

## NAVIGATING A SEA OF CHANGE: CONSIDERATIONS FOR CFOS AND CORPORATE TREASURERS

Has there ever been a more demanding time for a CFO? When Charles Dickens stated so eloquently that, “*It was the best of times, it was the worst of times,*” it was a telling description of conditions at the end of the 18th century. But his observation continues to resonate—with great relevance for the current financial environment.

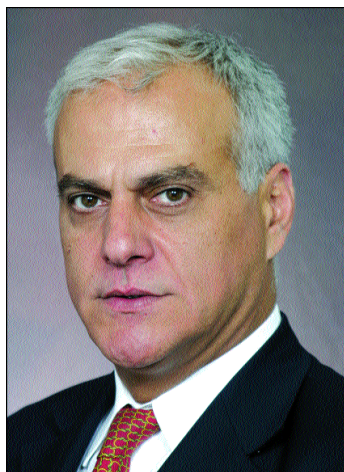
Who among us has not weighed the vast promise of a single, efficient marketplace driven by globalization, expanding Internet capabilities and increasingly sophisticated telecommunications, against the realities of the last three years—the worst stock market in decades with challenging conditions in all of the capital markets.

As the dichotomies of the global economy continue to pose new challenges, the most important task for CFO’s is to develop the strategies that will move the focus of their corporations to the future, rather than on past performance.

### THE IMPORTANCE OF EFFECTIVE STRATEGY

A good strategy takes into consideration both the needs of the customer and the ability of the organization to execute against those needs. In this context, the role of the CFO is to ensure that executive management understands the full financial ramifications of every business decision—and even more difficult—to persuade them to explicitly state how much and what kind of financial risk they are willing to take on. Once this is accomplished, the day-to-day task is to see that the organization operates within those parameters.

Managing all of this, in one of the toughest, most complex economic periods in history is unquestionably a full-time job. But corporate leaders are also managing in a time when the slightest perception of impropriety can result in falling stock prices. The wide violation of trust has ushered in an era of corporate governance engendering endless hours



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and multiple reams of reports, as required by the Sarbanes-Oxley Act in the United States.

At the same time, there is a need to maintain an intense long-term focus on the bottom line. In the

words of the senior treasury officer at a large multinational company, “Fiscal discipline has re-asserted itself. We’ve spent the last couple of years asking: who are the customers we can afford to serve and in what ways? The objective is to come out of this leaner, stronger, and more disciplined in our choices.”

In this light, it is crucial for companies in Latin America to examine these issues in-depth and to develop effective action plans that make the best use of available resources. The following strategies are already showing results in the quest for better returns, greater efficiencies in operations, reduction in overhead costs and optimized working capital:

- Using Treasury Regionalization to Increase Shareholder Value
- Outsourcing Repetitive Treasury Operations for Additional Efficiencies
- Effectively Deploying Working Capital

As Latin America continues to become more regionalized, these strategies will become increasingly important for business leaders.

**REGIONALIZATION IN LATIN AMERICA**

The regionalization of treasury—typically through the establishment of shared service centers and outsourcing of non-core financial functions—is a major and important trend for multinationals worldwide. This is especially true in Latin America where corporate treasurers must currently contend with volatile markets and labor-intensive local cash management processes. In addition, the varying banking infrastructures, regulations and practices from country to country as well as the lack of electronic banking systems or even a common Enterprise Resource Planning (ERP) platform, make it difficult to produce proper forecasts and local reports—much less a single consolidated view of activity across the region.

At the same time, there is an encouraging trend in the growing acceptance of electronic payment solutions, such as interbank payments and outsourced check production, which enable streamlined operations and reduced internal costs. A growing number of Latin American countries either have, or are currently working on, interbank networks. These include Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Panama, Puerto Rico, Peru, Trinidad, Uruguay and Venezuela.

Obviously, corporate treasurers have no control over the region’s characteristic economic volatility—or lack of harmonization in bank practices and regulations—however, they have a high degree of control over how they manage their own treasury operations. The corporate treasurers who achieve the best results are likely to be innovators. Those who excel at using technology to manage the increased risks and increased opportunities will be able to spend less time on the technical aspects of their functions, freeing them up to mobilize resources that add strategic value to their organizations.

But perhaps even more important than the *how*, are the reasons *why* companies decide to regionalize their treasury operations.

**THE “WHY’S” OF REGIONALIZATION**

The primary reason companies choose to region-

alize is driven by two inter-related objectives: to increase operational efficiencies and reduce costs through automation and centralization, in order to focus on core, value-added functions. In addition, they may want to:

- Apply best practices and eliminate operational inconsistencies
- Gain real-time access and visibility to better information
- Accelerate cash collection and increase control over working capital
- Maximize the availability and use of funds

In the modern corporate treasury, many treasurers must not only run their departments, but are also responsible for assessing new workstation software and making the buy decision. Not only does this use up valuable time, but the software

license fee is only part of the cost. Implementation, upgrades and integration with other corporate systems can add as much as 100 percent. Furthermore, despite the help and support offered by the provider, organizations that buy their own treasury management systems must go through a lengthy and error prone

learning process.

The demand for regional and centralized treasury operations in Latin America is driven in no small part by the growing awareness of financial controls, as well as the need for cost—and time-effective methods. Once companies have a single consolidated view of their activity via a common banking platform, they can manage their treasury more effectively across the region. Their corresponding need for online strategic analytical reporting, and information on compliance and regulatory and risk matters can be filled through improved information channels, such as the Internet, utilizing Web-enabled software.

**OUTSOURCING TREASURY FUNCTIONS FOR GREATER EFFICIENCIES**

As more and more companies are compelled to

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seek greater efficiencies in their operations, reduce overheads and optimize working capital, the good news is that technological progress and advances in corporate re-engineering have improved the potential for solving these challenges, by outsourcing certain treasury functions.

Outsourcing can provide a wide spectrum of choices, from supporting technology to the delegation of specific operational tasks in the areas of receivables and payables, to the full outsourcing of a regional treasury center; offering the potential to improve treasury performance on every level. For example, to:

- Apply best practices and increase control over treasury and cash functions—eliminating operational inconsistencies;
- Gain real-time access and visibility to better information—and asingle, consolidated view regionally (ultimately globally) enabling faster, more informed decision-making;
- Accelerate cash collection and increase control over working capital
- Reduce Days Sales Outstanding (DSO);
- Improve reconciliation;
- Mitigate risk, both operational and cross-border payment risk;
- Maximize the availability and usage of funds by concentrating excess balances in the optimal investment vehicle, and by concentrating inter-company funds.

The companies that allow their non-core activities to be managed by an outsourcing agent report two major advantages: first that these activities are managed more effectively, and second that it frees up resources to focus on strategy and increasing shareholder value.

For the most part, treasury outsourcing services are provided by operations established in Dublin by a number of global banks. Although these were built to service the Irish subsidiaries of multinational corporations attracted to Ireland's favorable fiscal regime, in recent years large companies without Irish subsidiaries have begun to outsource their treasury oper-

ations as well. It makes excellent financial sense when the only alternative is a significant investment in high caliber treasury workstations and software as well as highly qualified staff.

### IMPROVING SHAREHOLDER VALUE

The ability to shift regional treasury operations from day-to-day tasks towards strategic activities is a driver of increased shareholder value. As a result, treasury is no longer a stand alone operation, but increasingly integrated with ERP systems and Web-enabled external service providers for straight through processing— enabling a decrease in operational costs and more time for strategic issues that can improve the value of the company.

The effect on shareholder value appears in a variety of forms, depending on whether the benefits flow

from lower costs, increased efficiency, or the liberation of working capital within the organization (as evidenced by improvements in measures such as DSO).

In general, the two main ways that outsourcing improves shareholder value are by providing a wider scope for re-deploying treasury personnel into activities where they can add more

value and through significant cost savings in technology investment.

The Citibank Treasury Management Solution (TMS) expands into a series of regional hubs, ensuring that time-sensitive functions are dealt with on a regional basis, while non time-sensitive back office functions remain in Dublin. In addition, the TMS platform can be integrated with the full range of financial services that it offers, as well as those of third parties—further supporting our clients' efforts to manage working capital more effectively. Our Web-enabled platform fulfills a wide range of corporate reporting needs, with innovative features such as VAR risk measurement reporting and accounting and regulatory reporting for requirements such as FAS 133 and IAS 39. On a global basis, experience indicates that a major corporate treasury operation can achieve as much as 25-50 percent savings on its cost base.

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**IMPROVEMENTS IN WORKING CAPITAL MANAGEMENT**

Progressive privatization efforts in Latin America have strengthened the underlying telecommunications, technology and financial infrastructure across the region. Corporations now use increasingly efficient clearing and ACH systems and make payments via wire transfer and automated direct debit. The ability to exchange files speedily and cost-effectively via the Internet has made it possible for many corporations to use shared service centers to gain efficiencies among subsidiaries.

**THE ROLE OF THE FINANCIAL PARTNER**

Companies seeking to establish a regional treasury solution should begin with a knowledgeable bank partner; ideally, a global bank with deep roots in local markets across the region. The right financial partner will be able to help you structure an effective solution in an optimal location, and provide electronic banking systems and host-to-host connectivity for your company's accounts payable and employee payments.

For global and regional companies, as well as large local companies that will one day be regional, maintaining a strategic partnership with a global bank has become increasingly important. Essentially, this is the most cost effective and strategic method for ensuring ongoing operating efficiency and the best treasury infrastructure—delivering the information, controls and services your company needs locally, regionally and globally.

Furthermore, a global financial partner who is familiar with your company, who knows how you collect and how you pay, and how you manage the disparities in timing can help you manage your working capital for maximum effectiveness—wherever in the world you do business.

Whether your company is a multinational manufacturer of automobile parts, a Latin American developer of agricultural chemicals, or a locally owned exporter of textiles, Citigroup is well qualified to help you succeed with your regionalization efforts, by insti-

tuting best practices and integrating your cash management functions. As a trusted advisor and partner to CFOs and Treasurers of companies large and small, we draw on a broad range of experience to anticipate problems and design effective solutions.

**CITIGROUP IN LATIN AMERICA**

There is no question that doing business in this rich and diverse region of 23 markets, with varying infrastructures, business practices and levels of sophistication, requires both vision and flexibility—and the combined strengths of a global banking partner with both deep local roots and a large global footprint.

With a history in Latin America that dates back a full century and an on-the-ground presence in 23 Central and South American markets, Citigroup is well positioned to represent your interests. Since 1904 when we opened our first branch in Panama, we have maintained an unbroken presence in this region, continuing to open branches across the continent, from Argentina to Mexico. And we remain committed at the highest levels of senior management. It means you're ideally positioned to manage effectively wherever you do business: within a country, within a region, and globally.

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