Eyes wide open: growth ambitions of the Asian corporate

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Asian multinational corporations have officially found their place in the sun. As Asia Pacific leads the global recovery from a financial crisis that crippled many Western economies, companies in Asia are growing, expanding and entering new markets every day. Several decades ago, Korean and Japanese companies from LG to Samsung to Sony showed the region how home-grown names can become global leaders. Today, Indian and Chinese companies like Tata, Acer and Lenovo – and even mid-sized companies from Thailand, Indonesia and Malaysia – are also exploring growth in regional and global markets.

The opportunities for growth are tremendous. But all of these expansion ambitions come with challenges, especially for treasurers and CFOs. It is important to look at the underlying challenges and best practices that can be used to overcome these hurdles, depending on the method of expansion in mind. Inorganic expansion (through the merger, acquisition or takeover of an existing company) can help to consolidate a company's presence in a new or existing market. Organic expansion (building a presence in new markets) is critical to providing the necessary capital to fund new offices.

Inevitably, dealing with multiple new banks, currencies, processes and any number of spreadsheets that result from company expansion may seem like a formidable task. However, having the right system, planning and the right banking partner in place is key to success. In particular, a strong relationship with a cash management bank is crucial to overcoming challenges.

FOCUS ON INTERNAL CASH GENERATION

When a company is expanding, particularly after acquiring a new entity, regular and consistent cash flow generation is important. Sometimes profitability has to take second place to immediate access to cash. This balance can be achieved through:

The ability to visualize – To identify and extract working capital, companies need consolidated visibility of cash, investments and debt positions. A treasurer's first priority should be to have end-to-end cash and information flows.

The ability to mobilize – Centralizing cash positions is the next step in improving the management of group funding and investment processes. If working capital is in multiple accounts across many banks, it is impossible to efficiently and cost-effectively put it to work to support the needs of new entities.

The ability to optimize – Optimization allows a treasurer to pool multiple currencies, manage temporary shortfalls or surpluses within company accounts, and make available short-term investments with minimal operating costs.

But just how should companies approach the process from a cash management and liquidity perspective to ensure a smooth transition from one growth stage to another?

An efficient treasury in times of growth calls for a well-defined foundation, a disciplined approach, the right technology and a qualified banking partner.

THE FUNDAMENTALS OF SUCCESS

Treasury policies must represent best industry practice. A robust policy framework, supported by an internal education system, ensures that everyone is on the same, best-in-class page. Speaking with and learning from tax consultants, banking partners, lawyers, and other relevant associates help establish a culture of constant idea generation and process improvement from all angles. And, embedding this in the organization keeps the bar high, and everyone is involved in implementing the best practices and processes at all times.

Several examples of best practice implementation include:

- Cash flow forecasting, focus and automation, preferably with web-based consolidation
- Evaluation of the in-house bank establishment, netting, regional treasury and shared services approach to managing multi-country entities
- Concentration of cash, including solutions for trapped cash across entities and markets
- Real-time visibility of accounts across the region and across all relevant banks
- Embedding a culture of seeking regular external advice from experts like cash management partners, lawyers, tax and accounting consultants
- Improved outsourcing culture for payments, collections, and reconciliation

TECHNOLOGY IS A TREASURER'S BEST FRIEND

As businesses expand across multiple divisions, countries and legal entities, the complexities grow as well. However, technology is evolving and can help to provide solutions to meet many of these demands. Through technology, organizations have the option to automate, upgrade and maintain every treasury and finance function to add considerable value, streamline processes and improve operational efficiencies.

The key solutions may include expanding the reach of your internal enterprise resource planning (ERP) system; using modern devices and tools like mobile phones and credit or pre-paid cards in daily order-to-cash and purchase-to-pay workflows; using an interoperable multi-bank cash management system; and employing a middleware solution approach to overcome software challenges.

ERP

An internal ERP system is vital for maintaining consistency with a parent organization in terms of ledger or accounting process set-up. Embedding the ERP system into the greater organization should be the focus from day one. This ensures that plans for procurement, materials management, and finance and accounting requests and validations become part of the fabric of the organization – across all entities. Banking links for payment initiation, file integration and reconciliation practices – to name a few – should be quickly established and implemented with firm adherence for greater long-term value. A standard internal rule book, mapping out banking system delivery, is critical, as are strict rules to avoid one-off and ad-hoc payments.

In addition, payment tools must connect to suppliers and buyers. This is one of the most difficult objectives to achieve in a cross-country expansion.

Modern devices and tools

The prevalence and rapid take up of modern technological gadgets have changed the way the world works, including banking practices, communication of information, and commerce. Mobile phones are now ubiquitous, particularly in emerging markets where they offer users affordable, simple and convenient access to many goods and services. Equally, commercial cards such as credit cards, pre-paid cards and debit cards also offer easy access to automated payment systems.

Planning organizational workflows and introducing changes that improve processing times and efficiency through these tools are an effective way to increase cash management value. From devices used by sales people to scan cash payments to the use of mobile devices to authorize payments, the planned approach to these technologies will lead to faster migration and integration across all entities.

Interoperable, multi-bank systems

For many organizations, particularly those engaged in inorganic expansion, banking with multiple banks is unavoidable. In order to access credit histories and past balance sheets, and to evaluate these, the focus in the short term should be on maximizing value from the system.

Leading cash management providers offer multi-bank cash management solutions to accomplish this goal. The services range from simple statement consolidation to state-of-the art, multi-bank payment initiations and financing solutions. It pays to understand and establish this type of platform as the first step along the path toward bank consolidation, reducing one's relationships to a few or a single banking partner.

Middleware

Middleware is another way to improve operational efficiencies. Across a range of industries, banking partners are helping to make middleware solutions work for individual companies. This includes treasury and banking interfaces that integrate multiple banks' information; hosting supply chain invoicing and payments data; and fulfilling intermediate ERP integration tools. Middleware can also help to provide visibility and actionable analytics so that key decision-makers can benefit from data and analysis immediately, and maintain maximum speed of expansion.

INFORMATION IS THE REAL GAME

Access to accurate and timely information is vital to achieve optimal utilization of capital, and, as such, is invaluable. Real-time information to support the entire purchase-to-pay and order-to-cash process delivers long-lasting value across the organization.

Banking systems can consolidate information from payments to letters of credit and billing to system-integrated reports to increase efficiency. The most important aspect is the ability of the cash management eco-system to harmonize fragmented sources of information and content. For a company to see the full picture, it has to have the full picture.

Last but not least, feeding critical pieces of information back into the regional or global headquarters is critical to achieve a single and accurate view of a company's direction and key performance indicators, which help to fine-tune the direction of the business. While expansion across multiple emerging markets provides a unique opportunity, information and analytics can go a long way in delivering the enterprise value that supports those decisions.

The time to prepare is now, and while the challenges are many, defining these core principles within an organization and sticking to them is vital. Part of this equation is consulting with a leading bank like Citi. A company's primary cash management bank is its key partner in the corporate expansion journey, and can bring ongoing value and advisory practices that foster growth, expansion and success. These steps will not only save time and money, but will also result in a more efficient and immediately beneficial cash and liquidity management system that not only works now but will also work well in the future. ◢