Zuellig Pharma: Transforming Receivables with Virtual Accounts and Robotic Process Automation
Zuellig Pharma is the largest distributor of pharmaceutical and healthcare products to governments, private hospitals and medical practitioners in Malaysia. The company receives a very high volume of customer remittances at month end, which was causing accounts receivable (AR) reconciliation delays. Zuellig responded by implementing HSBC’s dynamic virtual account (VA) solution together with robotic process automation (RPA), which has enhanced throughput, customer satisfaction and the company’s working capital position.

Zuellig Pharma has some 15,000 clients in Malaysia who make approximately 10,000 remittances per month that need to be matched against some 120,000 open AR items. The reconciliation process was previously manually intensive, as customer remittances were all sent to a single bank account. This necessitated considerable interaction with customers in order to clarify which customer was paying for which invoices. As the company’s standard payment terms normally run from the end of the month, this meant that there was a very heavy concentration of customer remittances coming in at month end. Given the manual nature of the former AR process, this tended to cause a bottleneck, which meant that reconciliation of each remittance could take several days. This could result in some customers running out of credit limit, causing them to call up requesting a manual release of their next shipment, further increasing the workload.

The solution: VA + RPA

Although manually releasing orders resolved the immediate issue and provided a measure of customer satisfaction, Zuellig’s treasury was looking for a more robust, standardised and automated way of managing AR and enhancing the customer experience. It accomplished this by splitting the problem into two elements:

1. Identifying the customer making the remittance
2. Identifying the invoices being paid by that customer

To address the first point, Zuellig turned to HSBC’s dynamic virtual account solution. Instead of customers making their remittances to a single Zuellig bank account, each customer would be issued with their own specific virtual bank account number to which they would send their remittances. An additional benefit of the HSBC dynamic virtual account is that account numbers can be generated by the client near-instantaneously, rather than having to ask and wait for the bank to do it. An additional benefit is that clients also have considerable flexibility as to the format of virtual account numbers. For example, a client can (as Zuellig did) incorporate the unique reference numbers it assigns to its customers internally into customers’ virtual account numbers.
Zuellig took full advantage of this flexibility by making the last eight digits of each customer’s virtual account number the same as their customer ID on its SAP ERP system. This meant that a cross referencing table between virtual account and SAP customer ID numbers did not have to be created/maintained, as the customer ID would be immediately accessible by parsing the virtual account number.

To address the second point, Zuellig implemented an RPA solution. This obtains the SAP customer ID from the virtual account number and then uses a number of different criteria to try and match the customer remittance with outstanding invoices. These include invoices due for payment, the total open invoice value, total outstanding, overdue invoices, plus others. In trying to arrive at a match the RPA also has some discretion over rounding errors, because the benefit of an automated match outweighs the cost benefit of querying a very small discrepancy with the customer.

Matching outcomes

If the RPA achieves a perfect match, it makes the necessary posting directly into Zuellig’s SAP ERP system and automatically sends a message to the customer confirming the receipt of their remittance and the invoices to which it has been applied. In these situations, everything is now 100% automated and there is no longer any manual activity involved.

Assuming the customer has paid to the correct virtual account number, but the RPA cannot achieve a match, it automatically sends a message to the customer advising them of this and asking that they provide the invoice numbers the payment was intended to cover.

However, under these circumstances the RPA performs an important additional step, by automatically collating a set of structured information (from the bank statement and SAP) relating to the unmatched customer payment\(^1\) and sending it to a human collector’s work interface. Then, when the customer responds to the automated message the RPA has sent and the collector attempts to resolve the situation with them, the collector will already have the necessary details immediately available. Previously, the collector would have had to log into SAP, type in the customer ID number and look for the relevant information manually.

Once the collector has resolved the match with the customer, they can simply complete a shortcut in the work interface that will marry the relevant invoices numbers with the remittance. The RPA then automatically posts this into SAP. Previously, the collector would have had to log into SAP and enter the posting manually.

The RPA queries the bank transaction feed automatically three times a day and also automatically refreshes the collectors’ work interfaces. This has the additional benefit of spreading the workload throughout the day, whereas before everything was downloaded on a batch basis only once a day.

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\(^1\) Customer name, amount paid and a list of the customer’s open items
Results and benefits

It is no exaggeration to claim that the new methodology has completely transformed the performance of Zuellig’s AR process. Since going live, 30-40% of incoming payments per month are being matched perfectly and 100% automatically by a combination of the virtual accounts and RPA.

A second group of 30-40% of incoming payments cannot be matched automatically, but the workflow for resolving these situations is now far more efficient because of the automated customer notification, the collector’s enhanced information and automated posting.

The gains achieved by the new automated AR methodology are impressive. Previously, matching and posting a remittance that tallied exactly with outstanding invoices took two to three days, whereas now it takes three hours at most. However, it can be considerably less than this, depending upon how recently the RPA has queried the bank account.

For the second group of remittances, where the customer can be identified but an automated match cannot be achieved, the situation is less clear cut, as much depends upon how quickly the customer responds to the automated message they have been sent. However, it is estimated that the time taken to match these payments has fallen by ~50%.

Collectively, the time saved through these efficiencies amounts to 3-4 FTE.
Enhanced customer experience

Another benefit has been the enhanced customer experience. The improvements in matching performance and the smoothing of AR workflow mean that far fewer customers are having orders held pending reconciliation or being chased for remittances they have already made. This also creates something of a virtuous circle because it also means that fewer customers are calling up collectors requesting manual release of their orders, thereby freeing up the collectors to spend more time on matching activities.

The enhanced customer experience implicit in the reduction in the number of held orders and faster matching times is also a valuable tool that collectors can use to help persuade payees who have not yet transitioned to a virtual account and/or use electronic payments to do so. Each one that then does further reduces the manual workload on the collectors, so they can spend more time matching the second category of remittances, or simply chasing delinquent payers.

The implementation of virtual accounts has also not impacted the customer experience when it comes to account opening. HSBC’s dynamic virtual accounts can be opened by Zuellig itself, rather than having to rely on the bank to do it. Given that the company typically opens around 100 new accounts per month, this might otherwise result in a bottleneck and slow the overall customer account opening process. A further important consideration is that many customers opening new trading accounts with Zuellig already have their first order ready to place and so are additionally intolerant of delay.
Working capital improvement

The new AR process is also delivering working capital benefits to Zuellig. In the past, customer orders were often released in good faith when requested, because the company had been unable to match the remittance. However, in some cases the remittance might not actually have been made at all at the time of the release request, thus disadvantaging Zuellig’s working capital position.

An even more significant working capital gain relates to a combination of the earlier automated release of pending orders (because of faster AR) and Zuellig’s normal payment terms, which are based on month end. In the past, the AR process might have held an order until early in the following month, so the credit period would have been counted from the end of that following month. Now, with the substantially expedited AR process, almost all orders on accounts where remittances have been received to terms are released in the current month, thus effectively improving Zuellig’s working capital position by ~30 days.

The future

“We continue to invest in digital solutions and are at the forefront of developments such as instant payments to ensure our clients can maximise efficiency through these tools as the regulatory, economic and digital landscape continues to evolve” says Hans van den Bosch, Global Sector Head, Consumer Brands, Retail and Healthcare, Global Liquidity and Cash Management.

The success of the new AR solution in Malaysia has prompted Zuellig to consider rolling it out to other jurisdictions in Asia. It is also looking at ways of exploiting the rise of instant payments across the region. A case in point is the on-going implementation of printed QR codes on invoices in conjunction with Singapore’s PayNow technology.

A potential use for this is where a Zuellig sales person visits a customer and instead of picking up a cheque, the customer scans the QR code. The payment is then made automatically\(^2\), which Zuellig’s new AR system will be able to reconcile automatically, while also sending a confirmation to the sales person. This last point has the additional benefit that if the sales person has the customer’s next order with them they can make immediate delivery. In addition to the improved AR and customer experience benefits, this scheme would also remove the risks of the sales person carrying multiple cheques and the delays inherent in the cheque clearing process.

\(^2\) This assumes the customer uses a bank connected to PayNow, which many of Zuellig’s Singapore customers do.
Conclusion

“Healthcare is an important sector for our franchise where we continue to partner with clients like Zuellig Pharma to help make treasury and the wider ecosystem more digital and connected.” Says Hans van den Bosch, Global Sector Head, Consumer Brands, Retail and Healthcare, Global Liquidity and Cash Management.

One of the most striking aspects of the new Zuellig AR process is that it uses two solutions that in combination amount to more than just the sum of their parts. In isolation, HSBC’s dynamic virtual accounts or RPA would have achieved some benefits, but these would have been comparatively limited. In conjunction, they have achieved something exceptional. The benefits they have achieved in combination include automation, faster processing, cost reduction, better customer satisfaction and a stronger working capital position.

“The successful implementation of this VA- and RPA-fuelled solution is a brilliant testament to our cooperation with HSBC. Our joint interest in developing innovative tools and the will to dive into new technologies has made the partnership with HSBC very fruitful. Thinking out of the box and coming up with new approaches needs partners with an equally entrepreneurial spirit. With HSBC we have found an excellent match,” says Mirko Dierks, Chief Financial Officer, Zuellig Pharma Malaysia.

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