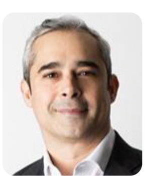
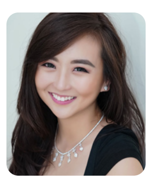
Treasury and Trade Solutions

Top Treasury Priorities for 2024: *Three Key Imperatives for Treasury Success*

Authored by Citi Services' Client Advisory Group, a treasury practitioner-led team advising on treasury, payments, and working capital management practices and innovation. Insights and opinions are based on the team's independent analysis and engagement with clients.



Author:
Anton Abraham
Director,
Client Advisory Group,
Citi Services



Contributor:
Sofia Putri
Vice President,
Client Advisory Group,
Citi Services

Contributor:
Joseph Vasen
Managing Director,
Client Advisory Group,
Citi Services

Treasurers have long pursued the goals of controlling risk and extracting efficiency while supporting the business and propelling revenue growth — a journey met with varying degrees of success. Today, treasurers are encountering new challenges and opportunities. Geopolitical risk, elevated interest rates, and uncertain business and economic outlooks mark the world that we live in. Our colleagues at Citi Financial Strategy Group[1] highlight that profitability is becoming increasingly important, but revenue growth remains the predominant driver of premium valuations by equity investors. Meanwhile, the advent of sophisticated, cloud-based technologies is democratizing access to top-tier financial tools at a fraction of the cost compared to just a few years ago. Treasurers now face a stark choice to move forward embracing a digitally driven, data-first future, or risk falling behind in a rapidly changing world.

This article explores three key areas paramount to treasurers in 2024: maximizing working capital efficiency; harnessing the power of technology; and establishing a new set of data-driven fundamentals.

[1] Citi Financial Strategy Group "Corporate Finance Priorities 2024" dated January 2024.

Maximizing Working Capital Efficiency

The first priority in 2024 is to focus on efficient working capital management. As treasurers realize, working capital encompasses more than the management of accounts receivable and payable. It is the interplay of risks, costs, and opportunities between all the components of current assets and liabilities. Working capital then ventures beyond. It travels into the intercompany relationships that become muted — but are no less impactful — when balance sheets are consolidated. The pandemic brought back focus on working capital efficiency. This should continue and be amplified given the global dynamics today. Working capital efficiency can be achieved by focusing on three distinct, yet interconnected, areas.

Integrating working capital management across the organization
Working capital accountability should be adopted by all parties that influence it. Leading companies drive an organization-wide approach that embeds cost of working capital into decisions impacting financial and operational processes. In doing so, they drive a cash culture that brings working capital opportunity cost to the heart of all decisions. The integration and focus on cash ensures that each business and function understands its impact on working capital and are aligned with shared goals. All of this is more likely to come to fruition if treasury is a catalyst, tirelessly championing efficient working capital management across the firm.

As part of that, treasury should help ensure the organization utilizes measurable key performance indicators (KPIs) that are relevant, and data driven. Traditional KPIs include days sales outstanding (DSO), days payable outstanding (DPO), and inventory turnover. More advanced views include cash conversion efficiency (CCE), return on working capital (ROWC), and cash-to-cash cycle time. Using these KPIs to assess performance at the group consolidated level, legal entity level, and business level across entities incentivizes managers to identify improvement areas and allows the organization to track progress. The metrics should be cascaded to key stakeholders across the enterprise, who need to be held responsible. What gets measured, gets done.

Advancing cash flow forecasting with a focus on accuracy
A senior treasury practitioner recently said, "With interest rates where they were for the last twenty years, everyone forgot how to cash forecast." 2024 is the time to leverage best-of-breed technology, transition away from spreadsheets, and start utilizing advanced tools and techniques, such as Machine Learning (ML) and predictive analytics. This transition has the potential to significantly enhance the accuracy of operational cash flow forecasts by using data from across the enterprise.

Now is also the time for treasuries to start assessing the value of real-time data and analysis by incorporating them into their technology strategy. This can help in making meaningfully better decisions; adjusting liquidity, risk, and funding strategies as business and market conditions evolve. We will cover ways to assess and implement these activities over the next several pages.

Integrating Working Capital Management Across the Organization

- ✓ Ensuring organizational involvement
- ✓ Utilizing measurable key performance indicators (KPIs)

Implementing Advanced Cash Flow Forecasting with a Focus on Accuracy

- ✓ Leveraging best-of-breed technology
- ✓ Implementing scenario analysis
- ✓ Incorporating real-time data analysis

Enhancing Risk Management to Address Business Volatility

- ✓ Developing a holistic risk management approach
- ✓ Utilizing dynamic hedging strategies
- ✓ Reviewing and adjusting regularly

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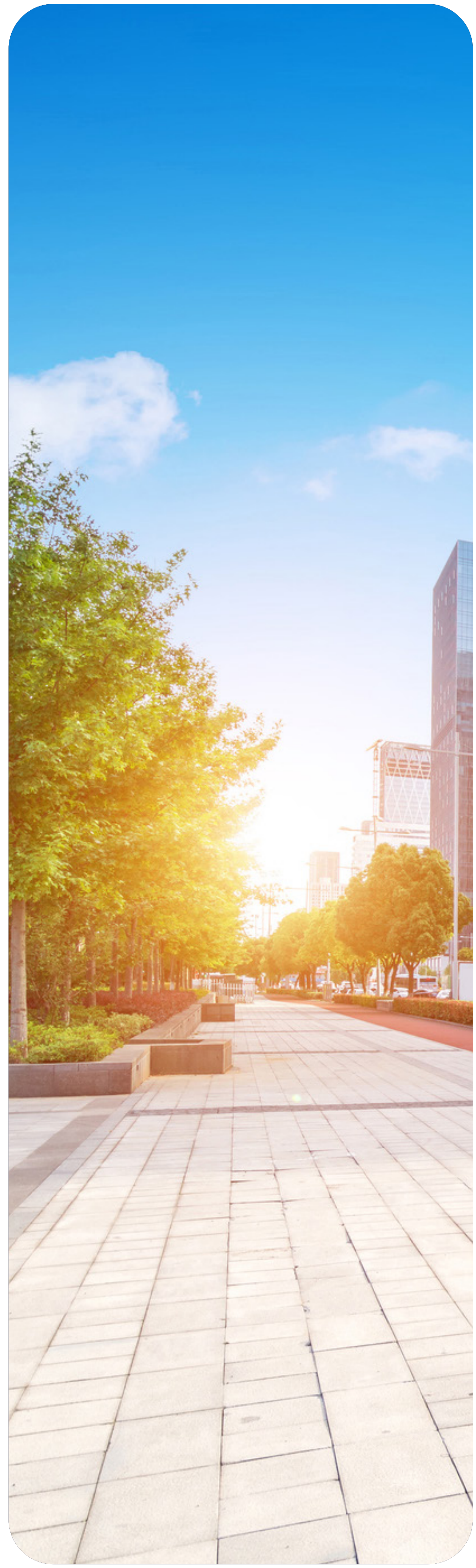
Enhancing risk management to address business volatility
Given the current business environment and investor scrutiny, treasurers should ensure a holistic approach to better assess and integrate the broad range of risks their businesses face. The objective is to make better decisions based on a deeper understanding of the feasibility and cost of mitigation that protect the business, while allowing the organization to take advantage of favorable business conditions.

As an example, take the points made earlier on improving cash forecasting. Beyond process improvements, treasurers should consider adopting liquidity stress testing methodologies akin to what banks deploy. That calls for running detailed scenarios for business and market conditions under various stress scenarios to assess potential outcomes in cash flow, balance sheet, FX impacts, supply chain disruptions, customer credit losses, and so on. Playbooks on how to respond should be built from the results. This enables more robust planning to help the organization prepare for unforeseen events.

Finally, it cannot be left unsaid, that another crucial step for treasurers this year is to review and adjust risk management policies. Even the most sophisticated and high-performing treasuries are often thinly resourced, and important processes slip. Treasury and risk management policies should be reviewed at least annually. If it has not been done for some time, 2024 should be the year for treasury to review its policies.

By focusing on working capital efficiency, treasurers can help improve corporate profitability — at a time that is becoming more important to investors — while meaningfully contributing to the financial health and resilience of their organizations.



Unleashing the Power of Technology

Effectively using technology is becoming the cornerstone and a prerequisite for successful treasury management. To fully harness the potential of technology, treasurers should concentrate on three areas.

Defining technology strategy
Many treasurers regularly review and update departmental strategies to ensure they evolve with anticipated needs of the company over the next three-to-five years. However, technology investments are often made based on the needs of the current year financial cycle.

In 2024, treasurers should consider defining technology strategy to be on their list of must-do's. This starts with a thorough review of existing treasury systems and infrastructure, assessing current capabilities against anticipated future needs, and identifying gaps. It also requires stakeholder engagement on the broader operating business outlook, and IT on organizational technology and data plans. Even if there is a finance technology strategy, treasury's technology and data requirements may be more specialized, with a need to be able to access information from external bank accounts to legal entities, business cash flow patterns, and organizational transfer pricing.

The outcome should be a technology investment plan to meet evolving demands over the next three-to-five years. The plan should focus on ensuring that the infrastructure put in place will be scalable, flexible, and adaptable to changing market conditions and business growth. It should also enhance the integration and interoperability of treasury systems with financial and operational systems across the organization. Treasury is typically already well-connected to banks and financial markets. The focus here should be to create a cohesive internal financial architecture that enables treasury to be proactive via near-real-time visibility to what is happening in the operating business.

A well-defined treasury technology and data strategy will position treasury to be prepared for engaging with corporate IT staff and providers. Without that, the risk is that enterprise technology investment does not address treasury's ability to better support the business and meet financial goals.

Reviewing and Future-Proofing Treasury Infrastructure

- ✓ Assessing and upgrading systems
- ✓ Ensuring scalability and flexibility
- ✓ Enhancing systems integration and interoperability

Adopting Cutting-Edge Systems and Applications

- ✓ Exploring emerging technologies
- ✓ Implementing customized solutions
- ✓ Developing deeper vendor partnerships

Entertaining and Preparing for Real-Time Solutions

- ✓ Obtaining real-time data access
- ✓ Transitioning toward solutions that support real-time treasury
- ✓ Enabling continuous monitoring and analysis

Searching for best-of-breed
Technology is entering a cycle where the best approach for treasury is to not assume a "one size fits all" approach. Rather, it is important to seek out the most relevant technology solutions for specific needs and challenges. This may include specialized services for cash management, cash flow forecasting, risk assessment, bank account management, and so on.

Moving to software-as-a-service or cloud-based technologies can offer better scalability and remote accessibility. If applications are equipped with standardized application programming interfaces (APIs), and do not lock in company data within their proprietary ecosystems and formats, they may offer good interoperability with other treasury applications. This can allow treasury to assemble a set of process management and decision support tools without being limited to the capabilities of purpose-built single systems. In the medium term, this may also open up treasury to using artificial intelligence (AI) and ML to revolutionize what it can perform.

All of this will require treasury to become more technologically savvy. As important as it is for treasury to form its own clear view on needs and wants, it can be useful to leverage relationships with banks and technology vendors. This helps treasury ensure that it is up to date on the latest solutions, receives the appropriate ongoing support and training, and attains perspective on the latest innovations.

Entertaining and preparing for real-time solutions
Real-time treasury is the nexus of instant payments, liquidity that operates in real-time, and API-delivered data. To that end, all treasury professionals should be thinking about how this may impact their treasury and what that may entail. The first step is to consider systems and connectivity via APIs that provide real-time access to financial data, enabling immediate and informed decision-making.

Building systems that can manage APIs and real-time treasury is driven by the push and pull effects of instant payments and real-time liquidity. These allow for solutions that support real-time transactions, reducing delays in payments and receipts, and improving overall working capital management.

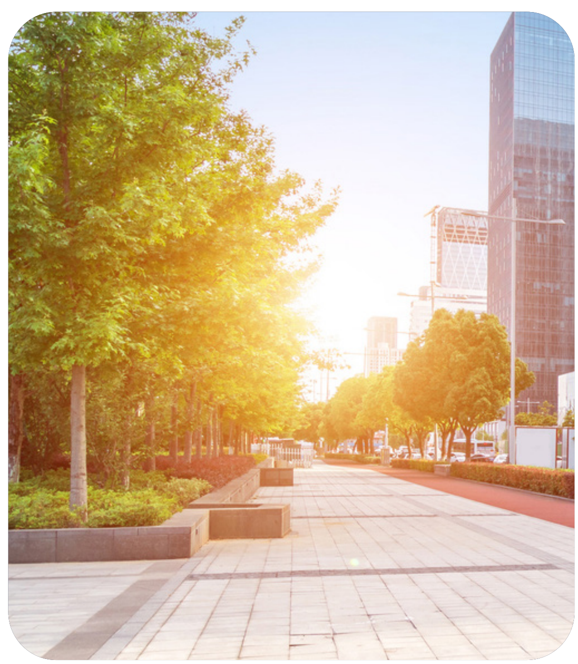
Fully capitalizing on these market advancements requires utilizing tools that enable continuous monitoring and analysis of financial positions, market trends, and risk exposures — facilitating proactive rather than reactive treasury management.

Establishing New Treasury Fundamentals

The business landscape is evolving rapidly, driven by the availability and focus on data and analytics. To stay ahead, treasuries must revamp their organizations by focusing on a new set of treasury fundamentals across several key areas.

Prioritizing a data-driven approach for all treasury activities
Treasurers should ensure a culture where every decision is backed by data. The technology foundation should include an integrated treasury management infrastructure that provides a consolidated view of all cash across geographies. It also requires a robust treasury data strategy, as discussed earlier, to ensure a complete view of risk positions and working capital needs. Finally, treasuries should have a clear plan for when systems will be ready for real-time treasury.

By focusing on a clear technology and data strategy, treasurers can heighten the strategic impact of the treasury function, ensuring they are well-equipped to meet the challenges and opportunities of 2024 and beyond.



Accessible data and customizable analytics should support and drive all decision-making from cash management to risk. Being data-led provides insights to streamline operations, improve liquidity management, and ensure that funds optimally allocate working capital across the organization. Done right, real-time insights should enable agile and informed decision-making. This, in turn, should lead to predictive analytics for forward-looking insights that allow for proactive, rather than reactive, management of financial resources and risks.

The fast-changing landscape and reliance on technology have also exposed skill gaps within treasury teams. To build a future-fit function that is not only surviving — but thriving — in this new world of data and technology, treasurers need to re-think the talent and skills valued in this new world. For talent intake, this includes looking beyond traditional finance and accounting backgrounds and channels.

Building global standards and processes to optimize legacy structures
Establishing global standards and processes for the reporting of cash and risks ensures consistency and clarity across all entities regardless of regions. Accepting differing standards decreases performance and the ability to effectively manage treasury in the future.

Treasury leadership teams should also conduct ongoing reviews of treasury structures, processes, and systems to eliminate what is outdated and inefficient. Given the scale of change we have experienced in the past 18 months, treasurers who have not reviewed their organizations across people, processes, and technology within that time frame should take the opportunity to do so now. This helps to ensure that their treasury is fit for the future.

Prioritizing a Data-Driven Approach for All Treasury Activities

- ✓ Embedding analytics in decision-making
- ✓ Developing a data strategy
- ✓ Instilling customized dashboards and reporting
- ✓ Utilizing predictive analytics

Reviewing and Optimizing Legacy Structures

- ✓ Assessing current structures
- ✓ Optimizing operations and liquidity management
- ✓ Enhancing risk management and funding strategies

Achieving Global Visibility of Cash and Risk Positions

- ✓ Implementing integrated treasury systems
- ✓ Attaining real-time data accessibility
- ✓ Enforcing global standards and processes

By embracing these 'new' fundamentals, treasurers can ensure their strategies are not only aligned with the current financial landscape but are also robust enough to adapt to future changes. These 'new' fundamentals will help position treasury as a key strategic driver of organizational success in the transition to an always-on, real-time, data-driven future.

Conclusion

Treasury stands at a crossroads. This juncture presents a unique opportunity to redefine its role and impact for the firm.

Through the lens of ensuring working capital efficiency and a robust financial foundation for the firm, treasuries can focus resources on optimizing current processes, extracting efficiency, and weaving a cash culture into the fabric of the organization.

With the rest of the firm already leveraging the power of technology, treasury can justify that it also needs to invest in and integrate cutting-edge technology solutions for transformative growth. This will equip treasury for agile decision-making, delivering financial efficiency, and addressing rapidly changing business needs.

Revamping treasury, with a focus on data-centric fundamentals, prepares it to drive proactive decision-making and improve liquidity, risk management, and operational agility. This positions treasuries at the forefront of partnering with the business — moving beyond a risk-focused role to better support the corporate strategy through a more dynamic, digital, and analytical approach.

Treasuries that recognize and act on these opportunities to transition to a digitally driven, data-first future will pull ahead of their peers. Their sophistication in managing financial resources, risk, and technology will enhance their operational efficiency — but, more importantly, elevate their role as a strategic partner within their organizations. 2024 will magnify the difference between those who merely follow, and those who lead on the critical crossroads of treasury management.

Finally, many of the ideas and thoughts expressed within this article will be expanded on and discussed in more depth throughout the year in further articles, publications, and presentations.

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