Growing Pains

Solving Treasury Headaches for Firms Spreading their Wings Overseas

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Technology and novel business models are emboldening increasing numbers of small firms across sectors such as e-commerce to tackle new overseas markets in the quest for rapid growth. Here, HSBC's Ray Suvrodeep and Jon Denny shed light on the myriad of finance and treasury challenges these firms face and offer advice on how to overcome them.

The rise of e-commerce, and the digital economy more broadly, has been a notable feature of the global economic landscape over the past few decades. Recent upheavals, not least the pandemic, have accelerated that trend, presenting, fast-growing firms in these sectors with even more opportunities to expand their footprint. But, inevitably, rapid business growth also translates into challenges for finance and treasury functions.

For many of these established firms , treasury operations will be in their infancy. Jon Denny, Head of Payment Solutions and Propositions for HSBC Global Payments Solutions says while it is not unusual for an experienced treasurer to be brought in from a larger firm to kick-start treasury specialisation, they will have to be versatile. For beyond being an expert in risk management, treasurers of rapidly growing firms must undertake non-treasury tasks, including overseeing operational processes and controls and potentially reviewing legal contracts. They will also need to have a flair for technology and systems, even become good trainers of new staff with no treasury background.

Ray Suvrodeep, Global Head of Deposit & Investments Product Management, HSBC, further observes that these firms generally perform well in the initial rapid-growth phase, onboarding customers successfully and at volume as they enter new markets and diversifying their offering.

He says, with investor funding support being in place: "at that stage things look extremely good, with a fast growing customer base. It's what comes after, when they have to scale up, that more impactful challenges arise. Timely, top-level buy-in and communication are therefore key to identifying potential future challenges and having a plan to deal with them early."

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Suvrodeep adds that where these companies often struggle is supporting the growth with limited treasury specialisation and budget: "There is always a tipping point for treasury in a fast-growing company. Finance or treasury will usually have plans to cope with their CEO's ambitions for scaled growth, but without appropriate budget and increased headcount they can run into challenges."

Managing risk

There are many risks for firms engaged in rapid international expansion, including liquidity and funding risks, interest rate risk, and FX risk. Depending on specific industries and companies, other issues may also be at play, such as commodity risk. All can be magnified if the finance and treasury functions do not develop expertise and scale at the same pace as the business.

FX can be an especially thorny issue with fast growth and market expansion creating heightened risk on this front. While that implies the need for more complex FX tasks to be undertaken, Suvrodeep says these will often need to be absorbed within the firm's existing, limited resources. An effective FX management policy, however, is an essential first step in helping the firm to minimise adverse effects of currency movement, he adds.

There is also a plethora of non-financial risks – referred to as operational risks – that will need careful management. These can typically result from breakdowns in internal procedures and systems. Too many bank accounts, multiple banking arrangements and market level differences – such as cut-off times and regulatory reporting requirements – are yet more sources of this type of risk.

Denny says that to avoid elevating operational and other risks, firms need to avoid creating a financial management regime ill-equipped to cope with rapid expansion across international markets. And the way to do that, he says, is to "get the fundamentals right" with risk management.

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He explains: "In order to manage risk, treasury must first have the right information and capability to access that information on an ongoing basis. For example, having visibility of cash across bank accounts in various markets and currencies and having an understanding of who can access and control payments from these accounts. Although it sounds straight-forward, in a high-growth business environment, such information might not be always readily available.

"Developing and documenting treasury policy that is in line with the company's risk appetite and supports the growth agenda, is key here. The policy needs to be practical with appropriate responses when managing risk."

Crossing regions

At the strategic level, Suvrodeep points to the crucial importance of clear alignment of aims and objectives at the top of the organisation. "As these companies grow, funding that growth has an implication for the capital structure of the company. That needs to be agreed on a forward-looking basis at board level, which treasury then executes," he says.

While a highly centralised treasury model may not be practical for early-stage firms, Suvrodeep says standardisation of processes and controls for financial and banking transactions for all units and geographies should nonetheless be on their agenda.

Adding to this, Denny says that depending on their sourcing and distribution model, it is recommended that firms work with a banking partner to implement a fit-for-purpose payment and collections model in the target market. That will help, for example, meet jurisdictional payment scheme requirements, tax and statutory payment needs, and capital and FX regulations.

Cross-regional expansion, for example from Europe to Asia, or indeed vice versa, can give rise to further challenges. While entry barriers generally tend not to be high in such instances, competition is invariably high. A key task for these firms therefore, says Suvrodeep, is to address how much of their current business model can be replicated and what modifications it needs, if any, for the target market.

At a more granular level, cross-regional expansion often exposes firms to varying legal and regulatory requirements, different customer expectations, and dissimilar buying behaviours. Regulatory requirements across both commercial and financial aspects vary by jurisdictions, and, moreover, dependent on the firm's legal entity structure.

Holistic solutions

When considering how banks themselves can help these rapidly growing firms to scale their treasury functions efficiently and effectively, Denny first notes HSBC's mission is to work with businesses of all sizes to support their growth at all stages.

He adds: "Fast-growing digital businesses require an international partner with the right solutions and network to meet their needs and growth ambitions. We have the size to complement rapid growth, but we also have the tools to help our clients accelerate their digital transformation."

For example, HSBC offers API-enabled bank connectivity that works across multiple markets and payment schemes, enabling companies to leapfrog traditional treasury tech and benefit from leading-edge solutions primed for the real-time economy. Banks can also provide valuable analytics that can help treasuries with, for example, actioning more effective payment strategies, better liquidity planning, and forecasting, Suvrodeep adds.

HSBC recently launched its Treasury Solutions Group (TSG) specifically to help finance and treasury teams with their transformation journey. Denny says: "We have clients, large and small, at different stages of their journey, and with that comes a significant amount of experience and insight they can share. At HSBC we recognise the incredible opportunity we also have to learn from our clients, to share and develop insights and best practice."

Denny concludes: "We have many clients operating digital business models, such as e-commerce tech companies. In terms of solutions that banks make available to them, HSBC for one prefers to look holistically at the many challenges they will face across transaction banking because that is how the treasurer sees it in their world. That way, we solve pain points and enhance end-to-end journeys that have a longer-term material impact for their business and promote its resilience – which can only be beneficial for all parties."

Ray Suvrodeep
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