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Corporates Look to Optimise Working Capital through Enhanced Receivables Management

In Asia, optimising working capital has become a priority for many corporates, and efficient receivables management is a key component of this effort.

Corporates can generate considerable savings by re-engineering the receivables process. Increasingly, treasurers and their banking partners are proactively seeking receivables management techniques that enable them to speed up the conversion of accounts receivable into cash, in order to minimise operational costs, capture critical information and integrate with other functions within treasury.

Optimising accounts receivable entails driving out inefficiencies by streamlining and automating processes wherever possible. More specifically, it may involve shortening the collections cycle, accelerating receipts and expediting the reconciliation process. In addition to optimising working capital, efficient receivables management may also improve some corporates' internal processes.

For instance, receiving timely status updates on receivables is important, especially in industries such as fast-moving consumer goods, where shipment of goods or releasing of dealer limits is triggered upon receipt of payment. Hence, the sooner corporates update their positions on their Enterprise Resource Planning (ERP) system from "accounts receivable" to "cash in transit," the faster they will be able to act on this information. Simply put, this means corporates will be able to ship goods earlier or release dealer limits sooner, which ultimately fosters better relationships with customers and increases turnover.

Banks Respond to Growing Demands

When it comes to managing accounts receivable, Asian corporates are becoming more sophisticated in their demands, and transaction banks are responding by enhancing their product offerings.

One demand is for timely, up-to-date information to help corporates manage their payment flows — including debit and credit advices, remittance data and various other financial alerts and notifications. Corporates want this information on an intra-day or real-time basis, rather than as part of an end-of-day information package.

Inevitably, banks are investing heavily in systems and platforms to enable them to deliver these services.

One area where transaction banks are investing is mobile technology designed to streamline and automate processes. Mobile treasury technology can take the form of authorising transactions on a smart phone, such as a Blackberry or iPhone, or enabling mobile payments to "un-banked" persons or into remote areas with no access to a bank branch. Banks can leverage mobile technology to capture and transmit collection information to their customers in real-time.

A key driver behind the investments in mobile technology is the high level of ownership of mobile devices. Around 61% of the world's people own a mobile phone, according to the International Telecommunications Union's ICT Development Index, and the penetration of mobile continues to increase.

Mobile technology is particularly relevant in large countries such as China and India, as well as countries with a challenging geography, such as the Philippines, which has more than 7,000 islands.

The Asian market is different because it spans various individual markets within the region. While the United States and Europe offer a relatively homogeneous space for transaction banking providers — increasingly so in the case of Europe with the advent of the Single Euro Payments Area (SEPA) — the Asian environment is much more complex because corporates and banks must deal with multiple currencies, languages and legal jurisdictions. As a consequence, corporates in this region are more likely to seek the assistance of a transaction banking partner in negotiating these challenges, especially with respect to receivables management.

Seek End-to-End Receivables Solutions

The trend toward streamlining and automating processes in receivables management has parallels across the entire cash and treasury management sector, as corporates seek to mitigate funding difficulties by using new technologies to unearth efficiencies. In this respect, the current environment is creating opportunities for transaction banking providers to offer a range of complementary services, such as liquidity management, short-term investments, electronic payment and invoicing solutions, supply chain financing and a range of value-added services to help clients realise their goals.

In today's environment, where optimising working capital takes precedence, corporates should seek global banking partners who are able to offer end-to-end receivables solutions that accelerate the collections cycle and reduce errors by limiting manual intervention.