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# Financial Supply Chain Optimisation – Enhancing Competitiveness

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Global competitiveness, and a worldwide marketplace that is increasingly interconnected have led to a critical change which has seen suppliers and customers in all industries seeking enhanced vertical and horizontal integration of both their financial and business management processes. All with the aim of increasing their company's rate of success.

In fact, it is widely recognised that effective supply chain financial integration has become as much a source of competitive advantage as service and product innovation. Consistently extracting value and efficiency from embedded costs in the financial supply chain has become essential for twenty-first century companies, who realise that successful working capital management has the potential to be a critical tool in the international competition for industry leadership.

Hence the drive to liberate liquidity that is tied up in inefficient accounts receivable and reconciliation processes, achieve optimal returns for cash on hand, and efficiently maximise procurement processes. The end goal is to create an integrated financial supply chain that delivers value by optimising financial resources. Ongoing control and focus on these critical components ensures that companies remain financially integrated with suppliers and customers, are continuously adaptable and able to compete on the global stage.

## The effects of globalisation

However, international trade, which has been growing at double-digit rates year-on-year over the last decade, not only expands the majority of organisations' networks of supply and demand, but also complicates and diversifies them. These complex connections have both necessitated the flow of capital and at the same time made it more complicated, as a company's liquidity, credit, payments received and payments outstanding can now be spread across continents.

With the rise of globalised business comes a wide range of international political and legislative factors that enterprises need to take into consideration. The accession of the Eastern European states into the European Union (EU) and the development of the Single European Payments Area (SEPA) have had an impact on the financial management of international trade.

In addition, the growing regulatory pressures - for example, Basel II and MiFID in Europe, and Sarbanes-Oxley and Anti Money Laundering Acts in the US – have increased the requirement for transparent global financial management. The convergence of international accounting standards also adds to the pressure.

Against this background there is, unsurprisingly, a growing demand for integrating all financial aspects of the financial supply chain, to maintain control of disparate sources of cash and liquidity in the face of changing political risk factors and the continuing emergence of new markets and partners. Integration enables treasurers to continue driving value creation: isolated products or solutions are no longer sufficient, nor are those that do not offer a global capacity.

Citigroup, with branches across the world, and a powerful position in cash and treasury management as well as trade finance/trade services, has developed a number of solutions, available from its Global Transaction Services (GTS) division, that enable organisations to integrate all aspects of their treasury and business management activities from end-to-end. GTS specialists develop these solutions in conjunction with their customers, and enable them to focus on strategic business management issues and decision-making. All solutions combine global coverage with regional and local support, a cooperative and interactive approach to implementation, end-to-end technical support, high quality customer service, and critical analysis and consultancy.

## Discovering the financial supply chain

Before an organisation can hope to rationalise its financial supply chain it needs to be able to fully identify all the contributory elements. The direct components, the obvious and visible, are usually subject to the strictest negotiations and managed by sophisticated software and direct supplier/customer contracts. However, the indirect elements are still often left to a far more ad hoc or arbitrary decision-making process.

Yet these indirect elements can prove to carry substantial costs that are often not clearly visible in their entirety. Consider the vast expanse of options for transport, hotels, room service, restaurants, phone calls and taxi fares that a single business traveller uses in one trip alone. This forms something of a financial supply chain black hole – hard to calculate and outside standard finance and treasury management team controls. It requires integration dialogue and partnerships with a number of disparate and often separately managed areas within one company: business management, treasury/finance, procurement, travel and HR teams. The coordination amongst all these partners is often complex, taking significant effort and time.

Furthermore, MRO – maintenance, repair and operations costs – can subsume huge amounts of revenue through the idiosyncrasies of departmental purchasing arrangements, which are often done on a decentralised basis, both by business line and geography.

This can be problematic enough for organisations based in a single location. But for multinationals with offices spread across the globe it factors up to represent a significant amount of unmeasured – and therefore uncontrolled – expense, and less than optimal management of the financial supply chain.

Excess working capital is often found spread across divisions due to these inefficient processes. And instead of having the rich transaction data they need to control working capital, financial controllers are left with a rather grey area, with details only coming to light some months after the purchases have been made. In today's complex and competitive environment, control over costs requires visibility: and visibility entails having access to timely global data, from across all business lines. This requires a readily accessible global data repository and a flexible reporting format which seamlessly integrates with a company's expense management and accounts payable processes.

Citigroup's commercial card solutions, which include a standalone travel and entertainment (T&E) card, a purchase card (P-Card) option, or a combined innovative "all-in-one" card - are designed to provide this information: from line-item and folio-level details all the way through to consolidated global transaction data. This enables organisations to analyse purchasing patterns quickly, efficiently and accurately, while optimising their company's spend with vendors across the globe.

What's more, commercial cards can bring expenses that have traditionally been paper-based – either through cash or cheque – under the influence of the wider e-procurement system. Citigroup's card programmes can also provide automatic data feeds into accounts payable software and online ledgers. Consolidation with the financial modules of Enterprise Resource Planning systems and automated expense management software reduces costs further by eliminating time consuming manual processes and enhancing data accuracy – creating an additional level of streamlining to the management of the financial supply chain.

The commercial cards programmes are but one element in Citigroup's disbursement and collections services, which also include a wide range of accounts receivable solutions and web-based payment facilities that enable organisations to streamline payment mechanisms, standardise procurement policies and controls, and release funds trapped in the financial supply chain.

## Enhancing international trade – efficient supply chain financial integration

Citigroup also offers an extensive portfolio of trade services and trade finance solutions which help maintain the regular flow of working capital and facilitate business activities. They are the financial supply chain building blocks of any company's trading ecosystem. And although these solutions have previously been viewed as isolated products, when they are co-ordinated they offer superior efficiencies regarding collections and payments for exported and imported goods.

Today, companies are using receivables-based finance programmes that include bills discounting, invoice discounting and payment protection. These programmes are tailored to meet the individual requirements of customers, enabling them to accelerate cash flow from sales and mitigate and minimise counterparty credit and political risk, while minimising the need for letters of credit or bank guarantees - which potentially enables companies to effect a true sale of receivables.

For many organisations the key issue from a working capital optimisation standpoint is supplier finance. Companies on the buy side of any transaction face the dual pressure of ensuring that their suppliers are sufficiently well financed to ensure uninterrupted delivery while cutting costs and delivery schedules to generate efficiencies. Even in the most sophisticated markets the pressure is on to extend payment terms from 30 to 60 and even 90 days, while encouraging suppliers to provide more and more of the buyer's working capital.

However, suppliers are only willing to go so far. The standard trade finance programmes, which have provided an innovative solution in the past, have their limitations in the globalised economy. In countries where letters of credit have historically facilitated trade flows, the availability of the necessary bank instruments to provide credit enhancement and finance against buyer default is declining as traders move to open account terms. Furthermore, trade financing can be hard to come by in many areas of the world – certainly on terms that would be regarded attractive to supplier companies short of credit.

Citigroup offers a supplier finance service that, in effect, enables buyers to support their suppliers by making available to them, via Citigroup, cheaper financing options that leverage the buyers' own strong credit position. By doing so, all parties to the financial supply chain are able to build sales-linked financing into their trading systems, mitigate counterparty risk and enhance both loyalty and liquidity. As a result, cash flows are accelerated and operational efficiency enhanced.

In addition to identifying the links in the financial supply chain, facilitating electronic payments and ensuring the continued flow of working capital through it, Citigroup's services also enable enterprises to maximise the return from cash and liquidity sources. Notional pooling, target balancing, and cross border and cross regional sweeping enable organisations to sweep end of day cash balances automatically from multiple countries into a centralised treasury structure. This gives firms the option of placing the concentrated funds in the money market or have them invested automatically in a Citibank investment fund. Cash can be returned to local accounts as needed to fund in-country operations.

## The role of automation

Electronic process that minimise human intervention are essential to twenty-first century financial supply chain management. Citigroup enables supplier finance through its innovative **CitiConnect** platform: an electronic, trade finance delivery channel that provides both information and finance online. The **CitiDirect Online** electronic banking system allows finance teams at both the global, regional and county levels to obtain comprehensive information on accounts and transactions in real time. Like the commercial cards programmes, CitiDirect can be integrated with an organisation's ERP and treasury management system to build back office processing efficiencies.

In addition Citigroup's leading-edge treasury portal, **TreasuryVision**, enables organisations to aggregate multi-bank information across cash, loan and debt, and investment accounts from all locations on a daily, and global, basis. **TreasuryVision** is an enterprise-wide value proposition for treasury managers, risk managers and finance teams to monitor and manage working capital and global credit positions from a single platform.

## Financial supply chain optimisation – enhancing shareholder value

As global enterprises continue to engage new technologies and financial management tools they are able to gain greater control over their financial supply chain, achieve greater efficiencies, and maximise liquidity more effectively - at the same time as minimising risk. In the end, these new tools and techniques will help drive new business development and assist business units in creating new revenue streams for their companies.





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