Danfoss: Putting Cash Assets to Work with SAP® In-House Cash

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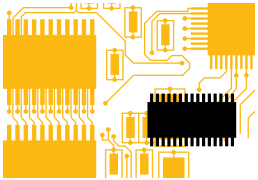

Company
Danfoss A/S

Industry
Industrial machinery and components – consumer and manufacturing

Products and Services
Refrigeration and air conditioning components, heating systems, power electronics, and mobile hydraulics

Web Site
www.danfoss.com

SAP® Solutions
SAP® In-House Cash application
SAP Bank Communication Management application

SAP PartnerEdge Services Partner
First Treasury (www.first-treasury.com) – Denmark

Danfoss A/S was incurring too much interest and other bank fees transferring cash between its almost 150 global subsidiaries. "We wanted to **centrally track and manage all cash,** enable our businesses to trade with each other without having to go through a third-party bank, and convert money to other currencies at the best rates," says Danfoss's Flemming Aaskov Jørgensen, VP of group treasury. "The SAP In-House Cash application met our needs – and we're already seeing a payback on our investment in less than one year."

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Making world-class mechanical and electronic components

One of Denmark's largest industrial companies, Danfoss is a privately owned, global organization that develops and manufactures mechanical and electronic components and solutions. "Our products, which include components for refrigeration and air conditioning systems, heating systems, power electronics applications and mobile hydraulics, are known for superior energy efficiency, quality, and reliability," says Jørgensen. Danfoss also provides related services.

Currently, the company manufactures over 250,000 items daily and sells its products through an international network of sales organizations, agents, and distributors.

€4.7 billion

In annual revenue

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Running a globally distributed company as "one company"

Danfoss aspires to operate its global businesses as "one company" – no small task, given that it's made up of more than 150 subsidiaries. "In the area of finance, we wanted to bring our cash management into alignment with this strategy," says Jørgensen. When Danfoss' companies wanted to trade with each other or convert money to another currency, funds went via an external bank from one Danfoss company to another. And every transaction that generated income for the bank resulted in potential loss of money.

€3 billion

In cash flow between Danfoss companies

"The Danfoss companies involved in this project have an estimated cash flow of at least €3 billion a year," explains Palle Dedenroth, assistant treasurer at Danfoss. "And we used to lose or spend huge sums moving money from one Danfoss subsidiary to the next. We experienced loss of value days and ended up paying fees for overdrafts and for transfers and currency conversions. We needed one shared way for our global businesses to move money internally and externally. At the same time, we needed to simplify our bank account setup and payment system to make the best use of our cash resources."

To meet these needs, Danfoss ultimately chose to deploy the SAP® In-House Cash application, along with the SAP Bank Communication Management application in combination with SWIFTNet.

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Supporting complete in-house banking and liquidity management

The choice to go with an SAP solution was an easy one for Danfoss. "We've been running SAP software – starting with the SAP ERP application – for over 15 years," explains Jørgensen. "As a company, we're committed to implementing SAP software over other vendors' solutions if it meets our needs and enables us to leverage our existing SAP infrastructure. SAP In-House Cash, together with SAP Bank Communication Management, offered comprehensive in-house banking functionality." The fact that it integrates well with SWIFTNet was also an advantage.

But gaining approval to invest in additional enterprise software was a challenge. The treasury department worked with the SAP partner – First Treasury – to develop a business case as part of a larger assessment process. Together, the team identified multiple drivers for the investment. For example, it found that Danfoss would be able to reduce external credit facilities. Specifically, by gaining a better overview of cash resources company-wide, Danfoss' treasury department would become much less reliant on third parties for short- and long-term working capital.

In addition, Danfoss expected that SAP In-House Cash would enable the company to reduce cash balances by allowing it to make internal transfer payments between companies, bypassing external banks and fees altogether. At the same time, Danfoss could achieve savings in value days by centralizing and optimizing its external bank account structures, as well as by keeping all internal flows solely within SAP In-House Cash. "We also expected to save on foreign exchange transactions by centralizing all payments and negotiating a better deal on exchange rates," adds Dedenroth. In addition, the company realized that SAP In-House Cash would enable further standardization in the existing SAP ledger software and core accounting processes – making life easier and enabling rationalization benefits in Danfoss' shared service organization.

In the end the business case was very convincing and the go-ahead and the necessary budget was approved.

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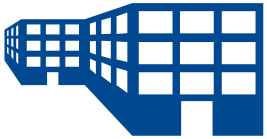
Executing a smooth, two-phased deployment

In a joint effort, Danfoss Global IT Services and First Treasury deployed SAP In-House Cash for more than 90 subsidiaries already using SAP software; other subsidiaries were excluded from the initial project scope primarily because of currency restrictions or, in a few cases, because they did not use SAP software.

The solution involved setting up one central in-house bank to handle payments for all of the companies, regardless of the SAP platform they used. "Because we needed to implement the SAP In-House Cash application for 90-plus companies around the world running on 8 different SAP platforms – we needed to do the deployment in 2 phases," explains Dedenroth.

Phase one covered all internal payments, and phase two dealt with external payments and external, zero-balance cash-pool account sweeps.

The team completed phase one in four months, and the first external bank connection went live in eight months. As part of the implementation, First Treasury consultants helped develop software enhancements to address company-specific requirements. For example, they developed a custom solution to support Danfoss' existing workflow approval process. In addition, they created a custom tool that would allow users to reconcile in-house cash postings with central and local general ledgers and then post them to the SAP NetWeaver® Business Warehouse component, which Danfoss had already deployed.



>90 subsidiaries

Involved in initial deployment

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Managing cash centrally as corporate property

Using SAP In-House Cash and SAP Bank Communication Management, the company established a new Danfoss internal bank solution (DFIB). This enabled straight-through processing of payments from the subsidiaries via the DFIB to either internal or external counterparties.

Since the majority of all payments are now handled centrally, Danfoss has managed to streamline payment processes across the various countries. This has, in turn, led to improved, short-term cash management. When individual companies pay invoices, they create payment files as they have always done. But rather than these files going to external banks, SAP In-House Cash ensures that payments are sent to the DFIB; here, they are either settled internally or forwarded to Danfoss A/S (a company division) for central external payment.

"The process is very efficient," notes Dedenroth. "We're handling close to 100,000 intercompany payments and more than 10,000 payments to external banks each month. And we can handle this kind of volume with fast, straight-through processing, complete with automated bank statement confirmations, matching of payments in our accounts receivable and payable records in SAP ERP, and updates to financials in SAP ERP."

"With SAP In-House Cash, we've gained a powerful, reliable, and fully integrated solution from a market leader in financial software that will support our future growth, regardless of volume."

Flemming Aaskov Jørgensen, Vice President, Group Treasury, Danfoss A/S

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Bringing the business case to life

The ROI for the new in-house banking solution – reflected in savings generated – has exceeded expectations: the company has realized payback on the total investment in less than one year after project completion.

"As a result of the increased transparency gained with SAP software, we have better insight when making critical financing and risk management decisions," says Jørgensen. "Equally important, with the new internal banking system, we are saving around €4 million annually based on current turnover and roll-out status."

In addition to reducing risk of errors, the software has helped Danfoss reduce the risk of fraud and misuse. For example, accountants in the individual companies previously had to manually check each payment for accuracy. But now, by leveraging the software's automated and straight-through processing, they only have to deal with payments automatically flagged as problematic.

"We invested a significant amount in SAP In-House Cash – and the calculated benefits far outweigh the investment. We're seeing a rapid and high rate of return."

Flemming Aaskov Jørgensen, Vice President, Group Treasury, Danfoss A/S

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