



On the Road to Disruption: Driving Treasury Change Across the Auto Industry



James Mahn
North America Head,
Industrial Sector
Sales, Treasury and
Trade Solutions, Citi

Few industry sectors are as poised for dramatic change as those in the automotive space. Technological disruption is transforming what was once an industrial and manufacturing-centered sector into a hotbed of innovation that is at the heart of the emerging mobility ecosystem. There are numerous trends influencing this transformation, but for the purposes of this discussion, we will examine only a few of the main drivers.



Steven Holzer
Global Head, Data and
Digital Strategy, Citi

Fueled by consumer focus on environmental concerns, industry regulations and increasingly favorable economics, automotive manufacturers have invested heavily in powertrain electrification. Recent research projects that anywhere between 25 and 50 percent of vehicle sales are expected to be electric by 2030.¹ At the same time, the rapid development of autonomous vehicles and the growing acceptance of driver-assist technologies by consumers are changing views on personal transportation and vehicle ownership. It is expected that approximately 50 percent of passenger vehicles sold in 2030 will be highly autonomous.²

Ride sharing, another major disruptive trend, is likely to impact future automotive sales. With approximately 60 percent of the global population expected to live in urban centers by 2030, new transportation models (e.g., multimodal transport) are expected to come to dominate the marketplace.³ Consumers are increasingly viewing mobility/transportation as a service versus a product, while thinking of transport as an experience.

¹ WEF& Accenture - Unlocking B2B value

² WEF& Accenture - Unlocking B2B value

³ McKinsey - Automotive revolution - perspective towards 2030

This shift toward experiential transportation services, along with the rise of autonomous vehicles, is enabling in-car consumption of connected services, with 44 percent of auto customers indicating a willingness to subscribe to connected services.⁴ With these connected platforms comes a wealth of consumer data. The value of this car data is exploding in importance. Research foresees revenue generation of between \$450 billion and \$750 billion from data monetization by 2030.⁵

Further, consumer adoption of e-commerce is expected to extend to new car purchases with 33 percent of new customers expected to buy their cars online by 2030.⁶

The emerging priorities for transforming treasury flows

These disruptions to the automotive marketplace are presenting new challenges for treasury organizations within automotive original equipment manufacturers (OEMs), who must grapple with supporting new payment flows and managing new risks. At the same time, these changes necessitate that treasury play a more strategic role and become embedded with businesses at a much earlier stage when important product decisions are made (e.g., account management, payments, collections, refunds to facilitate direct-to-consumer business models). Some of the factors that are expected to impact treasury operations include: ride sharing, the rise of fleet ownership, the growth in connected car services, the growth of technology suppliers, globalization and security.

⁴ McKinsey - *Automotive revolution - perspective towards 2030*

⁵ Deloitte - *Future of Mobility*

⁶ McKinsey, *Connected car, automotive value chain unbound*

Ride sharing

Over the course of the next 12 months, OEMs' corporate treasury priorities should include putting foundations in place for a truly digital treasury function. In particular, as popular consumer-to-business (C2B) ride sharing services prompt new business models, OEMs need to build global direct-to-consumer collection capabilities - including request to pay (RTP), e-commerce, and digital wallets. Increased cash flow from insurance and maintenance-as-a-service business models can result in early cash collections in the form of premiums and subscription fees, necessitating streamlined and automated treasury capabilities.

Rise of fleet ownership

Over the course of the next two to three years, OEMs will likely see increased car sales to fleet operators as personal car ownership declines and ride sharing grows, particularly in developed markets. This means treasury can expect to see a rise in business-to-business (B2B) flows. The increased buying power of fleet owners may result in less favorable payment terms for OEMs, creating higher days-sales-outstanding (DSO) challenges and hence cash deficits in day-to-day operations. OEM treasuries will want to focus on working capital financing to handle expanded DSO while also managing counterparty risks.

Connected car services

As connected car services continue to grow in popularity and tailored subscription-based solutions develop, OEM treasuries should consider developing global collections and reconciliation capabilities to handle increasing micro-value, high-volume, real-time, subscription and e-commerce flows. At the same time, treasury should begin the process



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of understanding the impact of shifting from batch payment processing to real-time collections, reconciliation, forecasting, as well as leveraging application programming interface (API) technology. OEM treasuries should look to increase focus on working capital management in light of the fact that vehicles will continue to reside on their books and thus, it may take longer for OEMs to recoup manufacturing costs over the life of the connected car's services.

Growth of tech suppliers

As cars become electrified, autonomous and connected, the share of technology software and services components found in these vehicles will continue to increase. For this reason, large technology companies are establishing themselves as key suppliers to auto OEMs, which may result in a shift in power from traditional component suppliers to new technology vendors. Digitization has always brought about consolidation, creating a handful of platform players with the potential to gain significant leverage over OEMs. While these suppliers might not require financing solutions from OEMs, they could increase the pressure on days payable outstanding (DPO).

Monetization of big data

With test autonomous vehicles generating between four and six terabytes of data per day,⁷ OEMs will be able to capture huge amounts of consumer data, such as driving behavior and buying patterns. This data can potentially lead to revenue streams with third parties such as insurance providers and parts manufacturers. Likewise, predictive maintenance is expected to help fuel the after-sale market, while improving data flow within the supply chain.

Globalization

As the industry continues to globalize and emerging markets contribute to a larger share of new car sales, OEMs need to manage a supplier network spread across the globe. As a result, supply chain financing (SCF) will become increasingly important to OEMs. Connected supply chains can provide increased transparency and visibility, offering better credit facilities. Going forward, there should be a strong appetite for inventory finance and tooling finance solutions along with increased interest in deep tier financing and buyer-backed SCF to support new entrants to the auto ecosystem.

Recent tariffs and regulatory changes are expected to impact the supplier chain as OEMs evaluate their supply sources or adopt new technology to provide just-in-time inventory.

Security

A major concern of treasury remains the risk associated with fraud, cyberattacks and counterparty activities. In light of the increasing importance of technology and connected car platforms, treasury needs to protect against cyber risks. Similarly, growing use of direct-to-consumer online sales raises the specter of fraud, which must be mitigated.

The growing dependence on digital technology is opening the door to new business risks, and the reliance on an expanding world of small platform suppliers and vendors presents increased counterparty risk. Over the next five years, the need to manage and hedge against these risks will be paramount.

The right banking partner is key to OEM treasury success

As disruptive forces transform the mobility ecosphere, automotive OEMs in particular will need to find the right banking partners to help assure treasury success in a rapidly evolving global marketplace. Citi Treasury and Trade Solutions (TTS) has the capabilities, global footprint and industry strengths that OEMs can leverage to put highly effective near-term and long-term strategies in place.

As treasury organizations explore the potential of facilitating different payment types, such as micro-payments, credit, debit, mobile wallet and cryptocurrencies, having a global banking partner will be key. TTS currently operates in 98 markets around the world, providing customized electronic collection solutions to support the changing C2B business model, and has a deep understanding of alternate payment methods, enabling OEMs to better manage the cost of these transactions.

Traditional interfaces between OEMs and banks are changing, as batch formats are poised to be replaced by APIs. Citi has tremendous expertise around APIs and can help OEMs maximize the use of this exciting new technology to ensure treasury is operating at peak efficiency. Citi TTS is the right partner to help automotive OEMs structure their payment processes and account structures in order to achieve critical market objectives in a rapidly changing world.

To help ensure success, treasury should also work with groups across their organization in order to tackle the broader topics discussed above. By casting a wide net across the business and working regularly with stakeholders outside their regular purview, treasury can make sure the entire organization is aware of the changes that are happening, providing insights into the new solutions being deployed and their implications for the organization. ■

⁷ Accenture - Autonomous Vehicles: The Race is On

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