Regionalization in Latin America

Considerations for Corporate Treasurers

The regionalization of treasury and cash management services – typically achieved through the establishment of shared service centers and outsourcing of non-core functions – continues to be a major trend for multinationals in every region of the world. Some companies that have already regionalized in Asia, Europe, and North America, now want to manage their treasury on a global basis in order to achieve even greater efficiencies. These companies are now under pressure to regionalize their treasury and cash management services in Latin America.

The Changing Latin American Landscape

Volatile markets and local cash management processes that are labor-intensive continue to present challenges to corporate treasurers operating in Latin America. In addition, banking infrastructures, regulations and practices that vary from country to country, as well as the lack of electronic banking systems or even a common Enterprise Resource Planning (ERP) platform within companies, make it difficult for treasurers to produce proper forecasts and reports locally, let alone access a single consolidated view of their activity across the region.

At the same time, there is a growing acceptance of electronic payment solutions in Latin America, such as interbank payments and outsourced check production, which enable companies to streamline operations and reduce internal costs. In addition, a growing number of countries – Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Panama, Puerto Rico, Peru, Trinidad, Uruguay and Venezuela – already have or are working to have ACH and interbank networks.

Although treasurers have no control over the region's characteristic economic volatility or lack of harmonization in bank practices and regulations, they do have a high degree of control over how they manage their treasury operations in Latin America. When regionalizing, companies typically evolve their treasury and cash operations through various stages, making incremental improvements and becoming more efficient at each stage.

Why Companies Regionalize: The Primary Drivers

Companies that choose to undertake the regionalization journey are typically driven by two inter-related, primary objectives – to increase operational efficiencies, and to reduce costs through automation and centralization, and by freeing staff to focus only on core, value-added functions. Other objectives are to:

- Apply best practices and increase control over treasury and cash functions; eliminate operational inconsistencies
- Gain real-time access and visibility to better information – and a single, consolidated view regionally (and ultimately globally) – enabling faster, more informed decision-making
- Accelerate cash collection and increase control over working capital, with an aim to reduce Days Sales Outstanding and improve reconciliation
- Mitigate risks, both operational and cross-border payment risks
- Maximize the availability and usage of funds by concentrating excess balances in the optimal investment vehicle, and by concentrating intercompany funds

How Companies Evolve: A Common Regionalization Roadmap

Many companies follow a common regionalization roadmap, which includes in-country optimization, transferring best practices among countries, and establishing a regional infrastructure. Others, however, might forego optimizing local processes and transferring best practices if they have the resources required to regionalize and the desire to reap the benefits of regionalization more quickly.

In-Country Optimization

Companies that are transitioning to a regional structure typically begin the process by reviewing – and re-engineering – local payments and collections processes. They might, for example:

- Outsource check production
- Improve efficiency of account structures; for example, sweep funds sitting idle in numerous accounts to a single account at the end of day to enhance returns, or create a zero balance structure to avoid overdraft expenses
- Roll out an ERP platform to automate the accounting function or improve integration of treasury and ERP systems
- Integrate automated reconciliation of bank statements with treasury and ERP systems

Success Transferring

At the next stage, companies are likely to "success transfer" best practices from one market to other markets in the region. Many companies organize a forum – such as an annual, regional meeting of in-country treasurers – for sharing best practices. Through this forum, best practices – and the company's innovators and leaders in treasury and cash management – are identified.

Establishing the Regional Infrastructure

Finally, companies establish a shared service center or regional treasury center, standard treasury and risk management policies, and a common, fully integrated treasury/ERP platform. Such a platform enables companies to receive input from all countries/ locations and create a single source output to make file-based payments. A common platform also provides companies with a single consolidated view of all their cash activity across the region and visibility of their cash position, as well as the ability to make payments in different currencies. Once companies have a single, consolidated view of their activity via a common banking platform, they can then manage their treasury more effectively across the region. They can also begin to think about managing their liquidity on a regional basis, both to optimize returns on investments and to meet internal funding requirements.

The Human Factor in Regionalization

The establishment of a regional treasury infrastructure represents major change for in-country treasurers. A significant factor in regionalization efforts that fail or involve long, painful transition processes is the failure to address the local treasurer's fear of the unknown and of losing control. It is therefore critical to communicate with local treasurers, surfacing and addressing their concerns even before they raise them. Senior management should share regionalization plans with in-country treasurers early in the process, letting them know what their new roles – post-regionalization – will entail. Doing so will help secure the buy-in needed for a smooth transition.

The Role of the Financial Partner

Companies seeking to establish the ideal regional treasury solution should work closely with a knowledgeable bank partner who is familiar with local markets across the region and can help structure an effective solution, select an optimal location, and provide electronic banking systems as well as host-to-host connectivity for accounts payable and employee payments.

Maintaining a strategic partnership with a global bank will become increasingly important to global and regional companies and large local companies that will one day be regional. Doing so is the most cost-effective and strategic way to ensure they are operating as efficiently as possible and using the best treasury infrastructure, systems, and therefore information, controls, and services locally, regionally and globally. This is because a leading global treasury services provider continuously invests in treasury/cash services to ensure they are the best and most secure available, and to ensure they meet the changing needs of clients. Also, a global financial partner who not only knows how you collect and how you pay, but also how you manage gaps, can help you manage your working capital as effectively as possible within a country, within a region, and globally.

Selecting the Optimal Location for your Shared Service Center:

Resource Considerations
Average salaries in the market
Labor market concerns
Language skills required of staff
Professionals needed in finance, service, technology, etc.

Real Estate Considerations
Real estate taxation opportunities and issues (economic and regulatory)
Location
Proximity to public transportation
Proximity to international airport
Amount of office space required
Telecommunication equipment needed
Parking

Quality of Life
Attractiveness to international staff
Security
Cost of living
Standard working hours in the culture

Operating Costs
Labor
Office space
Telecommunications
International travel
Incentives

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