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Tearing Down Cash Silos

How Murphy USA improved cash forecasting by opening lines of communication companywide.

By Treasury & Risk Staff,
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As Murphy USA prepared for its spinoff from Murphy Oil two months ago, cash management was a key concern. The new company wouldn't be able to borrow as easily as Murphy Oil can, so treasurer Kristi Clay and manager of cash management Todd Gilreath needed better real-time visibility into their cash position and forecasts. The company engaged a team of Deloitte & Touche LLP advisers led by Carina Ruiz, partner, and Prashant Patri, senior manager, to assist.

Not only did the project dramatically improve cash management, but it also opened up new lines of communication companywide and boosted visibility between business units. Treasury & Risk sat down with Clay, Gilreath, and Patri to discuss how Murphy USA broke down the silos in its corporate culture.

T&R: First of all, what does Murphy USA do?

Todd Gilreath: Murphy USA is a retail gasoline marketer with over 1,000 retail gas stations in 23 states. We also have two ethanol production facilities and a terminal network. But our primary business is selling gasoline to the consumer through our company-owned stations, the vast majority of which are in front of Walmart Supercenters.

T&R: Why did you spin off from Murphy Oil?

TG: Murphy Oil used to be a fully integrated oil company. Murphy explored for oil, extracted it out of the ground, refined it, transmitted it, and sold it to consumers. A couple of years ago, the company decided to exit the refining business. Through the process of that divestiture, we discovered that some of the value of Murphy was still being overlooked in the market. Retail marketing was a small portion of the much larger company, and Murphy Oil overall was valued completely differently on the Street from what a gasoline retailer would be. That started the discussion about splitting the business.

T&R: What did cash forecasting and cash management look like in the consolidated company?

TG: The cash flows were significantly different before the spinoff, and cash forecasting wasn't very precise in the retail side of the business. Forecasts were based on historicals and current trends, which we used to determine cash flows for a typical month. Because we had a greater ability to borrow money without securing it, cash forecasting for retail wasn't viewed as strategically important. As a result, our treasury department was very reactive.

T&R: Why did this need to change with the spinoff?

TG: Because the stand-alone retail company would not be investment-grade, access to capital would be more difficult, complex, and expensive. As the spinoff approached, we knew we needed to understand our cash position at any given point in time. If we were going to have a shortfall, we would have to be prepared. For example, many of our invoices are due in 30 days, but we weren't finding out about many of them until they were actually due for payment. We asked the Deloitte & Touche team to help us establish a cash forecasting program.

T&R: How did you go about building this new program?

Prashant Patri: The team set out to create a repeatable, reliable, and business-focused cash flow forecasting program that would better reflect the cash requirements of the business. One of the first things we did as a team is we looked to see what we could leverage from Murphy USA's available systems. But the nature of the business is such that many transactions don't go out very far. For example, a gallon of gas that's bought through the bulk channel—which is basically a pipeline—has to be paid for within 48 hours, and then that gallon of gas is sold at the pump very quickly, within a few days at most. If you're trying to put together a quarterly forecast, it's virtually impossible to rely on the data within the company's systems because the sales and purchases have not yet taken place.

at a glance:

Murphy USA's Cash Forecasting Infrastructure

Kyriba	Treasury management system
Microsoft Excel	Template-based tool for cash forecasting in operations

TG: So much of our business is determined by world events; there are so many things outside of our control that show no seasonality. We decided the best sources of truth would be our internal business units. So we pulled in people from each business unit and said, 'We need to understand your business. Help us understand what drives your decisions, what impacts your costs and margins, etc.' We worked with each group to set up a spreadsheet-based process to show us what they're considering, what trends they see as important, what they see coming.

Now we get a forecast every week from each of our five business units showing their expectations for the upcoming week. It's broken down by pump price, margins, volumes—it contains every little detail. The weekly forecasts go out 13 weeks, and in January we're going to start collecting 12-month forecasts every month. The business units submit their forecasts in in-depth spreadsheets, and then we upload that information into our treasury workstation, where we can view the consolidated data.

T&R: Do you get conflicting forecasts from different business units?

TG: Sometimes we do. That was a big problem up front. Early on, we showed large cash swings because two groups wouldn't be aligned. We look at this every week. And not only do we get their finalized forecasts, but we get all the background information so we can see what's driving each part of the overall forecast. For example, we might see on the forecasts that volumes are consistent from last week to this week, while pump prices and margins are down. If the forecasts show we still have cash, then we can dig into the backup sheets to find out why. Maybe our supply group is selling more to third parties, so we're making up the difference on that end.

We also compare the forecasted amounts with actuals and ask the business units to figure out what happened so that we can avoid variances in the future. I put together a weekly presentation that goes to all of upper management and to our board. It breaks down the expected cash flows, why they've changed, and the major drivers we see over the next six weeks.

Part of that presentation is the variance from the previous week—who has the largest variance, where is the difference, why are we not where we said we'd be? Right there on the first slide is 'This group missed their forecast by 20 percent' or 'That group's variance accounted for 40 percent of the overall variance.'

Kristi Clay: It's made a lot of our departments more accountable.

TG: The business units are owners of their forecasting information. Upper management sees, in a very straightforward way, who understands their environment and who doesn't.

T&R: Did you face resistance to this change in some of the business units?

TG: Yes. There's a lot of nervousness when people understand that somebody else is going to be looking at what they do. A major issue we had to overcome was that each part of the business was operating in silos, and treasury was guilty of this as well. Nobody was talking to each other. Everybody held their cards really close to their chest. We had situations where two groups would have meetings to discuss the same thing, independent of each other. It was very much like everyone was playing poker—but we're all on the same team.

The other issue was that some of the groups worried that we were going to come back and tell them they couldn't do what they wanted because we didn't have the money. We spun that back to them by telling them that what we want to be able to say is, 'We understand what you want to do, and this is how we can make it happen. We need to find a way that you can do what you think you need to do to make the company money.'

T&R: Was this approach enough to overcome the silos?

TG: We had to make people understand what we do in treasury and how it impacts them. We opened up a lot of discussion, and we were able to get everyone's assumptions going the same direction. For the first few months, we had meetings every week to try to understand what was driving the variants and how we could help different groups perfect their forecasting process.

We found that everybody knew their part of the business, and they knew it well, but they weren't necessarily sure how it affected other parts of the business. We told them that we don't think we know everything. We gave the groups a lot of visibility into what the issues in treasury are, why we need their information, and how we'll use it. We made our needs clear and tried to be very sympathetic to other groups' issues. And because of it, we got a lot of buy-in. Treasury developed a much greater understanding of our overall retail business, and each business unit gained a much greater understanding of what we do in treasury.

KC: The business units have adopted more of a cash mind-set, in addition to the accounting or accrual mind-set. Our accounting department tended to think in historical terms, and our operations group thought very much in volumes. It was really important to make them all aware that even when transactions might net out for them in the end, if money's going out one day and not coming in until the next day, those transactions could create issues for treasury.

T&R: Are you still having regular meetings to discuss variances?

TG: Time is at a premium, and we have a pretty good system now, so unless we have a major issue—and we haven't had any major issues in a while—we just handle it by email. Every Monday we send out a note that says, 'This is your forecast from last week. The actuals came in. Here's how your forecast did against the actuals.'

We ask the groups to get back to us by Wednesday with an explanation of significant variances, which are $1 million or more, or 5 percent or more. If we see anything big, we discuss it over the phone. We use all this information to put together our presentation for the next week.

PP: This is really a measure of success for this project. When we started, some of the meetings went as long as 90 minutes, and then we'd follow up with offline discussions with the groups. But around the time we went live, we found that we didn't need to have the meetings anymore. The discussions were happening before the numbers were submitted, so the numbers were pretty well aligned. The enhancement in communication across these different groups drove the success of this project and drove the quality of the numbers as the project progressed.

KC: Anytime a company starts communicating, it's going to be a lot better off. We had an issue come up the other day, and I knew exactly who to go to, I knew who the team players were, and we all got in a room and talked about the issue. We've opened up lines of communication, not just in our cash forecasting process but in other areas of the company as well.

T&R: How does Murphy USA benefit from the improved visibility into your cash position?

TG: To be honest, business has been good, so cash-wise we're doing well. We've been an independent company for a month and a half, and we've already paid down on some spin-related debt because our executive team had confidence that they understood our cash position and the direction of the company.

This also allows our treasury team to be more strategic. We're helping drive the business rather than just reacting to the business. Treasury is really the place where all the information flows in from the various operating groups. It's consolidated, analyzed, and redistributed throughout the company. We tell people what's coming and they can adjust to facilitate that. For example, maybe we anticipate that cash will be tight because our ethanol plants are going to be in a turnaround or because we have large tax payments coming. The fuel supply group can look at that and say, 'We've built up inventory for hurricane season, but it's been a slow hurricane season. We can sell some of this off to bring in cash.'

T&R: So individual groups are now making decisions based on the corporate cash needs?

TG: Absolutely. This project has not just allowed treasury to go from being reactive to proactive, but it's allowed our other business groups to do the same. They see our projected positions, so they can make decisions based off the holistic view, rather than their little piece.

KC: We've helped them understand why we need their cash forecasts and how important their information is to what we're trying to achieve. Our company overall has a lot more transparency now than it did previously. Everybody is thinking about how their actions affect other departments.

TG: And as a treasury organization, we have built some really solid relationships with other departments. We learned not only about the business, but also about how to do business within our business.

T&R: Prashant, in your experience, does cash forecasting at Murphy USA align with best practices?

PP: Yes, they have incorporated best practices in many ways. Cash forecasting is more successful when the project is designed and implemented as a companywide program. There must be a strong desire to optimize available liquidity across the organization. The tone has to be set at the top, and Murphy USA was very fortunate to have strong support from not just the company's CFO, but also the CEO.

TG: Our CFO, Mindy West, and CEO, Andrew Clyde, were great in supporting us throughout this entire project. Their support was instrumental to our success. Our CEO has even made the comment that the company will use this cross-functional model in future projects.


Prashant Patri

PP: Another thing Murphy USA did right is that they had a core group of dedicated individuals, rather than part-time resources or floaters, within both treasury and operations. Todd was dedicated to this effort during its establishment, and the operations side dedicated resources as well, to drive the assumptions and own the responsibility of the results that came out of the effort. This project had shared accountability across treasury and operations, as well as strong leadership support.

Thirdly, it's critical to have an underlying structure of processes that will carry the program in the longer term. By that, I mean having a submission cadence, deadlines for consolidation of submissions and variance reporting, establishment of formal and informal communication channels, use of tools and templates to standardize execution of the process, and a framework for policies and procedures, including escalation procedures in the case of conflicts.

And finally, the effective use of technology is a best practice. I think in cash forecasting programs, there will be some use of spreadsheets, but the idea is to minimize reliance on them—and, to the extent that you use them, have good controls and avoid errors as much as possible.

T&R: Do you have any advice for a company wanting to pursue a similar project?

PP: Start early. Don't wait for a missed payment or default on an interest payment or any other adverse event. Murphy USA identified the need immediately after the anticipated spin from Murphy Oil was announced. That's a tribute to the company's leadership team. Far too many times companies wait for an adverse trigger to launch this kind of project. This is a time-consuming exercise, and it almost always takes more time than you anticipate. The sooner you start, the better.