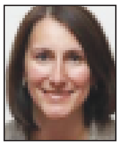
Every last drop



SONIA ROSSETTI SUGGESTS THAT CORPORATES NEED TO SCRUTINISE THEIR BALANCE SHEETS AND THEIR PROCESSES IF THEY WANT TO MAXIMISE LIQUIDITY.

The dramatic events in the financial markets during the past year have placed enormous pressure on corporates' supply chains and working capital management. Once reliable sources of liquidity, such as asset-backed commercial paper, which provided short-term funding for daily activities, have all but disappeared, and it is now much more difficult for companies to raise money, with the pressure being felt along the entire supply chain.

Corporates will need to adapt to these conditions by scrutinising their balance sheets and their processes to maximise liquidity. What they need is greater control over their working capital. Secure, real-time information tailored to their specific requirements will provide the visibility they need to compete and to service their own customers' demands during the global economic downturn. This visibility allows greater risk and audit control, better understanding of overall cash positions, and improved forecasting.

Working capital efficiency is also increasingly used by stock market analysts when evaluating companies. This is a further incentive for corporates to focus on improving working capital management.

KEEPING PACE For their part, commercial banks must keep pace with the changing environment. They need to provide information, services, solutions and relationship banking that will help their corporate clients to do business in volatile markets.

It is not enough for corporates to have information about the fact that they have made a payment or taken a collection. If they are to manage their working capital effectively, they must understand their entire supply chain, including days sales outstanding (DSO) and days payable outstanding (DPO) performance, when and what type of payment they will make at any given time, and when they might need to borrow money.

An example of this is where a manufacturer of seasonal goods, such as garden furniture, buys in the raw materials required to assemble such items several months before they are delivered to distributors for sale. The manufacturer is primarily concerned with how to fund its business in the time between ordering and paying for the raw materials and delivering the stock.

Corporates need to manage their funding in a way that caters for the peaks and troughs of their business cycles. They want the right funding products and services at the right time. To support these aims, banks must understand their clients' supply chains.

Much of this understanding is based on good customer relationship management. It is only through an understanding of a client's business that banks can provide the services and solutions needed to run that business. During such harsh economic times, relationship banking takes on even more significance as corporate clients seek greater support from their banks. Corporates want relationship bankers who understand their business, their market and what they are going through.

Executive summary

- The future of corporate banking is about the intelligent use of technology and people to deliver a better customer experience. Corporates require information about the whole of the supply chain in order to manage working capital effectively. Both corporates and banks will be looking to make greater use of technology, new products and added-value services in the search for competitive advantage and enhanced liquidity.

This has not always been the case. Silo banking – where corporate, asset finance and investment banking were kept separate – meant that banks tended to be more reactive to customers, providing services only when approached.

How a corporate deals with its banking partners is also increasingly important. Corporates expect a single, self-service authorised access point into banking systems via an information portal. This improves a corporate's experience with its bank, and offers key personnel easy access via traditional communication channels: phone, face to face, email and fax. In the past, online services have developed in a fragmented way, which has increased the complexity for clients who need multiple PINs and passwords to access different services from a single bank. A portal can offer unified access, enabling corporates to track their positions across the globe via one secure route into the bank. The future corporate bank would see corporate treasurers view on one screen summary data from the different services they use.

Getting closer to a corporate's business allows banks to be more proactive. They can offer tailored services – such as corporate helpdesks and advisers – that are based on real and immediate needs. With liquidity so tight, corporates want to make better and faster decisions about funding.

Real-time information, electronic supply chain services, supply chain finance and trade finance can all help a corporate to manage its working capital across multiple countries efficiently and effectively. These elements need to be linked seamlessly from a bank's systems into the corporate's procurement, enterprise resource planning and accounting systems, using the customer's preferred data formats.

REAL-TIME INFORMATION Secure, real-time information is key to enabling more accurate decisions to be made, based on what is actually happening. Treasurers need easy access to the right information at the right time. They should not have to go to banks to ask for that information; banks should know when and how treasurers want their management information and be able to deliver this tailored information when they most need it. Customer messaging in the future could be provided through a variety of media including mobile phones, the internet and personal digital assistants.

The same principles apply for customer updates. Real-time, self-specified event-based notifications provide treasurers with improved visibility on their accounts. These updates could be sent when specified debits or credits are applied to an account, when a payment is awaiting authorisation, or when an irregular payment is made.

AUTOMATING PAYABLES AND RECEIVABLES Paper-based processes can be fraught with errors and time delays. Eliminating paper and improving invoicing can be achieved by electronic invoicing. Services of this nature facilitate the exchange of information between buyers and sellers, enabling invoices and trade-related documents to be issued, received and reconciled electronically within either an accounts payable or accounts receivable function. Effective use of these services will give parties in the supply chain demonstrable straight-through process efficiency gains, greater control over their liquidity through improved invoice visibility, and an opportunity to take advantage of early payment discounts.

SUPPLY CHAIN FINANCE Supply chain finance (open account trade finance, typically structured as discounted receivables financing) is another area that has continued to attract interest during the credit crunch as it can help to ease the pressure imposed by the credit tightening on suppliers. Here, a better-rated buyer can typically use its credit rating to make additional financing options available and attractive to suppliers. For certain businesses with critical key suppliers, there is an increased need to support them in these tough conditions. As smaller or mid-market enterprises, such suppliers are often the first to feel the impact of more expensive funding or restrictive access to credit. Their potential inability to deliver can represent a major risk to the supply chain, which many businesses are keen to mitigate.

TRADE FINANCE Demand for new trade finance solutions, based on integrated physical and financial supply chains, has been increasing throughout the OECD countries as more companies become global in their outlook and operations.

Although traditional trade instruments have been less in favour with the development of more open-account trading terms, this is starting to change as traders seek the security of traditional trade financing using instruments such as the letter of credit. Solutions can be structured – perhaps with a mixture of open account and traditional trade instruments – depending on the risk profile of the transaction and the characteristics of the trading partners.

The above-mentioned services are all core to a corporate banking proposition. However, all the leading banks will be seeking to provide value-added service to their clients through tailored liquidity solutions. Examples of these include:

- cash concentration, pooling accounts in a number of different countries and currencies so corporates can understand their overall liquidity position quickly and easily;
- tailored liquidity services, netting surplus cash balances against reducing the debt interest burden, and self-funding deficits across the organisation through access to the organisation's global surplus working capital, while ensuring an optimal return on short-term cash and maximising the core funding positions for increased-term investments;
- automated data reconciliation, provided by banks, synchronising bank and corporate systems so the corporate treasury is always working from a real-time position;
- richer data content and improved reconciliation through the emergence of XML-based payment standards (for example, supporting SEPA credit transfer); and
- effective processing and settlement of cash – which can be critical for some organisations' working capital efficiency – realising liquidity benefits for the corporate by the immediate credit of funds to their bank account as funds are deposited in the machine.

The future of corporate banking is about the intelligent use of technology and people to deliver a better customer experience. It is not just about delivering information on what has happened to a payment, but is about delivering secure real-time information in a preferred format that will help the corporate to take real control of its working capital. It is also about providing the right people, at the right time, to help corporates make crucial business decisions.

By getting closer to their clients' businesses, banks can provide better corporate banking services that are proactive, not reactive.

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