How to Ace Digital Treasury Lessons from Consumer Goods and Retail Leaders

By **Eleanor Hill**, Editor

Digitisation is prompting major changes across industries and companies, economies, and societies. Businesses must respond to new business models, disruption by new entrants, and the emergence of virtual infrastructures and new ecosystems. They also need to understand digital trends and the opportunities (and threats) they represent.

For these reasons, Citi has established a new forum for policy advocacy to formulate and share Citi's point of view on key policy areas related to technology and digital developments, such as crypto currencies, cyber security, AI, data and ESG. This framework seeks to enable all economic participants — such as governments, corporates, financial institutions and households — to use digitisation to create value, achieve sustainable growth and productivity, and mitigate the risk of disruption. Everyone knows that new business models are emerging, but Citi is looking to make it easier for clients to identify the implications of those models — and most especially the opportunities and potential risks they present — early on. This is the first installment in a new series where Citi experts and corporates talk to TMI, examining how digitisation and emerging digital trends are impacting businesses in different sectors.

E-commerce is coming into its own – and it's no longer just for retailers. By setting up online stores, companies have gained direct access to their customers, and the data that comes with digital transactions. For treasurers in many sectors, not least consumer goods, this shift opens up the chance to significantly enhance data-driven cash management and garner a new level of insight. But to make the most of this new digital ecosystem, treasurers must also plug into other stakeholders in the business, in an advisory capacity.

MAUREEN O. FREEMAN

Managing Director, Global Solution Sales, Consumer and Healthcare, Treasury and Trade Solutions, Citi

It's no secret that the Covid-19 pandemic has accelerated e-commerce capabilities. With global lockdowns preventing footfall in retail stores, the internet became 'the place to shop' in 2020 – and beyond. Indeed, e-commerce is expected to grow to $6.5tr. by 2023, effectively doubling from 2019 levels[1]. And the very definition of e-commerce is evolving too: where once it used to refer to sales websites, it now spans multiple points of sale including 'traditional' online, in-app, social media, and smart assistants.

In this flourishing digital era, many corporates have leapfrogged towards a direct to consumer (D2C) approach, leaving behind the middlemen of yesteryear. This trend has been especially clear in the consumer goods sector, according to Maureen O. Freeman, Managing Director, Global Solution Sales, Consumer and Healthcare, Treasury and Trade Solutions, Citi. "Before the pandemic, when a consumer goods company referred to 'e-commerce,' they were most likely talking about the sale of goods through other well-known online retailers or marketplaces," she explains.

"With the 'distance' created by global lockdowns, consumer goods companies realised how disconnected they truly were from their end consumers – this is something they hadn't much considered previously as the business model had almost always been to use distributors. But just as the pandemic converted people to remote working and digital operations, it opened the eyes of consumer goods companies to the opportunity to truly own the consumer experience – and the data that comes with that. D2C sites are the obvious channel to accomplish that and, amazingly, one of our Citi clients created over 20 D2C sites within their brands globally in a matter of months."

Adopting an omnichannel approach

While this client story illustrates flexibility and resilience, it also highlights one of the challenges around getting e-commerce right – not only from a sales perspective but also from a finance and treasury point of view. Peter Cunningham, EMEA Corporate and Public Sector Sales Head, Treasury and Trade Solutions, Citi: "With more channels available to make sales, the ability to seamlessly traverse these channels, whether you are the consumer or the treasurer, is critical. What happens, for example, if a consumer buys a product through an app, for instance, but goes to the website to request a refund? Can the e-commerce path and the trail of the information and financial flow follow one another?"

Cunningham has indeed worked first-hand with companies that have successfully adopted such an omnichannel approach. "Leading companies now have the capability to interact with consumers through multiple media. Shoppers can buy items online and return them in the physical store, without any blockages in the data flows, for example," he says. "But this is very much at the best practice end of the scale. There is still a long way to go for many corporates, not only around how to achieve a truly end-to-end omnichannel approach, but also around encouraging consumers to engage with the brand."

This is where customer experience comes into play. "Some treasurers might be wondering how this relates to them, but there is a clear link between great customer service and the smoothness and stability of cash flows. Treasurers and the wider finance function also have a strategic role to play in helping organisations to prioritise the payment methods offered to consumers, for example," notes Cunningham.

Digital-savvy consumers arguably have far less tolerance today to jump through hoops to make purchases than in the past. The more that a sale becomes a hassle to a consumer, the more likely they are to avoid both that particular sale and the retailer involved going forward. Freeman comments: "To avoid this type of poor customer experience, it is important there is a good connection across the organisation on the corporate side from the very beginning of a shift towards D2C sales. And treasury can, and should, be an adviser on the project."

Indeed, pitfalls can occur where D2C decisions have been taken without

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being passed in front of a treasury lens. Cunningham notes: "Without the guidance of treasury, commercial directors may not pay attention to issues such as payment terms, for example. They might not be necessarily thinking, 'what is the cost of using this payment/collection channel?'. It is also unlikely that they will fully consider the risk they're exposing the company to. For example, what currency is the company selling in, and is it a functional currency? This is the advisory piece that treasury can provide."

Freeman adds: "In its advisory capacity, treasury also brings a deep understanding of the global environment. If, for instance, a company is based in the US and trying to launch an e-commerce proposition in Asia, it may not fully understand the payment/collection options available and which ones consumers in that region prefer. Treasurers are best positioned to advise here since they have insights others don't."

One example of where treasury working together with the business on the e-commerce approach has worked successfully is at a US sports apparel company, which has had well-publicised growth in its D2C business. Says Cunningham: "Treasury was really at the forefront of this project, with the treasurer working hand in hand with the web designers as they were creating the online checkout page for some of the European sites. The treasurer was instructing the web team to put a certain payment instrument first in the checkout options, another second, and so on.

PETER CUNNINGHAM

Managing Director, EMEA Corporate and Public Sector Sales Head, Treasury and Trade Solutions, Citi

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"This enables the firm to subtly point the consumer to its preferred collection instrument that has a lower interchange fee. And by following the guiding principles of minimising costs and the risk of potential non-collection, i.e. decline rates, the treasurer can actually influence the success of the organisation's D2C sales."

Mining data for insights

The revelations do not stop there, however. The gold dust for companies that adopt the D2C approach, beyond the upside of disintermediating the middleman, is the data that they now own and have direct access to, says Freeman. "The challenge is to ensure that appropriate, standardised processes are in place from the very beginning of a D2C effort to ensure that a single transparent view of that data is in place as this side of the business grows.

"While the direct-to-consumer part of the company might start small in the overall context of the business, and managing it with some manual processes was acceptable in the beginning, companies need to be prepared for exponential growth. As orders increase, and the velocity and volume of cash flows ramps up, the last thing companies need is bespoke, manual processes behind the scenes," she cautions.

Thankfully, treasurers, particularly those in multinational companies, have been proactive in pursuing standardisation in areas such as services, processes, and technology. "But with the excitement over e-commerce and the unprecedented growth as a result of Covid-19, some companies have been tempted to skip these steps. Again, the treasury team acting in its advisory capacity can help set the company on the right path," she adds.

"Slowly but surely, we are now seeing standardisation start to happen, not only on the infrastructure side but also on the payment side. Having a proper handle on reconciliations, preferably with automated processes, is critical in a dynamic e-commerce environment," Freeman continues. "Treasurers require visibility on what has been recorded as sales, where that is in the banking structure, whether it is actually in the bank account, or whether there is a delay on it, and so on."

After all, capturing and analysing the right data at the right time is essential for one of treasury's core responsibilities: cash flow forecasting. Here, tools such as artificial intelligence (AI) and machine learning (ML) can support treasurers as they engage with prescriptive analytics to gain more insight around the data they now own.

If treasurers are able to harness that data from e-commerce in a more real-time way, perhaps via application programming interfaces (APIs), they can then use automation, ML algorithms and AI to quickly analyse that data and present them with 'next best step' options. Freeman adds: "This is not about taking the human factor out of treasury, but these technology tools can show a treasurer their cash position in real time, what's happening in the next three days, and present the options available across areas such as investments, borrowing, foreign exchange [FX] management and so on, for the treasury team to act upon."

But – critically – in order for this to happen, the data has to be intelligible. This can be easier said than done because typically companies that have a large e-commerce network have a patchwork of different instruments, countries and providers in the mix, all of which report data in varying ways. How that data is normalised and centralised is a huge project for corporations. This foundation is essential for treasurers to then go on to enhance their predictive capabilities.

Cunningham comments: "Establishing that foundation presents an opportunity for treasurers to be more specific and granular in terms of the forward-looking operational cash forecasts. And if you can forecast with a much higher confidence level on that cash, you can invest out further on the yield curve, and perhaps be slightly more risk tolerant on some of the other aspects of treasury."

Freeman agrees: "Now that treasury has the data, it's really important to be able to make it useful and be able to act on it more immediately, particularly if your model is moving more towards instant payments and instant collections. We're entering a world of instant liquidity, and treasurers who have the right tools in place to enable them to make on-the-spot informed decisions will have the competitive edge."

New business models

Another rising trend that will likely enable more accurate cash forecasts is the growth of subscription-based models. According to Suora, a billing software provider, companies in the 'subscription economy' have registered compound annual growth rate (CAGR) of 18% between 2012 and 2019, a rate five times faster than that of the S&P 500[2]. For companies that are able to blend a subscription-based business model into their existing operations, or even replace the pay-per-service model with subscription services, this means much more predictability of incoming cash, which in turn provides more of a stable operating cash balance.

"This is an interesting dynamic and transformational in terms of cash flow," says Cunningham. "But of course, changing from an up-front lump sum income into an advertised fixed period such as 24 months also raises a number of questions from the treasury side. In terms of the net present value, firms may rather have the money up front as opposed to a drip feed over two years. That is a change that the finance function needs to prepare for. Then there's the cost of collection to consider – the treasurer will now be making 24 collections not just one and there will be costs associated that could eat away at margins."

This also creates implications for the cash flow conversion cycle, such as days sales outstanding (DSO). For decades, treasurers have had a model that matches that with income and receipts, effectively self-funding through the cash conversion cycle with access to other borrowing when gaps appear that need to be bridged. With any move to a subscription model, the equation for corporate collections has changed.

Cunningham explains: "The danger is that you create a funding gap in terms of your internal sources of funds and you need to bridge that gap. Can you just deploy excess operating cash or do you need other fund facilities? It's an interesting dynamic – and I think many firms will find that the efficiencies of the subscription-based model do outweigh the downsides."

Embracing change

This focus on efficiency and margins is also driving digitisation across the supply chain, which will inevitably impact supplier relationships. Technologies such as drones, blockchain, the Internet of Things, and data analytics will be key in building the 'factory of the future', according to Freeman. For corporates that have been ramping up e-commerce, this focus on digitisation has also extended to the warehouse and logistics.

"In the consumer goods space, there's been a lot of thought around where the factories are located and potentially changing where manufacturing occurs," notes Freeman. "Many are looking at having manufacturing closer to the end client rather than at a remote hub – and even encouraging suppliers to move with them. The use of data and automation within the factory is also being explored, so a linear process in the factory is being replaced by workflows that adapt in real time to the current circumstances. Just as in treasury, robotics and data are vital in the factory of the future – but all parties in the supply chain need to be on board for maximum efficiency."

From a treasury perspective, it is important to understand the impact these changes might have on the supplier relationship. "If a large buyer has asked a major supplier to move its site, or to become more digital, it may well be that the finance function needs to extend some kind of olive branch here to reassure suppliers. For example, any costs incurred by the supplier could be offset by treasury rolling out supply chain finance programmes," says Cunningham.

Of course, not every treasurer will face such a situation, but it is worth being aware of the potential impact of the factory of the future on the treasury of the future.

Preparing for tomorrow

Whichever way the e-commerce boom and the digitisation of factories impacts an organisation, arguably the most important step in setting up the company for success is ensuring treasury remains firmly connected to other stakeholders within the organisation. Being 'plugged in' to D2C conversations from an early stage enables treasury to bring its unique perspective to the table.

Cunningham comments: "So, for those treasurers who are not yet part of this conversation, it is time to ask questions. 'Am I aware of the company's e-commerce strategy?' and 'Who do I need to link with in order to make sure we as a company are making the right decisions?' are great starting points." Making those connections is a foundation for success – and an opportunity for treasury to showcase how their payments and risk management expertise can positively influence the company's future growth.

Notes

1 Citi GPS: Technology At Work V4.0;

2 https://www.zuora.com/press-release/subscription-economy-grows-300-last-seven-years/