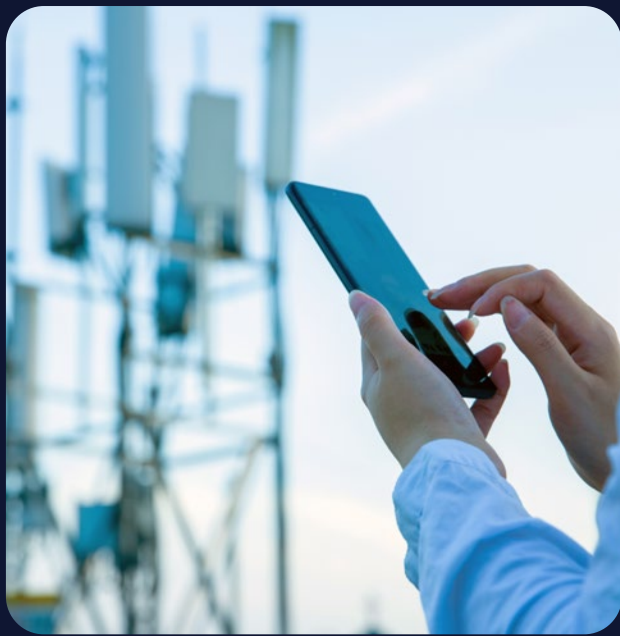

Article

Why treasury is key to unlocking *new opportunities* for telcos

To meet the operational demands of tomorrow, treasury must focus on improving visibility, enhancing cash flows, and forging deeper links with the business, write James Lee, EMEA Head of eCommerce, Technology and Communications Sales and Marcelo Moulin, Global Solution Sales Manager at Citi.

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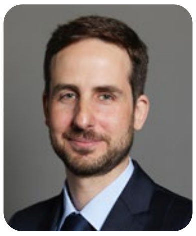

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Telecommunications is at the heart of today's world. Technologies such as 5G and fibre broadband have transformed how we communicate, shop, entertain ourselves, work and do business. The telecom sector underpins e-commerce and is a key part of the global economy: the industry was valued at around $1.81 trillion in 2021 and is projected to surpass $2.65 trillion by 2030.[1]

The value that the telcos deliver to the global economy comes at a cost, requiring huge infrastructure investment. Capex for many telcos around the world remains historically high and is forecast to be $331 billion in 2024, mainly due to rollout costs associated with 5G and fibre infrastructure. Moreover, while there are potentially significant B2B and enterprise applications for 5G, many telcos globally are struggling to monetise their investments, while companies that leverage telco infrastructure and drive increased data traffic, such as over-the-top (OTT) players (including social media and streamers), continue to grow (indeed, monthly data traffic is forecast to grow from around 118 exabytes (EB) per month in 2022 to 472 EB per month by the end of 2028[2] – a 400% increase).

Despite these headwinds, the near-term outlook is broadly positive. Capex is likely to decline as spectrum costs fall. In some markets, there may be opportunities to lower costs through consolidation as regulators soften their stance on mergers; increased sharing of infrastructure with competitors (including through tower companies) should also deliver efficiencies. Meanwhile, many telcos, especially in Europe, have been able to pass on higher costs to consumers, while energy and wage costs are starting to fall, which will drive EBITDA growth.

In the longer term, any respite for telcos is likely to be brief, however. The nature of technological development means that capex investment will inevitably ramp up again. Given the backdrop of historically high interest rates and borrowing costs, it has therefore never been more important for telcos to find efficiencies.

Tackling treasury challenges

Telcos have a deserved reputation for being at the forefront of technological advances. The industry's innovations enabled much of the world to switch to remote working during the pandemic and the hybrid working trend is likely to endure. Telcos' infrastructure has facilitated access to digital financial services, accelerating financial inclusion all around the world and enhancing customers' experience.

Telco treasuries have also become increasingly sophisticated in recent years and have never been better aligned with the business. For instance, many companies have significantly improved visibility and control of cash balances and short-term investments. The use of automated liquidity structures and forecasting methodologies to optimise cash utilisation is also now more widespread (though far from ubiquitous).

However, treasury also faces several perennial challenges, which despite advances in technology have yet to be resolved. These include:

- **Reconciling incoming payments** against telco data – which spans call records, billing information and network usage – especially where telcos have multiple systems and processes, remains a challenge.
- **Costs associated with legacy payment methods**, such as cheques (especially in the US) can be significant and time-consuming and a sub-optimal experience for the customers. Payments may be made to customers for promotional offers, to address billing errors and for compensation relating to service interruptions.
- **Credit card reauthorisation** can be problematic where customers choose to pay their bills by a card, which then expires, increasing risk of churn. Connecting with the customer to reauthorise their card is time-consuming and adds friction.
- **Working capital efficiency** at telcos has improved significantly. However, the capital-intensive nature of the sector and the high unit cost of smartphones can tie up a substantial amount of working capital, making it challenging to maintain adequate day-to-day liquidity. In addition, telcos can experience seasonal and cyclical fluctuations, making working capital management more complex.
- **Cybersecurity** has become increasingly important as telcos have digitised their processes. The use of cheques for rebates and other reasons also creates fraud risk.

What's the solution?

The pressure on treasury at telco companies to free up cash to meet the operational demands of tomorrow is certain to intensify. The substantial capital investments necessitated by the 5G (and 5G SA) rollout and other infrastructure projects will continue to exert pressure on cash flows. While 6G remains at a nascent stage of development, it will also require massive investment over the medium term.

At the same time, consumers demand consistent high-speed connectivity, unlimited data allowances, and increased flexibility. Virtual service providers are exploiting these demands, without the costs associated with infrastructure investments. As a result, telecoms providers face increasing competition and pressure to reassess their pricing models, offer more personalized plans and embrace agile IT systems.

Supporting the sustainability agenda

Telcos are steadily integrating environmental, social and governance (ESG) considerations into their business strategies. Treasury can play an important role in embedding ESG objectives into broader treasury goals.

For instance, one of the world's largest telcos has recently collaborated with Citi to incorporate environmental criteria into its supply chain finance programme. Eligible suppliers can access preferential financing rates based on multiple factors, including an independent supplier categorisation and roadmap framework, which was jointly developed by the telco and CDP, a not-for-profit organisation that runs a global environmental disclosure system. It is hoped that the programme will encourage suppliers to reduce their carbon footprint and ultimately contribute towards the telco meeting its Scope 3 emissions targets (which include indirect greenhouse gas emissions that occur in the value chain of an organization).

There are also opportunities for telcos to take advantage of sustainable finance, with instruments such as green and social bonds and sustainability-linked loans becoming an increasingly mainstream financing tool in many markets.

To meet these operational challenges, treasury needs to redouble its efforts to improve efficiency to support the business. Streamlined and centralised payments can reduce administrative overheads and free up time for higher-value activities, enabling business scaling, for instance. According to Citi's Treasury Diagnostics, telcos do outperform other sectors when it comes to centralization of payments processing with 78% using regional or global payment centres compared to 70% for all survey participants however there is more treasury can do. Similarly, while cash flow forecasting has improved at many firms, according to Citi's Treasury Diagnostics 79% of telcos surveyed still rely on manual inputs for forecasting, which is time-consuming and can introduce errors. Other industries are lagging with 87% of their inputs being manual. Telcos also need to embrace single-instance global ERP systems and cloud-based treasury solutions more extensively.

While the trend is towards more active working capital management – accelerating receivables, renegotiating payment terms utilising B2B card payments, and automating transactions – more can be done. According to Citi's Treasury Diagnostics, treasury has full responsible for working capital at just 31% of the telcos surveyed, while at 50% it is involved in an ad hoc capacity. These figures are significantly higher than in other sectors (reflecting the heavy capex within the communications ecosystem), but greater treasury involvement would deliver further benefits, especially in the current high interest environment.

Data – and specifically real-time data – is key to driving improvements in payments, collections, and working capital management. Treasury is the custodian of much of the transactional data that flows through the organisation. By building on this role as part of a strategy to improve treasury efficiency, it can deepen its links with the business and build a better understanding of the company's strategic goals so that it can provide more effective support.

Seeking support

Citi is well placed to help treasury at telcos as they work to enable the business to prosper and thrive in a fast-changing technological, competitive and regulatory landscape – and we have partnered with telcos in many different areas to support their strategic business goals, including:

- **Geographical footprint**: Telcos can leverage Citi's presence in over 90 markets to seek to execute their commercial strategies and manage liquidity more effectively through automated cross-border sweeps.

- **Digital and consumer payments**: with the seismic shift from offline to online, Citi has invested significantly in our online payments platform, Spring by Citi, which is now accessible in 20 countries, facilitating global e-commerce and B2B fund flows with tools such as present and pay (embedded payments in billing), direct debit, card-acquiring and e-mandates.

- **FX Risk Management**: global payment solutions via WorldLink, facilitates cross-border payments in more than 135 currencies across 190 countries; and domestically Citi offers instant payment capabilities in over 60 countries worldwide.

- **Bank account reconciliation**: Payer ID allows for automatic reconciliation of receivables payment through assignment of a unique virtual number for each customer.

- **Working Capital Optimisation**: Telcos have embraced a number of solutions to support their (and their customers/ suppliers) working capital goals, including: sales financing, supply chain financing, dynamic discounting (to enhance returns on surplus cash), B2B card payments.

[1] https://www.precedenceresearch.com/telecom-services-market

[2] https://www.ericsson.com/en/reports-and-papers/mobility-report/dataforecasts/mobile-traffic-forecast

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