A PROBLEM SOLVED

Treasurers who want to overcome their cash management challenges must talk to their bank, says Dilrukshan Abeysinghe

Following the recent turmoil in the global economy, and with avenues of credit depleting, corporate treasurers are having increasingly serious conversations about cash management with their banks. These conversations focus on the services that banks can provide in areas such as liquidity, working capital, payments, receivables and cards.

There exists a myth among finance professionals that cash management solutions (CMS) are suited for only global and multinational corporates, and are irrelevant to local large or small- to medium-sized companies. And it is, indeed, a myth. CMS are available to this latter group, but they do not take advantage of them for a variety of reasons: autocratic management styles; an unwillingness to change with the times; an inflexible mindset and reluctance to let go of traditional processes; fear of losing control; lack of trust in the technology systems; job insecurities and nervousness around lay-offs associated with automation; and an absence of knowledge.

But these companies can no longer afford to cling to excuses and hide behind obstacles if they are genuinely concerned about the growth of their businesses. Middle management needs to educate their peers on the economic benefits of streamlining operations, and sponsors must be open-minded if they are to overhaul inefficient processes.

There are a variety of liquidity, receivable and payment solutions that a corporate can, and should, consider implementing in an efficient business. These solutions help to streamline day-to-day finance and treasury functions while freeing up professional staff to add more value to the business. As such, they are useful ways of managing and improving the working capital of a company while making the best use of funds.

Pricing

It is standard in the Middle East for companies to negotiate pricing down to the bare minimum before progressing with structuring a value-added solution. But this is not necessarily a prudent tactic.

Although pricing of a solution is important, it is not the only factor that contributes to the company deriving financial benefit from the solution. Also, it will not help the company to obtain best-in-class systems, processes and, most importantly, customer service from its bank. Too many finance professionals in the Middle East attempt to drive down the pricing of a solution before evaluating the direct and, most importantly, indirect, benefits of a carefully structured solution.

There are a number of important steps to take when adopting an operationally efficient CMS for your organisation:

- Evaluate the bank's commitment to putting together a structured solution. All too often, short-sighted bank salespeople promise an overwhelming number of financial benefits without understanding the company's ultimate objectives. A good banker will spend a reasonable amount of time speaking to the company's finance and treasury staff, gathering information about the company's operations, policies, concerns and requirements. Only once they have this information, can they structure a suitable solution.

- Assess the security of the banking platform that is being integrated with your company's systems and through which transactions will be routed. Global banks take this aspect of their proposition very seriously and invest a considerable sum of money in the continuous development of their systems and safeguarding the confidentiality of transactions. Secure passwords, an audit trail of transactions, encrypted information and the flagging of unauthorised transactions are imperative elements of a robust solution.

- Find out how quickly the solution can be implemented. The key requirement here is to get buy-in from corporate sponsors and senior management, along with the commitment of bank staff to complete the project within the agreed time period. More often than not, especially in the Middle East, a company's key personnel does not sufficiently support the bank in rolling out the proposition. To overcome this, it is important that the finance and treasury functions communicate well internally, particularly with key stakeholders. The

faster the implementation, the faster the investment payback for the company.

◆ The bank should demonstrate committed customer service before, during and after implementation of a CMS. A bank should not take the business of transforming an organisation's operational platform lightly since it involves much commitment and patience from the bank. It should supply dedicated personnel, as well as back-up support, while also communicating and documenting how issues will be escalated before and after implementation. This minimises the risks associated with unforeseen events and also eliminates the potential for losses related to delays in processing transactions.

How difficult is it to choose a strategic banking partner?

For a global, multinational corporate, it is relatively easy to choose a strategic banking partner. They typically select a partner bank with a network that is evenly spread across the globe and has a trustworthy offering. But for a local company, the decision can be challenging. Does it select a local partner with limited regional or global coverage, or does it choose a global partner with a globally tested product offering? The decision rests on factors such as credit facilities, banking coverage, relationship, product or service offering. A wise decision would be to maintain one or two key banking relationships and select a secure CMS, taking into consideration the above factors.

Embracing change for growth

In today's ever-changing world, driven mainly by technological breakthroughs, change is directly attributed to growth. This is because the opportunity cost of

CASH MANAGEMENT PROVIDERS

Cash management providers help companies accelerate the collection of receivables, control payments to trade creditors and efficiently manage cash – services that are especially appealing in times of constrained credit.
'Finding funds in the payments cycle' – *McKinsey on Payments*, June 2009

not doing so can prove severe in the long run. Technology helps companies to gain a competitive advantage and make cost savings, two key drivers of corporate advancement. These two drivers underpin business sustainability and enable local companies to move to a higher level and compete globally.

Finance and treasury teams in companies must start thinking in a more macro way and stop focusing, in a micro context, on reducing negligible costs. Global banks, in particular, carry out a significant amount of market research and development before they introduce new products to the market. Thanks to their global presence, they understand corporate requirements across different markets and industries in a variety of regions. Hence their payments, receivables and liquidity solutions are heavily tailored to benefit companies. Treasurers should aim to take advantage of these solutions and strategies, and work out how to make best use of them.

The good news is that slowly, but surely, local corporates are communicating more with bankers – to mutual benefit. Banks have a duty to educate their customers on market developments, and companies should involve their key stakeholders to get internal buy-in on change. This is a process that should be driven by top management.

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HSBC

An effective CMS makes an extremely valuable contribution to a business. It is no longer a 'nice-to-have', but a critical tool of well-managed treasury and finance departments. And investing in a CMS is one of the most important lessons companies have learned from the global economic crisis

'MINDSET' AND THE MIDDLE EAST

◆ Mindset is an interesting phenomenon. While statistics indicate that internet penetration in the Middle East is on the rise, local corporates tend to have misgivings about using electronic banking. The biggest reason for this is an inclination towards 'doing things the way it's always been done'. It is an old school of thought, associated with the pioneering generation. While these decision-makers are comfortable in having physical control over transaction authorisations, can they continue to do so in a dynamic market environment? Manual processes carry risks such as human error, forgery, theft, inefficiencies, higher indirect costs and divulgence of sensitive information, to name a few. Yet, despite all these risks, business owners still turn a blind eye and continue to operate in the traditional way.

◆ This is an issue that can no longer be ignored. If these companies are to compete in a global context, they need to be on a par with the competition. Shared serviced centres, payment factories, in-house banks and centralised treasuries are all gaining momentum and contributing in a significant way to the bottom line of running a robust business. Although setting up these processes and systems can initially involve significant time and resources, the returns are multiplied in the long run.

◆ Perhaps the best evidence of a transition taking place is the increasing number of local companies that are moving to enterprise resource planning (ERP) software, such as Oracle and SAP. ERP systems aim to improve the efficiency of different functions, thereby improving the efficiency of the overall business. Finance has a key role to play in this respect: to reap the full benefits of ERP software, it must integrate with the electronic banking platform of a trusted banking partner. Again, some businesses prefer not to do this because they have a negative attitude towards electronic banking solutions. They fail to understand that they will lose out in the long run and are exposing themselves to unforeseen risks.