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The next step forward for shared service centers

By bringing accounts receivable into an SSC environment, organizations can improve visibility and take better control of their cash, write Prateep Sen and Fiona Veary.

While corporate treasurers have made significant progress in improving internal cash generation, reducing costs, delivering visibility, and operating efficiently in the procure-to-pay environment, this progress has not been matched in the invoice-to-cash cycle.

This slow progress is evident in the accounts receivable (AR) space, where centralizing information in a decentralized environment (in which multinational organizations manage millions of payments made in multiple currencies across multiple channels and banks) poses the key cash management challenge that corporate treasurers now face.

Aggregating disparate information from subsidiaries and clients globally is too often a costly, manually intensive process. More than ever, the hurdles of inconsistent remittance information and collection complexities must be overcome to achieve corporate treasurers' goals.

Shared service centers

During the past decade, organizations have centralized many functions within shared service centers (SSCs). Initially, SSCs focused on activities in procure-to-pay and

liquidity management spheres that were considered high-impact but that required moderate effort and did not involve direct customer contact. However, such a focus did not enable treasuries to fully realize the significant investment in technology made in SSCs, nor the expertise that resided in such centers. As a result, many organizations are looking to extend the remit of the SSC to tackle challenges in AR and, in some cases, the full order-to-cash cycle, covering order management, order delivery, and invoicing. These activities require greater effort and customer involvement.

By migrating AR functions such as collections, dispute resolution, client credit risk management, cash application, and reporting, corporate treasurers can reduce days sales outstanding (DSO), thereby improving profitability and fully utilizing the capabilities of SSCs.

AR in SSCs

Many companies have made tentative first steps to bring the AR function into an SSC. However, the transition to the SSC environment has not been easy. The primary challenges are as follows.

Information

Because client information resides close to the end customer, the details contained within an invoice are very localized, reflecting local country norms and language requirements. This complicates matters concerning disputes; often, crucial information about collection issues or other disputes within a particular country may not move up the chain to the SSC. This is particularly the case if the SSC's technology infrastructure is not adequately robust.

Customer relationships

Clients are an organization's crown jewels. As a result, corporate treasurers often find it difficult to persuade representatives in the sales departments to ask their clients to change their payment behaviors. Corporate treasurers want to obtain funds as quickly as possible, whereas sales executives fear a reduction in DSO will lead to a reduction in sales. This conflict has led to a proliferation of payment methods and process inconsistencies as individual clients adhere to their favored payment options.

Standards

Each country has its own clearing house and, in some cases, multiple clearing houses that cover different payment channels such as checks and credit cards. The inability to enforce standard payment processes on clients means the corporate treasury has to deal with multiple ways of receiving payments, often with many banking partners in each country.

To overcome these challenges, organizations will often choose a "lift-and-shift" model whereby they can easily export local knowledge, language, and banking relationships into the SSC. However, as organizations subsequently attempt to standardize and streamline processes, they

will hit a wall as further efficiencies are possible only when the goals of all parties in the AR environment – treasury, sales, and banks – are fully aligned.

Adding value to the SSC

Given the role of SSCs in improving internal efficiency and unlocking trapped cash, C-level executives have become much more closely involved in the activities of SSCs. As these executives are directing operations, the SSC is able to wield greater influence on internal and external stakeholders as well as banking partners.

These changes in management at SSCs mean the advantages of bringing the AR functions into an SSC are beginning to outweigh the traditional objections to such a move.

Banks have an important role to play in helping organizations to optimize the receivables chain through their SSCs. Of all the AR functions, the transformation of receivables into cash is where banks can best assist.

SSCs reconcile receivables using the payment information provided by banks in the transaction details. However, banks supply different information in different ways, and receivables come from myriad payments modes and channels, such as electronic wires, paper checks, and ATMs. A further complication presents itself when remitter information is "lost" as it traverses bank, clearing house, and bank again before finally going back to the customer. By reducing the complexities of bank transaction information and automating the process, straight-through-reconciliation rates can rise from the current 20 to 50% range to an 80%-plus range.

The figures speak for themselves – an automated AR transaction can be undertaken for a few cents, but when manual processes are involved, costs can rise by many multiples. ▶





Removing the pain

There are five ways in which a bank can help to remove the obstacles to automated AR within SSCs:

- Information standardization
- The provision of untruncated remitter information
- Aiding data enrichment
- Advising on collection channels
- Reporting
- Outsourcing

Information standardization

The aim of standardizing information is to deliver a single AR information channel to the organization. This can be achieved by providing standardized information across payment methods, channels, and countries. In addition, a bank can enable the multibank collection of data as a feature to enable the SSC to further optimize processing and minimize the number of delivery channels.

Flexibility is critical to ensuring that the SSC receives data in the way it is required, in a format that will remove costly manual processing activities. There is no one-size-fits-all for an SSC – a bank must be nimble in the way it works with its corporate clients to understand exactly what the SSC requires.

Remitter information

Ensuring remitter data is as complete as possible depends on the quality of information received from the clearing house. Banks must ensure they relay all the information they have received to the SSC and can also advise corporate treasurers on best practices regarding standards and fields within messages.

The development and rollout of the ISO 20022 messaging standard has greatly aided in improving remitter information, as its

feature-rich nature makes it possible to deliver much more information to the SSC.

Aiding data enrichment

Data enrichment is an important part of ensuring complete remitter information. SSCs often experience issues with the data received; for example, the remitter information is incomplete or is not in the format required. Banks can provide SSCs with the ability to access information and enrich it, according to predefined rules.

By providing a window to clients, banks can enable the SSC personnel to pull up data and do background checks to enrich the data. This can be extended to encompass images, allowing an AR manager to look at the original copy of a check to gain a better understanding of the payment and the remitter.

Advising on collection channels

The multiplicity of collection channels further complicates the AR function, yet banks are well placed to advise their clients on best practices in collections. By partnering more closely with their bank providers, organizations can ensure payments come through the best channels, which may result in better control over AR functions. This can take the form of dematerialization (e.g. shifting from checks and cash to direct debits and mobile payments) and electronification (e.g. transitioning from checks to a lockbox-based process that provides complete remittance information).

The consolidation of many, often local, banking partners into a few regional or global banks also helps in reducing the proliferation of collection channels.

Reporting

Standardized bank reporting and analytics will deliver greater visibility and critical business intelligence for senior management within an organization, allowing them to strategically manage receivables and accelerate cash flows.

Outsourcing

Many companies choose to outsource exception handling, enrichment, and AR reconciliation to improve efficiencies in the process. The high fixed costs of technologically intensive TMS and ERP systems, along with the cost of maintaining and upgrading such systems, can be converted to low variable costs by outsourcing AR functions such as invoice matching. Outsourcing is a logical way to receive the benefits of technology-based receivables solutions in a cost-effective way.

Solutions

Citi has responded to many challenges of bringing AR processes into SSCs with a series of solutions, some of which go beyond cash application and into other areas where value can be added in the AR chain.

For example, ReceivablesVisionSM is an integrated receivables hub providing clients with increased visibility into receivables data and streamlined AR processing, allowing clients to strategically manage receivables and accelerate cash flow.

ReceivablesVisionSM aggregates data across countries, currencies and transaction types – including business-to-business and consumer-to-business payments made through multiple channels – delivering a consolidated view of data in an engaging, easy-to-read graphical format. Providing analytics at a glance, interactive tools offer near-real-time insights and transform data into actionable intelligence, helping companies optimize receivables management and unlock trapped cash.

Citi[®] Accounts Receivable Matching Services streamlines AR reconciliation by consolidating, enriching, and matching all receivables with open invoice items. The solution works by extracting key remittance data from ACH, card, checks, and wire transactions. The extracted information is electronically enriched, repaired, and matched with open invoices

using client-specified rules. For exception items, an operator can manually enrich and match the items. The system generates a reconciled report in client-specified formats. The end-to-end solution improves back-office efficiencies and frees up resources to focus on more strategic tasks. The solution can be integrated with an organization's ERP system, thus improving straight-through reconciliation and accelerating the invoice-to-cash cycle.

A new approach to partnership

In developing solutions for its clients, Citi has taken a new approach to partnership in helping clients unlock trapped cash and optimize working capital. This includes a close partnership to identify issues and formulate long-term action plans.

A solution developed for a pharmaceutical company with a regional SSC in Asia has increased AR reconciliation rates from 10% to about 70% in two years after Citi worked with the company on its reconciliation logic and configured the Citi[®] Accounts Receivable Matching Services solution to meet its needs.

Another client, a US-based biotechnology multinational, was able to reduce its DSO, increase visibility in the order-to-cash cycle, and improve credit ratings for its multiple business units through a customized solution that included an integrated electronic document management solution, centralized order-to-cash documentation and SLA agreements, and the use of ReceivablesVisionSM.

As credit is likely to remain scarce and expensive, identifying alternate sources of internal funding remains a priority for organizations worldwide. By working closely with bank partners, organizations can eliminate costly manual processes, better utilize their SSCs, and gain greater visibility over cash to help them address this priority. ■

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