

NetApp: With Tools, Look Forward to a Bigger Tomorrow

Its revenue numbers define Network Appliance as a midsize company, but you'd never know it from the cutting-edge systems its treasury employs

Sure, companies as big as Microsoft Corp. or ExxonMobil may have treasury units with dozens of employees and budgets in the multimillions. But Chris Afarian, treasury operations manager for the Sunnyvale, Calif., computer data storage

venture Network Appliance Inc., claims to suffer no treasury envy, although he has only three treasury colleagues and a budget closer to \$1 million. At NetApp, the advantage that Fortune 500 companies derive from economy of scale has been replaced with courageous use of cutting-edge technology. "I'm not aware of many companies that run as efficient a treasury function as we do or take such full advantage of the latest technology. We're a midsize corporation with a large corporate feel within our treasury operation," Afarian claims. "We built this operation deliberately and recently enough to be state of the art."

Even its bankers, who are often pushed to provide just a little bit more, agree that the 12-year-old company is well ahead of its peers. "Network Appliance is an excellent example of an upper-middle-market company that takes full advantage of the latest technology and combines browser-based tools with straight-through processing," observes Danny Peltz, executive vice president for wholesale solutions at Wells Fargo & Co. in San Francisco. "The treasury staff at NetApp is savvy, always looking for ways to use technology to simplify operations," Peltz continues. "They're progressive thinkers, not afraid of change. They're good at combining products and services to craft an overall solution. They know everything we offer and have found ways to use most of it."

So how does a company with \$892 million in revenues last year, 32 offices worldwide and more than 2,400 employ-

ees construct a treasury operation as sophisticated as companies with 10 times its revenues and resources? Its managers trust their instincts, take chances on newcomers and always consider a solution a work in progress so that they can take advantage of the latest improvements. According to Jeff Wallace, managing partner of Greenwich Treasury Advisors in Greenwich,

Conn., technology can be the great leveler among companies, particularly as more services and products are developed that do not require major upfront investment. "Good technology is certainly available to midsize companies, but too few of them exploit it fully because they can't get scarce IT resources or are afraid of cost overruns," says Wallace.

RECRUITING GEEKS

Admittedly, the treasury staff at NetApp had every reason to feel right at home with the latest technology. Afarian and Corporate Treasurer Ingemar Lanevi both came to NetApp in 2000 from Silicon Graphics Inc. at a time when SGI was shrinking and NetApp was growing. In those days, Wells Fargo was NetApp's primary bank, providing adequate domestic cash management services for a company that was then mostly operating in the U.S. But NetApp wanted to grow globally and faced a critical decision: As it grew, should it adopt a centralized or decentralized model for its treasury?

At the end of its 2000 fiscal year, NetApp stood at a little more than half its current size, with annual revenues of \$579 million. Lanevi opted for a centralized operation, so Afarian and Tom Sheehan, senior treasury analyst, began to build an international banking structure and search for treasury workstation capabilities that could grow with them. Because NetApp is a cash-rich technology company that doesn't require much bank credit, it is free to shop for high-tech

services, rather than being bound to take its lenders' offerings.

Eventually, Lanevi, Afarian and Sheehan selected Bank One as the lead international bank and Efficient eTreasury Control (eTC) from City Financials Ltd. as the workstation. The Bank One choice was not particularly bold. NetApp was a bit too small to attract a lot of interest from top-tier global banks, but Bank One specialized in providing global services to middle-market companies. "We wanted to have a banking partner that wanted us as a customer and would work with us as we built our international banking structure," Afarian says.

The choice of eTC, however, was surprising. It was a gamble on a U.K.-based company's new software that was still under development in 2000. "Nobody ever got fired for buying Selkirk or SunGard Quantum workstations," Afarian observes. "Those are proven solutions." But he and Lanevi had previously worked with the principals of City Financials, the London firm that was building eTC. They thought the product would be good and ready when they were. And they liked the privileges that came with being one of City Financials' original customers—the ability to get the vendor's ear as new

adopter and sophisticated user, we have input into how products are built. That's a key part of our strategy; through the efficient utilization of current corporate banking technology, we want to be in a position of influence with our banking partners around the globe."

NetApp's strategy is to spin forward when it comes to determining its needs, basing its choices on anticipated growth rather than growth already achieved. "We probably were on the small side for a company implementing a treasury workstation, but we expected to grow and wanted to lay a solid foundation that could scale as the company grows, not something we would have to change or replace at some point," Afarian recalls. "In hindsight, it was a good decision for us."

FROM CONCEPT TO REALITY

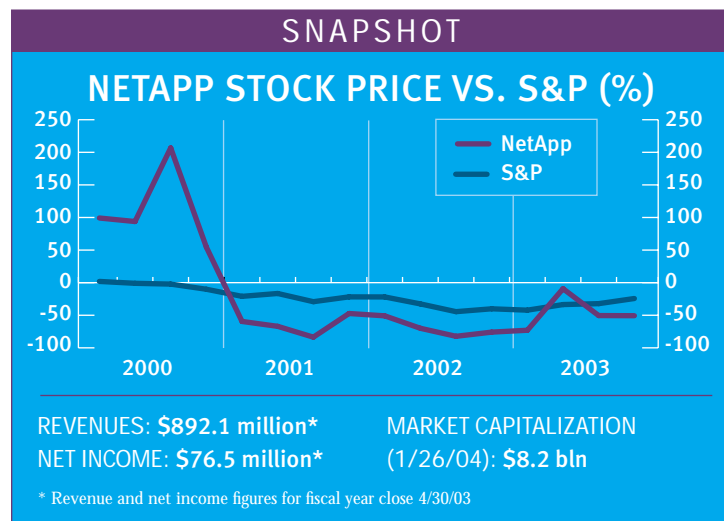
Back in July 2000, operations were quite manual. Accounting was done on spreadsheets. Wires were initiated through Wells Fargo's PC Manager over a modem connection, and voids and stop payments were sent to the bank as faxes. FX and investment hedging and accounting were done on spreadsheets and then loaded into a J.D. Edwards ERP system. The concept of international cash management was still just that—a vision for the future.

By November 2001, a lot had changed. All bank statements were automatically imported and reconciled in eTC by the time NetApp's workday started. Accounting flowed automatically from eTC to an ERP system. Some bank-specific software—Bank One's First Windows, for instance—was still used to initiate some wires. But NetApp could monitor and manage global cash positions, and all FX hedging and investment deals were being input and accounted for automatically in eTC and exported to the ERP system. "We accomplished a lot over the past three years, but we still have more to do," Afarian observes.

While eTC, installed in 2001, remains the heart of NetApp's treasury operations, Wells Fargo's online banking suite, called Commercial Electronic Office (CEO), has become the company's veins and arteries,

delivering valuable information to its departments and domestic U.S. business units on its cash positions and flow and allowing those units to initiate timely banking transactions. But the control remains with the NetApp treasury, which has been creative in using CEO's self-administration module to regulate access to banking services and information by its various user groups.

NetApp's treasury operations have become so automated that the company has needed no more than Afarian and Sheehan to run it. When treasury added analyst Jenny Cheung last summer, it was to extend treasury's services to the rest of the company rather than to keep up with the accelerating volume



versions of the software were developed. "I think we were their second customer and first in the U.S.," Afarian notes.

Thus began one of the many beautiful relationships NetApp seems to be able to create with its vendors. While "partnership" in most cases is PR hype when applied to companies' interactions with their service or hardware providers, it seems a fitting description of the way NetApp sets up its contractual relationships. "Where we add value for our banks is that we really use their most advanced technology. We try to push the envelope. That makes us a natural beta tester and a client they seem to want to listen to," Afarian notes. "We don't order and pay for a lot of customization, but as an early

of transactions, Afarian says.

Everything relating to global cash, FX and investment management is now done within eTC, he adds. eTC creates the accounting entries (over 2,000 GL entries a month to three sets of books) and exports them to NetApp's new ERP system, Oracle 11i.

Domestically, a smooth, automated interface between Wells' CEO and eTC is critical, of course. According to Afarian, it works like this: All data is communicated through a secure file transfer (SFT) to a Web site maintained by Wells Fargo. With a thin-client software (SecureTransport by Tumbleweed), NetApp treasury can schedule various jobs throughout the day. On schedule, Wells delivers the appropriate report to the SFT site, and SecureTransport logs on automatically and retrieves the report, which is then delivered to the company's internal network, he explains. "SecureTransport finds the data files and brings them back to a directory we have chosen. The eTC picks up from there," he says. "The SecureTransport software sits between NetApp treasury and the Wells Web site. Every morning, a job is scheduled to go to the site and pick up any files the bank has delivered there. If our previous day composite BAI transmission is due at 8 a.m. each morning, the scheduler goes to the site at 8:02 and pulls the BAI file into our internal network."

The scheduler function within SecureTransport polls Wells' SFT site every 30 minutes and delivers any files it finds to the designated directory in NetApp's internal network, Afarian explains. For outgoing wires, the SecureTransport client scheduler polls a NetApp network directory every 10 seconds and delivers any payment files it finds to the SFT site. Confirmations are retrieved from an outbound folder at the SFT site. Other processes managed via SFT include positive pay file transmissions, current-day reporting and lockbox detail reporting, which imports directly into Oracle each day so that receivables can be applied automatically.

MAKING GOOD SYSTEMS BETTER

CEO and SFT are big improvements over the old PC Manager that Wells offered when Afarian first started with NetApp, he says. "It used to take paper form after paper form to sign up a new user; now it just takes the click of a mouse button. Self-administration is a big benefit for us. A lot of banks offer it, but Wells was among the first, and they have continued to add functionality."

"We let the other functions within finance utilize CEO to interact with the bank, while we keep overall control within treasury via the self-administration module," Afarian explains. "Accounts payable is given access to initiate voids and stop-pays. Treasury obviously cares about this data but is

not the source of this activity. As a result, we prefer to give A/P access to CEO so that they might enter this type of activity themselves. Delegating non-core treasury activities is critical for us, especially as the company grows. And distributing online access to CEO is how we do that. But we monitor activity and retain overall control over what happens on CEO within treasury."

Globally, NetApp banking partners around-the-world report balances to Bank One London through SWIFT MT 940 messages, and NetApp treasury retrieves the information through Bank One's First Windows software. "This works to-

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day, but I want to get away from installed bank software to cut down on our need for IT resources. The SFT solution is more powerful from an automation and efficiency perspective and is more reliable than a dial-up modem connection," Afarian says. "Bank One is definitely working on Internet and electronic banking solutions similar to Wells' CEO and SFT, and that will only benefit our operations," he adds.

NetApp, because of its size and sophistication, is hardly typical of middle-market companies. There is a continuum of treasury operations, just as there is a continuum of size among corporations, Peltz says. The biggest difference is usually that large corporations have more specialists and middle-market companies usually have a small group of generalists in treasury.

Middle-market companies split between those that can get by with browser-based solutions alone, eliminating much of the technology cost and burden, and those like NetApp that also use installed software and file transmissions from their banks, Peltz says. The breakpoint often comes around \$500 million in annual revenue, he notes. Nearly all of the major cash management banks now have browser-based offerings that provide most of what smaller companies need.

While NetApp's treasury operation is still a work in progress, it certainly is no temporary solution. "There never will be a point at which NetApp treasury, our treasury system vendor and our banking partners stop making improvements, but the treasury foundation we have built will scale and meet our needs whether we are a \$700 million company or a \$10 billion company," Afarian concludes.



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