Making the money work harder

With the squeeze on external sources of funding, corporate treasurers are looking inwards, focusing on ways to use the cash they hold more efficiently and cost-effectively. The overriding themes are standardize, centralize, rationalize and consolidate

Over the past year, events in the credit markets, precipitated by the sub-prime mortgage crisis, have evolved into a broad-based credit crunch, with far-reaching impact across the broader economy. As evidence of a slowdown in global economic growth mounts, the pressures on treasurers and CFOs have never been greater. Faced with a potential fall in revenues and turbulent financial markets, it has become more important than ever to make sure that every dollar's worth of corporate cash is worked as hard as possible.

"There has been an increased focus on liquidity and working capital management in the past year," confirms Elyse Weiner, global head of liquidity and investments for treasury and trade solutions at Citi. "The reasons for the change are straightforward: liquidity costs more than it did a year ago and sources of liquidity, including bank credit, have diminished."

Consequently, clients are turning inwards and looking to their banks to help find ways to release working capital trapped in the cash conversion cycle and to tap into underutilized cash. This shift in focus is taking place across the board – it's not the preserve of cash strapped corporates alone. "Even where companies have excess cash and reserves they are looking to optimize utilization and returns," says Weiner.

At the same time, seeking to safeguard valuable corporate cash assets, treasurers have become increasing particular about where their cash is invested or held. "The increased importance, and cost, of liquidity has extended to revised priorities for investments," says Weiner. "The priority has shifted to safety and preservation of capital, sometimes at the expense of maximizing return– although of course the level of return remains important."

Making changes

So what should a corporate, hoping to make some quick and impactful changes to its liquidity and working capital management practices, focus on first? "An obvious first step is to tighten up investment policies and procedures to avoid problematic and exotic instruments that could pose potential risks to capital and liquidity," explains Weiner. "We've seen substantial inflows into money market funds and bank deposits, with a shift out of riskier investments. There is a considerable level of fear."

To address client concerns, Citi offers several channels, and options, for investment of working capital cash. Citi's online investment portal simplifies the investment selection process by making more than 100 money market funds, as well as time deposits, available at the click of a mouse. For clients who prefer more direct interaction, the bank has expanded the reach of its trading desks. Clients may place their liquidity in multiple funds either by trading online or calling a regional full-service desk.

Elyse Weiner, global head of liquidity and investments, treasury and trade solutions

Of course, for companies looking to make longer-term and larger changes to their liquidity management approach, the potential benefits are enormous. By re-tooling a company's transactional processes and making changes to organizational and bank account structures, it is possible to dramatically increase the velocity of cash and reap the benefits in terms of accessible liquidity and returns.

Citi approaches corporates' funding and liquidity challenges from a transactional, credit-related, and investment banking perspective. "Creating efficiencies within a company is now a broad-based discussion about optimizing sources and uses of funds," says Weiner, "with the goal being to match sources and uses more effectively."

Citi describes its approach as an end-to-end treasury focus. "It's as much about information delivery as it is about structures," says Weiner. "Corporates should be able to see real-time cash flows and bank account balances across their operating network. In the current climate, everyone needs to ask themselves, 'Where is my money and is it being put to the most effective use?'"

Finding the right structure

Weiner is emphatic that the phrase 'best practice' is a misnomer when it comes to describing liquidity structures. "One company's liquidity structure won't necessarily work in another company," she says. "But at the same time, there are overriding themes and objectives – standardization, centralization, rationalization and consolidation – that everyone should be aware of."

Standardization is essentially about reducing the number of independent and diverse processes related to cash and eliminating, if possible, non-standard manual processes to increase straight-through processing levels.

The objective of centralization is to give the treasury greater oversight and control to enforce corporate-wide policies on cash handling and investment – thereby enhancing risk management and maximizing returns.

Rationalization is often a central part of any consolidation programme and can be applied to both the organizational structure of the enterprise – whether a company duplicates capabilities in separate markets or utilizes a shared service centre model, and liquidity management structures, such as whether the structure is regionalized or global or incorporates an in-house bank. More specifically, rationalization is about reducing the number of moving parts and hand-offs as cash moves through the conversion cycle.

To gain maximum benefit from any liquidity management programme, there is clearly a substantial investment cost in treasury and enterprise resources planning. "Of course, capital investment in global platforms and interfaces will facilitate a higher level of straight through processing from transaction initiation to journalization, but even without substantial capital investment there is plenty of low-hanging fruit," says Weiner. "For example, the cost of implementing a bank-supported multi-currency pool is minimal compared to the potential benefits that can be obtained from such a structure."

Asia: a wide spectrum of regulatory environments

The Asia Pacific region presents CFOs and treasuries with a tough challenge. Countries in the region use 18 currencies and cover a wide spectrum of regulatory environments – from fully liberalized markets such as Australia, Hong Kong and Singapore to extremely restricted markets, often with exchange controls, such as China and Malaysia. How should these challenges be navigated?

Nigel Dobson, head of treasury and trade solutions, Asia

"The complexity of Asia Pacific essentially comes down to differing regulatory regimes," explains Nigel Dobson, head of treasury and trade solutions, Asia at Citi. "It's a real headache for the treasury to work out how to optimize liquidity within the region. Indeed, it's often a considerable challenge even to shift liquidity, be it in a single currency or multi-currency."

The answer for corporates looking for an Asia Pacific-wide solution is to use technology to mobilize liquidity where possible and to create greater visibility of funds across countries. Where liquidity is trapped, for instance in countries with exchange controls, inter-company transfers can be deployed or – more innovatively –an interest optimization structure can be used.

For example, for a company aiming to maximize its returns on liquidity in Asia Pacific, Citi's interest optimization structure would allow it to earn returns even on trapped liquidity. "By notionally aggregating liquidity – and providing daily reports to enhance visibility – it is possible to address the challenges of operating in Asia," says Dobson.

Lenovo: chasing the sun

When Chinese company Lenovo acquired IBM's PC business at the end of 2004, it faced a daunting task in terms of cash and liquidity management. "We had four months to devise and build a global treasury solution to serve 66 countries," recalls Damian Glendinning, vice president and treasurer at Lenovo, which is headquartered in Singapore. "And, outside China, we had no treasury staff, no systems and no banking relations."

Lenovo's options were to try and establish banking relations in each of the 66 countries – practically impossible given the timeframe – or to create a new centralized model. "In the event, centralization was the only feasible option. And an internet-based model was also inevitable given that the company outside China had no existing systems," says Glendinning. "But while the situation was clearly a challenge, it was also an amazing opportunity: we got to design a cash and liquidity management structure on a blank piece of paper."

The result was a strikingly simple and almost uniform model based on a centralized global treasury in Singapore. The treasury is set up as a re-invoicing centre so payments for every PC sold outside China – where they are manufactured and where there was a pre-existing liquidity and cash management structure – is sent to Singapore (once local costs, such as wages – which usually represent around 8% of revenues – are deducted). The structure is known as 'against the sun' because all surplus funds are sent to Singapore. Funds are transferred on a daily, two-daily or weekly basis depending on the scale of sales in a given country.

The attraction of this model – in addition to it meaning that no local funding is required – is that it is based on the sale of goods, therefore any funding element is on trade terms, and less affected by exchange controls. Turkey, which requires inter-company invoices to be settled before goods clear customs, is the only country where this model does not work. In India and a handful of other countries, the requirement to present full documentation when making remittances slows down the centralization process – but the principle remains the same.

The credit crunch and the clouds over global economic growth have focused CFOs and treasurers on the need to make best use of liquidity. "With capital markets and bank liquidity in short supply – or at least expensively priced – technology solutions and cash pooling have become more important and interest in supply chain finance has accelerated," says Dobson.

While regional solutions are now commonplace for corporates, an increasing number of firms – particularly in the technology sector – are looking to integrate their global supply chain and liquidity management. "The trend towards locating global treasuries in Asia – which aligns the financial supply chain with the physical one from a time zone perspective, delivering better integration and greater efficiencies – is hastening that development," says Dobson.

Another consequence of the credit crunch is an increase in multinationals being prepared to dividend out liquidity from countries such as China. In the past, tax issues and other complexities have discouraged companies from taking dividends out of operations in strict regulatory regimes. But the increased scarcity of liquidity has made it worthwhile. "The apparent end to the weakening of the US dollar has also encouraged companies to take foreign currencies out of country," says Dobson.

EMEA: a new emerging markets focus

Europe has a long history of cross-border liquidity and investment management and has consequently evolved a wealth of tools and techniques, as well as a uniform and robust legal framework, to improve corporate cash efficiency. The creation of the single currency in 1999 and the increasing use of London to manage global currency exposure have further deepened the region's capacity for liquidity management.

This prowess is bolstered by an established record of using payment and shared service centres. As Rajesh Mehta, head of treasury and trade solutions, EMEA at Citi notes: "The cultural leap has already been made toward organizational centralization. Combined with an outstanding framework for liquidity management, Western Europe has a solid base on which to create effective structures."

Rajesh Mehta, head of treasury and trade solutions, EMEA

However, Western Europe – like other developed markets – has been impacted more substantially by the credit crunch than many emerging markets. "Instead, recent growth has been stronger in commodity- and oil-based emerging EMEA economies such as Russia, the Middle East and Africa, which are generating cash at an unprecedented rate." Trade is taking multinational corporations further into emerging regions, compounding the challenges for cash effectiveness.

At the same time, the boom in the commodities market and trade growth, particularly between Central Europe, the Middle East and Africa and Asia, is resulting in the emergence of a number of big corporates on the pan-European and global stage, with cash management and liquidity needs to match their expanding commercial objectives.

SAB Miller: improving clarity

SAB Miller is one of the world's largest brewing companies, with a portfolio of 200 beer brands and revenue of $23.8 billion for the year ending March 2008. With brewing interests or major distribution agreements in over 60 countries – in both cash-generative developed markets and fast-growing developing markets, such as China and Russia – its liquidity management structure is necessarily complex.

Moreover, having grown largely by acquisition – its most recent purchase is Dutch brewer Grolsch – SAB Miller's operational and liquidity management structures are highly complex. "We wanted to address the problems posed by our structure and reduce working capital requirements while ensuring sufficient liquidity for our business units," explains Giles Newell, deputy treasurer at the company, based in the UK.

In addition, SAB Miller wanted to align its treasury strategy with its broader finance strategy and achieve the holy trinity of liquidity management: cost reduction, process standardization and risk reduction. The company also aimed to establish an infrastructure for future treasury projects, such as intercompany netting and foreign exchange centralization.

Having appointed Citi in May 2007 on the basis of its geographic coverage, capability for multi-currency cash pooling and competitive pricing, SAB Miller embarked on phase one of the multi-currency cash pooling project in January this year, covering all Europe (except Russia) and the US – nine currencies, 10 business units and 10 countries. Future phases covering Latin America, Africa and Asia are being explored.

Citi's solution to SAB Miller's challenges is a pragmatic mix of cash concentration and notional cash pooling, where funds stay in the name of the business unit – an important consideration in a decentralized company. Instead of local business units borrowing against short-term deficits and depositing short-term surplus cash with local banks, they now borrow or deposit with the group treasury.

"Implementation was tricky – the complexities of achieving buy-in from local businesses cannot be underestimated – but worth it," says Newell. "SAB Miller has greater clarity in its liquidity management and centralized balances mean improved rates for deposits or the ability to repay external borrowings. By netting balances we avoid paying overdraft and deposit margins. Overall, the savings are considerable."

Nabors: centralizing the treasury

Nabors is one of the world's largest drilling contractors, operating drilling and well-servicing rigs and offshore platforms throughout the US, Canada, Central and South America, Africa and the Middle East. As demand for energy has increased, the company has expanded its operations rapidly – creating significant treasury challenges, such as managing relationships with more than 35 banks worldwide.

"We had so many online systems, our payables process became very manually intensive," explains Dean Castleberry, assistant treasurer for Nabors. Treasury staff had to log on to numerous electronic banking systems to manually send wires, initiate ACH transactions and get balance information. "It was inefficient and expensive. We recognised the need to centralize our treasury and move away from manual processing."

Nabors selected Citi to consolidate its payment processing and cash applications into a single hub – the bank's presence in 31 of the 33 countries in which Nabors operates being a key factor in its choice. Once live, Nabors will process its payables through Citi File Xchange, which allows treasury effectively to integrate payments, receivables and information with accounting, ERP and other financial systems.

To manage company assets more effectively, fulfil reporting requirements and address fiduciary responsibilities, Nabors' treasury team will use Citi's Treasury Analytics. As a comprehensive custody and corporate cash solution that provides accounting, compliance, performance and risk reporting on a single integrated platform, Treasury Analytics will give Nabors the information its needs, when it needs it – allowing for more informed decision-making.

Citi has helped to deliver increased treasury efficiency, enhanced control, greater visibility and improved risk mitigation. In addition, Citi's global expertise provides Nabors' with the support to deal more effectively with changing regulatory environments, while improving its capabilities for global expansion.

"We have been impressed with Citi's candour, drive to meet deliverable due dates and dedication to customer service," says Castleberry. "Citi's global footprint, senior management commitment, competitive pricing and customised solution have made for a successful partnership."

Integrated end-to-end solutions

Treasurers are recognizing that multiple, standalone processes for cash management, liquidity management and investments create hurdles to global cash efficiency. "Cash forecasting is inaccurate, visibility is disjointed, and there are diminished opportunities to access and optimize liquidity," says Weiner.

In the current market environment, integrated, end-to-end solutions that deliver timely visibility, centralized access to global cash, and robust investment oversight have become important. "The Citibank Online Investments portal simplifies investing for clients by providing time deposits in 21 countries, and more than 100 money market funds, available at the click of a mouse," says Weiner. The added benefit is that it also fully integrates with clients' operating cash and liquidity management structures at Citi. "Clients can centralize their end of day bank account positions using global target balancing tools, optimize intercompany liquidity using multi-currency pooling, and access real-time information on cash and investments using TreasuryVision," says Weiner.

Through its presence in more than 100 countries, a common global infrastructure, and the expertise of its local teams, Citi is helping multinationals manage cash and liquidity across developed and emerging markets. In countries that are effectively liberalized - from Australia to Dubai to Mexico - Citi helps clients seamlessly incorporate local cash into their global liquidity structures.

In countries that limit local currency convertibility and utilization for inter-company funding purposes, but where foreign currency is less restricted, such as Indonesia and Malaysia, hybrid structures are used. Local currency liquidity is optimized domestically, while foreign currency posi

tions are swept offshore to facilitate centralized investment and funding decisions for improved yield.

Finally, for countries that have strict controls, Citi helps clients through local optimization structures – such as centralized cash concentration and entrust loan structures in China, and subrogation structures in Poland that allow companies to access internal liquidity without incurring a 2% stamp duty on inter-company loans.

"With the credit crunch and economic headwinds combining to highlight the value of appropriate liquidity strategies, Citi is working as a trusted adviser and global partner to our clients," says Weiner. "We're applying our capabilities and experience to devise the optimal local and global solutions, enabling treasury to free up liquidity with measurable balance sheet and P&L results."

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