successful treasury management system is to spend time building a robust coding structure and this was achieved. It will pay dividends in the future because it means the access to the data and the maintenance are much easier – if you're starting off a new system it's worth taking the



time to get the right set-up.

Two years have now elapsed since the merger and the next task is to make the information within the system's database available to the internal operating units. This will be achieved via the company's intranet and using the next version of IT/2, which will have a web front end. This will allow certain selected operating units within the group to have direct access to the system to do reporting, deal input and also to import netting files for the inter-company settlements each month.

It will also permit the operating units around the world – on a review basis only – to examine their outstanding transactions and their netting positions each month.

Crucially, it will mean they can go and find out the information, rather than us having to send it each month.

Although the process went incredibly smoothly, there is one thing that we might have tried to do differently and that was to have consolidated the transactions into one treasury management system earlier in the merger process.

Circumstances – the acquisition of Block Drug – meant that it got delayed, but as is often the case, it was rather out of our hands. ■