Digital and platform business models

Transforming treasury for success

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HSBC

Executive summary

Evolution in the natural world is the process by which species adapt to changing environments. In the world of business, things are much the same. Adaptation is crucial for survival.

To prosper, organisations must be innovative with their business models, deploying a holistic approach that encompasses all tasks involved in delivering and capturing customer value.

As part of this challenge, powerful new digital models have become a strategic priority for companies looking to grow their reach commercially, as well as for ways to improve the efficiency of how they serve their customers.

The Treasury function plays a hugely important role in these transformations. The potential rewards from the creation of new digital business models demand a strategic approach in treasury management and one that is fully aligned with the organisation's broader digital agenda.

When change and innovation are afoot, it is crucial that Treasury is part of that process.

About HSBC Treasury Solutions Group

Our Treasury Solutions Group (TSG) brings ideas, expertise and experience to businesses who are actively seeking to transform their treasury. We support treasurers and encourage them to apply these ideas and strategies in practice during their business transformation journeys.

To start engaging our Treasury Solutions Group, contact your HSBC representative.

This paper:
A. Explores the rise of digital business models and how they are driving new ecosystems that play a key role in the commercial ambitions of many organisations
B. Examines key considerations for Treasury when digital business models are launched.
C. Highlights ten ingredients for success in creating a more resilient Treasury ecosystem[i]

The rise of digital business models and what drives them

Definitions of business models vary. One of the simplest is to understand them as a framework that organisations choose to execute their business strategy. These frameworks consist of several components – from the customer value proposition through to the resources and processes that deliver the revenues that drive the economics of the business.

Business models are often in a state of flux. But the fittest businesses are the ones that find ways of prospering in changing environments, particularly in an era of newly globalised competition that has intensified the need to innovate.

The rise of digital business models is a major factor in this new landscape. These business models can be broadly understood as leveraging digital technologies to achieve strategic goals: for example, how a company acquires customers, as well as how it delivers a compelling experience throughout the customer journey.

This year, worldwide eCommerce sales will exceed $5 trillion for the first time, accounting for more than one-fifth of overall retail sales. Despite a slowing in growth, total spending is expected to surge past $7 trillion by 2025[ii]. The trend is clear, offering higher revenues and compelling commercial opportunities.

Within the trend, there is a variety of approaches to making sales, although most sit beneath two broader headings. D2C (direct-to-consumer) describes a business model in which a company sells its products directly to consumers, bypassing traditional retail channels. B2B (business-to-business), on the other hand, refers to a digital strategy in which companies sell their products or services to other businesses.

It's also important to emphasise that the digital landscape isn't just a story of blockbuster start-ups scaling up rapidly and disrupting traditional markets. Established corporates and manufacturers are also innovating to reach new (and existing) customers by

What's driving the rise of digital business models?

1) Digitalisation. The proliferation of digital technologies is having an impact across almost every sector and industry. Digitalisation gives large companies the chance to reinvent key parts of their businesses. It is also a disruptive force, encouraging smaller firms and start-ups to challenge more established incumbents. Indeed, digital advances are changing the very definition of many companies by redefining their business models and transforming their value propositions.

2) Data. Digitalisation has given rise to an enormous amount of newly available data that companies are harnessing to create efficiencies and drive competitive advantage. Benefits like these are powering dramatic step-changes in commercial and operational strategy, supported by a virtuous cycle of data analytics and technology tools such as machine learning.

3) Customers. Consumers are embracing digital technologies like never before, influenced by trends such as the Internet of Things, as well as the seemingly inexhaustible advance of mobile devices in our daily lives. User behaviour continues to be shaped by new and innovative applications of digital technology, and consumer expectations are another key factor. Simply put, people expect digital technology to make their lives easier. Companies that don't understand this message risk losing their customers.

adopting digital-based platforms, often in conjunction with their more traditional sales models.

However, all of these strategies are based around platforms that use technology to connect people and resources within an ecosystem, with the digital aspects of the platform underpinning its capacity to create and deliver value.

The benefits include:
Network effects that kick in when the value of the platform increases and more participants (consumers and customers) start joining. A virtuous cycle of growth in reach and revenue can be created.

Scalability allows platforms to grow rapidly, generating much higher revenues but often without an equivalent level of ramp-up in operational costs.

Reduced capital requirements are another major benefit. Because digital platforms generally invest less in physical infrastructure and inventories, they can enjoy lower capital intensity, releasing funds to invest in business development.

Data-driven actionable insights provide another powerful differentiator. Business-operating platforms can derive significant amounts of data, for example on customer behaviour, which can be used to enhance platform performance and power personalised user experiences that drive revenue growth.

Case study

Heals Healthcare

Heals Healthcare is a digitally enabled healthcare platform that fuses together a fragmented industry of patients, doctors, administrative staff and insurers. Read more about the work Heals conducts with HSBC, including the challenges they have overcome and their transformation for success, here

What are the main kinds of digital platforms?

Data-driven, cloud-enabled and platform-centred businesses now make up some of the world's highest-valued companies. In many cases, they are hugely influential brands in their own right, with state-of-the art technologies that have become powerful enablers of wider economic growth.

There are four main types of platform model:

Aggregator platforms collect and compress data and information from numerous sources and present it to consumers. Typical examples include job search engines, price comparison websites and news apps.

Marketplace platforms rely on buyer-seller relationships. They provide tools for pricing or bidding, as well as supporting transactions. Examples include Flipkart, Amazon and Alibaba.

Sharing-economy platforms allow users to share or rent assets such as homes, cars or equipment, often on a peer-to-peer basis. Examples include Airbnb, Uber and Turo.

Collaborative platforms promote opportunities for teamwork and collaboration, with tools such as project management software, messaging apps and file-sharing. Examples include Slack, Asana and Dropbox.

Key considerations for treasury in delivering digital models

While the digitalisation of business models was already an established practice before Covid-19, the trend accelerated due to the impact of the pandemic.

Treasury teams have also been moving away from outdated systems and batch processing in response to the increasing velocity of money, or the growing speed at which money flows across markets and economies. This is prompting a series of new initiatives to bring more of the traditional treasury functions into the digital realm, driven further by continuing innovation in the world of payments, where real-time payments and collections are gaining traction too.

Treasury needs to support the new breed of digital business models. Delivering a fantastic front-end experience to customers is a great place to start for digital innovators but the gains can be diluted if the back-office fundamentals aren't optimised for efficiency. Payment processes that damage the customer experience can be detrimental to business success, for example, as customers expect to be served in a simple and seamless manner.

All of this means that treasurers are finding themselves at the heart of changing business models. Our **Treasury Solutions Group** is already working with a range of clients to implement digital transformations.

From engaging with clients across a number of sectors and industries, key considerations have emerged that are shaping the design and delivery of D2C and B2B platforms.

Changing profiles of incoming payments

Established corporates that operate traditional wholesale models usually report lower transaction volumes at higher ticket values. However, moving into D2C changes the profile of incoming payments.

Case study

Streamlining payments processing

HSBC Partner: Kitopi, a leading cloud kitchen platform that partners with food and beverage brands and restaurants in operating state-of-the-art kitchens.

Solution: Kitopi chose HSBC to implement an automated payment solution that moves away from spreadsheet-based processes to a proposition offering instant updates of payment status and automated reconciliation. The new approach has facilitated high-order volumes and swifter operations, as well as providing real-time transparency and enhanced controls over enterprise resource planning. Read more here.

Case study

Automating the funding of investment accounts

HSBC Partner: Saxo Capital Markets Pte Ltd, a fully regulated and licensed subsidiary of SAXO Bank, with an online trading platform providing trading and investment services to investors across a range of securities and market instruments. To enable people to fulfil their financial aspirations, SAXO reviews ways to improve the user experience for investors through their platform.

Solution: The traditional direct debit mandate application process required manual filling in and mailing of paper forms, and processing by both bank and billing organisation. This could take three to four weeks. Saxo created a fully automated end-to-end process for the funding of investment accounts. Read more here.

Case study

Digital solutions that enhance customer experience

HSBC Partner: Tillo is a global e-gift card network that helps companies to attract and engage customers.

Solution: Manual processing and time-consuming reconciliations were threatening Tillo's growth plans. Partnering with HSBC, it consolidated its banking platform, including the implementation of an API that pulls live data into the treasury system and provides Tillo's customers with instant purchasing when their money hits the account.

Benefits include greater efficiency in the receipt, processing and approval of funds. A reduction in processing and reconciliation time from days to seconds has also given the finance team more opportunity to focus on new innovation projects. Read more here.

Case study

Using APIs to streamline processes

HSBC Partner: Fundment is an investment platform and manager of model portfolios for financial advisory firms and their clients.

Solution: HSBC provided an API solution that streamlined much of Fundment's back-office administration of daily processes and client money operations. Benefits included reducing the need for larger teams of people to undertake reconciliations and verify the sources of client funding, which helped to dramatically speed up the onboarding and management of new client accounts. Read more here.

Selling directly to consumers via an eCommerce platform markedly increases the volume of payments, although the value of each payment tends to be much lower. This impacts collections as Treasury must handle and reconcile many more receipts. At the same time, there is no wait for invoices to be paid in 30, 60 or even 90 days. Cash is coming in much quicker, down to a matter of minutes when real-time payments are used. That's positive news from a working capital standpoint, although higher volumes of receipts can create other challenges
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A wider range of payments methods

Customer experience plays an influential role in selling directly to consumers and particularly in respect to the purchase journey. Payment preferences from online shoppers can vary across different parts of the world. A variety of payment options is desirable to meet different expectations of choice and convenience, which can add to challenges around collections management.

Pricing and payments in local currencies

Another reason for shifting to eCommerce is to grow customer bases in new markets, although this requires further consideration if there are new currencies for Treasury to manage. FX cost and risk management is imperative, as is delivering transparency throughout the purchasing journey, when customers want pricing and payment in their local currencies.

A need for superior payment experiences, including BNPL for business customers

Another way to increase sales to B2B customers is to offer them more flexible payment terms. Yet providing credit to business buyers can be an arduous and manual process, taking several days. This slows cash flows and risks frustrating customer expectations for a smooth eCommerce journey.

Giving buyers the choice of holding onto their cash longer can be a factor in improving customer loyalty, as well as encouraging more sales to smaller or mid-market businesses that are hungry for financing options. Additionally, more flexible payment terms may lead to faster, more predictable cash flows for vendors. For example, Buy Now Pay Later (BNPL) trade solutions allow merchants to be paid for transactions within 24 to 48 hours, with zero chargeback liability, rather than waiting for 30 or 60 days per typical payment terms. These near-instant payments mean there is more cash flowing into vendor bank accounts, making resource allocation and business planning easier.

The impact on working capital
A greater reliance on digital sales channels can have a meaningful impact on Days Sales Outstanding (DSO), which is a key measure in tracking healthy cash flows. A larger share of online sales can also make cash flows harder to predict, creating challenges for forecasting and impacting on liquidity requirements as the working capital cycle is shortened.

Expansion into new markets
Lower barriers to entry for D2C and B2B digital sales channels can help companies expand into new markets more rapidly than brick-and-mortar business models, although managing payments processes can also result in unforeseen complexities. Considerations include the kind of cash management structure that is deployed and the types of local payment providers with whom integration may be necessary.

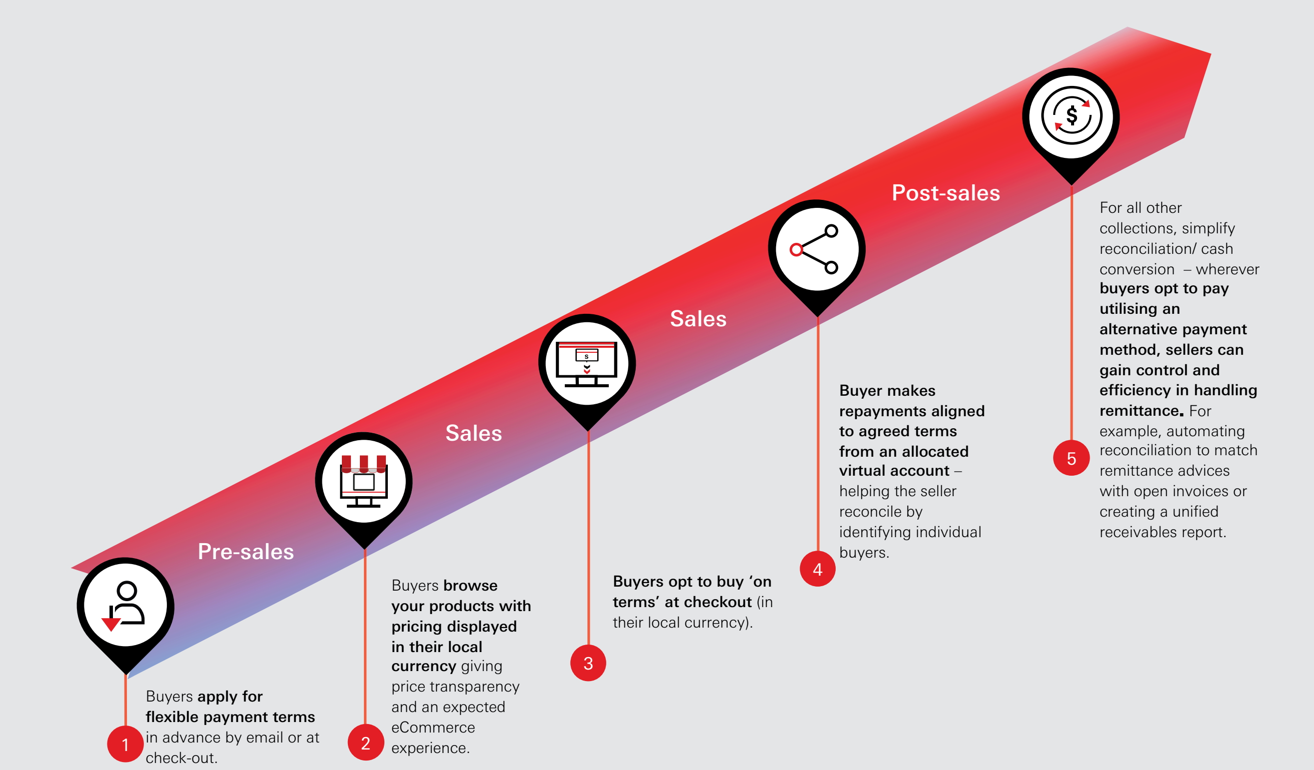
Case study

Embedded financing for B2B transactions

HSBC Partner: FreightAmigo, a one-stop freight booking marketplace that allows eCommerce companies to place bookings for air and ocean shipping.

Solution: HSBC assisted FreightAmigo with point-of-sale financing that helps its clients to maximise sales while maintaining better control over their cash flow. Using APIs to create an embedded financing option at the check-out page allows sellers to offer extended payment terms directly to customers within online platforms. The bank pays its commercial clients in one business day after they receive purchase orders.

Strengthening the B2B eCommerce Sales Channel



Ten takeaways for successful digital transformation

The build-out of digital business models offers tremendous commercial opportunity. But rapid advances in the digital landscape require that Treasury connects with other parts of their businesses to maximise the benefits.

In launching digital channels, Treasury needs to work closely with partners such as sales and eCommerce in implementing new strategies. In cases where new business models are already operational, it is important to monitor functions and processes to respond to changes in commercial trends and transaction flows, including situations such as expansion into new markets.

Treasury is an essential component of the change and implementation process, whether in forging new relationships with card acquirers and payment providers, managing the collection of potentially higher transaction volumes, or overseeing new types of FX risks and other challenges.

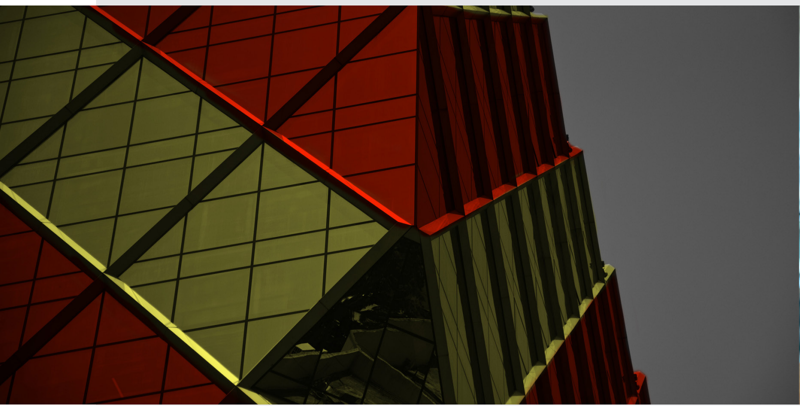
Here are ten takeaways for success, drawn from HSBC's experience in supporting its clients.

1. Work out the best payments strategies for your customers: Deciding on an optimal strategy and ensuring that it meets customer needs is essential. Integrating new payments methods into your existing systems can be expensive and time-consuming but there is clear demand from consumers for digital wallets that improve the speed, security and convenience of their transactions.

2. Recognise that payments methods may need to differ by market: Implement payments on a regional or country-by-country basis, maintaining a customer-centric process across different geographies and cultures. Sub-optimal choices can damage the customer experience and dampen sales, but choosing between payment processes has other implications for your business. Debit and credit cards remain pertinent as a payment method globally, with their usage shifting to being used from within 'pass-through' and 'staged' digital wallets such as Apple Pay, Google Pay and PayPal. Deciding on a balance between the range of payments options on offer and the cost of collections is also important.

3. Assess how payments methods can benefit your broader supply chain: Ensuring that suppliers are paid promptly improves liquidity management, helping to protect your supply chain. Real-time payments like SEPA instant and industry initiatives like SWIFT gpi, can help to support this.[iii] **For more on payments trends, including the drivers of innovation and the impact of changing regulations, read our TSG paper.**

4. Focus on FX risk: Cross-border eCommerce is growing[iv]. But the delivery of a localised experience for buyers brings a need to manage FX risks. If you expect significant flows of international sales, consider multi-currency pricing to allow buyers to purchase in their local currencies. Another key consideration is that settlement times may differ across payment service providers (PSPs). In cases where you opt to receive cash in a small number of settlement currencies to match the functional currencies



of your business, FX-related decisions are essentially being managed by the PSP. Liaising with your eCommerce team to assess FX inefficiencies arising from PSP settlement is important in protecting margins, just as securing competitive terms from PSPs can be beneficial for working capital.

5. Review collection processes: Customer purchase behaviour in digital marketplaces can be less predictable than purchasing practices in more traditional wholesale business while transaction flows that are higher in volume but lower in value can also increase the cost of collections. The benefits of a shortened order-to-cash cycle won't be realised if collections aren't handled efficiently. Automation and leveraging technology can help.

6. Plan for improved liquidity management and working capital: Selling direct to consumers can have a meaningful impact by shortening order-to-cash cycles. Although reducing days sales outstanding is beneficial for working capital as there will be more cash on hand, it is also important to think about your approach to liquidity management, including the implications for short-term investing and reporting.

7. Invest in appropriate technology and infrastructure: Potentially higher inbound transaction volumes may warrant a review of your technology systems to assess whether they can manage the size of transaction flows. Whether you are setting up your own sales platform or utilising third-party marketplaces, customers also expect payments processes to work smoothly and seamlessly. Plan for how the treasury function might choose to centralise systems that are becoming fragmented, as well as implement new options to support different payments methods and channels.

8. Consider the path towards real-time treasury: A real-time treasury system offers immediate information on an organisation's finances, allowing for faster decision-making around liquidity, cash flow, payments, working capital and funding. A treasury team with immediate information has a much better handle on risk and opportunity, while real-time data also gives a company the best chance of maximising profit. **For more on the benefits of real-time treasury, read our latest study.**

9. Keep data top of mind: Data has always been instrumental in effective treasury management - from the basics of the function through to forecasting cash flows, managing liquidity and ensuring optimal levels of funding. But there has been a step change in data's scale and significance, allowing for analysis, insight and action in real-time. Digital transactions can provide insightful information too, particularly as the ISO 20022 standard is gaining momentum. Key advantages include opportunities to improve reconciliation processes and allowing treasury teams to make even greater contributions to financial performance.

10. Partner with a global bank: Treasury is a driver for change and crucial to the success of business model transformation. Partnering with a bank like HSBC, with global reach and deep expertise in markets, innovation and technology, is essential.

Treasurers who keep these takeaways in mind will reap the best possible yield for digital business models. The potential outcomes include wider commercial reach, deeper engagement with customers, greater efficiency in treasury and a more robust supply chain. Digital models, properly adopted, will return the investment that treasury teams make in devising them.

i Learn more about Building a resilient treasury function – to protect, manage, and grow (hsbc.com)
ii Global Ecommerce Forecast & Growth Projections (insiderintelligence.com)
iii Learn more about Global payments trends: Considerations for corporate treasurers | Insights | HSBC
iv Cross-Border B2C E-Commerce Market Size & Share to Surpass (globenewswire.com)

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