

Innovating for Growth

Rapidly changing market realities are driving companies to look for new, creative, methods to maintain and build bottom-line results to measure up with their company's vision. Expanded global trading, and the competitiveness brought about by the internet, have widened markets and introduced new competitors. In turn, these changes have made products and prices more transparent, enriching consumer choices and shifting market control. Such influences are pressuring companies' operations and increasingly their treasuries and finance teams to search out innovative management methods and technologies to reduce costs, improve working capital sources to meet their emerging capital investment needs at the lowest cost.

In point of fact, a thorough review of the scope of traditional treasury and financial activities, involving the flow of funds, the uses of cash and their effective coordination for total corporate utility in this expanding global environment, is critical in a constantly evolving competitive business environment. In discussions with clients, they are stretching the boundaries of management thinking about how to best get these jobs done.

It is important that such activities be part of a revenue growth program rather than viewed as cost cutting efforts. Such thinking puts an entirely new focus on both the effort and the decision climate – just as in all other parts of the firm's activities. The objective is to expand this growth and reduce the risk of unnecessary cost through prudent, knowledgeable, opportunistic, global, investment (innovation).

21st century complexities

With the expansion of globalization has come a complex set of statutory compliance demands such as new Sarbanes-Oxley reporting and associated costs. Furthermore, increased security concerns and business continuity requirements are additional complexities requiring ongoing investment as businesses become more global. These necessary tasks are key part of a new orientation of many treasurers' and finance director's 21st century responsibilities.

Clients around the globe, have articulated that in a large part, the new market opportunities suggest the need to explore such methods as "pooling" resources, along with developing internal and external partnerships, among other management methods to achieve their new organizational goals. To be competitive globally, companies are addressing the issue of how best to stay current in "real-time". To achieve this goal one method is continuous investment in people and new technologies.

However, companies are questioning whether the invest-

ment in "staying current" and using internal resources is warranted, or whether an alternative methodology can be employed – as such, they are exploring the opportunities surrounding outsourcing non-core processing activities for cost advantages. These concepts are high on the agenda of many treasury management professionals as they endeavor to design the optimal treasury management model for their companies.

The trend we observe in the marketplace, is one of alliances. It allows a treasury and finance team to utilize external partners to free themselves from managing routine aspects of traditional transactional flows, by outsourcing them to organizations which have economies of scale and scope, can bring to bear cost efficiencies they could not attain on their smaller scale. The business community's innovative reaction to this trend is the advent of business process outsourcing (BPO) companies in low-cost environments.

This trend allows treasury and finance teams to focus on strategic value-added financial and risk management activities to support their company's working capital and business (revenue) activities. Effective daily management of the working capital – risk management continuum requires constant and consistent capture of a host of ever-changing client, marketplace and macro and micro-economic variables. This requires investment in people and technology that comes from the savings following outsourcing basic processes. A recent independent study found that "in UK companies alone, approximately £76 billion of cash is tied up in inefficient working capital processes."

From banking provider to trusted advisor

To help meet the 21st century requirements of their clients, many financial services companies focusing on transaction services are evolving the way they approach managing client relationships. They are moving from one focused on a "product" selling to one that is more intimately integrated with their clients' own businesses. However, for the partner, it is a costly model that requires higher investment in technology and human resources. To achieve this role, the advisor needs to be immersed in knowing the strategic business vision of their clients, in addition to the various operations models they employ globally.

This new approach represents a merging together of the financial integration activities that banking partners have traditionally provided, with the commercial integration activities the clients' business units employ themselves.

The "financial services platform", discussed above, is being designed to leverage robust global product platforms,



Michael Guralnick, Managing Director, Head of Corporate Client Management, Global Transaction Services (GTS) EMEA, Citigroup

which provide new services to support a client's financial supply chain activities. These new platforms focus on assisting their clients in conducting "their" businesses to grow their revenues. This heralds a shift in approach from banking services provider to integrated partner. For example, innovative financing techniques are helping clients more fully utilize credit limits they maintain for their clients, which in turn, allows them to sell more to those clients. These new solutions focus on both optimizing cash within their own supply chain. The objective is to assist clients' competitiveness in the global marketplace so that they can generate increased revenues and returns. These techniques focus on improving key performance ratios such as Days Sales Outstanding (DSO) and Days Payables Outstanding (DPO), which are critical variables for the rating agencies and how they measure a corporation's operating efficiency.

Supporting growth

Needless to say, the financial services advisor must go further today than ever before in understanding the complex web of globally interconnected supply chain activities. In doing so, new requirements are arising to provide broader services such as: vendor financing, distributor financing, and warehouse financing solutions. Additionally, traditional receivables solutions focusing on discounting and outright portfolio purchases support the client's business activities; can help the commercial and sales directors achieve their annual goals.

To assure the gains in financial performance that these new solutions must bring, clients are demanding more economically priced, broad-based, assistance in: global market analysis, risk-mitigation, risk-sharing and financing techniques. As noted earlier, by adopting outsourcing, or alliance, models it frees the client's treasury and finance teams to focus on critical strategic business activities that support their commercial divisions, and revenue growth.

An example of how some financial institutions are extending services to support their client's supply chain activities is in the arena of trade finance. Historically, trade finance was limited to Letters of Credit, and associated ser-

vices and products, such as post-shipment, pre-shipment financing. New times, however, require that financial service providers focus not only on classic trade finance, but also contribute new innovative solutions for risk mitigation- risk sharing thus broadening the scope of the solutions provided.

Additionally, new technologies related to more efficiently managing the next layer of costs such as travel and entertainment, payroll, and small ticket purchases are becoming more widely sought. Clients having integrated core supplier and customer financial flows into their ERP systems, now want to integrate those internal processes to achieve similar cost-savings and efficiencies. These efforts include employing a worldwide Travel & Entertainment and Purchase Card solution, thus streamlining, and reducing the cost of maintaining multiple procurement and reconciliation systems.

Partnering for efficiency

Adopting an outsourced-alliance model is an innovative and open partnership that is gaining more interest in many industries. As discussed earlier, many companies have come to realize that outsourcing and partnering are viable management methods to employ and to extend gains in efficiency and cost savings brought about by the deployment of enterprise resource planning (ERP) systems for treasury, accounting and administration centralization.

The breadth and changing nature of these multinational issues suggests the need for assuring either an appropriate in-house facility to capture, maintain and continuously update the information sets, or outsource the tasks to a proven partner.

For companies considering whether to outsource or keep activities in-house some questions to consider are:

- Does the amount of activity our firm generates in these areas justify the initial and on-going expenditure levels for a stand-alone facility?
- Is it likely that Treasury has both the time and the skills necessary to manage this dynamic centre? Should this new unit be deemed a core activity for Treasury?
- Are there external facilities for which such activities have become a core activity which have the proven experience to provide these broad ranges of integrated services – at an acceptable price – with appropriate security and control?
- Could these external partner facilities actually prove less expensive than an in-house group? Can we learn more through their expertise developed on behalf of their many clients, than on our own? Could there really be enough profit potential remaining such that external facility would be profitable as well?