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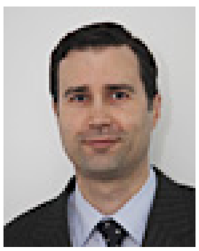
Payment and Collection Factories: a Fast Track to Enhanced Efficiency



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Payment/collection factories, a subset of the shared service centre model, offer corporates a significant opportunity to reduce costs and enhance efficiency. Let's take a closer look at this popular alternative to disparate and disjointed financial processes.

While the definition of shared service centres (SSCs) and payment/collection factories can vary greatly between corporates and service providers, most share a number of key features: They are cost centres within an organisation that are dedicated to providing recurring, standardised services to other business units. By grouping such services together in a single unit, corporates can achieve lower costs, reduced risks and a range of other benefits associated with centralisation that include enhanced liquidity management and improved processing speed.

While SSCs may deal with a broad range of business services that include non-financial functions such as human resources and information technology (IT) provision, payment/collection factories represent a subset of SSCs that deal solely with accounts payable and/or receivable. These functions are often ideal for centralisation due to the efficiency gains that can easily be made by eliminating paper-based and labour-intensive processes, and the economies that can be realised by reducing duplication across business units and subsidiaries.

Defining the Scope

Industrialising repetitive labour-intensive processes and replacing them with more capital-intensive alternatives can often be a complex task, especially for large organisations with multiple subsidiaries and a broad geographic footprint. As such, a phased approach — perhaps beginning with centralising liquidity by country, then progressing to regional centralisation and beyond — is normally required. Indeed, even before an initiative such as this can be implemented, buy-in from a range of internal business areas will be required and a number of both tactical and strategic decisions will need to be made.

For example, the scope of the project will have to be clearly defined: Should only accounts receivable, only accounts payable, or both be centralised? What are the specific goals in terms of improving working capital? Should all subsidiaries be included or should some tasks remain with local entities? And which existing banking relationships will remain relevant and which of them will be rendered superfluous?

In addition to this, future account structures will need to be decided and meticulously planned, considering all the potential tax and legal implications for the jurisdictions concerned in order to avoid any potential unintended consequences.

Securing Buy-In

Given the magnitude of such an undertaking, senior management buy-in from the early planning stages of any payment/collection factory initiative will be crucial. And, of course, achieving this will mean making a clear business case for the changes in order to secure resources in the face of competing projects. However, making the case on the basis of quantitative savings alone may not be enough. In order to strengthen the case, qualitative benefits — such as enhanced risk management and regulatory compliance — will also need to be outlined.

In this respect, the key questions that must be asked — and answered — before a centralising project such as a payment and/or collections factory is likely to secure approval include: By how much will bank fees potentiality be reduced? How much can working capital performance be improved? What will be the processing quality and efficiency improvements? Will IT maintenance costs be reduced? What will be the compliance benefits/pitfalls? And what will be the impact on risk management?

Of course, any project of this scope will likely throw up a few surprises and challenges along the way. But answering all of the above questions will certainly give any corporate a solid starting point for securing senior management support and beginning to outline a more detailed project plan.

Deutsche Bank

Given the nature of the payment/collection factory model, working with an experienced transaction banking partner will be crucial to achieving success. As one such partner, Deutsche Bank is able to offer a range of solutions for corporates wishing to implement such a structure that include, among others, cash pooling (local, regional and global), format standardisation and enhanced connectivity. Indeed, aside from the technological and structuring capabilities of an institution such as Deutsche Bank, we are also able to share a wealth of experience in terms of best practice, accumulated over many years of implementing such projects for corporates of all sizes, across a range of industry sectors and geographic regions.

To learn more, read *The Road to European Payment/Collection Factories*, a Deutsche Bank brochure.