Imagine: taking treasury beyond its borders

Executive summary

- Across all the key areas of treasury, innovation is pushing the boundaries of best practice. Treasury and the wider business environment are in a period of adjustment and realignment. For companies to thrive in these challenging and fast-changing times treasurers should also look beyond established processes. Shared services centres (SSCs) are already a well-established part of the corporate landscape, the ones that add most value are those that constantly evolve to take on new processes and extend their reach into new regions.

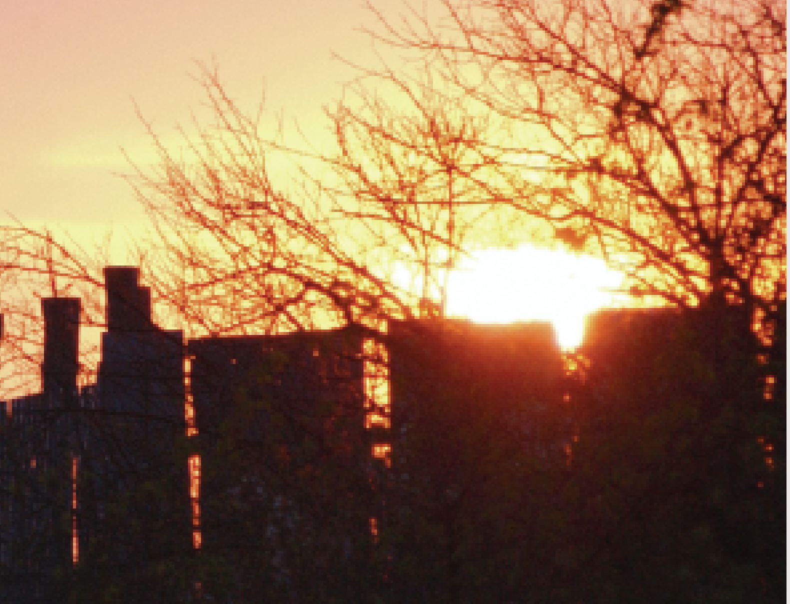
It is, perhaps, human nature to question the status quo and to push the boundaries of the possible. But this desire to look beyond received wisdom is also a critical part of the treasurer's mindset. As liquidity dries up in the credit markets and growth slows in key regions, the experienced treasurer will first "secure the base", using tried and tested measures to visualise, mobilise and optimise liquidity. But for companies to thrive in these challenging and fast-changing times, treasurers should also look beyond established processes to equip themselves with the latest thinking and engaging the latest tools.

TAKE ALL FACTORS INTO CONSIDERATION So what are the treasurer's key challenges today? And how do they inform his priorities? Both treasury and the wider business environment are in a period of adjustment and realignment. After a sustained period of economic stability and growth, the prospect of a slowdown in major markets is forcing many firms to re-evaluate their business strategies and funding options. Moreover, increased levels of investment, trade and M&A activity by Asian and Middle Eastern investors is just the latest sign that we now live in a multi-polar business environment characterised by increasingly diverse trade and investment flows. As treasurers increasingly focus on ensuring efficient cashflows to and from locations across the world, they are also adjusting to an environment that offers greater flexibility in how and where processes are managed. Technology-led advances – such as the trend towards standardisation of bank-to-corporate communication – are enabling treasurers to re-evaluate and improve existing processes. New solutions are giving treasurers greater scope to apply best practice and address new challenges; the tools are available to make more possible.

BEYOND ESTABLISHED BOUNDARIES The treasurer needs to fully explore innovative thinking and technologies to successfully balance these considerations and deliver value to the company. Let's look at four areas in which the innovative treasurer can find new ways of overcoming today's challenges by managing working capital more efficiently across global operations:

Imagine truly mobile treasury processes While shared services centres (SSCs) are already a well-established part of the corporate landscape, the ones that add most value are those that constantly evolve to take on new processes and extend their reach into new regions. As a matter of course, treasurers should consistently re-evaluate which treasury-related processes should be migrated to SSCs as well as monitoring performance of existing processes within SSC structures. Functions such as administration of travel & entertainment and procurement cards, as well as accounts receivable, have traditionally been thought too tied to the local environment to be managed from shared service centres. But technology-led solutions combined with the move towards more standardised operating infrastructure mean that processing efficiencies can increasingly be realised without diluting local control, even in paper-intensive locations such as Middle East and Africa. The cost efficiencies from optimising centres of processing excellence in a low-cost location can make a significant bottom-line impact.
But think beyond that: Where business and treasury processes were once organised by geography, then centralised in a single site, firms can distribute common processes flexibly across a range of suitable resource pools and low-cost locations. When products are routinely designed in one country, assembled in another and sold in another, there's no reason why hedging strategy, middle office tasks and accounts payable cannot be conducted separately in, say, London, Dublin and Mumbai. Rather than an all-or-nothing approach, common processes can be migrated and relocated to continually improve the efficiency of SSC structures, while the treasurer retains overall control. And in future, technologies such as digital identity management will increasingly enable firms to transfer responsibility for key processes to facilities located around the world at short notice to achieve at a click.

Imagine no process duplication Treasury efficiency has always been compromised by the need to accommodate diverse in-country banking environments and proprietary bank capabilities. Step by step, however, treasurers are streamlining processes to take advantage of an emerging era of simplicity and standardisation. In January SEPA was launched, providing a single payment instrument that can be used to effect euro-denominated payments in multiple jurisdictions.



RAJESH MEHTA, HEAD OF CASH MANAGEMENT, EMEA, CITI GLOBAL TRANSACTION SERVICES, LOOKS BEYOND THE RECEIVED WISDOM.

From May, the UK Faster Payments initiative will offer further scope for payment process efficiencies. At the same time, corporates are using standardised interfaces to SWIFTNet to establish bank-agnostic payment processes for the first time. To realise efficiencies quickly, corporates should waste no time reducing duplication in account payable and receivable processes, nor in pressing their banks to support XML-based message standards.

But think beyond that: The increased use of bank-independent channels and tools by the treasury will change the basis on which service levels and product capabilities are evaluated. Regional expertise will rely not on knowledge of local payment formats, but on the ability to provide integrated solutions to real business needs. Treasuries are already removing bank-specific security protocols for communication channels, but should also look to eliminate differences in reporting formats to improve visibility. Industry-standard digital identity management tools can be used to replace administrative-intensive bank relationship processes with centralised account management and account opening authorisation. This too increases flexibility, allowing treasuries to reassign responsibility for key processes rapidly according to changing priorities and resourcing levels. Moreover, standardised instruments, formats and connectivity can also extend the scope of processes that can be outsourced.

Imagine a truly integrated supply chain The traditional delays to trade flows caused by incomplete letter of credit documentation are gradually being eliminated by increased use of technology-based solutions, increasingly supported by industry-wide initiatives such as SWIFT's Trade Service Utility. As companies' supply chains and distribution networks extend to more and more markets, treasurers must source low-risk but flexible finance options to support trading partnerships in a diverse range of business cultures. The acceleration of trade document processing helps support just-in-time supply chains, but on-the-ground expertise – and the flexibility to adapt payment terms – is also required as trading counterparties become strategic partners.

But think beyond that: Using deep in-country coverage and reporting capabilities, banks are working with corporates to offer cheaper rates of funding to suppliers and distributors, thus reducing the end-costs to the bank's client. Smoothing the wheels of the extended supply chain puts the corporates' own working capital to work where it is needed most, eliminating funding-related delays to order fulfilment. Moreover, use of e-invoicing and other technology-based solutions can accelerate cashflows through improved integration. By tying them together, both the physical and the financial supply chains move more quickly – improving competitiveness and reducing margins in an era of diverse east-west trade flows. With traditional credit in shorter supply, treasurers should fully explore their banks' expertise in developing flexible finance solutions.

Imagine total control of working capital Until now, most international companies have been focused upon consolidating liquidity in major global currencies, with the majority of cash resources not easily convertible or transferable left locally, often under-used since Sarbanes Oxley reduced treasurers' appetite for local investments. But an effect of globalisation has been much larger flows in a wider range of currencies for which consolidation into dollars and euros may not be the obvious option. To manage these growing, diverse cashflows, the treasurer must quickly grasp the different currency and political risks and establish effective reporting and liquidity management processes in unfamiliar and often complex business environments.

But think beyond that: Ideally, the treasurer will want to draw out available cash overnight from emerging markets countries using minimal in-country resources in order to optimise liquidity without growing costs. And at a time when cash cycles may lengthen, the ability to identify all pockets of working capital becomes critical; gaining greater insight into balance sheet predictability can improve cash effectiveness, reduce reliance on external funding and optimise investment opportunities. To exercise a granular level of central control, treasurers need to be able to access an immediate global view of all liquidity, then choose from a range of convenient investment options, access fund reporting and performance analytics across all entities and locations via a single platform regardless of banking partner. Moreover, flexibility in pooling techniques, such as against the sun sweeps, is enabling corporates to utilise a greater proportion of excess liquidity no matter how diverse their cashflows.

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Think the impossible

Across all the key areas of treasury, innovation is pushing the boundaries of best practice. In short, more is becoming possible, in all areas:

- **Visualisation** Better information and analytics, as well as increased process efficiency through industry-wide standardisation, are increasing visibility and control on cash and liquidity globally;
- **Mobilisation** Firms are better able to move and utilise cash across their entire operations on an automated basis, while the ability to mobilise liquidity across the supply chain is increasingly valuable;
- **Optimisation** More effective, flexible investment tools are available to maximise available liquidity, without tying it up when needed for business objectives.

But the treasurer needs to act precipitously. In a changing macro-economic climate, the CFO will rely heavily on the treasurer's ability to optimise working capital processes across departments and geographies. The ongoing pursuit of new efficiencies in treasury is needed both to maintain business competitiveness and to ensure financial stability. Perhaps the first step to ensuring that the treasury can rise to these challenges is to think beyond its boundaries.