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Tiffany Interview: International Growth and Coping with the Consequences

Neil Ainger - 28 June 2012

When Michael Connolly, vice president and treasurer at Tiffany & Co, first joined the jeweller in 1989 it only had three locations outside of the US. It now has 247 stores in 22 different countries and revenues of US$3.7bn. As Connolly recently explained to gtnews, that places a burden on treasury in terms of managing currency exposures, not to mention managing diamond and precious metal suppliers from around the world.

Tiffany's is in large part a retail business in most countries where it operates, excepting its supply chain partners, so managing the currency exposures across the 22 different countries where it has shops is a key task for Michael Connolly, vice president and treasurer at Tiffany & Co.

It's proving to be a lot harder than it used to be with the head of the five person treasury team in New Jersey, US, admitting that maintaining a "stable cross-currency position on the balance sheet is more difficult with the volatility in the markets and the global economic shifts underway at the moment."

It's not just the volatility caused by the eurozone crisis and excessive debt in western economies, which are once again facing slowdowns or prolonged periods of slow growth, that is worrying Connolly. He also has to look after long-term strategy at his treasury and take into account seismic shifts in the world economy, such as the rise of the renminbi (RMB), or the commodities boom.

"The rise of China and of its currency is one of the biggest changes during my 23 years in treasury," says Connolly. "Any currency gain or loss is bad news as it demands action by corporations to protect their profitability [and appropriate planning]." As RMB liberalisation gathers pace treasurers will have to change their policies. Trapped Chinese cash may eventually become less of a problem and hedging still more essential.

The international expansion of Tiffany has proved to be good training for managing currency exposures. Connolly even jokes that you can gauge the status of the largest economies in the world by where tourists are going to do their shopping. "For example, we had a flood of Londoners and other people from the UK visiting our NYC stores when the pound was strong against the dollar a few years ago," he explains. "Tourism gives a pretty good indication of where countries' economies are heading and the attendant currency rates."

Treasury

The five person team at Tiffany's do all the usual functions around the world from a centralised treasury operation, such as liquidity management, cash forecasting and management, risk assessments, tax liabilities and so forth, but strategy is part of their remit too. As Connolly explains when you have so many different shops in different countries you need to be very careful on how currencies might fluctuate and think long-term about other pertinent matters.

The foreign exchange (FX) matter is complicated for Tiffany & Co because it also has a large number of gold, silver and other precious metal suppliers around the world, necessitating more currencies in its payments chain. In addition, the jeweller has a large presence in Antwerp, the traditional centre for trading in gem stones, adding another country to its operations. According to Connolly, the firm "acquires 60% of its diamonds in the rough and manufacturers 60% of what it sells". Many of those diamonds will pass through Antwerp and be cut, polished and processed there before being shipped to manufacturing centres, primarily in the US for setting in necklaces, rings and other jewellery items for export to Latin America, Asia, Europe and elsewhere.

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"Our company currency is the US dollar," asserts Connolly, "but due to the global nature of our operations we do a lot of intercompany lending and payments, and have a netting procedure we use." This structure has also proved useful when funding the expansion of Tiffany's into new territories.

Commodities Boom: No Problem

It's not just the international expansion of Tiffany's that has been a constant throughout Connolly's time at the corporation - the commodities boom of the last decade or so has also been a major issue, although interestingly not a troublesome one. When he first got promoted to a top position internally at Tiffany in 1997, having left his previous corporate tax advisory career far behind, Connolly instituted a metals hedging programme which the jeweller had not had before. The move mirrored an earlier move the treasury had made at the turn of the decade, when Tiffany's created a hedging infrastructure for the Japanese yen versus the US dollar.

Both initiatives show how Tiffany's has developed a capital infrastructure and financial environment to cope with its international expansion and the challenges it has faced over the years. "The commodities boom of the last decade wasn't such a major concern as the labour cost is the most important element in pricing jewellery. With the right planning and programmes you can accommodate rising metal prices [even rocketing gold prices] quite comfortably," says Connolly. "I like planning and detail anyway, which is probably a legacy of my tax background, so this wasn't a problem."

Cash Management

The New Jersey headquartered treasury is quite manual at the moment, admits Connolly, although they do have what he calls a financial exposure management system. "We don't call it a treasury management system (TMS) although certain procedures are automated, but this is because we want everyone to take responsibility. For instance, cash forecasting is really really important but we need accurate predictions and help from our partners around the world to get it right. Demand, supply and usage [sales] are the fundaments of any [vertically integrated] retail operation such as ours."

"Effective liquidity management also means we require our partners to be much more granular in their reporting than perhaps they were in the past.

"These issues were not so big six, seven or eight years ago but they are now in a world where uncertainty with a capital 'U' is the prevailing theme," he adds, before expounding upon his view that it is a small, interconnected world out there where globalisation has concentrated risk.

If any corporation is to grow in such an "interconnected" world and expand beyond its borders it needs to be prepared for a globalised adventure, mirroring Tiffany's own expansion, and to implement effective treasury and management procedures to cope with the consequences of growth.

Michael Connolly
Vice President and Treasury, *Tiffany & Co.*

Mike Connolly is vice president - treasurer of Tiffany & Co, the world renowned jeweller and specialty retailer with retail stores and manufacturing and distribution facilities throughout the US, Europe, Asia and Latin America. Having been with Tiffany & Co for over 22 years, Connolly's primary areas of responsibility include treasury operations, global tax matters, financial risk management, operational risk management, credit, accounts receivable (A/R) and insurance. He is also a member of the Tiffany & Co pension, enterprise risk management, business recovery and continuity, security and safety committees. Connolly also currently serves as chairman of the board of directors of the Association for Financial Professionals (AFP).

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