



CURRENCY MANAGEMENT AND OPTIMIZATION FOR BANKS WITH mySAP™ SCM

How can you meet fluctuating customer demands for currency while reducing transportation and other cash-service costs and minimizing the opportunity costs of holding excess cash? The comprehensive, fully integrated functionality of the mySAP™ Supply Chain Management (mySAP SCM) solution can help.

Shrinking profit margins, tougher competition, and rapid change have radically altered the way financial institutions view currency management. As the cost of producing, transporting, or simply holding currency becomes more visible, banks can no longer think of cash as a commodity.

Many banks still treat currency as cost-free inventory, however. They keep excess amounts of cash at branches, ATMs, and central vaults to make sure there is enough on hand to meet customer needs. This approach ignores potential earnings from investing or lending excess cash.

Banks face many challenges in resolving the issue. Most lack the tools to monitor cash levels in real time for individual branches and other cash points. They may also find it hard to forecast future cash needs and efficiently replenish their inventory. It has been very difficult for banks to capture what happens to their cash after they create orders for its transport. In addition, banks often lack tools for the timely identification of cash points with excess currency that are nearby to cash points with shortages. This limits the opportunities to quickly replenish the shortages and reduce transport and risk costs.

At the same time, many banks have trouble coordinating cash shipments for corporate customers to and from their business locations. There is little oversight of cash delivery schedules or shipment costs and no effective management of risk for robbery and embezzlement.

Central banks understand the importance of effective cash management in the current marketplace and have modified cash handling for their regional needs. A decade ago, central banks would have seen themselves as mere cash logisticians.

Today, they either outsource their currency logistics or act as service providers for banks. Forward-thinking central banks and other logistical partners are redesigning the way the cash should be handled in the country to offer more flexible rules and transport options. This helps local banks create efficient currency management strategies of their own.

The mySAP™ Supply Chain Management (mySAP SCM) solution can help banks implement those strategies. With this solution, you can improve information visibility across your cash network, integrate cash-demand planning and the replenishment of cash inventory, and streamline cash transportation. These capabilities can significantly improve operational efficiency, reduce operational risk, provide better information for negotiating cash-service contracts, trim administrative and transportation costs, and cut the opportunity costs of holding excess cash inventory.

Effective Planning and Optimization

Handling cash has become a multidimensional challenge that banks must confront in the same way that manufacturers confront their supply chain needs. Banks need to ask the following key questions:

- What is an optimal amount of stocked currency?
- How can we guarantee the availability of cash in the network?
- How can we efficiently manage and control day-to-day cash handling and transportation?
- How can we reduce currency transportation costs?

You must first determine a precise currency demand, by specific denomination, for all your cash-control points – including corporate clients and currency management partners. The forecast must anticipate demand for weekdays, paydays, holidays, and special events and accurately simulate deposits and withdrawals by day and hour. The SAP® Advanced Planning & Optimization (SAP APO) component within mySAP SCM integrates the best, field-tested algorithms for such forecasting. With this component, you can assign an individual forecasting model to each cash-control point to achieve the highest level of forecast accuracy.

To meet the requirements of your currency-logistics plan, you must also configure cash transportation, storage, and handling for optimal supply and removal. These activities require sophisticated planning tools that provide more than linear projections. The application of internal and external policies and procedures can further adapt the currency management system to individual needs, including the level of customer service at each cash-control point that you desire. mySAP SCM provides first-in-class planning mechanisms for forecasting demand that take into account external constraints such as holidays and other special events and that optimize supply through advanced algorithms.

Accounting for transportation, handling, and storage costs – as well as the opportunity costs of unproductive stocked cash – is key to optimizing a bank's overall cost for currency management. SAP APO will search for the optimal service for the lowest possible cost. Collaborative planning for these needs between a branch and your bank's central headquarters provides the best of both worlds: centralized management of all cash movements and the ability to meet specific branch-level requirements. Features within the component for optimizing delivery and withdrawal routes help you provide the best service at the least cost.

Effective transport planning and vehicle scheduling can help you establish optimized routes for cash delivery and pickups. mySAP SCM supports elaborate analyses of cash movements that let you optimize the number of transports or lower the amount of unproductive cash in the vaults, while guaranteeing a predefined level of customer service. You can overcome safety issues commonly found with secured transportation by varying routes and schedules.

Efficient Plan Execution

By integrating mySAP SCM with the mySAP ERP solution, you gain complete transparency for all physical cash movements, the overall cost of cash handling, and the use of outsourced resources and services. Such transparency provides greater control over cash management expenses. The system can help you translate

suggested transportation plans into transport orders and directly record those orders. It can also match invoices from transportation service providers with the transportation orders. Any differences are instantly visible and can be directly resolved.

Supply Chain Event Management

A close monitoring of cash transports will help you identify problems such as late or missing deliveries. By using mySAP SCM with the SAP NetWeaver® Business Intelligence component, you can do the following tasks:

- Track actual events against planned events
- Detect and react to event deviations
- Manage performance by time, date, quantity, cost, or other parameters
- Conduct carrier performance checks
- Conduct cost surveys by location
- Control measurable and nonmeasurable supply and removal events

mySAP SCM also includes capabilities for performing the following tasks:

- Registering business partners
- Evaluating performance based on actual historical events
- Handling invoice receipts from carriers
- Checking invoice values against the service contract

A Highly Flexible Solution

mySAP SCM adds strategic value by helping you simulate and adapt quickly to an ever-changing business environment. If, for example, a central bank changes its currency supply policy, the system helps a member bank easily adapt its cash supply chain to this new scenario. Moreover, you can gain a strategic advantage by simulating the impact of sourcing decisions along the cash supply chain. This helps you mitigate risks and make more informed decisions when aligning with business partners.

Having accurate plans for cash transportation will improve the efficiency of collaboration with your transportation service providers, shifting the emphasis away from individual prices

to the overall cost structure of currency management. The outcome can strengthen the long-term benefits of partnerships with your logistics suppliers.

These and other improvements in cash management can mean added value for your shareholders. Increased cash availability improves customer service and increases revenue. Profitability is further enhanced by reducing transportation expenses, risks, and operational and contracting costs. Reductions in currency inventory can increase the return on your assets.

Cost-Effective Currency Management

mySAP SCM can help you deliver the right level of customer service at the lowest cost possible. By cutting your total cost of currency management by up to 30%, most implementations have a fast time to value and a payback of less than a year.

For more information on how mySAP SCM can improve currency management at your firm, please visit the SAP Web site at www.sap.com/solutions/business-suite/scm.

Powered by SAP NetWeaver

mySAP SCM is powered by the SAP NetWeaver platform, the open integration and application platform that enables change. SAP NetWeaver helps companies align IT with their business. It allows companies to obtain more business value from existing IT investments and to deploy a service-oriented architecture. SAP NetWeaver reduces total cost of ownership and complexity across the entire IT landscape.

SAP NetWeaver powers mySAP Business Suite solutions, SAP xApps™ packaged composite applications, and partner solutions. It provides the best way to integrate all systems running SAP or non-SAP software. SAP NetWeaver unifies integration technologies into a single platform and is preintegrated with business applications, reducing the need for custom integration.

www.sap.com/contactsap

50 076 643 (05/10)

© 2005 by SAP AG. All rights reserved. SAP, R/3, mySAP, mySAP.com, xApps, xApp, SAP NetWeaver, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world. All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary. Printed on environmentally friendly paper.

These materials are subject to change without notice. These materials are provided by SAP AG and its affiliated companies ("SAP Group") for informational purposes only, without representation or warranty of any kind, and SAP Group shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP Group products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.

THE BEST-RUN BUSINESSES RUN SAP™

