

Cash advance



GOOGLE ASSISTANT TREASURER **RONNI HORRILLO** SPEAKS TO **MARK TWEEDIE** ABOUT THE SEARCH COMPANY'S ADOPTION OF SEPA AND ITS OTHER RECENT CASH MANAGEMENT OPTIMISATION INITIATIVES.

Google's stated mission is to organise information and make it universally accessible and useful. This culture influences how the company manages its internal operations. With a focus on maximising efficiency and eliminating barriers globally, Google's treasury department has been an early adopter of various industry initiatives. In doing so, Google continues to be supported by Citi, its European banking partner.

Mark Tweedie: Google was an early adopter of SEPA credit transfers [SCT]. What prompted you to implement SCT?

Ronni Horrillo: One of our primary objectives is to achieve the maximum standardisation and efficiency possible, and to remove obstacles that impact on our ability to do so. We made the decision soon after the launch of SCT to migrate to SEPA [Single Euro Payments Area] for euro-denominated ACH [automated clearing house network] payments to vendors. There were two key reasons for this. First, we recognised that using a common payment instrument across the Euro Zone would reduce our cross-border payment costs and enable us to rationalise our payment processes. Second, we were attracted to the consistent value dating of SCT, which is currently T+2 but will move to T+1.

MT: How have you gone about the migration to SCT and what are the outcomes so far?

RH: We were fortunate as our adoption of SCT coincided with our implementation of Citi File Xchange [CFX], so we did not need to go through a technical migration process, and Citi was already supporting SCT through CFX. Now, we make 98% of our AP [accounts payable] payments using SCT. In reality, not every bank yet fully supports SEPA, which was initially a concern. However, there is no impact on Google if the bank has to reroute the payment to a non-SEPA payment as we have the same visibility of information on our bank statements, the same value dating and the same payment fees.

The benefits to Google have been considerable so far. We have simplified our payments process considerably,

as we now make all our AP payments using a single file format across Europe, and by leveraging SWIFTNet, these are passed through a single channel. We can apply standard payment rules and administration, and reconciliation is far easier.

MT: What challenges did you experience in your SCT project?

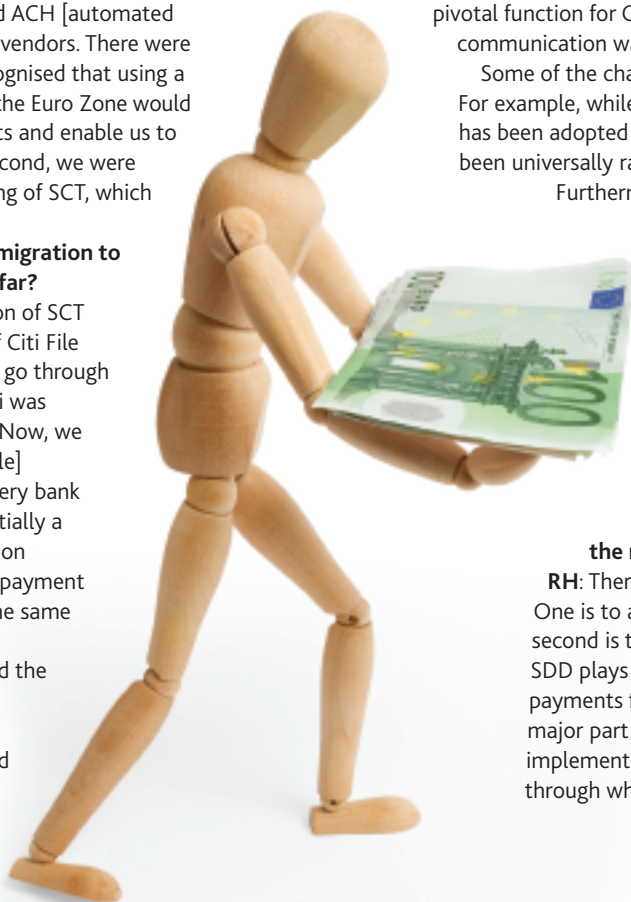
RH: As a technology-driven company with a commitment to excellence in everything we do, our testing of CFX for SCT was highly disciplined and rigorous. As an early adopter, with an extremely thorough approach, we inevitably found that the testing phase took longer than it would for companies implementing today; however, this process was important to ensure internal confidence. One of the vital roles of treasury is to keep the business fully informed and engaged with our payments initiatives as payments are such a pivotal function for Google. Therefore, internal communication was critical to our success.

Some of the challenges we experienced were external. For example, while the Payment Services Directive [PSD] has been adopted in 22 countries so far, it has not yet been universally ratified in every member state.

Furthermore, there are differences in market practice both between countries and between banks. For example, T+2 settlement for SCT and the requirement to apply full value to the beneficiary is not comprehensively applied. Google and Citi have been united in encouraging counterparty banks to enforce these obligations and these early issues will be resolved in time.

MT: What do you anticipate will be the next step in your SEPA rollout?

RH: There are two key areas of development. One is to adopt SEPA direct debits [SDD] and the second is to extend SCT to areas such as payroll. SDD plays a pivotal role in receiving timely payments from advertisers, which comprise a major part of our revenues. As we have already implemented CFX, we have a scalable channel through which we can add SDD flows. There are



some market issues which need to be addressed before we roll this out. First, in Germany, existing mandates cannot be applied to SDD. Second, there is not yet full reachability of the SDD scheme across the Euro Zone, although this will be remedied by November 2010.

Currently, there are legacy payroll structures in each market, such as ETEBAC in France, and CitiDirect and other electronic banking platforms in other countries. We are seeking to achieve a consistent approach across Europe using common standards and platform. Once there is certainty over T+1 value dating and banks passing on full value for SCT, we will have a strong business case for migration.

MT: What steps have you taken with other forms of payment?

RH: Outside Europe, we still need to make local payments but we do not necessarily maintain bank accounts in every local currency, particularly in regions such as Africa. Maintaining a disciplined approach to opening and holding bank accounts is important for Google to limit our administration, risk, bank relationships and foreign exchange requirements to fund these accounts. We therefore use Citi's WorldLink platform, which enables us to make foreign currency payments in 137 currencies from our euro account, eliminating the need to hold local accounts.

Another element in our overall payments strategy is prepaid cards, for which we use Citi prepaid services. We make ad hoc payments to interns and developers, and it would not be feasible or practical to obtain bank account details for all these individuals. Using prepaid cards allows us to make these payments in a consistent way, securely and conveniently, and without adding to our payments administration. Recipients of Google's prepaid cards are paid quickly and can use the card at any retail outlet that accepts Visa.

MT: What other potential uses of prepaid cards could you envisage in the future?

RH: Prepaid cards have contributed significantly to supporting a rapid and efficient payment process for ad hoc developers and interns and created a positive differentiator for Google. We are keen to extend this differentiation and positive experience to our staff by using prepaid cards to support employee initiatives.

MT: What about collections?

RH: Increasing the automation of our collections process has been a major priority alongside our payment initiatives. In the past, we had significant manual intervention in the reconciliation process due to inconsistent remittance information. This led to delays in allocating collections and increased costs. Timely reconciliation is important to Google: it ensures we have an accurate view of days sales outstanding [DSO] and optimises DSO, it frees up customer credit limits quickly to permit new business, and it enables us to have an accurate cash position on which to make our financial decisions.

In markets where data truncation and remitter identification is an acute problem, we implemented Citi's virtual account receivable reconciliation capability. This enhances the quality and consistency of remittance information by populating the file based on a series of algorithms. Access to enriched data helps us achieve higher straight-through-reconciliation [STR] rates. This is further enhanced by receiving MT942 intraday reporting, allowing us to conduct near- or real-time reconciliation, with postings passed on to our internal ledger.

MT: What are the outcomes of focusing on STR?

RH: Implementing efficient collection processes, including STR, has had a significant impact on our business. First, we have enhanced our STR rate considerably while reducing the cost of the reconciliation

Box 1: Citi prepaid solutions

A prepaid card is a plastic Visa card sent to suppliers, customers, employees, distributors or contractors with the relevant amount preloaded. The card can be branded with the company's logo etc and customer's personal details as required. Having received the card, the customer can typically use it at any outlet that accepts the Visa brand. Citi prepaid card programmes can be customised and include the ability for cards to be single-use or reloadable.

There are a variety of potential uses of prepaid cards including customer incentives and rewards, sales commissions, one-off supplier or contractor payments. Citi prepaid cards offer a more secure solution than receiving cash or cheques while maintaining optimum purchasing power.

Box 2: Citi virtual accounts

Virtual accounts provide an integrated solution within clients' collection and reconciliation process to address the challenge of insufficient remittance data. Each customer is allocated a unique virtual account number, containing payer information and the beneficiary account number. Funds can then be credited instantly to the correct beneficiary account, with the virtual account number included in the statement narrative to ensure that payments are allocated and reconciled accurately and promptly. This solution is available in EMEA in Russia, Ukraine, Poland, Bulgaria, Hungary and Morocco.

process. We are now able to apply funds quickly, enabling us to provide better support to advertisers while building our revenue profile in core CIS countries. At an overall level, our DSO has reduced from 44 days in 2008 to 28 days in 2009, an improvement of over 36% and positioning Google as best in class. This has been at a time when many companies have been trying to lengthen payment terms and increase days payable outstanding [DPO].

MT: What are the primary reasons for your success in optimising your working capital processes?

RH: Overall, we have tried to focus on every element of working capital and to seek efficiencies. In many cases, this has involved pioneering techniques and technology, and conducting multiple projects in parallel. The commitment to the relationship with Google, innovation, expertise and appreciation of our business culture that Citi has offered has been instrumental to our success, together with the flexibility, professionalism and commitment to common goals that the treasury team at Google continues to demonstrate.



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