A new era of creativity

MARK TWEEDIE AND **JAMES MAHN** DISCUSS THE CHALLENGES AND OPPORTUNITIES FOR COMPANIES IN THE TECHNOLOGY, MEDIA AND TELECOMS SECTOR, AND HOW TRANSACTION BANKING SOLUTIONS ARE ENABLING TMT BUSINESSES TO FINANCE THEIR ACTIVITIES, OPTIMISE LIQUIDITY, MITIGATE RISK AND MAINTAIN THEIR COMPETITIVE POSITION.

The technology, media and telecoms sector has experienced diverse and complex challenges recently, with changing consumer and competitive trends. What characterises the most successful companies in each of these industries is their ability to flex their business and revenue models, both in response to and in anticipation of these developments.

COMPETITIVE AND COMMERCIAL CHALLENGES As with most industries, 2008-09 presented unprecedented challenges for technology, media and, to some extent, telecoms firms. Technology companies were badly hit as companies and consumers reduced their budgets. For example, the semiconductor industry, often a strong indication of the wider technology industry, witnessed an 11% fall in revenues during 2009. However, as Citi's Mark Tweedie emphasises: "There were some bright spots. Consumer demand continued unabated for convenient mobile computing solutions, such as netbooks; LCD television sales saw a rapid increase; and smartphones became ubiquitous among consumers. Home entertainment remains a priority for consumers, despite becoming more cost-conscious in other areas."

Among the business community too, cloud computing, software and infrastructure virtualisation continued to expand. While handset and equipment manufacturers experienced a downturn in revenues, the telecoms sector was largely insulated from the global financial crisis. By embarking on cost-efficiency programmes, companies affected by a fall in revenues, in areas such as mobile roaming and voice traffic among business customers, could still remain profitable. The business-to-consumer (B2C) market has continued to grow strongly globally as mobile communications are increasingly seen as essential services in the same way as utilities such as gas or electricity.

As Tweedie highlights, however: "Telecoms companies are not complacent. While the economic downturn may not have scarred them to the same extent as other companies in other industries, the sector is entering a period of significant change, with innovative operating models developing in established markets, new service offerings, the effects of digital expansion, growth in emerging markets, and an evolving regulatory landscape."

Tweedie believes that competition is likely to become even stronger, with Asian players expanding globally and low-cost carriers challenging established revenue models. To be successful, companies are flexing their business models, expanding their product and service offerings, and taking advantage of investment opportunities. Those that lack the necessary strategic and financial flexibility, he says, may find themselves eclipsed.

TECHNOLOGY, MEDIA AND TELECOMS COMPANIES ARE ENTERING A NEW PHASE OF INNOVATION AND CHANGE, IN WHICH CREATIVE SOLUTIONS AND DYNAMIC BUSINESS PARTNERSHIPS WILL FLOURISH.

The media sector, encompassing a broad reach of companies from advertising and marketing to entertainment, was experiencing a variety of business challenges even before the global financial crisis. Business models for marketing and advertising have changed to reflect the needs of an increasingly digital era. In parallel, consumer entertainment demands became more discerning and fragmented. Already vulnerable, media companies, particularly those engaged in advertising and marketing, were then badly affected during the economic downturn as clients reduced their discretionary spend.

During this difficult period, media companies were tasked not only to streamline costs and enhance efficiency, but also to align their business models with the changing needs of their businesses and consumer markets. However, Tweedie suggests: "While these businesses were hit the hardest: conversely, they are in many ways a 'litmus test' for recovery. Leaner and more competitive, media firms have been among the first to witness signs that the economic tide is turning as their patrons return to advertising as a means of accelerating business growth."

FROM UNCERTAINTY TO COMPETITIVE ADVANTAGE
Technology, media, and telecoms companies have not been waiting idly for the recovery to come. Indeed, these companies are well positioned to take advantage of every growth signal. Many have diversified their functional offerings, invested in innovation, implemented cost efficiencies and increased their geographic footprint. While there is clearly significant diversity across these sectors, the most innovative and competitive companies are in a good place for recovery and are already seizing new opportunities and creating competitive advantage.

Citi's Jim Mahn explains: "As a key partner bank for over 2,000 entities of multinational companies in this sector, Citi has developed significant expertise in understanding and responding to changing business needs, and invested in the solutions that are enabling them to achieve their business strategies, maintain access to liquidity and manage their risk."

GROWING AND MAINTAINING MARKET SHARE While there is constant pressure on technology, media and telecoms companies to invest in geographic expansion and product innovation, funding models have changed significantly. As the cost of financing has increased, traditional routes to financing, such as bank funding or capital markets issuance to support infrastructure development, have become less financially attractive or feasible. However, companies have found favourable alternatives through export agency financing. Citi has assisted a large number of mobile network operators, including many of the world's leading telecoms companies, to access export agency financing as an attractive source of capital.

LEVERAGING SUPPLY CHAIN INITIATIVES In addition to obtaining financing, technology companies need their sales channels to be robust and reliable. With many companies heavily reliant on distributors, many of which have a weaker credit standing than the manufacturers of the products they sell, supply chain techniques such as distributor financing help to ensure that companies' sales strategies are well supported, and ensure uninterrupted supply, a consistent brand presence and ongoing sales momentum.

At the other end of the supply chain, supplier financing is enabling technology and telecoms companies to support their suppliers by offering invoice discounting at a competitive rate while maximising their own days payable outstanding (DPO). Besides offering working capital advantages to buyers and suppliers, supplier financing enhances the resilience of the supply chain and strengthens the relationships between partners.

Tweedie further emphasises: "Given the inherent interconnectedness of the communications industry, a noticeable feature has been the 'catalyst effect' of implementing supply chain finance programmes, with the large suppliers to the wireless and electronic companies that have previously benefited from these programmes as sellers now equally considering the merits of these programmes as buyers."

MANAGING TRADING RISK As technology companies seek to expand their geographic footprint and portfolio of products and services, trading partners are changing, with new rules of engagement. The need to innovate, embrace new technologies and seize opportunities in new markets means that companies are obliged to expand their trading network while managing their credit and currency risks and protecting their financial supply chains.

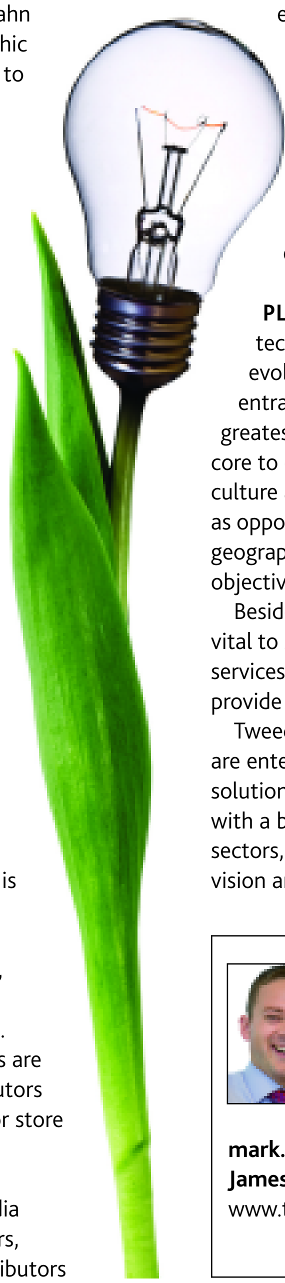
Consequently, there has been a growth in demand for trade instruments such as import and export letters of credit (LCs) as the tools of choice for companies of all sizes and across all geographies to manage their counterparty risks. While open account trading became more prevalent during the years preceding the global financial crisis, there has since been an evident increase in the use of letters of credit.

Mahn says: "Banks such as Citi have supported clients' trade finance processes by enhancing efficiency and automation, therefore enabling them to receive goods or payment more quickly."

OPTIMISING LOCAL, REGIONAL, AND GLOBAL WORKING CAPITAL While working capital has been a priority for many technology, media and telecoms companies during a period of restricted financing, the return to economic growth does not mean that this focus should be reduced.

Media and telecoms companies are often more decentralised than other industries, due to frequent acquisition and the need to support a multi-country client base. To allow cash to be centralised on a regional or global basis, net borrowings reduced and counterparty risk minimised, these companies require efficient overlay solutions and creative purchase-to-pay and order-to-cash solutions. This may require different types of banking support across the company. For example, a bank may help an operator centralise its payments processing while also providing local business units with assistance with marketing campaigns and collections.

Technology companies too have specific cash management needs. For example, many upstream technology companies collect in US dollars but have local currency payment requirements, so they need an efficient means of pooling cash across borders to ensure availability of funds and manage currency risk. As Mahn points out: "Working with a bank which has geographic reach, depth and product versatility can be essential to these efforts."



USING PREPAID CARDS FOR COMPETITIVE ADVANTAGE AND PAYMENT CONVENIENCE As competitive pressures increase, marketing departments are tasked to deliver new strategies for customer acquisition. Prepaid card programmes have proven instrumental for technology companies wishing to build strong relationships with new and existing customers, increase brand loyalty and spend, and enhance customers' experience, without adding administrative effort.

As Tweedie highlights: "Citi's prepaid card programmes are supported with detailed management information for measuring the success of customer acquisition, 'churn' and retention. Consequently, they are instrumental in developing greater intelligence about customer needs and behaviours, and determining how marketing efforts should be channelled or refined. In the mobile and triple-play space, they help to improve average revenue per user (ARPU), and support customer acquisition programmes such as refer-a-friend promotions and handset rebate alternatives. These programmes have proved so successful for leading operators in the US that there is increasing demand in other regions, pioneered by banks such as Citi."

Prepaid cards have a variety of users. For example, they have proven to be a convenient and attractive means of compensating employees and third parties. Mahn adds: "For media companies too, prepaid cards are a convenient means of making payments to contributors or content developers without the need to request or store payment instructions."

PAYMENTS AND COLLECTIONS EFFICIENCY Media companies that work with remote journalists, authors, correspondents, content or mobile application contributors need to make regular or one-off payments to these individuals or companies; however, this can be difficult when they are distributed globally. In addition to the use of prepaid cards, these companies can benefit significantly from tools such as Citi's WorldLink Payment Services, a foreign currency payments system that enables regular or one-off payments in 137 currencies from a single account.

Collections can also prove a challenge. As Tweedie notes: "Not only do media companies need to make payments efficiently, but they also require innovative collection solutions such as virtual accounts, used by leading companies such as Google in some of the world's most challenging markets – for example, Russia and Ukraine."

Many companies, including those in the technology, media and telecoms sector, are also becoming increasingly aware of the merits of commercial card solutions as a means of controlling travel and entertainment (T&E) expenses and ensuring that procurement spend is performed in line with corporate processes.

There are considerable economic benefits to be gained from the use of commercial cards, including rebates, workflow efficiencies, tighter control over costs and increased buying power with key suppliers. These benefits are further enhanced with the ability to provide a convenient corporate liability card to employees for expenses and purchasing.

PLUGGING INTO THE NEW ECONOMY The challenges for technology, media and telecoms companies will continue to evolve. Competition will continue to increase, with new market entrants, particularly in emerging markets, which will bring the greatest number of new customers and subscribers, and become core to every company's business strategy. In terms of regulation, culture and financial practices, new markets bring challenges as well as opportunities. Success requires a global banking partner with the geographic reach and product scope to support a company's strategic objectives.

Besides new markets, adopting flexible business models will be vital to success, which in turn will require transaction banking services that help companies maintain a healthy liquidity position, provide access to cost-effective financing and mitigate risk.

Tweedie concludes: "Technology, media and telecoms companies are entering a new phase of innovation and change, in which creative solutions and dynamic business partnerships will flourish. Working with a bank that has the necessary depth of understanding of these sectors, supports their entire financial activities and shares the same vision and creative energy, is a powerful combination for success."

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