

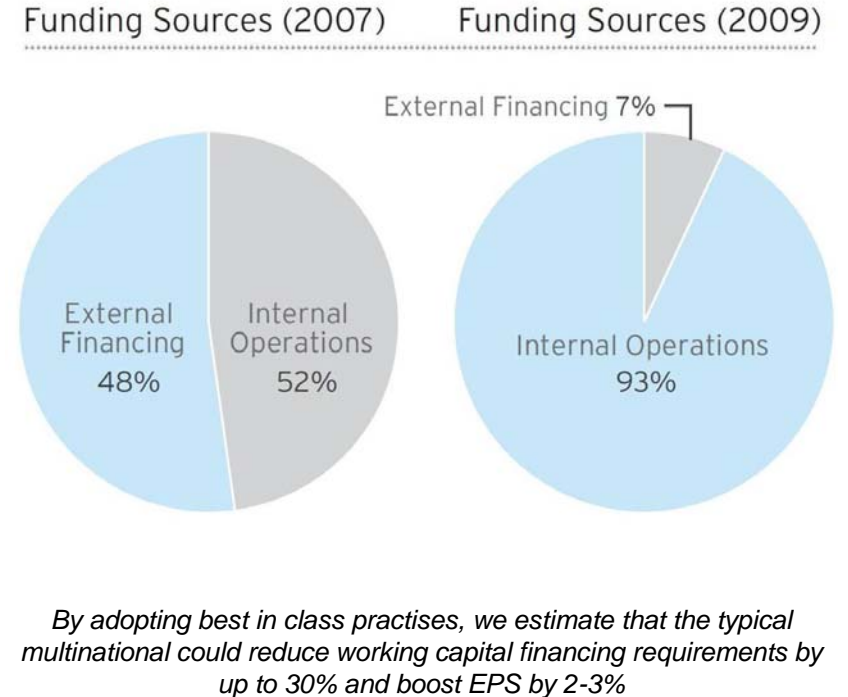
Efficient Receivables Management – the untapped frontier

DSO and its impact on Working Capital

The hunt for cash

With credit likely to remain scarce and expensive, identifying alternate sources of internal funding remains a priority for organisations worldwide.

- “Cash is King” and **liquidity is essential** to ensure that a company continues to operate on a day-to-day basis
- Analysts view **working capital as an indicator of the overall efficiency & control** a company has over its production cycle and cash management
- **Efficient working capital management is an enabler** for a company to self-fund its operating or production cycle, invest surplus balances or use funds to pay down debt
- **Improved working capital increases shareholder value** as it enables a company to generate more profit with less capital
- According to working capital surveys, **there is EUR 550 billion of trapped liquidity in the top 1000 companies in Europe**. Similarly, for top 1000 companies in the USA this number is in excess of USD 750 billion.

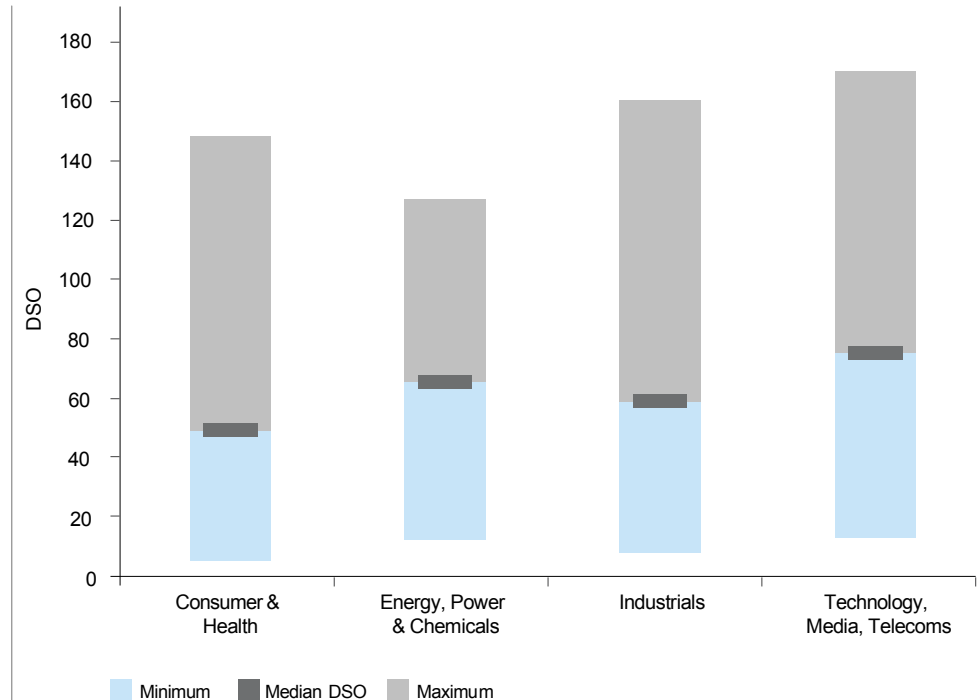


There is a renewed focus on DSO as a largely untapped source of internal funding

DSO's variation across industries

DSO (the number of days taken by a company to collect payment from a completed sale) varies widely within the same industry.

- **DSO performance varies across different industries** but also varies widely within the same industry:
 - Across the different industries the spread between the min DSO and the max DSO varies from 2 to 156 days
 - Within each industry, the difference between the “best” and the “worst” of the main players is more than 90 days
- **Industries with complex supply chains** and global operations typically have the **largest potential working capital savings**
- These companies have trapped liquidity which they could unlock by **moving to their industry median**
- **DSO is influenced by geography** where for example commercial terms and/or debtor behaviour tends to be more relaxed in France, Italy and Spain
- **Poor receivables management is reflected in high DSO** and effects the company's access to internal funding sources.



For a company with a turnover of EUR 11 billion, decreasing average DSO by one day has a positive impact of EUR 30 million

Addressing DSO is an achievable way of taking the efficiency agenda to the next level for Treasurers

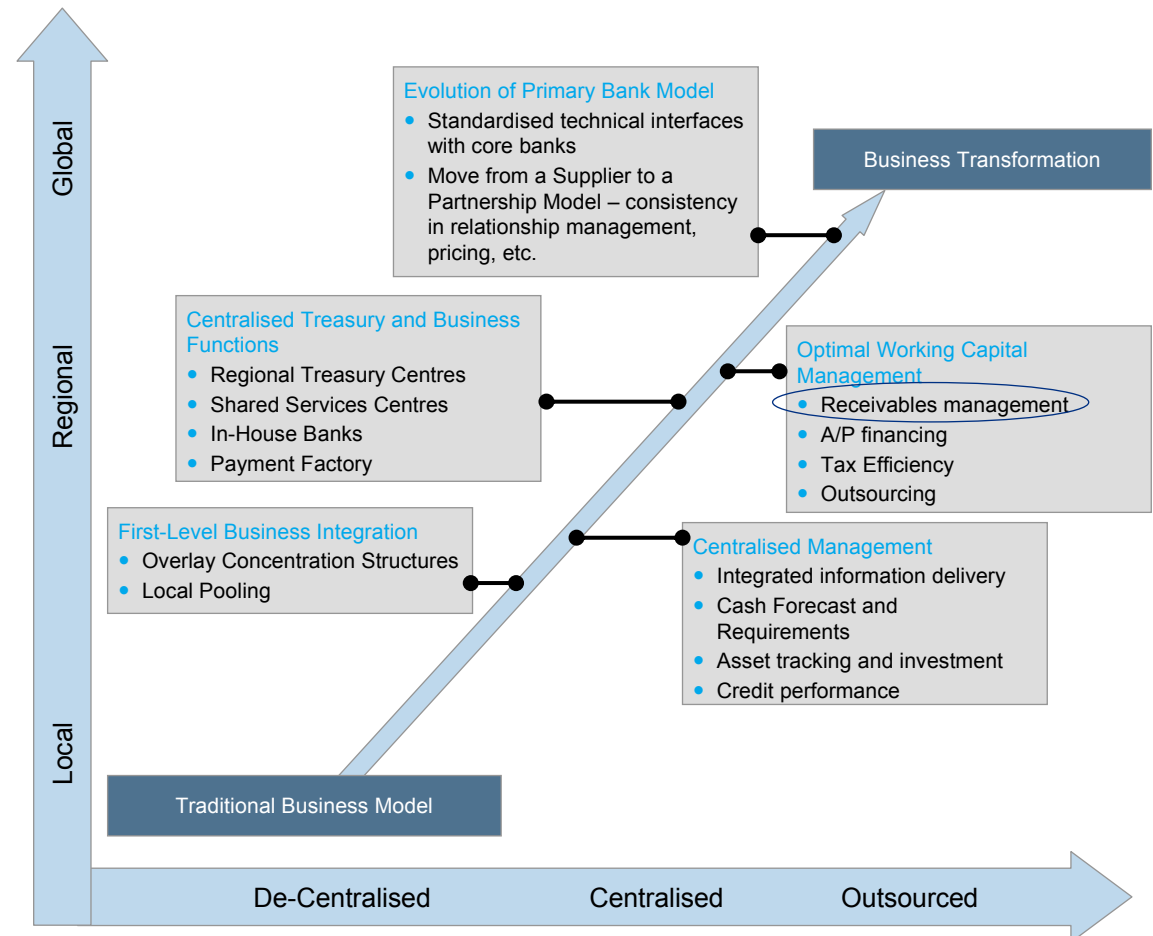
Poll Question no 1

- **Are you considering centralizing the Receivables functions/processes in your SSC?**
 - Yes, we have already done it
 - Yes, we are in the process of doing it
 - We would like to but consider it too difficult
 - No, we will stick to a decentralized Receivables model for the time being
 - No, we do not have an SSC

Taking the efficiency agenda to the next level

The trend towards increased centralisation, standardisation and automation continues. For existing SSCs, Receivables is the untapped frontier while new SSCs should look to incorporate Receivables early on.

- 82% of SSCs are performing AP functions whilst only **69% have integrated AR functions** (such as payment receipt) in the past 10 years
- SSCs have been looking separately at different AR functions** such as Payment Receipt and Cash Application and there is a trend now to bring the two functions together (**)
- Whilst the above mentioned functions are performed by SSCs **the benefits of the model** (in terms of cost and cash-flow) are drastically **reduced by non-standard processes** (**)
- There is a trend amongst SSCs to implement dynamic credit & risk monitoring processes hence **collecting funds and applying them timely becomes very relevant** (**).

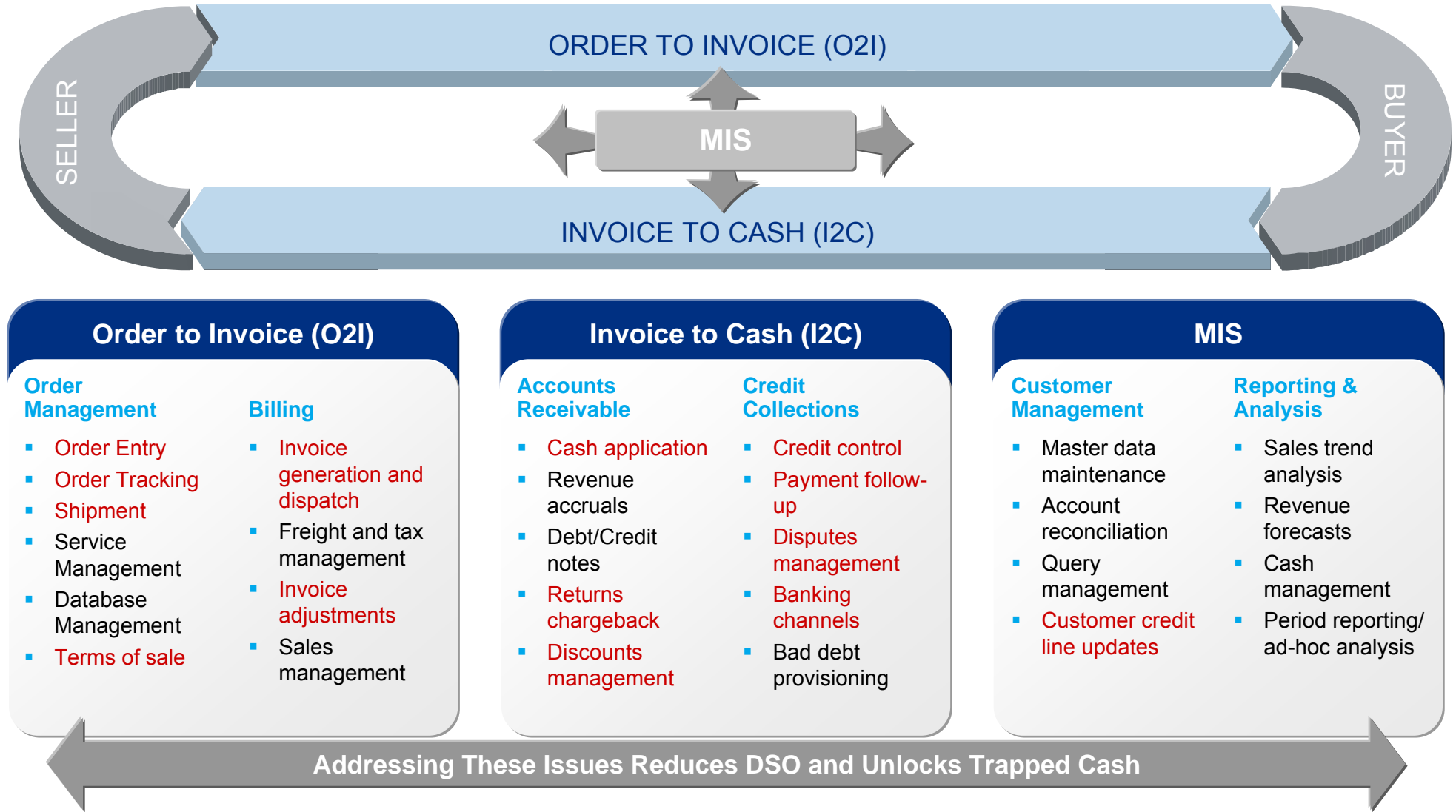


* Source 2008 Deloitte Study

** Source 2009 Hackett Group Report

Unlocking trapped cash in the O2C cycle

Cash gets trapped due to variety of upstream root cause issues emanating in the order to cash cycle.



▪ Big trappers of cash

7 Source: WNS Global Services.

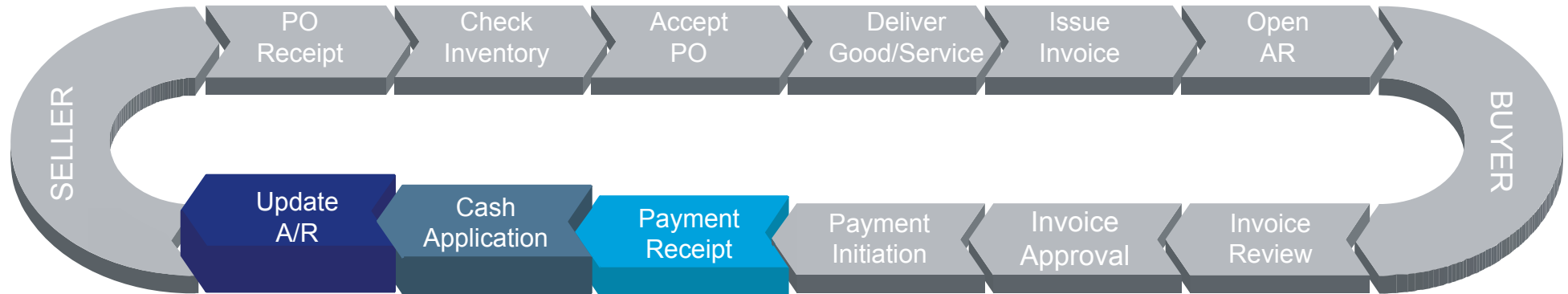


Poll Question no 2

- **What are your main pain points in the Receivables process?**
 - Dealing with multiple collection instruments across the various markets we operate in
 - Dealing with multiple bank systems, different interface processes and proprietary formats
 - The lack of remittance data which makes the receivables matching process difficult
 - The manual labour involved in reconciling a collection received and matching it against an open AR

The pain points in the O2C cycle

There are pain points that are causing breakdowns late in the cycle and therefore where efficiencies can be achieved.



	Update A/R	Cash Application	Payment Receipt
Pain Points	<ul style="list-style-type: none"> It is key that the company's ERP is able to handle the information provided by the bank Lack of automation of the collections and rejected items involves manual labour to reconcile a payment and match it against an open AR 	<ul style="list-style-type: none"> Especially for SSCs remittance data is essential for a proper matching Challenges come from truncated data on the receipts, one payment made to settle several invoices, partial payments etc. 	<ul style="list-style-type: none"> Collection instruments vary across industries and geographies with no best practices established No common collection method with variations from cash to direct debits or mobile payments Multiple instruments lead to multiple output channels and to margin for errors

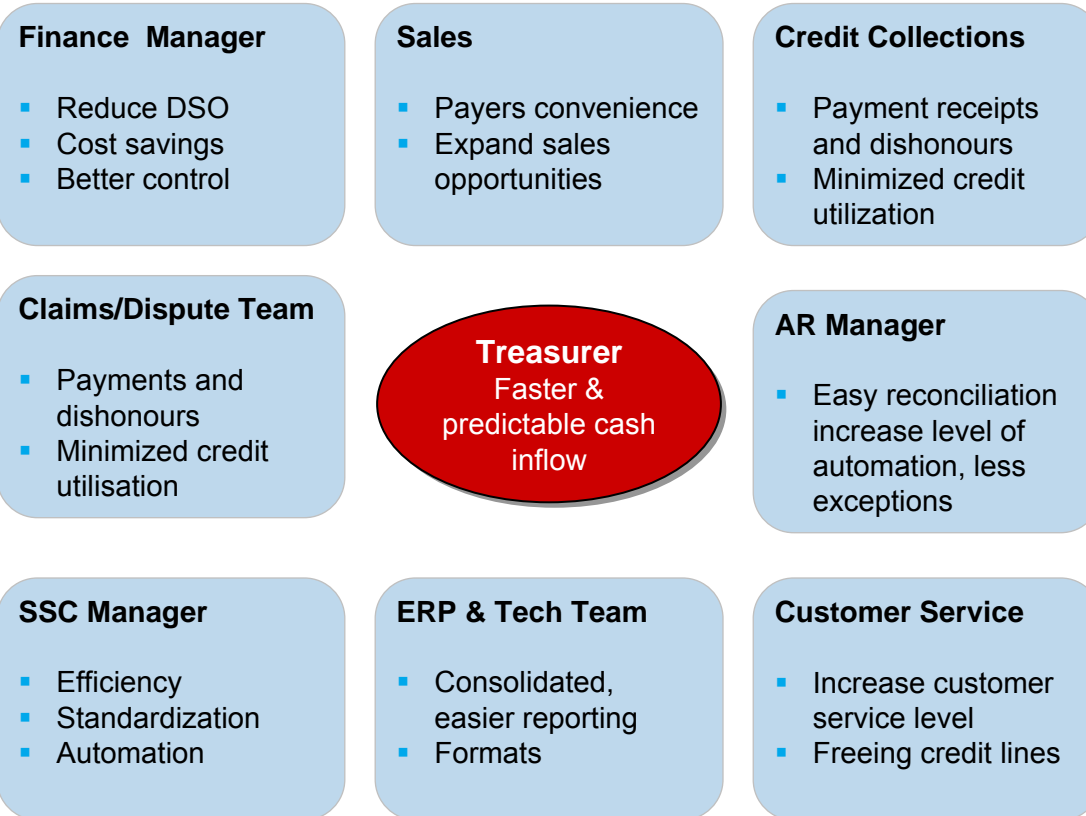
The Approach to Change

Efficient Receivables Management

The approach to change

Key stakeholders have various interests relative to Receivables and the solution needs to balance their needs.

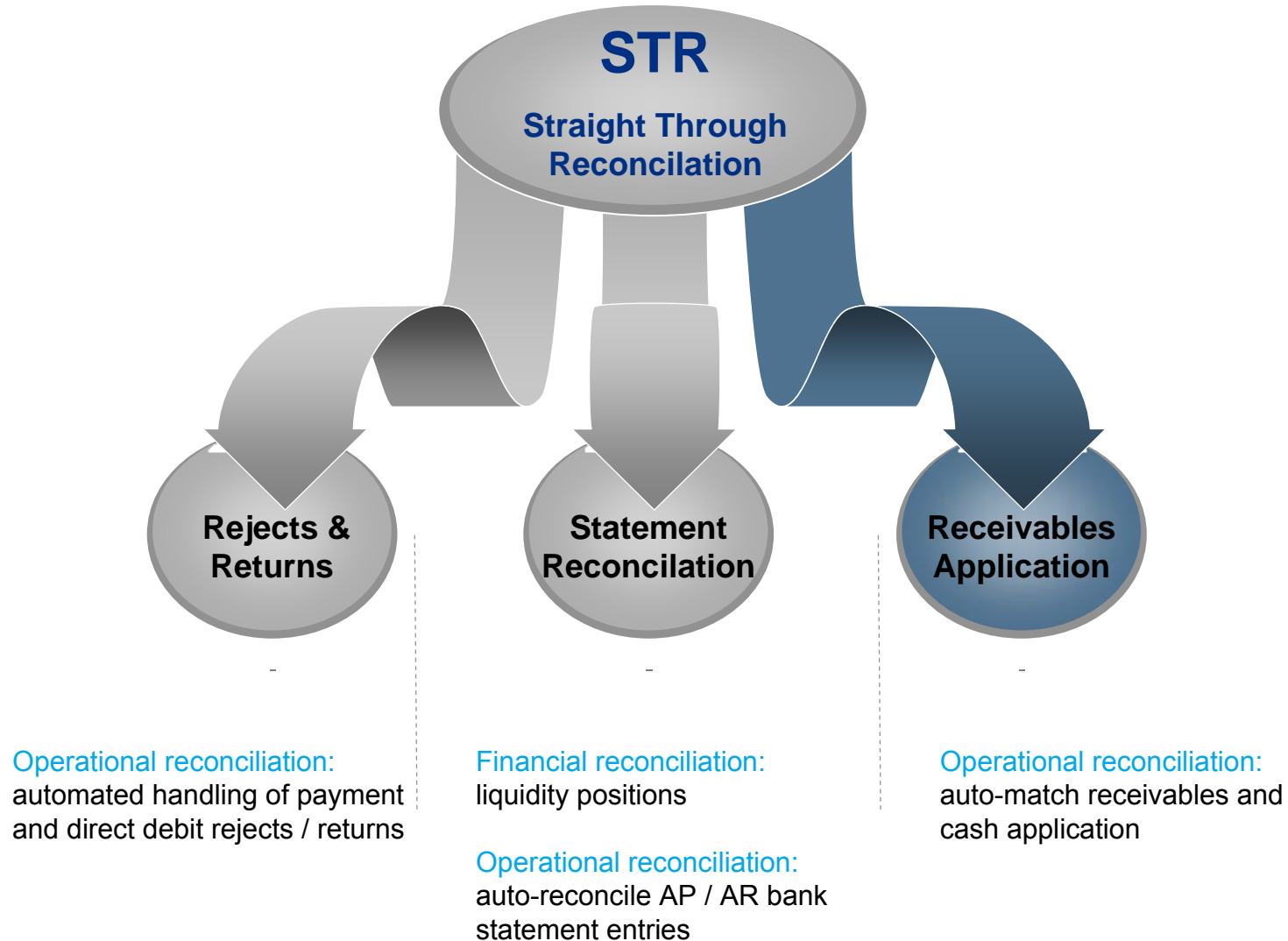
Roadmap to change



- 1. Measure your DSO**
 - What is driving the DSO performance?
 - Which parts of the organisation does it sit in?
 - How can it be influenced?
- 2. Implement business relevant collection channels**
 - Efficient collection channels, catered to local payer behaviours
- 3. Improve A/R performance**
 - Review the cycle time, costs and effort
 - Ensure relevant Receivables solution is in place e.g. Lockbox
 - Evaluate outsourcing solutions
- 4. Standardise and automate Cash Application to achieve Straight Through Reconciliation (STR)**
 - Electronic data flow and process automation
 - Improved automated matching rates
 - Streamline reconciliation
- 5. Constantly monitor progress**
 - Define KPIs aligned to each business function
 - Execute, track, reinforce, realign continuously

Straight Through Reconciliation (STR)

End-to-end efficiency requires a move beyond STP to STR, where all flows to the corporate are automated.



Poll Question no 3

- **What is your current Receivables reconciliation rate?**
 - Less than 50%
 - Higher than 50% but less than 70%
 - Between 70% and 90%
 - More than 90%
 - I don't measure this indicator but I am going to start measuring it
 - I don't know and I don't consider this indicator relevant

Efficient receivables management – Best practices

To address the pain points we have identified four stages where Citi can assist SSCs in achieving efficient Receivables management.

BEST IN CLASS

- Leverage Citi’s rollout of locally embedded, globally accessible AR offerings
- Introduce Business Process Organisation (BPO)
- Apply advanced matching techniques on various collection channels

INTEGRATED MATCHING

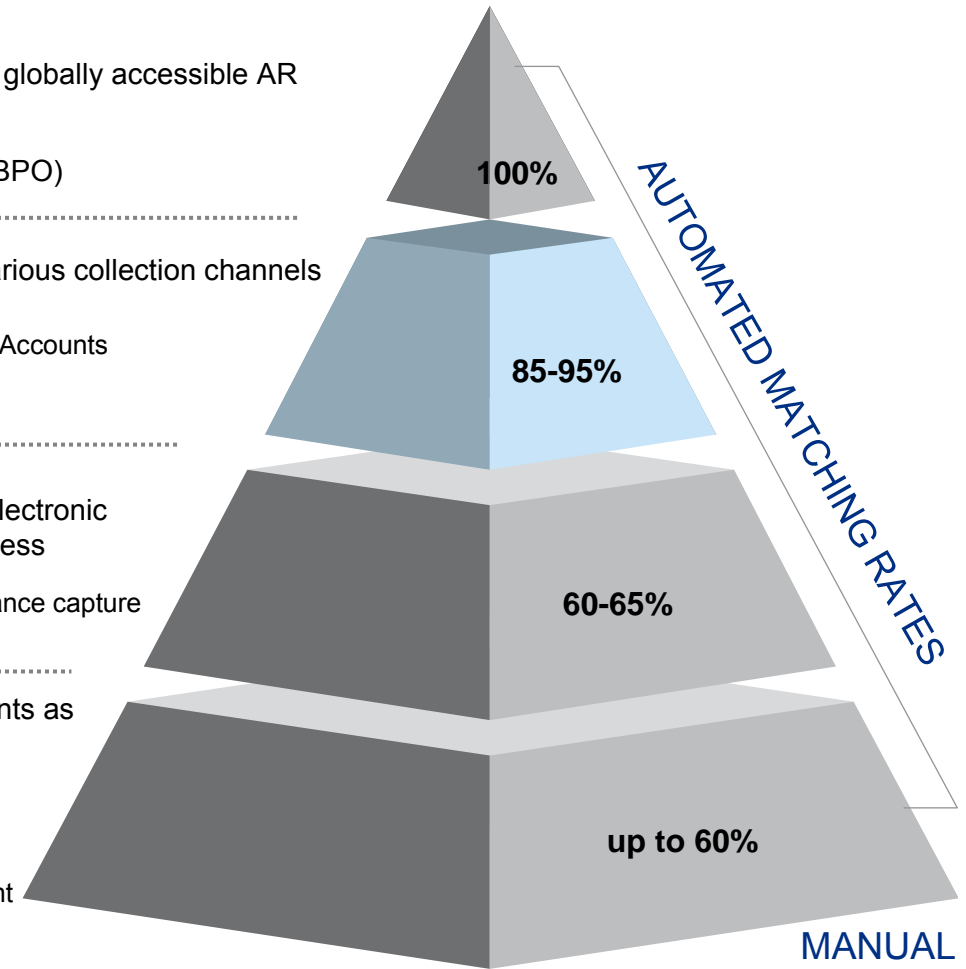
- ✓ Consolidated Receivables in EMEA, Virtual Accounts
- ✓ Integrate with ERP to drive STR

ELECTRONIFICATION

- Move from paper –based reconciliation to electronic delivery and a system based matching process
- ✓ Lockbox with tailored reports and full remittance capture

DEMATERIALISATION

- Move from paper based collection instruments as a first step to achieve system-readable, comprehensive data
- ✓ Incoming ACH, Direct Debits (SEPA, Local)
- ✓ Electronic Invoice Presentment and Payment (EIPP)



Poll Question no 4

- **Which of the following “Next Gen” Receivables offerings is of most interest to you?**
 - SEPA Direct Debits
 - Electronic Invoicing Payment and Presentment (EIPP)
 - Virtual Accounts
 - Mobile collections

Client case study: Newell Rubbermaid



S&P 500-constituent Newell Rubbermaid is a global marketer of leading consumer and commercial products with sales of around USD5.6 billion in 2009.

Challenges

- Following a series of mergers and acquisitions, Newell Rubbermaid maintained 190 accounts with 22 different banks
- This resulted in a large number of manual processes, few economies of scale and limited control.

Need

- Newell Rubbermaid issued a RFP with the objective of finding a single banking partner for payments and collections across 22 countries in EMEA
- One of the company's most important criteria for selecting a partner was the bank's capability to manage local collections, especially domestic instruments, and payments in each market
- "Accounts receivable were a key consideration because while Newell Rubbermaid can determine how it pays its suppliers, customers inevitably determine local collection methods," explains Jérôme Miara, European Treasurer.

Solution

- Citi's proposed that 126 Citibank accounts would be opened for Newell Rubbermaid's 54 different legal entities across EMEA.
- Payments would be made using Citi's state-of-the-art platform for file transmission and translation, Citi® File Xchange, and the web-based banking platform CitiDirect® Online Banking.
- Domestic solutions would be implemented in each country to support the local entities' requirements, including the use of instruments such as LCRs, RIBAs and Pagares. A pan-European lockbox for cheques would be established.

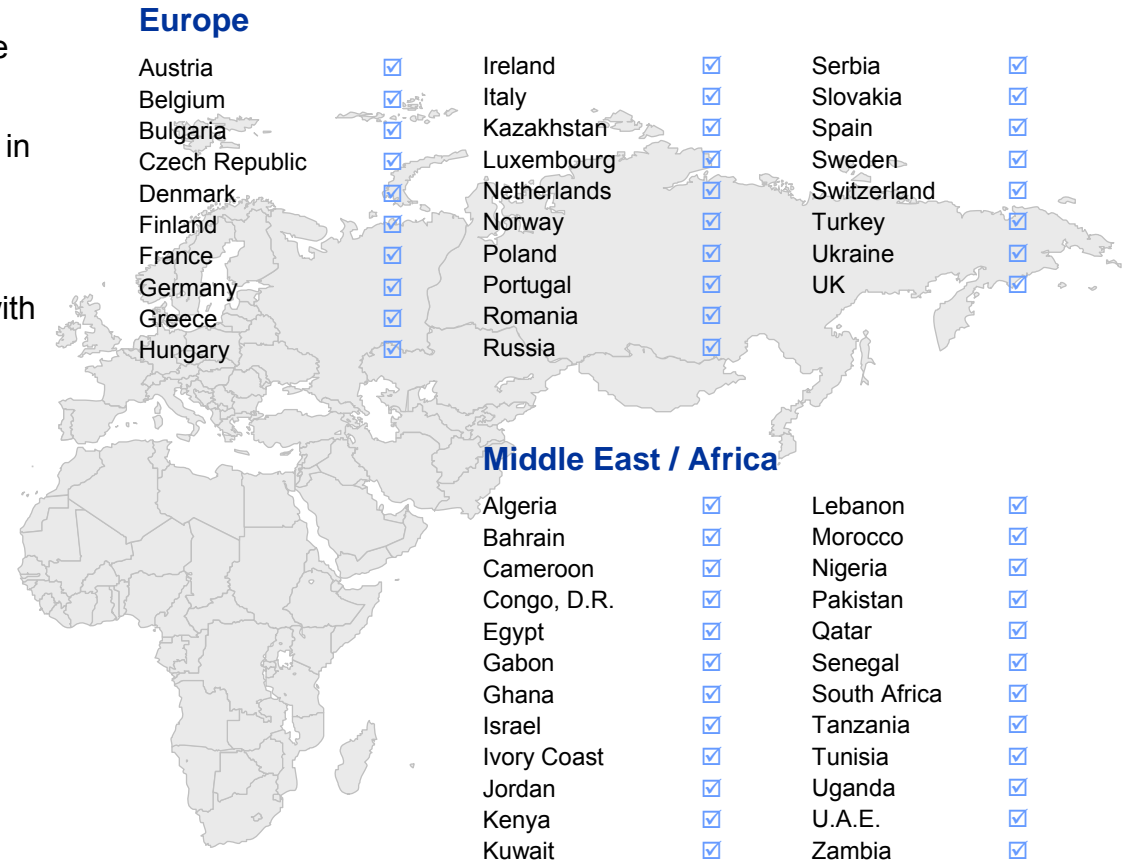
Results

- Newell Rubbermaid closed 148 legacy bank accounts and exited 17 non-strategic bank relationships
- Automated cash application of its accounts receivable balance
- Manual processes have been reduced and treasury staff have been redeployed to value added tasks
- The company has used the project as an opportunity to harmonise its banking processes, enabling the migration of accounts payable and receivable and general ledger processes to its European SSC
- "Increased visibility of its O2C-cycle processes has helped the company to improve decision-making, reduce credit risk and enhance working capital management." Jérôme Miara, European Treasurer

Citi's receivables footprint in Europe, Middle East and Africa

With a footprint in more than 53 countries, encompassing full local capabilities which are complemented by local network partnerships, Citi is perfectly positioned in the receivables space to address its clients' needs.

- **Lead bank to over 350 shared service centres** in the region
- **Citi owned, full branches with clearing memberships in 53 countries**
- **200 Branches** in Europe, the Middle East and Africa
- Partnerships with key local banks provide our clients with **100,000 collection points**
- **Supporting various local collection instruments in the entire region**
 - Cash deposits
 - Cheques collection
 - Incoming transfers
 - Wires
 - SEPA Credit Transfers enabled across **22 branches**
 - SEPA Direct Debits enabled across **9 branches**
 - Direct Debits
 - Card acquiring solutions



Owning the network is a key to component to our competitive advantage and our ability to provide holistic client solutions through a consistent and standardized global platform

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Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy & mitigation

