

Evolving Payments & Collections Strategies

Nicole Toulis-Sardo, Market Manager, North America Receivables

Perry LeBlanc, Market Management for Corporates, North America Payments

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Goals and Objectives for the Session

Goals and Objectives for Today

Corporations should carefully consider the impacts of evolving trends in consumer and business payment habits and integrating end-to-end solutions. Today's session will examine trends, best practices and provide a framework for overall working capital and efficiency optimization.

1. Key Trends

- Diminished Credit
- Globalization
- Digitization
- Changing Consumer Behavior
- Focus on Standardization
- Regulatory Changes



2. Impact on Receivables and Payments

- Employ a more integrated view of working capital management and look to manage DPO/DSO
- Broaden payments channels and methods in alignment with evolving market trends
- Review banking relationships, IT systems, and organizational structure

What does this mean for you?

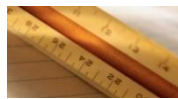
3. Best Practices & Toolkit for Change



Diagnostics



Working Capital Management



Standardization



Information Exchange



Analytics/
IT Infrastructure



Banking Rels.
Org. Structure



Network
Access



Controls

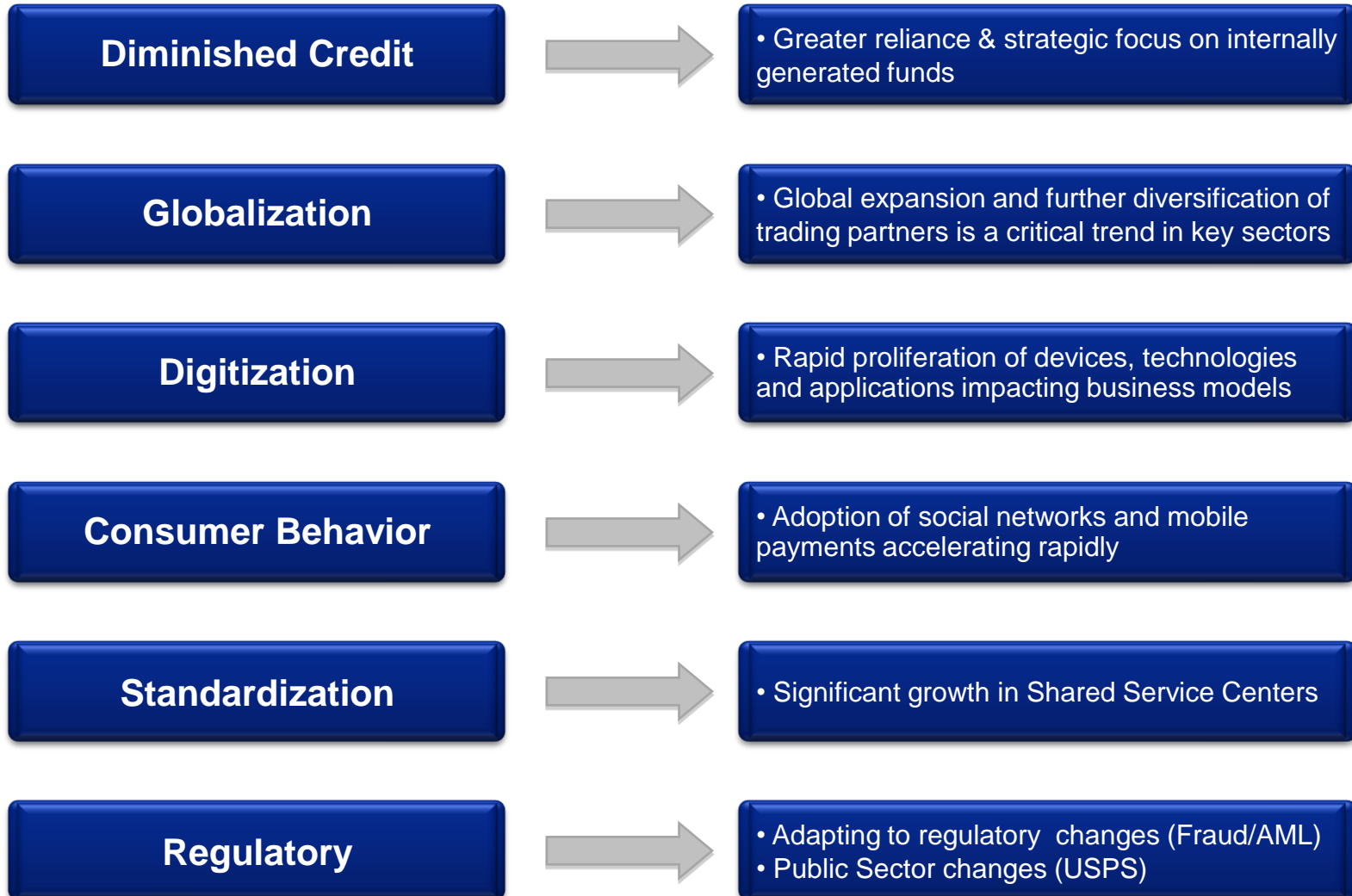
4. Return On Investment

- Increasing centralization, standardization and automation
- Unlocking trapped cash
- Improving Earnings Per Share, Cash Conversion Cycle, Inventory, Days Payable/Sales Outstanding
- Enhancing relationships with clients and competitive positioning

Key Macro Trends

Key Macro Trends

Corporations need to be nimble in a complex and evolving market. Successful companies will take advantage of the following trends and differentiate themselves from the competition.



Receivables Trends and Best Practices

Trends in Receivables

With credit likely to remain scarce and expensive, identifying alternate sources of internal funding remains a priority for organizations worldwide.

Cash remains King!

- Market analysis indicates that the top 1,000 US companies currently have over **\$750B in trapped liquidity**; the top 1,000 in Europe have approximately **EUR740B***.
- Analysts view working capital as an indicator of the overall efficiency & control a company has over its production cycle and cash management
- Efficient working capital management is an enabler for a company to self-fund its operating or production cycle, invest surplus balances or use funds to pay down debt

Receivables represents significant /untapped opportunity!

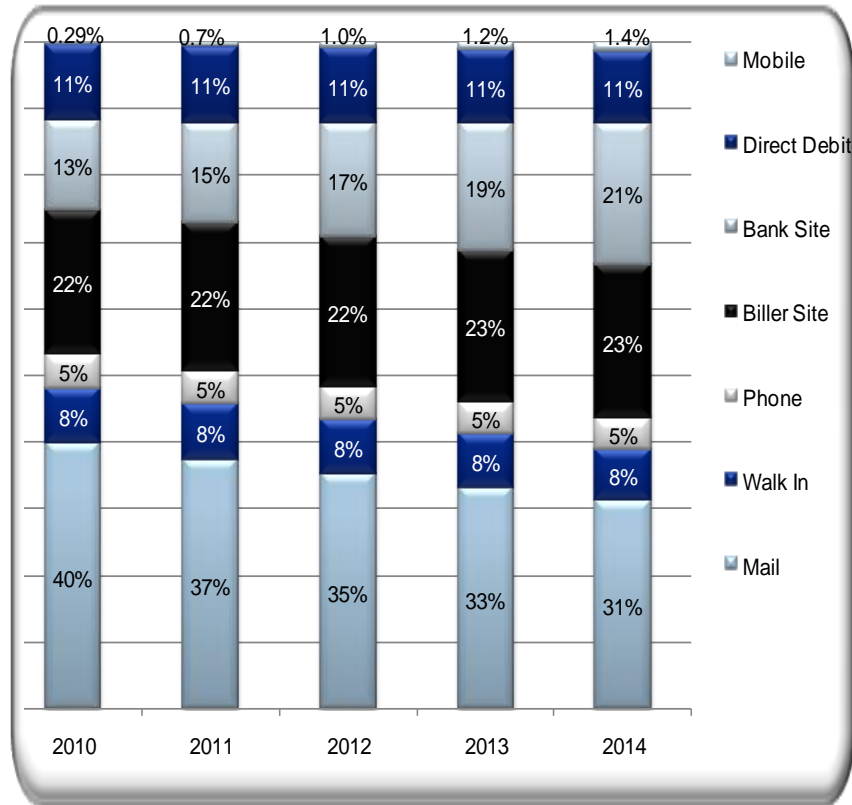
- While DPO/DIO have traditionally been the primary focus of optimization efforts, DSO remains the critical missing link in maximizing working capital efficiency
- 82% of SSCs are performing AP functions whilst only 69% have integrated AR functions (such as payment receipt) in the past 10 years*
- By adopting best in class practices, the typical large, multinational company could reduce working capital financing requirements by up to 30% and boost EPS by 2-3%*

* REL Working Capital Reports 2010

Trends in Receivables

Paper to electronic trend continues with greatest opportunity resident in C2B flows.

C2B Trends*



C2B Observations

- This shift is driven by consumer adoption of “consolidator” and “biller direct” offerings
 - **Consolidator model (Home Banking)**—pay through home bank’s website
 - **Biller Direct model** - consumers pay through IVR, CSR, or Biller site
 - **Mobile**—expanded usage will increase % of payments via biller direct & consolidator models
 - **E-Presentment accounts for only a third of all e-payments**
- **Unbanked**— Slight growth projected based upon economic conditions (bank account/service charge affordability) and lack of trust of banking system

* Citi Internal Study

Emerging Trends – Watch List

Several trends point to transformational change on the horizon.



US Post office is expected to lose \$10 Billion for their fiscal year ending this past Sept 30th. Change is coming and will have significant impact to all our businesses

- Out of 487 major facilities today 252 are under review for closure
- Mail may transition from a 1-2 day standard to a 2-3 day standard
- *6 to 5 days delivery frequency under review



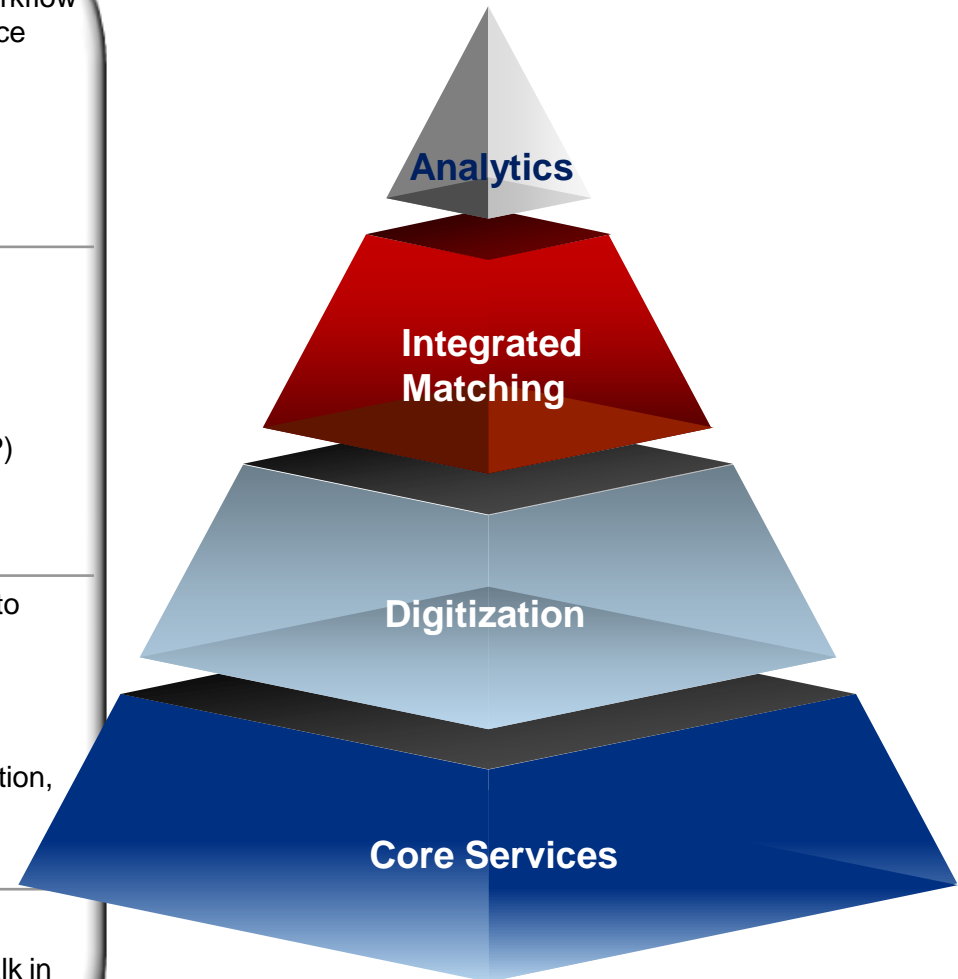
Proliferation and adoption of social networks and other on-line communities combined with mobile payments has promise to transform the consumer bill presentment and payment experience.

- Invoice presentment and payment on local sites
- Digital wallet capability (expansion beyond PayPal)
- Virtual Currency (gaming and other sites)
- Reaching the un-Banked/under-Banked market

Efficient Receivables Management – Best Practices

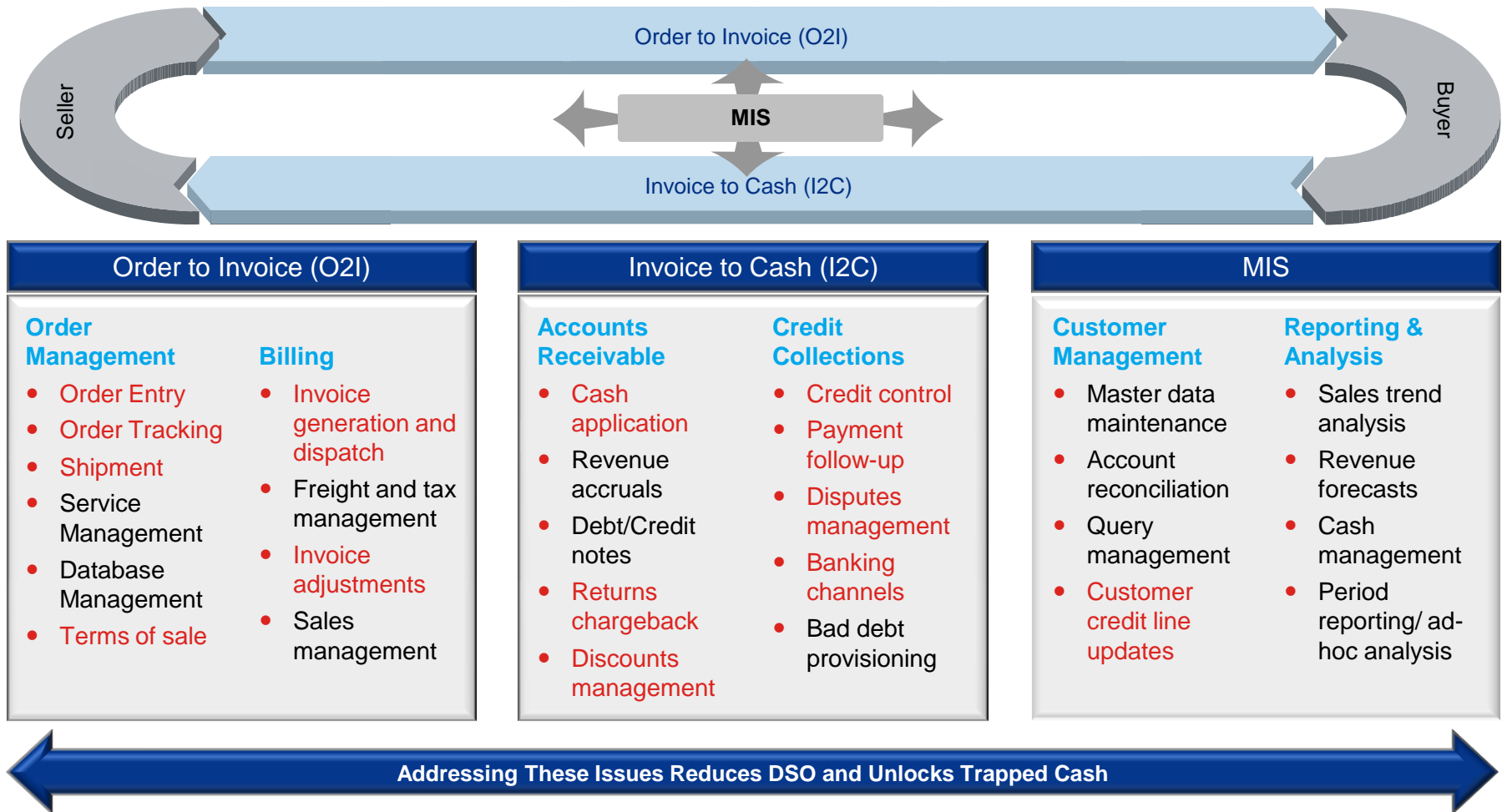
In order to take advantage the changing Receivables landscape, corporations must develop an innovative, integrated and proactive approach to remain competitive.

Analytics	<p>Provide central information management and workflow portal to enhance visibility, analytics, performance metrics and workflow</p> <ul style="list-style-type: none"> • Custom Dashboards • Multi-bank Reporting • ERP integration
Integrated Matching	<p>Apply advanced matching techniques on various collection channels to increase straight-through processing</p> <ul style="list-style-type: none"> • Bank -Trial Posting • ERP Integration (ex. Hanse Orga for SAP) • Rejects and exceptions automation
Digitization	<p>Facilitate migration from paper based channels to more efficient electronic channels</p> <ul style="list-style-type: none"> • LBX with imaging and on-line exception management • ACH Direct Debit, Home Banking Integration, Card, Mobile • Invoice Presentment and Payment
Core Services	<p>Support all channels and methods of payments</p> <ul style="list-style-type: none"> • Channels: Web, Mobile, Phone, Mail, Walk in • Methods: Check, ACH, Wire, Card, Cash



Working Capital Enabler: Unlocking Trapped Cash in the O2C Cycle

Cash gets trapped due to variety of upstream root cause issues emanating in the order to cash cycle. Examining the O2C cycle from end to end is essential in order to optimize working capital efficiency.



▪ Big trappers of cash.
Source: WNS Global Services.

Receivables Optimization – Challenges and Opportunities

The impact of accelerating collections, reducing administrative costs and unlocking trapped liquidity has the potential to significantly impact overall Financial Performance.

Challenge

- DSO delays may be **cumulative** across many parts of the receivables process with **no single point of trapped cash**
- **De-centralized processes** where critical stages of the workflow are cross-functional with **multiple stakeholders and no clear owner**
- **Disjointed systems and fragmentation of information** management infrastructure
- **Resource constraints** to focus on improvement initiatives
- **Acquisitions** and system integration disruption
- **Reliance on customers' payables processes** and lack of tools / proper incentives to influence more progressive customer payment behavior

Opportunity

- **Improve DSO's** and other operational efficiency **KPI's**
- Strengthen analysts, lenders' and other financial partners' **assessment of the company strength and, ideally, value and creditworthiness**
- Improve service and **enhance customer loyalty** and relations
- Enhance **market competitiveness**
- **Support "green"** or other business initiatives

How This Impacts You

Potential Savings Projection through enhanced focus on working capital optimization.

Example Peer Analysis

Company Name	2009 DSO	2009 REV
Competitor A	41	3,326
Competitor B	50	5,403
Competitor C	54	1,164
Sample Prospect	76	5,014
Competitor D	83	1,116
Sample Peer Industry Average	56	3,106

Sample Profit Improvement Potential

DSO Reduction	6% WACC	10% WACC
4 Days	3.3	5.5
6 Days	4.9	8.2
8 Days	6.6	11.0
10 Days	8.2	13.7
5-Year Savings	19.7	32.8

* USD in Millions.

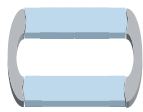
The Approach to Change – Putting it all together

Comprehensive end-to-end analysis of systems, processes and people are needed to optimize receivables and improve financial performance.

Toolkit for Change



Diagnostics



Working Capital Management



Analytics/
IT Infrastructure



Banking Rels.
Org. Structure



Standardization



1. **Perform end to end diagnostic:**
 - Process and procedures
 - Banking Structures and Relationships
 - Data and Systems infrastructure (Bank and ERP)
 - Internal Organizational Opportunities (SSCs)
 - Alignment of function partners (Sales, Credit etc.)
2. **Implement business relevant collection channels**
 - Provide flexibility and access, yet encourage and incentivize efficient payment behaviors
 - Develop aggressive electronic enrollment strategies
3. **Measure your DSO – Working Capital Management**
 - Identify areas of trapped cash
 - Compare your performance to your peer group
4. **Standardize and automate Cash Application to achieve Straight Through Reconciliation (STR)**
 - Define automated recon rules/tolerance - automate highest % possible
 - Consider back end ERP
5. **Explore Analytics/IT infrastructure opportunities**
 - Explore opportunities for data aggregation, custom reporting, visibility and integrated exception management

Payments Trends and Best Practices

Trends in Payments

1990-2000

2000-2006

2006-2011

...

Paper Past

Convergence

Electronic

INNOVATIONS

- ATM
- Visa Credit Cards
- Controlled Disbursement
- Online Bill Payment Network
- NACHA ACH Network

- ECP
- RCK
- ARC
- Check 21
- BOC

- SEPA – standardization
- IAT
- Fedwire Remittance

LANDSCAPE

- Primarily paper-based
- Local cash management
- Geography matters – proximity of branches to customer
- Fragmented governance and infrastructure

- Primarily STP electronic payments
- Global vendors and suppliers
- Shared Service Centers
- Significant consolidation of players
- Converging payment networks

- Emerging payments – prepaid, virtual, mobile
- Remittance rich data (XML)
- Outsourcing model
- Treasury as the change agent

PLAYERS

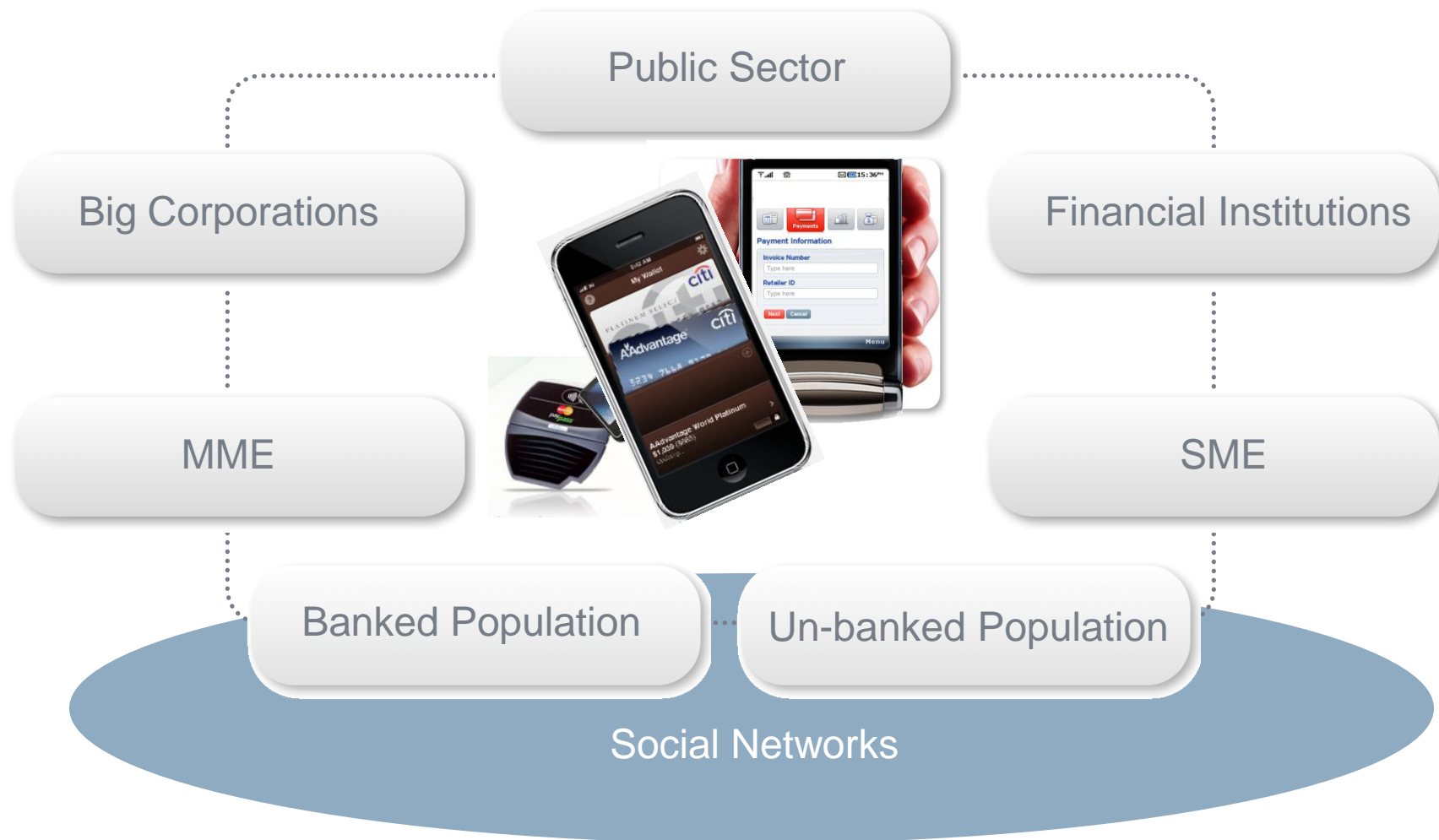
Major Banks	Local Banks

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The Mobile Ecosystem

Mobile is the emerging common denominator across the consumer driven economy.



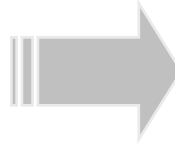
Mobile creates significant opportunity to interconnect various players of the economy...

Doing Business in a New Paradigm

The evolving payments landscape provides for new challenges and opportunities.

Old Payments Landscape

- High volume check processing
- Electronic payments were less organized with limited channels
- Relatively slower pace of processing allowed a “reactive” approach to risk
- Payments fraud was limited
- Compliance requirements were simpler



New, More Complex Landscape

- High transaction velocity requires better and smarter due diligence to capture fraud real-time
- Monitoring new payment channels requires more diligence and adds more complexity
- With rising influence of technology, fraud has become more sophisticated
- Increased regulation has necessitated increased compliance checks

What this means for Treasury Operations and Banks

The new payments market presents Banks and Treasury Operations with a new set of challenges as well as opportunities.

In order to minimize risk in the new marketplace, key stakeholders must **be at the forefront of innovation, prioritize controls** in infrastructure and **be nimble** in an increasingly complex environment.

Unlocking Trapped Cash – DPO Management

Efficient working capital management is now one of the strongest enablers for a company to self-fund its operating or production cycle, invest surplus balances or use funds to pay down debt.

Procure to Pay Automation Tools

Electronic Invoicing

New

- Supplier connectivity
- Automated invoice delivery

Old

- Paper based process

Purchase Order Management

New

- Automated PO delivery and mgmt
- Contract mgmt

Old

- Paper based process

Workflow Approval

New

- Automated workflow matching and approval
- Reduces exceptions, errors and cycle time

Old

- Paper based process

E-payables

New

- Automated payment via check to ACH
- Remittance delivery

Old

- Paper based checks

Purchasing Card

New

- Increased rebate
- Reduce low value transactions

Old

- Paper based checks

Payables

Working Capital Tools

Early Payment Discount

New

- Maximize capture of trade discounts
- Dynamic discount capture

Old

- Limited use/not dynamic

Supplier Financing

New

- DPO extension
- Improved cash mgmt and visibility

Old

- Burden was solely on supplier
- Credit often unavailable



Addressing These Issues Increases DPO and Unlocks Trapped Cash

The Approach to Change

Traditional Payments



- Sub-optimal payment mix
- Unaligned with evolving technological and social trends

Toolkit for Change



Analytics



Working Capital Management



Network Access



Standardization



Information Exchange



Controls

Unlocking the Potential



- Payment mix optimization
- Compatibility with mobile and social networking strategy
- Alignment with Treasury and Liquidity

What Does This Mean For You?

Impact on Client

Unlocking significant trapped cash through DPO/DSO Management

Ability to boost EPS

Enhancing relationships with your customers

Improve positioning relative to market

Access to actionable intelligence

Reduced risk through proper controls and efficiencies

Why Citi?



Why Citi?



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efficiency, renewable energy & mitigation

