

The Working Capital Work-Out

Exercising Control Through Innovation



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While globalisation has given businesses easy access to more markets and facilitated supply chain diversification, it has also resulted in complicated and longer cash conversion cycles. In a high interest rate environment, companies need to extract as much value as they can from their working capital. Citi's Elizebeth John, Managing Director – Deposits & Investments, Treasury & Trade Solutions (TTS) EMEA, and Ritesh Jain, B2B Product Head - EMEA, TTS Commercial Cards, explain how businesses can build a leaner, healthier relationship with their cash by leveraging innovative solutions, some of which are currently under the radar.

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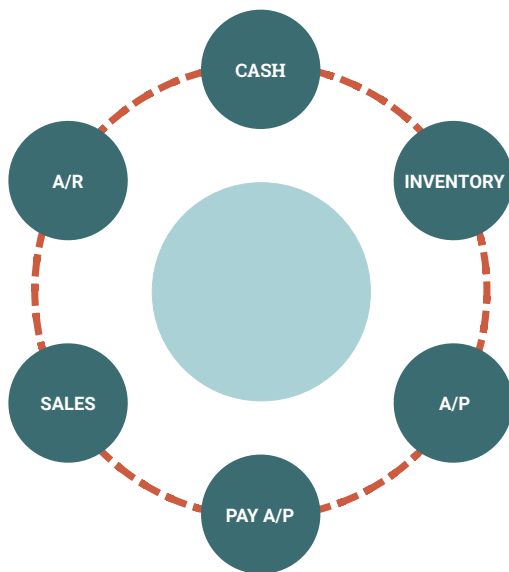
The processes of the cash conversion cycle (CCC) were defined many years ago, typically to support simple single-country and single-currency buyer and supplier set-ups (see fig. 1). Yet the modern multinational has supply chains and customer bases far and wide (see fig. 2).

As a result, MNCs (Multi-National Corporations) need to manage multi-country, multi-currency and multi-channel structures where each new node – including cross-border buyers, suppliers, manufacturers and distributors – creates friction within the cycle, leading to inefficiencies.

“The bottom line is that cash is not getting to where it needs to be as quickly or efficiently as it should,” states John. “Companies are struggling to control their cash flows. And the uncertainty often forces them to resort to increasingly costly facilities to support their everyday activities.” Ultimately, she believes this is placing constraints upon their growth plans – and therefore calls for new ways of thinking.

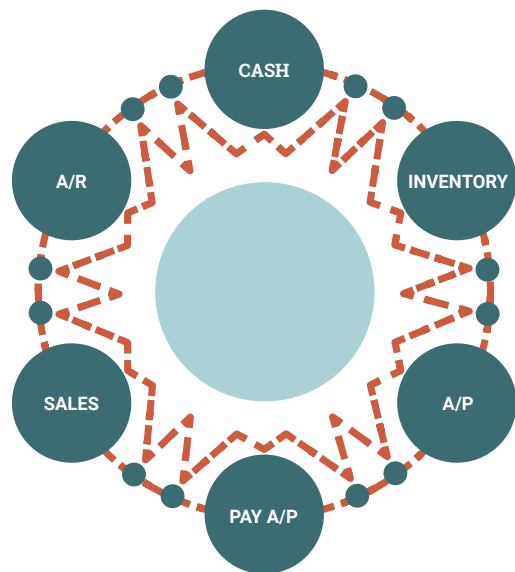
A practical demonstration of the impact of an extended CCC is offered by Jain. “During the pandemic, the entire commercial world faced serious challenges. Once the restrictions post-Covid started easing up, many industries faced a sudden and steep increase in buyer demand. While this might seem like a

FIG 1 | THE TRADITIONAL CCC



Single-currency, single-country manufacturing, local buyers and limited suppliers

FIG 2 | THE TYPICAL MODERN MNC CCC



Friction is introduced by multiple locations, different business lines, multiple currencies, global suppliers, and customers

positive, companies already enduring longer CCCs at the hand of increased complexity suddenly found themselves struggling to service their order books when they should have been experiencing unprecedented levels of growth."

Sultan Boudargham, CFO, Nirvana Travel & Tourism, Abu Dhabi agrees, adding: "As a travel business, once the world reopened after the pandemic, demand for travel services sky-rocketed. While this was brilliant news, it also placed tremendous strain on our working capital and operations. The innovative card-based supplier payment solution we deployed in partnership with Citi has been instrumental in ensuring we managed our cash most efficiently to support business' growth aspirations."

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While Nirvana Travel & Tourism managed to solve its issues, for other companies, inability to meet demand – because the cash is not available to feed the cycle – has generated frustration for every stakeholder in the process. "Hence, an optimum CCC is not just important to run an efficient business, it is an imperative to capitalise on growth opportunities," says Jain.

To achieve this optimal level, John argues that just as exercise helps the body and mind to face life's challenges and opportunities, working out the CCC is required to extract maximum value for financial vitality. She adds that the three key components of this working capital workout should be:

1. Control – getting to know your CCC
2. Efficiency – simplifying the underlying processes
3. Optimisation – extracting the maximum value from your CCC

But how can treasury teams achieve this without significant additional resources? And are there any new smart solutions that have not yet entered the mainstream?

Optimisation strategy

Another important piece of the CCC optimisation puzzle, according to Jain, is supplier payments. "At Citi, we challenged ourselves to rethink some of the fundamentals



BOX 1 | TYPICAL CCC CHALLENGES – AND NEW SOLUTIONS

1. Control through real-time multi-banking

“How can I get information on balances that are in banks that are not my global relationship banks?”

Corporate treasurers have long discussed the need for accurate cash forecasting and aggregation of bank information into their TMS. In the more liberal markets like the US and Europe, ensuring partner banks provide MT940s and MT942s for end-of-day and intraday balance aggregation is pretty straightforward, though often time consuming to set up.

“But experience has taught us that this is not the case in trapped markets/emerging markets where interest rates tend to be high, SWIFT messaging expensive and communication with local banks difficult at times,” says John.

Thankfully, with the growing popularity of instant payments, real-time multi-banking is becoming a more widely accepted and supported practice among banks in all major geographies. APIs are used to obtain real-time visibility into balances held in local/partner banks and to mobilise amounts for aggregation. Brazil, India, and Argentina are a few of the markets where we see fast adoption of real-time multi-banking.

As an example, a fund house working closely with Citi in India with more than 1,000 accounts in multiple banks now uses real-time multi-banking to view and mobilise funds into its centralised investment account. It uses an API to timestamp receipts and payments thus demonstrating adherence to domestic regulations on mutual fund investment turnarounds. As a result, it achieves shorter cash conversion cycles and improved reconciliation – which leads to lower interest costs and operational costs.

2. Simplification through liquidity sharing

“We have some surplus cash. Yet we also have some cash-strapped entities in a country with strict cross-border regulations. How can I simplify and optimise my funding in the country?”

Real-time solutions are not out of reach for companies that do not have the resources to implement real-time infrastructure in the near term, believes John. “Some solutions, like Citi’s Liquidity Sharing, are real-time in nature without actually using APIs or other real-time infrastructure. Liquidity Sharing is now live in Asia but will soon be rolled out across EMEA.” The solution is similar to notional pooling, but entities with a negative balance do not need to resort to a bank facility.

“Instead, the automated intraday sharing process is driven by approved entity access to notionally pooled company cash as the first resort,” she explains. “Where one entity has excess cash, and another needs more to settle a transaction, the system will check all of the accounts within the pool.”

The technology uses a rules-based hierarchical model, based on intercompany agreements, to locate the most appropriate source. It then blocks the required cash in the donor account, and at end-of-day, all positions are settled by physical sweeps. Where shared cash is not available, the system can use a common facility as the last resort. As John notes: “It enables clients to use all of their available liquidity before accessing any other lines”.

when it comes to payments to suppliers – a key component of DPO strategy, and consequently an important lever for managing CCC.

"Traditional supply chain financing [SCF] solutions work well for strategic and large suppliers. However, these solutions are often unable to cover a large part of the supplier base as the process to onboard suppliers can be onerous. Yet it is often medium to small suppliers that are most in need of accelerated cash flow but are left out of traditional SCF solutions due to the inherent complexity. This is what we set out to solve as part of a reimagination process."

Jain goes on to explain that, after careful analysis of the needs of suppliers, buyers, and the current gaps in solution coverage, Citi has recently launched a new solution called [Citi Optimized Pay](#) (see Box 2).

Health plan

Armed with the knowledge of these innovations, the call to action for corporate clients now is to start working on the health of their CCCs, says John. "The solutions we are offering provide a mix of near-term immediate benefit realisation to more strategic business transformation." However, she continues, "If businesses don't attend to these

issues now, they risk being cut adrift from where their growth could or should be."

These are difficult times and taking on more risk through the adoption of new systems is not ideal. But what is being suggested here is not radical, just innovative. "Think of the process in the same way that exercise and diet empower the body: if you put in the effort, you will see the results and you will be stronger and healthier when you need to be," she comments. Jain concludes: "And when you get yourself into good shape, you will be better prepared to face whatever the world throws at you".

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BOX 2 | INTRODUCING CITI OPTIMIZED PAY

A ground breaking innovation, Citi Optimized pay enables buyers to extend their DPO while simultaneously paying suppliers early, thereby reducing suppliers' DSO. "Most importantly, all this is achieved without any paperwork or documentation required from suppliers. In other words, no more onboarding suppliers to a complex financing solution."

If it already sounds too good to be true, there is more to come. Jain says, "As part of the reimagination process, we also wanted to rethink the way supplier financing solutions were priced. Citi Optimized Pay does not have any complex interest rate calculations; instead, it relies on traditional early payment discounts that suppliers often provide to buyers as part of commercial engagement. In this way, we are putting the focus back on buyer and supplier relationships rather than it being driven by a financial institution."

This novel approach, curated in partnership with a fintech, is already finding significant success. In fact, Jain says the first client to go live on this solution processed invoices worth almost €1m within the first week.

He continues: "While Citi Optimized Pay was conceptualised to challenge the drawbacks of traditional supplier payment options, the real ingenuity comes from the way our clients are deploying this solution."

Some corporates, he elaborates, are using it to pay suppliers early (while improving their own DPO), and are leveraging the early payment discount from suppliers to offset the solution cost and thereby gaining net bottom-line benefit. Hence, the outcome is not just an improved CCC but a tangible P&L upside.

"Other clients use it to smooth out periodic cash flow demands. Yet other clients are using it to extend DPO on pay-outs that cannot be elongated otherwise, such as tax payments. The possibilities are endless." One such client, Alexander Hooper, Deputy Group CFO, NSC, agrees: "Vendors have told us how seamless the transition to this new method of payment has been for them, and how quickly they are paid. The transformation within our business is miraculous."