Opportunity knocks in a tough economy

Deutsche Bank's Geoff Garden sees the economic lull in the US and the high-tech breather as an opportunity to consolidate past gains and rationalise banking services.

Lenders are raising their credit standards, market capitalisations have fallen steeply, hitting earnings targets is often doubtful, and interest rate cuts and credit downgrades are making the money markets volatile. Not to mention that many technology vendors may soon be out of business. It sounds more like a crisis than an opportunity for reviewing cash management operations, but it may be exactly the right time for such an assessment.

An economic downturn makes treasury fundamentals, such as how well liquidity is managed across the company, more important than ever. When it becomes riskier and more expensive to rely on outside sources of liquidity, treasury can shine by maximising cashflow, discovering pockets of untapped liquidity and putting available cash to its best use.

The time may also be right to take stock of how the explosion of technology that has made the past few years so feverish has affected your company. Innovative tools are now available, but decisions about which technology to embrace have sometimes been rushed and not always rational. Time allowing, it can be rewarding to revisit treasury technology choices and consider how they fit into the company's broader technology strategy.

Moreover, the sweeping changes in communications technology and mergers among the top cash management banks have significantly changed the landscape. Where treasurers are still relying on one or two leading banks chosen four or five years ago, they may discover that their choices are now out of synch with the market. The banks have changed. The services have changed. The prices have changed. The simultaneous bursting of the dotcom bubble and slowdown of economic activity reduce the pressure to move ahead quickly and bring back a new set of priorities and a fundamental concern with expense management.

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Growing companies, especially those which have grown by acquisition, may have seen their banking relationships become more complicated. For example, one such company recently discovered that it had millions of dollars sitting unproductively in numerous bank accounts while, at the same time, it was borrowing for working capital. A streamlined banking structure saved that company 15 cents a share in net earnings, a figure that captures the imagination. Now may be the moment for you to streamline your cash management and banking activities, as senior management may be ready to provide the consulting, manpower, IT and financial resources you need to tackle this task.

Geoff Garden

Fine-tuning the supply chain

Technology and involvement in supply chain management has brought treasurers closer to core business processes, especially to dealing with customers. Even traditional paper-processing services, such as wholesale lockboxes, have been enhanced because banks have introduced digital images of cheques and remittance documents and posted them on 24-hour accessible web sites, making it quicker and easier to find out who has paid. With better understanding and control over the supply chain, cashflow should become stronger and more predictable.

Newer services such as business-to-business (B2B) electronic bill presentment and payment (EBPP) have an even greater potential to expedite incoming cash, as well as cutting valuable time off days sales outstanding (DSO) and improving customer service.

The point here is not to see it as an opportunity to take float away from customers by debiting their accounts sooner, but rather a chance to create a 'working capital' partnership with the payer who is, of course, critical to the equation. This is why the successful B2B EBPP services will be built to attract payers and allow them to continue to control the timing of their payments.

The main benefit lies in resolving disputes. When the biller relies on paper documents and mail delivery, the process is slow and invisible. In many cases, the biller is not aware that an invoice has been disputed until the cheque fails to arrive and those time-consuming and expensive follow-up calls, faxes and emails have begun.

With EBPP, billers discover almost immediately when a payer marks an invoice for dispute. EBPP message fields and email allow most such disputes to be resolved before payment terms run out, benefiting both sides.

This prevents a multi-million dollar invoice from getting sidetracked over one small disputed line item, because the payer can isolate the disputed item and pay the rest of the invoice. Over time, this becomes more than a financial issue because it reflects on the quality of the relationship between buyer and seller. Payers benefit, too. Aside from the savings in manpower and postage, they can be more certain to earn valuable discounts for paying on time. Moreover, their credit lines – and their ability to place new orders – will not be encumbered with disputed items.

On the accounts payable (A/P) side, some treasurers and A/P managers are concerned that their employees are spending up to 80% of their time with vendors which account for just 20% of their spending – the smallest companies with the greatest need to get paid quickly. Therefore, they are looking to automate or outsource A/P whenever possible. Treasurers might now want to look more closely at these options.

More service for less cost

Treasurers will be pleasantly surprised to find that, in many cases, they can get more from banks for less money in today's market. There are several reasons. Banks have made huge investments in paper-processing technology. Paper-based payments are growing more slowly and probably will start to decline. But the decline will be gradual, leaving banks with excess capacity and a strong incentive to leverage the fixed cost they cannot shed by using their processing factories to support outsourcing services.

Furthermore, banks recently experienced a serious scare: enterprising dot-coms were preparing to exploit the power of the internet to disintermediate them out of the payments business. Banks have responded by upgrading their technology, sometimes trimming their prices and generally being more aggressive in defending their turf while making sure to accommodate the needs of treasurers.

Mergers among large banks have changed operating platforms, business models, service offerings and price structures. Once-dominant players have disappeared and new players have entered the market. Priorities have shifted. A firm that was in its bank's sweet spot several years ago may now find itself outside the bank's target range, with customer support possibly shrinking.

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Global economies

The booming economy has changed the needs and priorities of companies as well. Many have entered the global market and need cross-border services. Among larger companies, the concept of regional treasury centres has taken root in Europe and is starting to spread. The EU and the euro have caused many global companies to rationalise their banking activities and account structures in Europe, finding efficient ways to mobilise and deploy cash across borders without incurring expensive transfer charges. Some of those benefits may now be translated to Asia, Latin America and North America.

This may also be the time to work with subsidiaries who are still running a decentralised cash management operation, particularly those who may have been recently acquired and have not had the chance to look at the availability of better support within the existing structure. During a booming economy, the focus tends to be on the management of the growth. In a more challenging environment, it is easier to get people focused on their bottom line.

Exploiting the new infrastructure

Enterprise resource planning (ERP) systems and the internet are two of the most conspicuous landmarks of a revolution that is occurring in communications technology and information management. That revolution is far from over.

An infrastructure is now almost in place, but the benefits have been incompletely realised. The big opportunity now may be less in buying and installing new technology than it is in learning how to wring value out of investments already made.

Integrated end-to-end solutions propagate marketing literature but seldom are found in the real world. The opportunity to work with customers and suppliers to build efficient supply chains is enormous. This is also a chance to get more value from your bank vendor, as the leading players have developed much more expertise in the area of working capital management.

Neatly-boxed treasury solutions have lost much of their value. Treasurers may have an ideal opportunity to help companies exploit past investments in ERP technology and new services, such as EBPP, which bring visibility to the biller/payer relationship and efficiency to the supply chain, turning stagnant pools of data into dynamic information.

The potential to understand the buying and paying habits of customers has never been greater, nor has the opportunity to add value outside your traditional sphere of influence by leveraging the information managed.

For treasurers, this means joining – or perhaps leading – teams which will include sales and marketing, credit, accounting, customer service and even operations. The emphasis will be less on planting flags in new domains and more on getting results and making the infrastructure work.

It is time to ask yourself, should we be using technology to automate an existing process or be taking a fresh look at what new processes we need to support a new business model?

New technological opportunities are coming along with applications such as wireless technology presenting an important frontier. Once mobility is integrated on the front-end with other systems, information about new sales, for example, can go into and spread through the ERP network just seconds after the handshake.

Financial executives now have better tools than ever to manage liquidity, not just in their bank accounts, but throughout the supply chain, co-ordinating with suppliers and customers for net gains. Using technology, banks, trading partners and a variety of new market and hosted services can take advantage of the current economic and technological lull by leveraging the gains made in the past decade and positioning themselves to surge forward when the market picks up again. ■

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