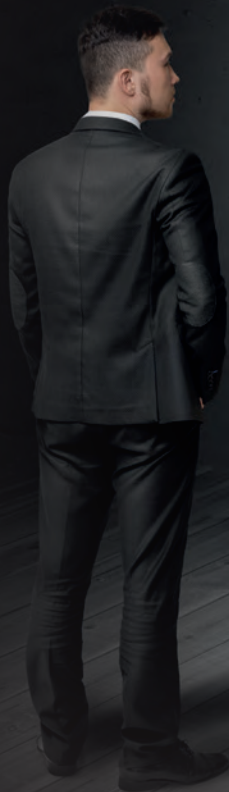




Building Corporate Resilience



Treasury Imperatives Now and Next

The initial shock of the Covid-19 pandemic is starting to subside and companies are moving out of crisis management mode into planning for recovery and beyond. Patrick Peters-Bühler, Principal - EMEA, Treasury Advisory Group, Citi, and Yan Li, Senior Adviser - Greater China, Treasury Advisory Group, Citi, explain how corporates can develop strategies to become more resilient in the face of future uncertainty.

By Eleanor Hill, Editor

“When life gives you lemons, make lemonade.” Although this proverb is typically used in the personal sphere, it applies to the business world too – in the form of corporate resilience. In simple terms, this is the ability to reduce vulnerability to crises and shocks and to take action to avoid, absorb, adapt, and recover quickly from such events. It is also about turning crises into opportunities to stay ahead of competitors.

Naturally, not every corporate is at the stage of ‘making lemonade’ just yet, since the impact of Covid-19 has varied by geography, industry and organisational readiness. Nevertheless, research undertaken by Citi’s Treasury Advisory Group demonstrates that positive steps are being taken to improve corporate resilience. As Peters-Bühler explains: “Through our work with corporate treasurers, we have identified four broad stages of corporate response to the pandemic. The first was the immediate crisis response and a handful of companies (3.3%) are still in this phase at the beginning of July. Next is the act of marshalling corporate liquidity, which involves everything from achieving cash

visibility and control to resetting [foreign exchange hedges](#). Over one quarter (26.7%) of corporates are currently at this stage.” (See fig. 1.)

The third phase is restoring cash profitability. “The focus here is to reduce Operating Expense, tactically review CapEx (capital expenditure), actively engage all stakeholders, and essentially shift from responding to the crisis to forward planning instead. The fourth and final phase is building for the emerging new landscape, a large part of which involves improving corporate resilience,” he notes.

On the road to recovery

Of course, there is no one-size-fits-all approach to corporate resilience. There is, however, a four-pillar framework under which any company can make a resilience plan, says Yan Li. “The framework covers financial, operational, organisational, and technological resilience. Each of these pillars will have an impact on treasury operations and there is interplay between the pillars, so a holistic approach is required,” she explains.

1. Financial resilience

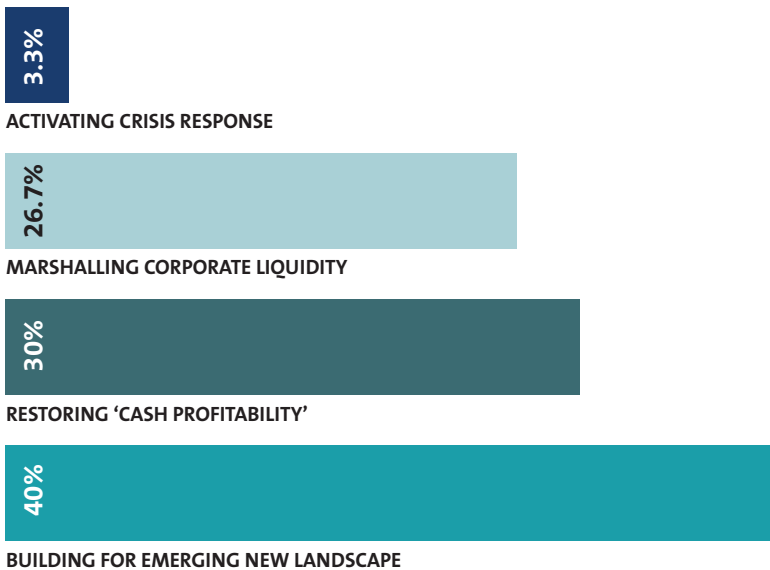
According to Peters-Bühler, the focus here should be on building liquidity and balance sheet strength – since extremely lean balance sheets are unlikely to be in favour for some time. From a treasurer’s perspective, “Working capital management should be front of mind,” he says. A company’s bargaining power within its buyer/supplier ecosystem will become increasingly important, he believes, and will help enable more flexibility and control over collections and payments. Treasurers may also wish to consider more long-term financing options to help support higher operating working capital, he suggests.

WHAT IS FINANCIAL RESILIENCE?

The financial resilience of a company is often measured by its liquidity, solvency, revenue, profitability, and capital. Companies need sufficient cash in the right currency to absorb a negative impact on cash flow. Firms need to be able to take a hit to their bottom line and have sufficient equity to absorb losses. In addition, leverage ratios must be carefully managed to ensure access to debt financing.

FIG 1: COVID-19: CORPORATE RESPONSE LEVELS

WHERE ARE YOU NOW IN YOUR CORPORATE RESPONSE?



Source: Citi Treasury Advisory Group Research

Yan Li, meanwhile, points out that in times of declining revenue, operating cost or fixed cost flexibility will also be critical – in order to protect margins and maintain profitability. “Many corporations have already started this process and may need to further scrutinise their fixed and variable cost structures to embed more resilience. Additional outsourcing could be considered for non-core functions, for instance.”

It will also be important to implement a maturity match of assets and liabilities to ensure short- to long-term cash-flow sustainability. Peters-Bühler adds: “Greater scrutiny of capital allocation is also required to help maintain balance sheet resilience. After all, a strong capital base and a disciplined leverage level should help to enable access to the capital market to address changing business conditions and seize potential business opportunities for M&A (mergers and acquisitions).”

Appropriate risk management should also be ensured when creating financial resilience, observes Yan Li. As such, corporates may need to revisit their risk management policies and processes. “Are there fundamental changes as to how a corporate views, identifies, measures, and mitigates financial risks after Covid-19? This is the starting point. Then more specific questions can follow, such as how to build flexibility and agility into the FX risk management process,” she comments. “Traditional KPIs (key performance indicators) may also need to be updated in light of shifting organisational goals.”

LIQUIDITY AND BALANCE SHEET STRENGTH: AREAS OF FOCUS

- Place continuous focus on operational cash flow
- Improve operating cost flexibility to adapt to disruptions
- Ensure balance sheet capacity in liquidity and capital

2. Operational resilience

Sales and distribution models are changing, with companies quickly adapting to more online and multi-channel approaches as a result of Covid-19. Digital customer experiences

are front and centre, as companies aim to cross-sell products to existing customers. Supply chains are also in the spotlight, with organisations increasingly looking at domestic and regional markets, and questioning the legitimacy of just-in-time models in a post-pandemic world. Peters-Bühler believes that organisations will hold more inventories in the future, as a means to de-risk and buffer supply chains. “This will have efficiency implications – both financially and logistically,” he notes.

Corporates will also want to avoid any disruptions to supply chains in future, so are likely to focus more on manufacturing interchangeability, he believes. “Specialist manufacturing techniques bring more risk into the supply chain. Companies are likely to move away from using one global specialist manufacturers to several regional ones. This will introduce greater supply chain complexity and potentially increase costs, but it will also improve resilience. There is a careful balance to be struck between supply chain resilience and maximising efficiency. The ultimate goal must remain achieving long-term, sustainable profitability.”

To this end, Yan Li believes that “corporates may look to help support sales by bolstering their order-to-cash process. They could do this by

implementing an alternative credit policy and flexible payment terms, applicable under certain circumstances”.

SUSTAINABILITY OF END-TO-END OPERATIONS: POINTS TO CONSIDER

- Adapt sales and distribution – more online/multi-channel
- De-risk and ‘buffer’ supply chain – efficiency implications
- Improve manufacturing interchangeability – cost implications

3. Organisational resilience

Global lockdown has prompted a rapid shift towards digital business models. “It has also opened management’s eyes to the benefits of remote-working, thanks to employees leveraging standard processes, cloud-based solutions, and online collaboration tools. Virtual operations are now being considered as the way forward,” says Yan Li.

“As such, it could be that treasury centralisation is no longer sought after in the same way as it was pre-crisis. This is an excellent opportunity to rethink treasury organisation constructs and to weigh up the pros and cons of global process centralisation against capturing local market nuances.”

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PATRICK PETERS-BÜHLER

Principal – EMEA, Treasury Advisory Group, Citi



YAN LI

Senior Adviser – Greater China, Treasury Advisory Group, Citi

To support this move towards virtual teams, the role of data is growing. Peters-Bühler adds: “Virtual rather than physical organisations represent an opportunity to use a single source of data to support less siloed decision-making and more seamless implementation of those decisions across the business.”

VIRTUAL ORGANISATIONS: FOOD FOR THOUGHT

- Rethink physical vs. virtual teams and enabling technology
- For informational symmetry: a single source of truth
- Aim for cross-organisational frictionless implementation of decisions

4. Technology resilience

With the move towards more digital operations, technology must also be upgraded – not only to enable the business to grow but also to protect it from cyber threats. As Peters-Bühler explains: “There is a dichotomy between the vital role that technology plays and the additional business risks that it introduces. The majority of organisations’ IT infrastructures were not ready for the workforce working remotely – both in terms of accessing systems in a flexible manner and providing the necessary security.”

Considerable investment will be required going forward to upgrade wider technology infrastructures, therefore. The rewards should be commensurate, however – not only in terms of resilience but also in improving competitiveness. “Upgrading the technology infrastructure opens up an opportunity to implement cross-organisational data lakes and make structured data more user-accessible. In turn, this feeds into the agile decision-making that I mentioned before – which can help to make organisations nimbler and provide a competitive edge.”

But to ensure true resilience, treasury technology must also be improved, especially in terms of increasing automation. He adds: “According to our research, 97% of damage that is inflicted on treasury departments is caused by human or process mistakes. For this reason, it

is imperative that treasurers remove manual processes.”

Yan Li agrees: “Automation is a key part of the real-time treasury environment, which will only accelerate post-pandemic. Technologies such as Robotic Process Automation (RPA) and Artificial Intelligence (AI) can assist here. Treasurers must also consider how to transition away from batch processes and leverage real-time data analytics and visualisation – while maintaining security – in order to support the business to achieve its goals.”

Treasury in the driving seat

Taking all of this into account, where should treasurers focus their efforts in the year ahead to help build resilience? “Of course, it depends on the organisation, but clients we have spoken

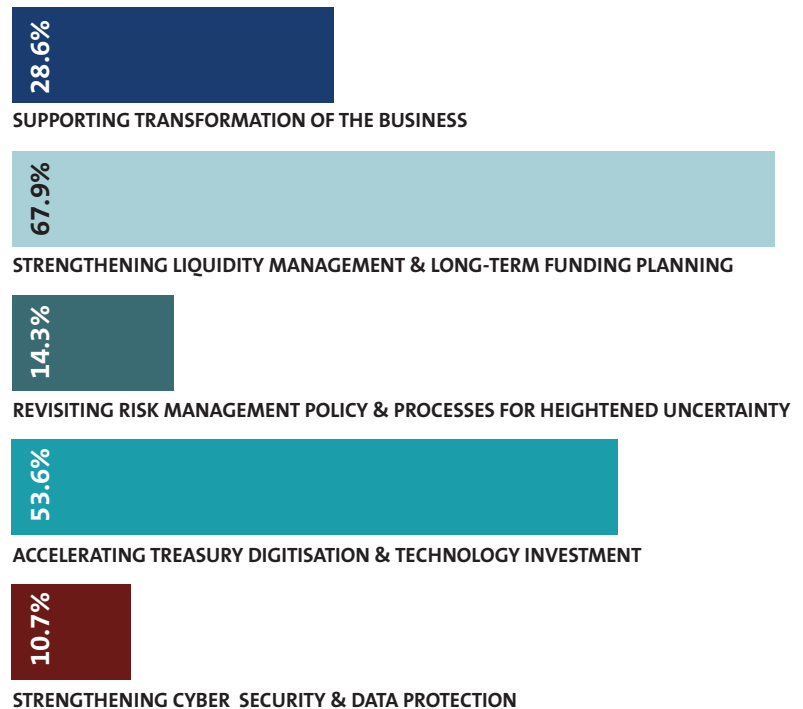
with are prioritising the five key areas outlined in Figure 2,” says Peters-Bühler.

Alongside these broader efforts, Yan Li believes that challenging the status quo will be critical – as will adapting mind-sets for the post-Covid operating environment. “Profound changes are coming. Balance sheets will be bigger and supply chains will require re-engineering and more investment. Digitisation will be accelerated, and capital allocation decisions will be under more scrutiny. Treasurers must be prepared on all fronts,” she suggests.

Finally, it is important to remember that resilience is not an end state. “It is an evolving goal,” says Peters-Bühler. “Corporates need to be looking at building resilience not only to achieve benefits now but also to help them seize competitive opportunities in the new normal – and beyond.” ■

FIG 2:

OVER THE NEXT YEAR, WHAT WILL TREASURY PRIORITISE TO SUPPORT YOUR COMPANY’S RESILIENCE?



Source: Citi Treasury Advisory Group Research