



# Improving DSO in the International Trade Arena

**I**n an environment characterized by rising interest rates and narrowing margins, the strategic focus of corporations is on the optimization of capital — and rightly so. For if capital is the life-blood of business, the more effectively it is spent and collected, the better the ability of the corporate “body” to thrive and prosper. It is an issue that has great relevance for the international trade community where the high cost of delay is a fact of life.

The causes of delay range from differences in national infrastructure to the sophistication levels of the counterparties to errors in documentation — to the varying agendas of intermediaries, such as banks, shippers and facilitators. But in every case, the result is a problem in cash flow, experienced as longer Days Sales Outstanding (DSO).

## **Meeting the Challenge of Days Sales Outstanding Time**

Days Sales Outstanding time, or the interval between making the sale and receiving payment, varies widely from region to region. For example, in Greece, the average DSO is 80 to 90 days, while in Finland, the average is only 10 to 15 days. Billing and collection methods as well as payment infrastructures also vary widely and present unique challenges to treasurers charged with reducing DSO globally.

Despite the wide variances from country to country, Electronic Invoice Presentment and Payment (EIPP) applications hold great promise for companies involved in international trade. The following solution from Citibank, for example, uses the EIPP platform as an engine to deliver increased trade and cash capabilities.

## **EIPP and an Industry Vertical Exchange**

In a single seller/multiple buyer model, a single sponsoring entity must get each of its participating customers to adopt the new system. In an industry vertical exchange, all the billers in a given industry invoice all of the buyers through a single EIPP system. The most successful example of an industry vertical exchange is the Citibank solution for Cargo Network Services (see sidebar), a subsidiary of IATA, owned by major airlines for billing freight forwarders and cargo agents.

Prior to switching to Citibank, CNS ran the billing for their industry in the paper world. Twice a month, 70+ airlines sent billing data to CNS, which produced paper statements that were sent to 1,200+ cargo agents. The agents would then review the statements, adjust them and ultimately schedule payment to the airlines. The larger the shipper, the more costly and time intensive this became. For example, every disputed charge meant hand-

In March of 2003, when Cargo Network Services of Garden City, N.Y. a subsidiary of the International Air Transport Association, made the decision to switch from paper to electronic invoice presentation and payment (EIPP), it turned out to be the silver lining inside a very dark cloud. In an environment characterized by a sluggish economy, escalating fuel costs and additional costs for security, their existing paper based vendor was demanding a 400% price increase. Small wonder that CNS was not eager to compound the burden for its owners by passing through a massive price increase—especially one that offered nothing in return.

### A dramatic turnaround

Within two months after Citibank finished installing the CNS e-billing system, a full 95% of their 1,200 cargo agents and freight forwarders

were able to receive their invoices electronically and almost half were using it to make their payments to CNS. According to Howard Chaloner, CNS director of operations and financial services, they were well on the road to achieving their cost and efficiency goals.

### The results

Today, Cargo Network Services enjoys significant savings due to quicker availability of funds through daily rather than twice weekly payments, faster resolution of disputed charges and the elimination of costs for paper and postage – and neatly avoiding quadruple billing costs.

### The advantage of an industry vertical

A major factor in the success of the CNS e-Billing solution is that CNS is a many-to-many

network that captures the huge majority of the billing and settlement business in an “industry vertical.” In this case, most of the 70+ airlines that haul cargo present their invoices through CNS, and the vast majority of 1,200+ freight forwarders and cargo agents, plus 500 to 600 direct shippers, receive and pay their freight bills to CNS as well. In other words, the billers reach virtually all the payers through a single EIPP system. The payers then receive the bills and settle with virtually all of their suppliers through the same EIPP system.

The adoption of the Cargo Network Services e-Billing exchange equates to both operational and cash flow benefits for a vast majority of the air transport industry, with strong implications, not only for other shipping venues but also for other industries.

searching through cartons of air waybills to locate the discrepancies — followed by messages, phone calls and faxes, slowing collections to a crawl for an industry that could ill afford it.

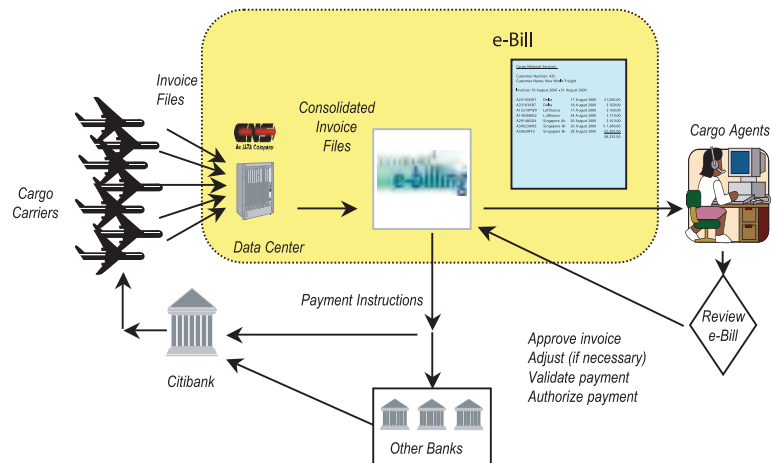
With the CNS e-Billing exchange, air waybills from multiple airlines are consolidated into a single invoice for presentment to each cargo agent, dramatically reducing the number of invoices and payments. Essentially, Citibank sends an e-mail message to the carriers and agents that the invoices are available, with hyperlinks to the original billing data for rapid review. Agents then review, print and download the invoices. Adjustments are made online, and once approved the user designates the agent bank account to be debited and settlement date, and payment is authorized. As a result, agents no longer need to interrupt their internal processes to search for billing data. With the CNS e-Billing system, the review process is fast and simple, eliminating the time and cost for distribution, review and storage of paper invoices. Furthermore, air waybills can be exported for upload into an accounts payable system to automate bookkeeping.

### Bill Resolution Process

Cargo agents review their bills either online or offline. Any discrepancies found are marked with codes to indicate type (spot rate, weight, etc.) and the carriers either approve or deny the claim. Once adjustments are made and contents approved,

payment is scheduled, with unresolved claims re-billed in the subsequent billing period. The benefits to the airlines include enhanced credit monitoring, elimination of mailing costs — and best of all, faster funds availability.

Clearly, the EIPP case has been made for industry verticals, which are few in number, but the time has come for companies to revisit their billing presentment procedures. Everyone gains from EIPP efficiencies, not only industry verticals. The flexibility, time and cost efficiencies of the example presented here is not only proof of EIPP’s ability to improve DSO — but also its potential to truly transform business-to-business billing.



### About Citigroup Global Transaction Services

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