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# Global Receivables Take Center Stage

“An often overlooked cash management function has rapidly become a hot spot for unlocking trapped liquidity.”

Around the globe, corporate treasurers are focusing on a once-overlooked area of treasury operations: Receivables. In the last two years, in fact, there has been more energy around Receivables than in any other similar period in recent history.

Once upon a time, the formula for effective cash management was very much about controlling Payables and managing short-term investment of operating cash. But with the fall-off of revenue and tightening of credit belts in a down economy, companies find themselves seeking self-funding and expense reduction opportunities.

In today's environment, companies must maintain sustainable margins and seek out internal funding alternatives to outside credit. Thus, corporate financial professionals have taken a hard look at modifying legacy processes to become more efficient and optimize working capital management and the order-to-cash cycle.

## **Low cost, high speed, more info**

The global receivables market today is focused on two primary areas.

One is a combination of high speed and low cost. Companies want their invoices out to their buyers as fast as possible, and they want the cost of collections, primarily banking fees and internal back office, to be as low as possible.

The second area emphasizes the information associated with those collections. In essence,

companies are saying “Tell me more about when and how payments are being received and how fast and from whom they are being received”. Perhaps, more importantly, they are asking “Which collections are still outstanding and why?”

Since companies traditionally have had limited control over how and when clients pay them, collection inefficiencies are often handled in the back-office areas of accounts receivables reconciliation, cash application (matching to outstanding receivables on the A/R system to close it out), and the collections/bad debt unit, where dunning notices, client calling and research seem an endless task and a basic fact of treasury life.

However, with the change of the economic winds, these functions are getting some well-deserved scrutiny. The back-office process holds the keys to the who, what and why that produce the business intelligence needed to improve flow of receivables and, in turn, working capital.

This business intelligence is valuable, providing insight into where breakdowns may exist – whether internally, with banking partners or with clients. At its best, business intelligence tells a company where and why cash is getting trapped. It also provides the context by which process reengineering, new product integration and general cash management best practices can facilitate accelerated cash collection and overall optimal use of working capital.

There is real value in the information gathered, both in the collections themselves and the matching of those collections to invoices, because it answers some of the most burning questions coming out of boardrooms: "How can we reduce cost of execution and collections?" And perhaps more importantly, "How can we reduce days sales outstanding (DSO), improve our cash flow and internal working capital, and reduce our dependence on credit for funding?"

Let's say, for example, that Company XYZ has a \$1-million line of credit. That line is only available to the extent that there are no unapplied payments. If a \$100,000 payment was actually made by the client, and it remains unreconciled in the company's back office, then XYZ's customer doesn't get use of that \$100,000 in its own credit line until it's reconciled and applied. This illustrates one element of working capital: the ability to accelerate the credit cycle for clients, thus



### **The joy of working capital**

Based on economic conditions and the tightening of credit over the past year or so, companies today are looking for every opportunity to identify internal sources of self-funding – that is, through their internal working capital.

DSO (days sales outstanding) is a critical yardstick for measuring the effectiveness of the cash flow available through self-funding. DSO measures the time from the initiation of an invoice to the point it is closed out on the Accounts Receivable (A/R) system. There are two key benefits to managing DSO:

- Once cash is applied to an outstanding receivable, the receivable aging is complete and the cash is confirmed as part of working capital, and
- The faster a company can receive and reconcile invoice payment, the faster it can close out that receivable on the A/R system, record the payment, and use those funds to recycle available client credit that may have been tied up in unmatched or unreconciled collections.

generating the opportunity to move more goods or services with those clients.

Just as importantly, if collections can be accelerated, a company can use that cash for self-funding and self-investment, rather than incurring the cost of credit that it must obtain from the marketplace. The market today rewards companies that are liquid and more reliant on internal sources for funding, in terms of stock price and market valuations.

### **Getting help from banks**

As businesses recognize the need to reduce operating costs, they are turning to banks for help. And banks do have solutions. In response to the changing receivables environment, banks are taking aggressive steps to help companies accelerate receivables, provide visibility to the collections process, and reduce costs.

For instance, banks are helping companies optimize their entire order-to-cash cycle, through electrification of invoices and client payment



methods that speed the cash conversion cycle. Banks also provide information to increase transparency and avoid the cash traps that result in unreconciled payments, unapplied receipts, and slowing of cash application. For receipts that may be awaiting research or resolution, transparency brought to that process is welcomed by any company.

A global receivables bank like Citi has solutions to resolve clients' end-to-end order-to-cash issues.

### **Exhibit A: the logistics industry**

One valuable bank solution is electronic invoice presentment and payment (EIPP). This is an automated process that takes paper invoicing out of the system, provides online dispute management with audit trails between companies and their buyers, helps companies qualify and improve the quality of their invoices at the point of presentment, and provides for electronic payments – all through one application. The better the quality, the higher the probability of invoice accuracy, and the faster a payer will satisfy that invoice.

Consider an example from the shipping logistics market. Shipping, one of the world's oldest industries, is highly paper-based, and thus highly inefficient. Multiple variables come into play in paying for the transportation of goods – import charges, issues of demurrage, assessorial charges, and the like – all of which can affect a client's acceptance of an invoice and timely payment.

These variables, and the inefficiencies they create, have been a part of the shipping industry for as long as there has been a shipping industry.

Banks work with both billers and payers to replace manual processes and develop solutions to improve the quality of invoices. Electronic invoicing facilitates automated dispute management, which speeds up the communications process while keeping an audit trail. The final pieces of the puzzle are electrifying the clients' payment method and reconciling payment to invoice for the company.

Citi has a proven, six-year EIPP track record in the airline industry that has proven extremely valuable to clients. Participating companies have seen per-item operating costs drop as much as 20%, and DSO reductions in excess of 10 days. Even payers have benefitted via streamlined operations, less paper handling, less manual data entry to capture invoice data to match against orders in the Accounts Payable system, and reduced time spent on resolving disputes.

### **Key receivables trends**

There are a few other general trends that have emerged among companies looking to their banks to help refine order-to-cash cycles. Here are two major ones:

**Accounts receivable matching and data enrichment.** Banks are offering enhanced receivables services whereby key data accompanying collections information – such as

debtor information – is captured and associated with the receivable transaction. This enriches the information record used by clients to match against their outstanding receivables.

Furthermore, some clients have begun to send their outstanding receivables files (such as invoice files or trial balance details) to their banks requesting a match of incoming receivables against the outstandings file. The end result of the matching process is an automated feed to the client's A/R system, providing a straight-through process in applying cash against outstandings and closing out the receivable.

As noted above, data enrichment increases the quality of the matching record, significantly increasing the straight-through processing (STP) rate. The faster an item is closed, the faster it is recognized in the working capital stream. This creates an opportunity to use cash for funding, as well as opening up available credit for clients to purchase more.

**Paper to Electronic to Mobile.** It's no great insight to say that payment methods are moving away from paper and toward electronic processing. Banks are helping businesses accelerate the trend in multiple ways, including:

- Electronic check conversions, taking advantage of the Check 21 regulations
- Online payment gateways for electronic low value payments
- Deployment of cards – consumer cards, purchase cards, prepaid cards, commercial cards. Citi, for example, has dedicated Cards business units with great success in deploying cards globally.

One of the more recent trends is connecting electronic payments to mobile devices for even further acceleration of the cash conversion cycle. Mobile collection has the opportunity to significantly reduce DSOs by enabling point-of-service payments by consumers as well as businesses on the move. There are two fronts being addressed in Mobile Payments: Content Adaptation and Cash Replacement.

“Content Adaptation” is a valuable capability in presenting invoices through mobile devices, affording the opportunity to “click and pay” instantly. It is simply a method of presenting an invoice that a client usually sees when entering an online website. To click and pay, the client is directed to the website just as if they were in front of their computer (with all appropriate data security measures). This accelerates the receivables by cutting down the time a client requires to see and pay the invoice. The DSO reduction is equal to the difference in time from when the client clicks to pay vs. the time they would have taken to sit in front of their computer to pay their bills – which can be days or weeks. And every day saved in accelerating receipts is a day saved in the war on DSO.

The other mobile opportunity is a bit more challenging. It is Cash Replacement, which attempts to remove cash collections in lieu of any electronic method possible. For example, a primary target for cash replacement are consumer goods distributors to small venue stores or outlets – such as store-to-store distributors of soft drinks, snacks and the like, who currently collect cash from small store owners along the route.

Many banks are looking to solve the equation of collecting payment without collecting cash. One solution is, again, connecting mobile devices with invoice information, as well as bank account or card information as the payment mechanism. There is a lot more work to be done to commercialize the solution, and Citi is clearly driven to do so.

Given all this, it's no wonder that Mobile is gaining considerable traction as a solution for improvements to working capital management and reduction of DSO. Citi has a dedicated mobile payment and collections business unit driving solutions, both on the retail bank and within its Global Transactions Services unit.

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### **An unmistakable trend**

Today, there is clearly greater attention being paid to receivables than has been seen in many years. The trend is unmistakable: Increasingly companies are recognizing an opportunity to manage receivables in a way that will create self-funding, reduce reliance on credit, and improve their operating performance, working capital management, DSO and cash conversion cycles.

The efficiency-boosting solution lies in more efficient, electronic processes. Thus, it is critically important for companies to invest in information systems tied to their bank's cash products and services. With a truly global platform, Citi can show a company how to streamline receivables in cross-region fashion. Citi can deliver results in more than 100 countries – more than any other banking partner.



## Choosing your receivables bank

**How should one choose a bank to provide the above-mentioned receivables solutions? In general, there are four watchwords to bear in mind:**

### **1. Services**

Your financial institution should be committed to having a full suite of services for cash management. Many banks cherry-pick the services they want to provide – which is understandable from a cost management and margin perspective. Others outsource certain functions, which is fine as long as the bank is committed to maintaining and owning the client relationship, the financial and risk accountability, and that the process is transparent to your company.

### **2. Globality**

Look for a bank that has a presence in every country in which you do business. As the world goes electronic and client service centers gravitate to regional/global, low-cost Centers of Excellence, it's important to have a partner who can continuously deliver standardized processes across geographies.

### **3. Investment**

Look for a bank that isn't afraid to put its money where its mouth is. Citi, for example, is continually investing in transactions services platforms, having invested over \$1 billion in technology annually. In 2009, Citi doubled its 2008 investment in global Receivables. And the plan is to continue to grow that investment in systems and people in 2010.

### **4. Approach**

Look at the bank's strengths from a multi-product solution standpoint. It's not enough to seek out a lockbox solution, for instance. Today's needs change too quickly to be caught flat-footed with a bank that cannot handle expanding requirements. A bank must exhibit a re-engineering and solution-based approach to the business. Clients demand leadership from those handling their money and affecting their working capital.