BUILDING TOMORROW™

Working Capital Management

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RBS™

Executive Summary

In November 2011, RBS and Greenwich Associates launched a new study on working capital management among large companies around the world. In conducting the research, the firms interviewed 50 companies in Asia (excluding Japan), Europe and North America. The results of this research reveal that past efforts to build efficiencies in working capital management have been incorporated into post-crisis strategies centred on ensuring adequate liquidity and managing risks.

The companies participating in the study are responding to historic levels of market volatility and uncertainty by adopting an extremely conservative approach to working capital management. At the top of their list of priorities are:

- Mitigating counterparty risk from banks, suppliers and vendors
- Guarding against future funding disruptions by maximising liquidity and
- Protecting cash balances from market fluctuations by focusing on capital preservation in their short-term investments

By a wide margin, companies in North America and Asia name liquidity preservation as their top working capital concern; European companies name broader risk management concerns as their top working capital priority.

To achieve their objectives, companies are employing a variety of strategies, products, and partners, all with the potential to improve efficiency and limit risk. In addition to accumulating sizable cash positions, companies are centralising treasury operations; integrating working capital functions such as trade finance, cash management and foreign exchange; and automating liquidity management, collection processes and other key elements of working capital management. Among the most important techniques utilised by these large companies to optimise working capital are minimising inventories, reducing days sales outstanding (DSO), lengthening payment terms with suppliers and taking advantage of supplier financing.

Because of the significant benefits such steps can deliver in terms of operational and financial performance, RBS and Greenwich Associates expect working capital management improvement to come.

GREENWICH ASSOCIATES

Study conducted in association with Greenwich Associates.

Working Capital Management – looking for visibility, efficiency and control.

In these uncertain times, treasurers' approach to business has remained cautious. Continuing challenges in the Eurozone and external financial markets have led to three main priorities: liquidity management, risk avoidance and capital preservation.

We recognise that with the current external environment it is important for companies to regularly assess their banking structures, processes and services to ensure they are continuing to give the treasury visibility and control of working capital right across the organisation.

As a network bank, RBS strives to give clients access to international markets by combining global reach with local knowledge expertise and support. As part of our commitment to helping clients manage working capital more efficiently, RBS commissioned Greenwich Associates to take the temperature on working capital management through interviews with 50 large companies across Asia, Europe and North America.

The results detailed within this report confirm that conservatism still prevails. Liquidity is important, but the source and methods of holding it have changed: 65% of companies now seek to fund their working capital needs from internal sources. Approximately 60% of companies holding excess liquidity no longer look for long-term income schemes but instead require immediate access.

Risk mitigation has also become a major priority, with nearly 60% of companies increasing risk controls since the onset of the financial crisis. This has been achieved through various methods, including centralisation and automation.

We've supplied you with the report in full as well as commentary on key issues revealed by the research, which we hope you will find helpful and thought-provoking.

I encourage you to contact your RBS relationship manager or visit www.rbs.com/insight for more in-depth expertise and articles on issues affecting treasury today.

Scott Barton, Co-Chief Executive
International Banking, RBS

Introduction

Several years of challenging economic and financial market conditions have caused companies around the world to intensify efforts to extract efficiencies and eliminate risks in the management of their working capital. The most obvious evidence of this effort has been the accumulation of large cash positions by multinational companies. However, companies' build-up of liquidity is only one part of a multi-faceted drive to manage working capital more efficiently.

To understand the priorities and strategies driving corporate working capital management practices in the post-crisis marketplace (in November-December 2011) RBS and Greenwich Associates conducted interviews with treasury officials from 50 large, international companies based in Europe, North America and Asia. The executives interviewed held titles or positions equivalent to Treasurer, Assistant Treasurer or Head of Finance, Banking or Cash Management.

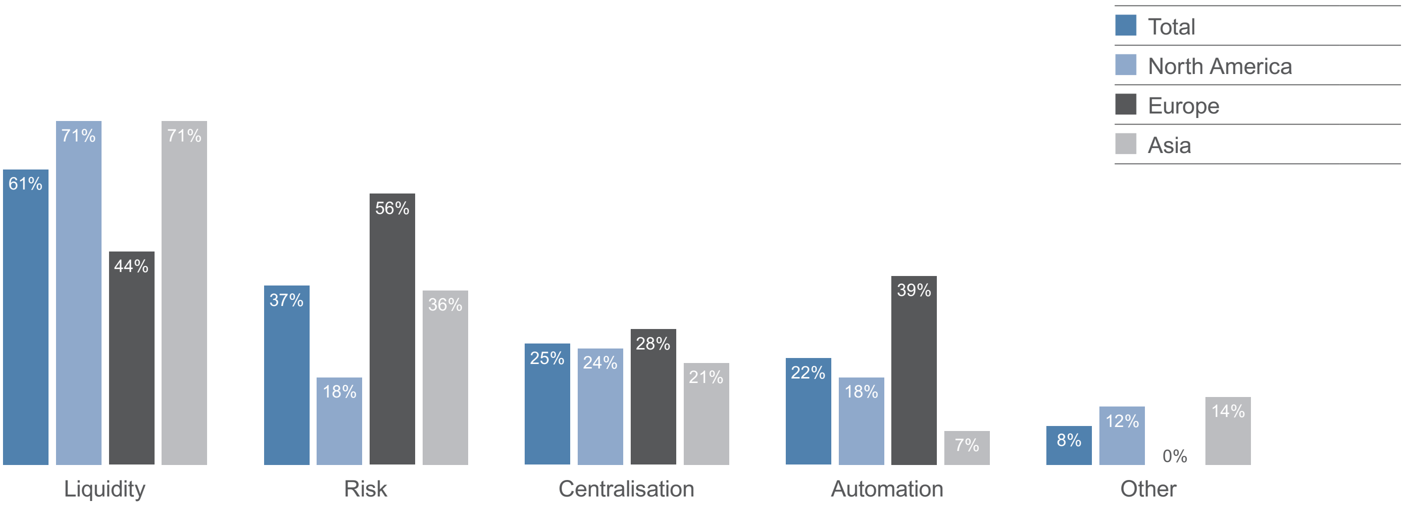
The results of this study reveal that when it comes to working capital management, conservatism rules the day. On a global basis, companies rank the following as their top priorities when managing working capital:

- Maintaining liquidity: After living through the shutdown in global credit markets, companies are guarding against any future disruptions in funding.
- Managing risk: Companies are especially focused on counterparty risk among banks, suppliers and clients. They are also moving to guard against broader macro-economic and other risks, and to reduce or even eliminate risk in cash investments.

In this paper, we present the complete results of the study. Part I of this report delves more deeply into the strategic priorities driving companies' current working capital management. Part II analyses the strategies, products and providers that companies are employing to achieve their objectives.

What do you consider to be the biggest priority for your business when managing working capital?

Biggest priority when managing working capital



Biggest priority when managing working capital – regional split

Biggest priority when managing working capital
Total

Liquidity	61%
Risk	37%
Centralisation	25%
Automation	22%

Biggest priority when managing working capital
Europe

Risk	56%
Liquidity	44%
Automation	39%
Centralisation	28%

Biggest priority when managing working capital
North America

Liquidity	71%
Centralisation	24%
Automation	18%
Risk	18%

Biggest priority when managing working capital
Asia

Liquidity	71%
Risk	36%
Centralisation	21%
Automation	7%

Part I:
Strategic Priorities

Working capital priorities: preserving liquidity

Globally, 61% of the companies participating in the RBS/Greenwich Associates study rank liquidity provision as their top priority in managing working capital. Liquidity ranks as the top working capital priority by a wide margin among companies in North America and Asia and ranks second among companies in Europe, where volatility related to the on-going sovereign debt crisis has elevated risk management above all other considerations.

Around the world, 47% of participating companies say the current economic climate has increased their appetite for liquidity, including roughly 60% of companies in Europe and North America. At present, 65% of companies say they use internal liquidity to meet working capital needs. Approximately 40% of the companies use bank-sourced liquidity for working capital needs and about 30% use liquidity sourced in capital markets.

"At the moment, virtually none of the companies – less than 4% globally – say they have problems accessing sufficient liquidity for working capital needs," says Greenwich Associates consultant Jan Lindemann. "To the contrary, 68% of companies saying they have no problems accessing sufficient amounts of liquidity actually report holding excess liquidity."

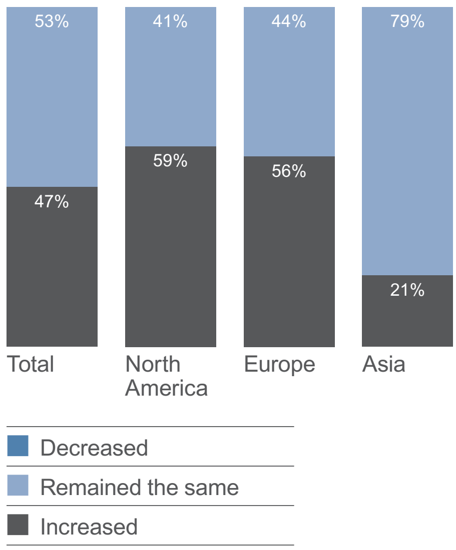
Approximately 60% of companies with excess liquidity hold this cash in short-term investment accounts. While about 60% of companies require immediate access to these assets, 20% are willing to lock up assets for as long as three months and 6% say they are content with three to nine-month access. Approximately 65% of global companies say they have strategies in place to mitigate risk associated with holding liquidity.

Companies are working to enhance liquidity by keeping inventory low, utilising supplier financing and striving to reduce Days Sales Outstanding (DSO) and lengthen the payment terms with suppliers. Among the important techniques being used by companies to improve their working capital are the following:

- Requiring short-term creditors to pay in cash
- Annual or regular budgeting process to set targets
- The use of working-capital specific KPIs such as return on capital employed
- Credit lines for shortfalls in operating cash
- Improved forecasting
- Employment of cash sweeps, inter-company loans, trading excess balances
- Benchmarking, particularly with regards to DSO and Days Payables Outstanding (DPO)

How has the current economic climate impacted your appetite for liquidity?

Economic climate impact on appetite for liquidity



Treasury voices

What techniques are you using to improve working capital?

"We have an economic model that assesses working capital charges on a range of asset and liability accounts that track the financial performance of our client engagements."
Assistant Treasurer, North American professional services firm

"Budget versus forecast versus actual for each business group and a focus on counterparty risk versus reward."
Assistant Treasurer, European telecommunications company

"Providing proper incentives to management with a focus on return on capital employed, measuring performance at the individual business level and rewarding value creation."
Group Treasurer, European automotive company

"Visibility: Having a clear line of sight to all your accounts and balances on a global basis would be great. Right now we lack that. We are relegated to calling people or using an e-mail chain to get the information we need, hoping they'll respond."
Treasury Manager, North American telecommunications company

"On the accounts receivable side we have a lot of initiatives around monitoring key customers and follow up and tracking of payments. We measure our DSO very carefully. We work very closely on our relationships with our key, top ten customers. On the accounts payable side, I don't think that there's as much strategy around our payables other than we try to have a lot of visibility into our payables and into our liabilities. We have [implemented] a lot of technology solutions around invoicing, getting liabilities captured quickly and helping us forecast out when payments are due. Through technology we can then scale back payments or accelerate payments."
Assistant Treasurer, North American entertainment company

"1 Employing cash management facilities available to us to provide best possible yields and to utilise the turnover of our cash resources to best match [the] highest yields that can be achieved,

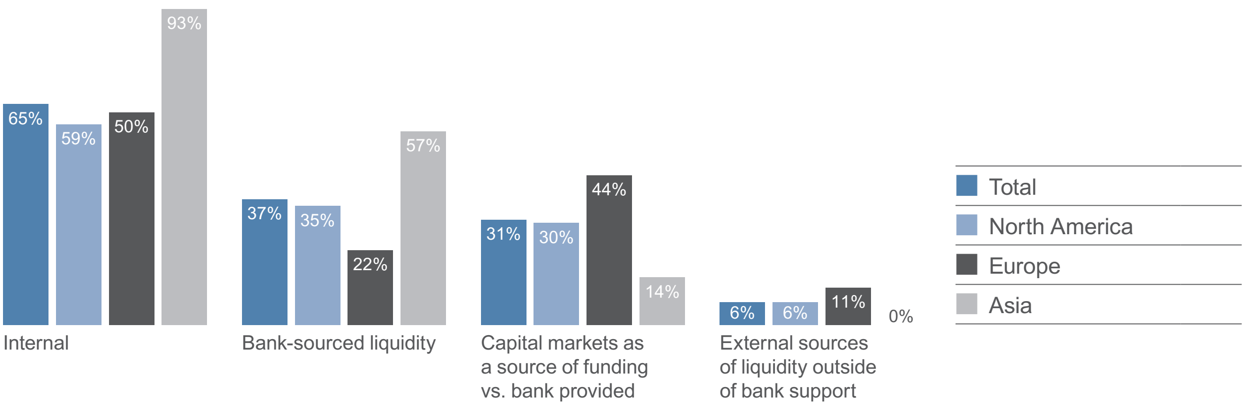
2 maintaining the best possible limit of operating cash we require to hold so that most possible, surplus funds can be swept over to bank balances providing yield returns, and

3 if required, using credit lines to cover shortfalls in operating cash requirements."
Head of Treasury,
Asian life insurance company

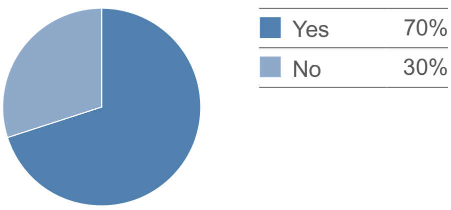
Strategic Priorities (continued)

How are you sourcing your liquidity for your working capital needs?

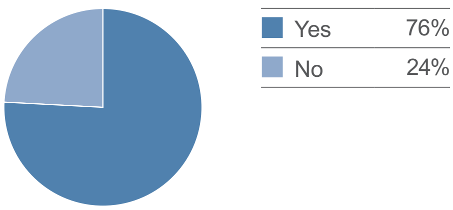
Liquidity sources for working capital needs



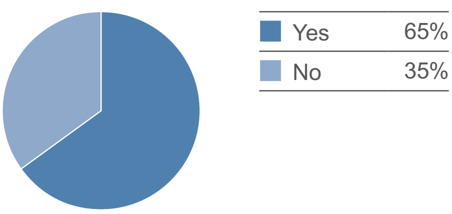
Currently have excess liquidity
Total



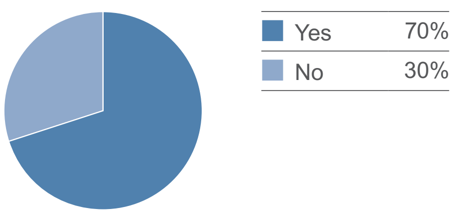
Currently have excess liquidity
Europe



Currently have excess liquidity
North America

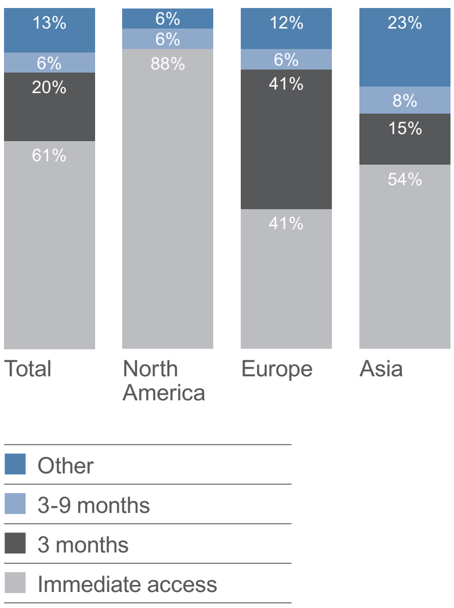


Currently have excess liquidity
Asia



How accessible do you keep your assets?

Accessibility of assets



RBS responds

Preserving liquidity

The research confirms companies are closely managing liquidity and holding high levels of cash to guard against liquidity risk in their day-to-day operations. We see treasurers focusing on three key requirements for their liquidity management: visibility, control and optimisation. To get visibility, detailed reporting of company-wide balances is required, control needs to be achieved in an automated and integrated fashion, so funds can be moved seamlessly according to operating needs.

Tools and techniques for liquidity management

To optimise internal funding for the company, and reduce dependence on external sources, a fundamental analysis of all cash streams and processes across the operations is required. Different companies and industry sectors have very different trading cycles and liquidity profiles. Where is cash trapped? What can be done to speed up supply chains and reduce Days Sales Outstanding with clients or to optimise relationships with suppliers? Have trade finance activities been captured and analysed? This holistic approach makes sure liquidity is on the agenda in every discussion.

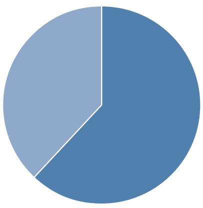
RBS's wide geographic footprint means our cash concentration, pooling and cash optimisation services are industry-leading. Recognised as a global leader in liquidity management, we help our clients to analyse their operations and benchmark their performance (for example, using our peer group performance tracker with data from over 300 cross-border liquidity management structures) and achieve the right centralised liquidity management structure for their needs.

With the right structure in place, the RBS Liquidity Solutions Portal, part of the Access suite of online services, brings key liquidity management tools together for the treasurer. The portal provides a window into cash concentration, pooling or interest optimisation structures, showing detailed balance reports and analysis to inform decision-making. The treasurer can then execute requirements, for example, initiating an investment transaction, or changing parameters for regular automated sweeps in response to changing needs.

Working Capital Priorities: Risk Mitigation

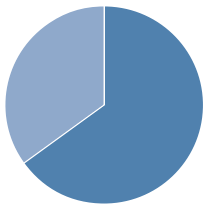
Have you increased risk controls since the credit crisis?

Increased risk controls since credit crisis
Total



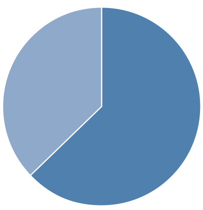
Yes	62%
No	38%

Increased risk controls since credit crisis
Europe



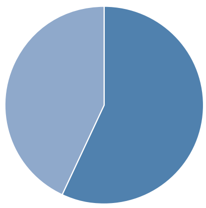
Yes	65%
No	35%

Increased risk controls since credit crisis
North America



Yes	63%
No	37%

Increased risk controls since credit crisis
Asia



Yes	57%
No	43%

Alongside liquidity preservation, corporate decisions about working capital management are being driven by the intrinsically related priority of risk management. In Europe, 56% of companies cite risk management as their top working capital management priority, ranking risk ahead of liquidity in that regard.

The Head of Cash Management and Finance for a European holding company with operations in consumer goods and retail describes how, prior to the crisis, his company was concentrating on building efficiencies in their treasury function by consolidating their operations with a reduced number of banks. The onset of the global crisis and subsequent deterioration of bank credit quality forced the company to quickly reverse course. In order to limit counterparty risk, the company began spreading its balances among a broader set of banks. The Financial Controller of an Asian Government Authority says her organisation is "constantly adjusting" its exposure to banks with which it keeps deposits based on movements in bank credit ratings.

These comments are representative of the practices of the companies participating in the RBS/Greenwich Associates study, many of which say changes in the risk environment have caused them to alter some aspects of their working capital management. In addition to counterparty risk associated with banks, companies cited the following as risk management priorities in their current working capital management efforts:

- Management of counterparty risk among suppliers and clients, in addition to banks
- Hedging of FX and interest rate risk
- Preservation of credit supplies in challenging credit environment
- Adjusting to lower rates of investment return

Approximately 60% of companies participating in the study say they have increased risk controls since the onset of the global financial crisis. Of these, 49% have implemented tighter risk controls targeting contract counterparty risk (procurement and sales) and 22% have targeted interest rate/FX risk.

Treasury voices

How have concerns about risk mitigation affected working capital management?

"We spread our deposit business with the various banks we have on our panel, and for non-government clients, in most cases we utilise a cash-only policy."
Deputy Treasury Manager, Asian automotive company

"We are more mindful of the quality of the investments. We are more risk aware because of market conditions."
Treasurer, North American energy company

"As a way to lower risk, we accept paying more to have access to liquidity."
Assistant Treasurer, North American equipment rental company

"The environment has made us more conservative. We keep more cash on hand. If we put anything into any type of investment product, like a money market fund, we ask a lot more questions than we used to. We want to understand what's in that fund."
Director of Corporate Finance, North American food products company

"If conditions are tight and our bank's limits are reduced, then we may need to cover liquidity needs from a sweep-over of cash funds from related entities."
VP of Finance, Asian telecommunications company

"Sometimes at the end of each quarter we are unable to buy certain investment vehicles, like Treasuries. Often, we're told that they're not available on that day."
Treasury Manager, North American telecommunications company

Risk Mitigation (continued)

RBS responds

Mitigating counterparty risk

Industry-level connectivity across all banks is making it possible for companies to extend treasury centralisation without compromising counterparty management, because bank-agnostic systems are available. Multibank reporting of balances with other banks has been available for many years via online electronic banking services (such as RBS's Access Online), helping corporates to build a complete picture of their cash-flows. Now though, standard connectivity across all banks via the SWIFT network is an option alongside proprietary multi-bank channels. The research found 38% of respondents are planning to enrol in SWIFT to gain the benefits of standardisation with their banks.

Industry-level connectivity across all banks

There are several ways to connect to the SWIFT network for corporations. Direct connectivity (the corporation has its own SWIFT address) is the most expensive and labour intensive option to manage. SWIFT Alliance Lite offers a quick and relatively easy implementation but volume constraints apply. Most of our corporate clients who choose to connect to the SWIFT network do so via a third-party service bureau. The bureau is responsible for all infrastructure requirements such as software upgrades, contingency arrangements and SWIFT systems expertise, and – because a bureau services multiple clients and benefits from economies of scale – this expertise is available at very affordable rates.

Managing Risks in Cash Investing

The Treasury Manager of a North American telecommunications company seems to speak for many of his peers when asked to explain the strategy his company has followed in cash investing over the past three years. "Two words," he responds, "capital preservation". Another study participant, the Assistant Treasurer of a North American professional services company, touches on many of the tactics and priorities mentioned by treasury officials at other companies when he describes the "very conservative" approach his company has taken to cash investing over the past three years:

"Yield took a back seat to preservation… Before the '08 crisis hit, we were outsourcing the management of some of our investments, but when the crisis started to unfold, we started pulling everything back in house. We limited our exposure and invested exclusively in safe vehicles like United States Treasuries and highly-rated bank groups."

Many of the company executives interviewed said that at some point before the global crisis they were using an external investment manager for cash investments, but had discontinued that practice due mainly to low returns and a post-crisis shift in emphasis from capital appreciation to capital preservation. Most companies now manage cash investments in-house, with a focus on short-term bank deposits, CDs, United States Treasuries, and money market funds. Approximately three-quarters of study participants said their companies would not even consider involving an investment manager in this process in the future.

The Head of Investment and Funding of a European energy company says his company is actively seeking out and employing investment strategies that minimise exposures to banking sector risk. Among the strategies they are exploring are direct investments into securities backed by gold and United States Treasuries and certain repurchase agreements (repos).

In general, companies seem satisfied with their current cash investment strategies. Although a handful of companies expect to shift cash investments back into money market funds if and when interest rates begin to normalise, approximately 85% of the companies participating in the study expect little or no change to their cash investment strategies in the coming three years. As the Assistant Treasurer of a North American equipment rental company concluded: "I don't think it will change. We will continue to focus on mitigating risk. The last few years have really created a shift in how people think. And while some people may have short memories and begin to look at ways to invest their cash for high yields, that wouldn't happen here."

Treasury voices

Companies discuss cash investment strategies

"I don't know if we'll ever go back to the way things were pre-'08."
Assistant Treasurer, North American professional services company

"Our cash investment strategy has focused first and foremost on safety, then on liquidity and then on return."
Senior Treasury Analyst, North American energy company

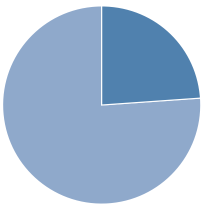
"Our thrust has been to repay our debts as quickly as possible. So we don't maintain a lot of cash on hand to invest. But interest rates have been so low that the current environment supports our strategy."
Director of Global Treasury, North American food processing company

"Years ago we tended to use institutional mutual funds, money market funds. Right now for the small amount of cash we have, we are leaving it in CCA [corporate checking accounts]."
Treasurer, North American retail apparel company

Managing Risks in Cash Investing (continued)

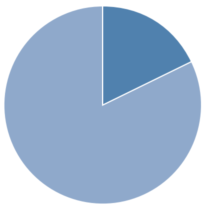
Would you consider involving an investment manager in the future?

Consideration of investment manager in future
Total



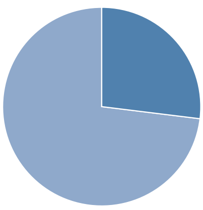
Yes	24%
No	76%

Consideration of investment manager in future
Europe



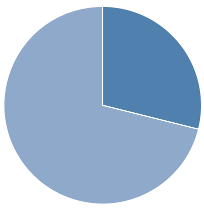
Yes	18%
No	82%

Consideration of investment manager in future
North America



Yes	27%
No	73%

Consideration of investment manager in future
Asia



Yes	29%
No	71%

How large is your net cash balance?

Net cash balance
Total

<$100million	22%
$100million-$500million	22%
$501million-$1billion	4%
$1.1billion-$2billion	6%
>$2billion	10%

Percentage of market cap
Europe

<5%	12%
5-10%	14%
11-20%	6%
>20%	8%

RBS responds

Tools for short-term cash and a conservative investment approach

While the research findings support our view that yield is currently a lower priority for our clients' short-term investments – behind liquidity and risk management concerns – treasurers are still looking for ways to optimise their returns.

We recognise the defensive nature of current cash "buffers" – this cash is not necessarily for immediate use, but is being held in case of a sudden or unexpected shortage of liquidity. We think of this as 'flexible-term cash' in that it needs to be highly liquid but in reality is not accessed daily and so has term deposit characteristics. With historically low interest rates, flexible-term cash will not earn its keep in traditional call accounts/overnight deposits, reducing the efficiency of overall liquidity planning.

To help with this problem, RBS's liquidity experts have developed two instant-access investment options that reflect current needs and use of flexible term cash held as cash buffers.

For companies with uncertainty around how long cash can be deposited, a Growth Deposit Account tracks the age of cash balances in the account and improves the return the longer the balance remains.

Companies with more stable balances can use our Yield Call Demand Account to track the stability of balances over an agreed period and receive highly competitive interest rates on the stable portion of the balance, while receiving 'overnight' rates on the variable element.

Treasurers are also rightly looking for an extra level of assurance when they invest, which manifests itself as a requirement for more information and understanding of the investment products they choose. Solutions like MoneyMarket Investor, available through our Liquidity Solutions Portal, allow treasurers to drill down to analysis and comparisons of a range of money market funds from multiple providers before investing directly online. Further control is provided through the ability to define sophisticated investment criteria within the system.

Part II: Strategies, Products and Providers

Treasury centralisation

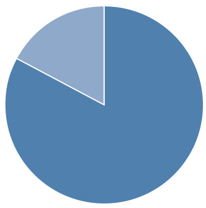
In at least one respect, global companies were well prepared to meet the challenges associated with the credit crisis and recession. A large majority of international companies in Europe, the United States and Asia have put in place centralised treasury operations that allow for streamlined operations and decision-making, and most of those companies consolidated the treasury function from regional structures to a central global office more than five years ago. Among companies that have maintained a regional treasury structure, nearly nine out of 10 say they now feel pressure to centralise. (Worldwide, the study results show that only about a quarter of large, international companies use a bank or another external provider to manage their working capital; most of these companies are based in Asia.)

When credit markets froze in 2008 and economic conditions began to deteriorate, centralised treasury operations allowed for a more rapid and effective response. Companies with centralised treasury operations cite the following benefits:

- Visibility of balances across operations and regions
- Better allocation of resources
- Better controls and speedier action
- Consistency
- Better informed decision making
- Better managed cost efficiencies, economies of scale

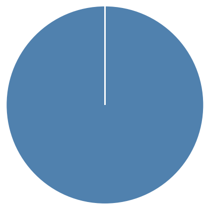
Is your treasury function centralised?

Company treasury function
Total



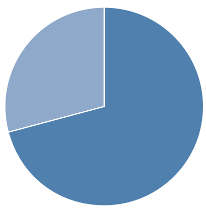
Centralised	83%
Regional	17%

Company treasury function
Europe



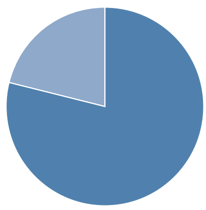
Centralised	100%
Regional	0%

Company treasury function
North America



Centralised	71%
Regional	29%

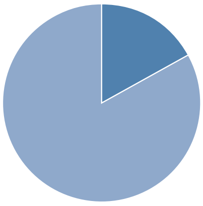
Company treasury function
Asia



Centralised	79%
Regional	21%

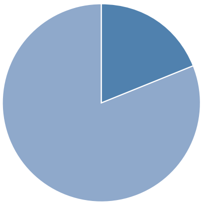
If centralised, did you centralise in the past 5 years?

Centralised in past 5 years
Total



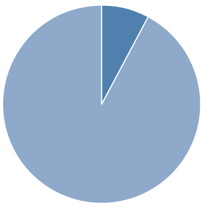
Yes	17%
No	83%

Centralised in past 5 years
Europe



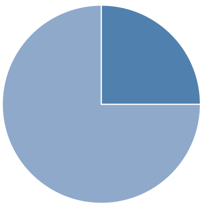
Yes	19%
No	81%

Centralised in past 5 years
North America



Yes	8%
No	92%

Centralised in past 5 years
Asia



Yes	25%
No	75%

Treasury voices
The benefits of centralised treasury operations

"Centralisation brings consistency in our transactions, better control and better knowledge and decision-making."
Director of Treasury Operations, North American energy company

"We adopted a series of powers of attorney in each country to take away the ability to borrow, open accounts, etc. and delegated it only to the treasurer or anyone else that he chooses to delegate it to. So, we know for a fact that we don't have anyone out there in some other country opening up a bank account because we know they don't have the authority to do that. So, it gives us a huge sense of control."
Assistant Treasurer, North American professional services company

"Improved efficiency; better control."
Treasurer, European financial services company

"The controls are easier and it is easier to utilise our investment income. Being in a centralised environment, everyone is tapped into economies of scale, which provides opportunity to obtain better pricing on bank products offered to us."
Head of Treasury, North American life insurance company

"Cost effective and faster access to information."
Treasury Manager, Asian government authority

Strategies, Products and Providers (continued)

RBS responds

Treasury centralisation

In our day-to-day discussions with clients, we also note the continuing trend to incremental centralisation of treasury activities. Typically, our large corporate clients have centralised their treasury policies and decision-making at a global level, with regional banking structures, payments factories and/or shared service centres in place for efficient execution.

Tools and techniques for treasury centralisation

Global account overlay structures and liquidity optimisation tools are the critical "hard wiring" for treasury centralisation, ensuring visibility, efficiency and control of working capital flows across the company's operations, to and from the decision makers at the centre. By employing cash concentration and notional pooling/interest optimisation, the centralised treasury can understand, concentrate and optimise the use of working capital on a daily basis.

Regulatory forces are accelerating and simplifying centralisation. In Europe, end dates have now been set for mandated use of SEPA credit transfers (CT) and direct debits (DD) so that by 1 February 2014, there will be a standard way to make low-value, commercial payments across 32 countries, with pricing as for domestic payments. The SEPA CT and DD messages use XML-based ISO 20022, ensuring industry-wide consistency in processing and reporting transactions. RBS has been an active contributor to European standards-making and is able to provide companies with SEPA expertise and practical migration advice, to ensure the full benefits of this change are captured.

The next generation of treasury centralisation tools will continue to simplify complexity in order to increase control, deliver more cost efficiency and reduce operational and liquidity risk. For example, payments will be made from a single central disbursement account (or a handful of regional disbursement accounts) eliminating, or drastically reducing, locally-held accounts. If FX is built in – either on an automated basis, or by integrating dealer-based pricing – then it becomes possible to deliver payments in multiple currencies and locations through a single standard process for a single central account.

Integrating working capital functions

The centralisation of treasury operations often represents an important first step in a broader effort to standardise and improve the working capital management process. With these operations consolidated into a single, central office, companies have the opportunity to integrate various aspects of their working capital management, including trade finance, cash management and FX. Approximately 80% of companies participating in the study describe their working capital management as either "integrated" or "extremely integrated". However, companies are looking for their banks for help in making these processes even more cohesive and efficient.

Companies want banks to help them deepen the integration of internal working capital functions and to better integrate internal systems with various bank platforms. In the eyes of many corporate treasury officials, these issues converge in one place: the workstation.

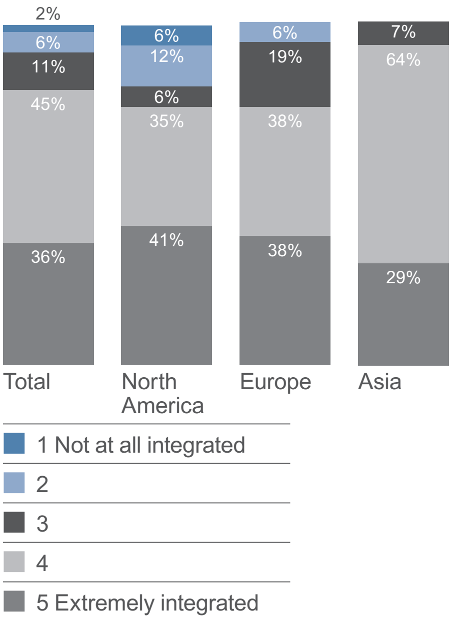
The Director of Global Treasury of a North American food processing company says the development of a workstation that consolidated treasury workstreams into one workstation combining cash management, investment decisions, visibility and transparency for cash around the world, cash flow forecasting and others would be a "big win" for banks. "I don't think it really exists right now," he adds.

The Senior Treasury Analyst of a North American filtration company says his company is engaged in a search for a similar integrated workstation. "At the moment we are trying to engage banks or third-party providers who can provide a global platform that gives us visibility across our regions enabling us to see where our cash is and where it can be deployed," he says. "We are also looking at investment portals that could give us different options in the regions of the world where we operate: Europe, Asia and the Americas."

How integrated is working capital management at your company?

Working capital management

Level of integration within company



Assessing performance in working capital management

For some companies, performance assessment in working capital management applies mainly to cash investments, for which companies use a variety of internal and external benchmarks. The Assistant Treasurer of a European financial services company said her firm assesses performance through the explicit measurement of 1) the security of cash investments; 2) the liquidity of those investments, or, how easily the company can access the invested assets, and 3) returns. Companies also cited the following as benchmarks used to assess performance in cash investing:

- No loss/no risk
- Borrowing costs
- Return on capital employed/ROI
- Third-party peer review
- Credit quality and return
- Working capital as a key performance indicator (borrowing costs, days receivables/payables and inventory/sales) used to assess performance and remuneration.

Other companies apply a rigorous performance assessment framework to the working capital management process as a whole. These companies employ KPIs such as available capital, return on capital employed, days sales and payables, inventory/sales turnover and even tax liability. One study participant, the Director of Corporate Finance for a North American food products firm, said his company includes working capital as a component in its executive compensation metric. "We measure working capital numbers like receivables and inventory and there's a charge against that, which is then tied to compensation of key managers," he said.

Several companies say their performance in this area is judged against only one criterion: "No losses".

The Role of Automation

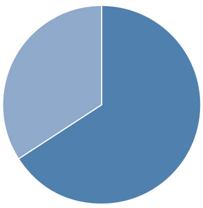
Efficiency through automation
Almost two-thirds of the companies participating in the study (66%) say they have plans to further the automation of treasury functions used in working capital management:

- 38% plan to increase automation in liquidity management, including automating sweeps and cross-border target balancing and implementing pooling structures to provide more visibility and control of cash
- 38% plan to move to e-invoicing as a means of automating the collection process and reducing DSO
- 38% plan to enrol in SWIFT to gain the benefits of standardisation in delivery methods for communications between themselves and their banks
- 29% plan to adopt XML and other standards to deliver more robust information reporting and enabling easier and more automated reconciliation

About 54% of companies participating in the study already use SWIFT or Electronic Bank Account Management (eBAM), with most usage coming from companies in Europe and Asia. Forty-one percent of companies use SWIFT or eBAM for real-time balance information, 29% of companies use the protocols for digital signings and approvals and 21% use them for account opening.

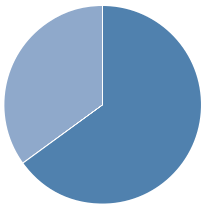
Do you have further plans to further automate?

Plans for further automation
Total



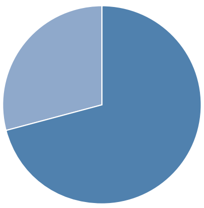
Yes	66%
No	34%

Plans for further automation
Europe



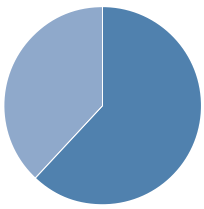
Yes	65%
No	35%

Plans for further automation
North America



Yes	71%
No	29%

Plans for further automation
Asia

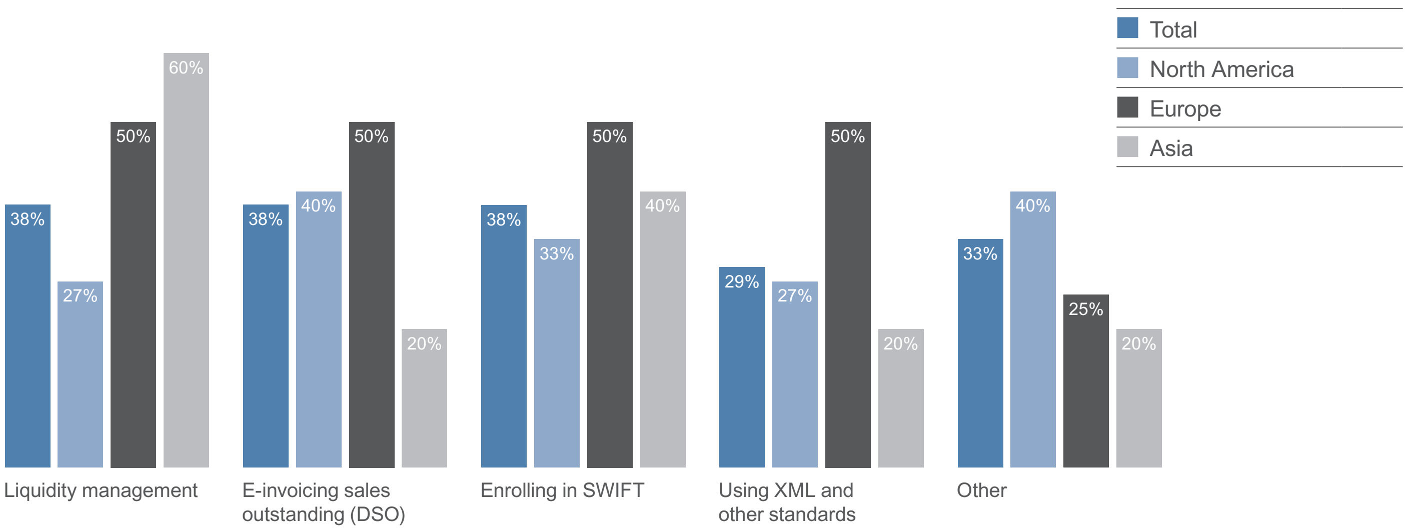


Yes	62%
No	38%

It is important to note that companies in Asia ascribe less value to automation than do their counterparts in the West. The most likely reason: In a fragmented regional market made up of many companies with idiosyncratic tax and capital rules, automating treasury functions is more difficult, more expensive and less likely to generate meaningful efficiencies.

In what areas are you planning to automate?

Biggest priority when managing working capital



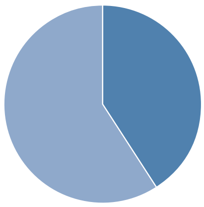
The Role of Automation (continued)

Convergence of trade and cash operations

Approximately 41% of the companies participating in the RBS/Greenwich Associates study view the convergence of trade and cash operations as a priority. Companies say the integration of these two functions can improve cash flow and cash collection, reduce borrowing costs and increase the effectiveness in the management of non-cash working capital elements including receivables, inventory and payables. The concentration of liquidity generated through the convergence of trade and cash operations can also help companies find and obtain excess cash. As one study participating put it, the goal is, “to make you smarter, better informed and have better control.”

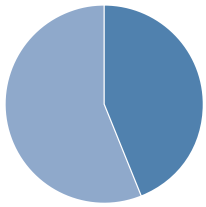
Is the convergance of trade and cash operations a priority in your company?

Priority to converge trade and cash operations
Total



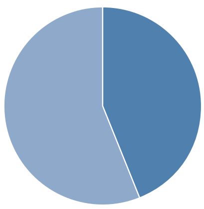
■	Yes	41%
■	No	59%

Priority to converge trade and cash operations
Europe



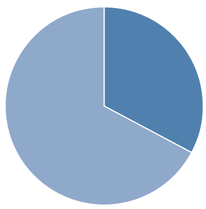
■	Yes	44%
■	No	56%

Priority to converge trade and cash operations
North America



■	Yes	44%
■	No	56%

Priority to converge trade and cash operations
Asia



■	Yes	33%
■	No	67%

RBS responds

Automation and integration – the next steps

If visibility, efficiency and control of working capital are the treasurer's key goals, then automation and integration of information and processes are the means of success. Current developments in technology and standardisation will translate into significant gains and benefits for the integrated treasury.

Industry standards

The international standard ISO 20022: Universal financial industry message scheme is based on XML and provides a methodology for developing messages needed by the financial community, as well as a way to unify many existing standards, allowing for more consistency and interoperability in financial processes and systems. ISO 20022 underlies a number of important initiatives.

For example, the SEPA Credit Transfer and Direct Debit standard messages, and eBAM (Electronic Bank Account Management) use ISO 20022. eBAM allows users to create account opening and maintenance requests using XML messages, reducing the inefficiencies of paper-based account management processes. RBS was one of only four banks taking part in the eBAM pilot in 2011, and we are now defining next steps to provide eBAM to clients. RBS is also a member of the Common Global Implementation (CGI) group which is defining ISO 20022 messages for Financial Institutions, cards, securities and treasury.

XML-based messages are also being developed for Letters of Credit, so trade finance will also see the benefits of interoperable message standards in the near future.

Integrating cash and trade

In some companies, trade finance is closely integrated with treasury and cash management, while in others we find it more closely tied to management of the logistical supply chain. The opportunities to unlock working capital tied up across a company's operations will certainly be greater when there is good communication and integration between trade and cash/treasury.

RBS has worked closely with our clients who want to integrate their cash and trade activity by linking MaxTrad, our online trade finance portal, with Access Online, our online banking channel. Both platforms can be accessed from a single sign on, so clients can view and manage their trade and cash positions seamlessly via one bank interface. Clients can also use MaxTrad and Access Direct, our host-to-host payments platform, to automate their procure-to-pay process directly from their own back office or ERP system, and access and view payments and reconciliation.

Picking a bank partner for working capital management

Companies have two preconditions when selecting a bank partner for working capital management. In order to be considered for the role a bank must be: 1) a credit provider and 2) financially sound. The following are the 10 most important factors considered by companies in selecting a bank, as ranked by the number of times each factor was cited as a primary selection criterion by companies participating in the study:

1. Credit provision/participation in syndicated bank group
2. Counterparty risk/strength
3. Long-term relationships
4. Product capabilities (scale, quality and relevance)
5. Global footprint/reach
6. Costs/fees
7. Rates of return on cash
8. Technology platform
9. Industry knowledge
10. Innovation/ability to provide new solutions

As this list suggests, among banks that qualify for consideration by being financially sound and willing to lend, companies are looking for highly capable, long-term partners.

The most sought-after providers are those willing to commit to long-term relationships and able to deliver the global reach and breadth of capabilities across currencies and functions required in the modern cross-border economy. (The one exception: Companies in Asia, which do place a high value on long-term relationships, but generally select their banks at a local, as opposed to global, level.)

The treasurer of a North American wholesale and retail marketer provided excellent perspective in his explanation of what drives the relationship between a company and its bank:

"The assumption is that most of the banks we deal with are of the size where they have similar capabilities, so for us there's an important piece that distinguishes one bank from another, and that's the banker. One of the things banks often forget is that when they think of a banking relationship, it is as much about the relationship with the banker as it is with the bank. A good banker can make up for a bank that has relatively meagre abilities, but if you have a bad banker, you're going to ditch that bank. So if one bank can provide you with what another bank can, life is too short to deal with an idiot. That's something that banks tend to forget. They overweight the relationship related to the institution and underweight the relationship related to the person."

Treasury voices

What are you looking for from your banking partners?

"First of all, they need to be in our syndicated bank group. We then look at their capabilities, products and services. They need to be fairly sound in basic tactical things that banks do. For example, now that we have implemented SAP, we need to make sure that their systems are well integrated with ours. So, we want them to deploy their resources and make a commitment to integrate with our systems and to meet our needs."
Assistant Treasurer, North American professional services firm

"Willingness to lend; ease of opening accounts; length and quality of relationship."
Group Treasurer, European automotive company

"We want them to come to the table with innovative strategies and ideas that they have already implemented elsewhere and that they can prove are working. And we want them to be well integrated from a technology perspective."
Treasurer, North American energy company

"Having a long-term relationship with the banking partner is always important."
Assistant Treasurer, North American toy and game company

Conclusion

Although some companies began the process of improving their working capital management five or even 10 years ago, many others were driven to focus on the issues by funding disruptions and cash shortages brought by the global crisis. The effects of the many challenges faced by large companies during that period are evident today in both operational practices and strategic priorities. In particular, companies have adopted a conservative stance, focusing working capital management efforts on managing counterparty risk and maintaining liquidity.

The results of the RBS/Greenwich Associates study reveal a gradual but clear recognition on the part of large companies around the world of the value they can create by maximising efficiencies in this function. Approximately 72% of the companies participating in the study say they view working capital management as an important strategic component to their overall financial management processes, and 84% name working capital management as an integral part of their funding strategies. With the function playing such a central role in corporate funding strategies, companies can be expected to continue their intensive drive to improve working capital management and to realise potentially significant benefits in terms of operational efficiency, risk management and overall financial performance.

We hope you have found this research helpful.

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