

Unlocking capital from within

In an environment where operating efficiency and financial flexibility are paramount to survival, necessity is inspiring a fresh perspective and providing the impetus to bring about radical change in how operational and financial processes coalesce around the critical activities that drive bottom line performance, believes Sajeev Viswanathan, Global Head of Receivable Services and Finance at Citi. **WRITER** *Heather McKenzie*



Sajeev Viswanathan, Global Head of Receivable Services and Finance at Citi

Current economic conditions and the financial crisis have triggered a fundamental paradigm shift in how companies operate. With capital markets closed and the global recession biting hard, liquidity management has become a board level priority. Many companies are faced with the challenging predicament of sustaining business momentum while needing to find creative ways to transform their operating model to find greater efficiencies, weather the storm and emerge – fitter and leaner – to embrace the future.

Banks like Citi have risen to the challenge and are assisting their clients with the re-engineering of core processes that relate to the management of their companies' financial supply chain. "Our clients are realising the impact of operating inefficiencies in the order-to-cash cycle on their cost of capital," observed Mr Viswanathan. "By working with them to find those process efficiencies that generate additional liquidity, and by helping them fund their receivables and preserve supply chain stability through trade financing programmes, we are effectively in the capital substitution business today," he says.

UNLOCKING CASH FROM THE PRODUCTION CYCLE

Generating incremental liquidity from within an organisation requires cross-functional alignment across all parts of the organisation that play a role in the financial supply chain: from purchase-to-pay, through inventory management, to order-to-cash. Conceptually, a company begins its production cycle with sufficient funds to meet the anticipated outlay of cash at various stages of the production cycle. The company will spend this cash as it progresses through various stages of the production cycle, and it is only when the company has purchased its produc-

tion inputs, performed its own manufacturing or production process and shipped its orders that it is in a position to collect money from debtors.

If there are disconnects or inefficiencies in the order-to-cash cycle, from when a sale is generated to when the order is fulfilled, shipped, invoiced and payment received, it consumes the efficiency in a company's working capital and may even force the company to turn to external funding sources to meet its commitments. It is by placing a cross-functional focus on reducing days sales outstanding (DSO) – whether it is by eliminating invoicing delays and errors, or tightening credit control, expanding collection channels, moving customers to more cost-effective collection channels, improving accounts receivable reconciliation, managing FX exposures and centralising core processes – that companies are able to unlock cash that is trapped within the business. "The impact of unlocking trapped liquidity today is enormous, and offers a transformative impact on corporates' financial performance," says Mr Viswanathan.

This is no easy task as, over time, silos have been created within organisations to deal with the different tasks. The component parts across the order-to-cash cycle need to be broken down, reviewed and rebuilt to remove disconnects and inefficiencies, and improve the company's ability to meet near-term liabilities. The challenge is how companies might accomplish this without the luxury of stopping to re-tool. "There is no generic solution to the problems companies face," says Mr Viswanathan. "Processes differ across industries and across markets. The only way to identify inefficiencies is to deep dive into the back office, break down the domains where

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the disconnects reside, and find the cross-domain improvements that can release capital.”

ACHIEVING TRANSFORMATION

An area of significant opportunity is working with industry aggregators who are in a position to catalyse simple changes that result in wholesale transformation across an industry. One of Citi’s clients, an industry aggregator adopted Citi’s Electronic Invoice Presentment and Payment (EIPP) solution to automate invoice presentment and simplify information flow between industry counter-parties. While this resulted in a reduction of DSO by 10 days, reduced costs by over 25% and increased customer satisfaction significantly, it also set an efficient industry standard.


Another company, a wholesaler of office supplies, worked with Citi’s business process outsourcing partner to segment its receivables portfolio and apply a blended onshore-offshore outsourcing solution where small balance, early stage delinquency items were serviced offshore while high value key accounts and government contracts were serviced onshore with a more stringent focus on managing to agreed cash generation and productivity metrics. The firm realised annualised cash gains of some \$165m and reduced its overall collection costs by 50%.

COLLABORATIVE THINKING

Achieving such transformation requires the convergence of banking, operations and technology functions. They require a partner who can manage the re-shaping of the working capital environment, enterprise-wide, without extensive re-tooling of the company’s technology infrastructure, while business continues

as usual. BPO firms have been very good at identifying inefficiencies in operations. Technology companies can automate processes and cut out costs. But tackling all three areas in concert requires the over-arching partnership with a global transaction services bank that has the broad geographical participation, the capital strength to provide vital short term commercial funding, and the combination of operational expertise and client commitment to help companies re-engineer ‘on the fly’ so that business does not stop while processes are re-shaped.

Re-engineering must be holistic, involving the entire organisation right up to the board level. Mr Viswanathan says the time is right for boardroom discussions to encompass working capital efficiency. “This is the perfect moment to re-engineer operations and find efficiencies in process, people and capital.”

By addressing the root causes of inefficiency in how working capital is managed, companies can make more informed decisions about the nature and extent of the funding they need. For instance, a company may approach its bank for \$100m in credit facilities but through improved accounts receivable and collection processes they may only need to borrow \$80m. “An efficient system will not consume capital,” says Mr Viswanathan. “The bank relationship with corporates has moved away from that of a transaction-oriented service provider to that of a trusted business partner with a more value-driven relationship. We can take a holistic view, bringing the required partners to the table and optimising the opportunities across banking, operations and technology. This is about efficiency and innovation – key for corporates in today’s environment.” 

“UNLOCKING TRAPPED LIQUIDITY IS MAKING A TRANSFORMATIVE IMPACT ON CORPORATES’ FINANCIAL PERFORMANCE”