Working Capital Management in Latin America: The Receivables Opportunity

In Latin America a number of related trends are transforming the landscape, creating opportunities for Treasurers to manage treasury – and working capital – more effectively. Progressive privatization efforts have strengthened the underlying telecommunications, technology, and financial infrastructure across the region. Now corporations can use increasingly more efficient clearing and ACH systems and make payments via wire transfer and automated direct debit. The ability to exchange files speedily and cost-effectively via the Internet has made it possible for corporations to use shared service centers to gain efficiencies among subsidiaries. Although the pioneers in innovative treasury management have already set up regional centers and gained efficiencies in payments, many corporations are still grappling with serious collection challenges which negatively impact their corporation's bottom line. Today, sales representatives all over Latin America are wasting a significant amount of time disputing invoices with customers rather than selling to them.

Collections in Latin America – A Serious Working Capital Issue

Much more than in the U.S. or Europe, collections in Latin America create a serious working capital issue for many corporations. Payment terms are often not honored, and corporations that are not paid in a timely way frequently need funding and credit to continue to build and deliver goods.

The nature of the receivables issue varies somewhat from country to country, but in general Latin America is plagued by unreliable mail systems and serious problems in reconciliation. Although the mail systems in Mexico and Argentina have been privatized, most mail systems across the region are slow and unreliable. Courier services are expensive and not always available as an alternative. In the Caribbean isles, for example, invoices and payments might take weeks to get where they are supposed to, and sometimes invoices disappear altogether into some kind of commercial paper invoice Bermuda triangle where they are lost forever. In Latin America, Days Sales Outstanding (DSO) is not easy to contain.

In terms of reconciliation, most invoices itemize many goods and services and payers, when they have a problem with one item, tend to delay payment for the entire invoice. Collectors are typically unaware of disputes until invoices are past due. In addition, remittances might include rebates, credit notes, early payment discounting, and partial payments, increasing the complexity of the reconciliation process. Since the number of disputes on invoices is very high, and the reconciliation challenge complex, companies must employ a large number of people to reconcile their inflows with the invoices issued.

Re-engineering Receivables with "Electronic Invoice Presentment and Payment" (EIPP)

Electronic invoice presentment and payment (EIPP) solutions have the potential to bring much greater predictability – and speed – to the collections process in Latin America. With EIPP, customers receive invoices electronically via the Internet; trading partners resolve disputes quickly online; and payment is made efficiently with credit and debit notes. EIPP enables corporations to streamline delivery of invoices as well as receipt and reconciliation of payments; and to reduce DSO. By streamlining the whole receivables process and converting receivables to cash more quickly, companies free up working capital and reduce their need for credit to manage their day-to-day operations.

Hurdles to EIPP in Latin America

One hurdle to realizing the full benefits of EIPP in Latin America is legislation that requires the use of paper invoices; electronic invoices are not yet recognized as legal documents. A recent Citigroup survey across 15 Latin American countries found that Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Tobago, Trinidad and Venezuela are addressing legislation this year and next, to make it legal to accept electronic invoices in lieu of paper invoices. Digital signatures have already been legalized and adopted in some countries including Argentina, Colombia, Ecuador, Panama, and Venezuela.

Any underlying historical distrust of the Internet, resulting from Internet fraud, is unlikely to remain an issue for multinationals operating in Latin America. Trusted banking partners offer electronic invoice presentment and payment solutions that are secure and have proven track records in other regions of the world.

Efficiencies to be Realized Today

There are many benefits to be gained by using an electronic receivables solution in Latin America today, even though corporations are still required by law to send paper commercial invoices. By providing an electronic duplicate of a paper invoice, corporations gain a higher degree of control over their receivables process – their customers know what they should be receiving in the mail, and can be more easily prompted to initiate the dispute process early on.

A duplicate electronic invoice can provide a degree of confidence in invoice delivery via mail despite the vagaries of the local mail system. Electronic invoices can lower the cost of invoice delivery and compensate for issues with the mail system. Instead of relying on couriers or staff to deliver invoices, some corporations may use regular mail, which is more cost-effective. Also, rather than send invoices one at a time, corporations can lower costs by agreeing with customers to send all paper invoices once a month. Corporations will reap additional cost efficiencies once legislation allowing electronic invoices to replace paper is passed.

The Big Benefit in Latin America: Better Working Capital Management

The new electronic receivables solution makes sense in Latin America, and elsewhere, not because of the ability to eliminate paper but because of the efficiencies gained from a streamlined, more transparent receivables process. In the US and Europe, the elimination of paper, postage and printing has been estimated as only 10 per cent of the savings that can be achieved with EIPP. A recent survey of large US corporations conducted by the Gartner Group revealed that the biggest cost savings come from automating customer dispute processes. Automating the dispute resolution process not only cuts costs and improves customer service, but also reduces DSO since problems are resolved more quickly. Ultimately EIPP speeds cash flow and frees up working capital needed for business development and growth.

Leveraging Centralization and EIPP to Free up Working Capital

Some corporations are finding ways to gain increased efficiencies through a combination of centralization and electronic billing. For example, one multinational company implemented an electronic billing solution and centralized the collections process in Brazil, where an accounts receivable team manages both reconciliation and issue resolution for the entire region. Subsidiaries of the company, located across Latin America, scan and send all collections documents received (invoices, credit notes, etc.) to the company's central data center. The Brazil-based receivables team then processes the receivables. This corporation achieved cost efficiencies by employing an accounts receivable team in Brazil, where labor is less costly, and by using one centralized global data center.

Receivables Re-Engineering: The Long-Term Implications

The pioneers in electronic receivables management in Latin America are multinational corporations with global operations that have seen the value and benefits of the solution in other regions. In the future, an increasing number of corporations in Latin America are likely to adopt EIPP solutions to mitigate the region's severe collection inefficiencies and free up working capital. These companies will be able to reduce operational costs and DSO, collect cash faster, integrate information into treasury systems easily, and improve relationships with customers. Perhaps most importantly, their sales representatives will be freed from the task of negotiating invoice disputes, and will then be able to focus on sales and revenue generation.

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