Whitepaper

# The Cash Flow Visibility Index
## A diagnostic tool for risk & liquidity benchmarking

CONTENTS

## INTRODUCTION

Proactive companies will always seek new and more sophisticated ways to achieve greater efficiency. Hungry to meet effectiveness targets, add value to the business and elevate performance, treasury and finance departments are on the hunt for information and critical insights that will offer an edge over their rivals in the marketplace.

The challenging economic environment of the previous eight years has only accentuated this corporate characteristic, forcing businesses to sharpen their teeth and take firm control over their money. Cash flow is consistently recognised as a major driver of business profitability, but harnessing it is another matter entirely. It requires complete end-to-end visibility of a company's cash positions.

Benchmarking is a critical tool in this process. Treasurers and chief financial officers are regularly bombarded with sales pitches loosely disguised as research or "best practice" advice informing them of the need to invest in various products to achieve their visibility goals. Any right-minded treasury executive cannot be blamed for being skeptical.

Despite its growing importance, there is very little rigorous and independent research in the area of cash visibility. Many companies may claim high visibility, but the market has lacked a sound source to measure these assertions in any reliable way.

The purpose of the Cash Flow Visibility Index is to provide a diagnostic tool that addresses this intellectual gap. In doing so, it should act as vital context for decision-making executives when transforming their treasury operations. And, as this whitepaper will detail, real-time end-to-end visibility is an elusive creature.

The Cash Flow Visibility Index is the culmination of intensive research conducted by East & Partners Asia, an independent specialist research and analysis firm, on behalf of Visa. Interviewing the top finance executives of more than 800 of the world's largest companies directly, East & Partners Asia has been able to map the structure, electronic footprint, and overall corporate cash visibility of these leading companies.

The data is designed specifically to allow finance executives to cross-reference against their own existing systems, processes and tools. Armed with this information, they can make more objective and calculated decisions that will achieve greater cash visibility and, ultimately, complete control over cash flow.

It is Visa's plan to refresh the index on a regular basis and deliver consistent and relevant benchmarking data that will form the bedrock for the judicious management of liquidity and risk.

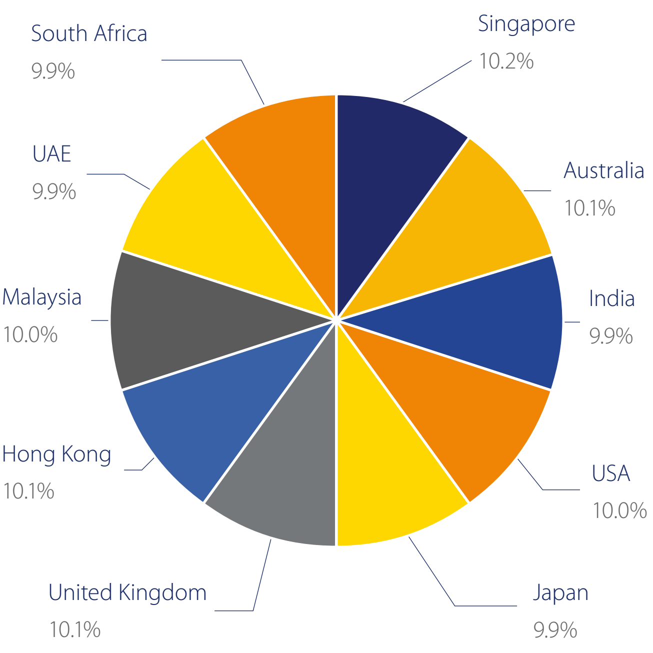
## METHODOLOGY

Visa commissioned the 2014 Cash Flow Visibility Index to establish and better understand challenges that organisations face with managing cash-flow and ensuring visibility. The research was contracted to East & Partners Asia and specifically assessed real levels of cash visibility and electronic footprint of companies in different markets and industries across the globe.

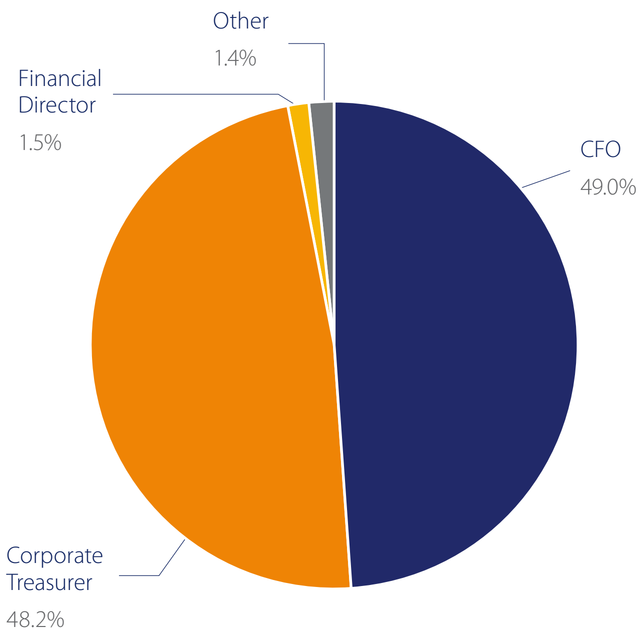
The fieldwork for the Cash Flow Visibility Index took place between August and September 2014. A total of 811 out of the top 1,000 institutions, as measured by domestic revenue, in ten countries/regions participated. All enterprises were interviewed on a direct basis using structured interview questions. A total of 20 questions, 17 quantitative and three qualitative, were asked.

The countries/regions comprised six from Asia-Pacific (subsequently classed as "regional"): Australia, Singapore, Malaysia, Hong Kong, India, and Japan. The remaining four include: South Africa, United States (US), United Kingdom (UK), and United Arab Emirates (UAE).

COUNTRY/REGION DISTRIBUTION



## INTERVIEWEE DISTRIBUTION

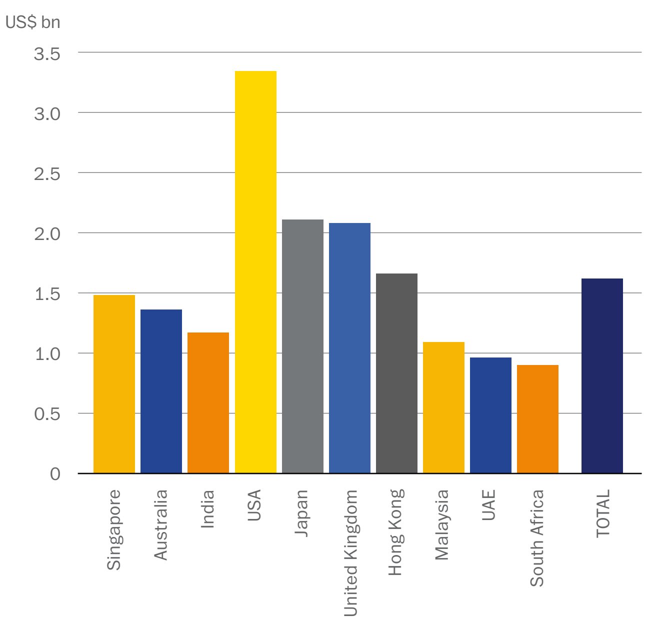



## INDUSTRY SECTOR DISTRIBUTION

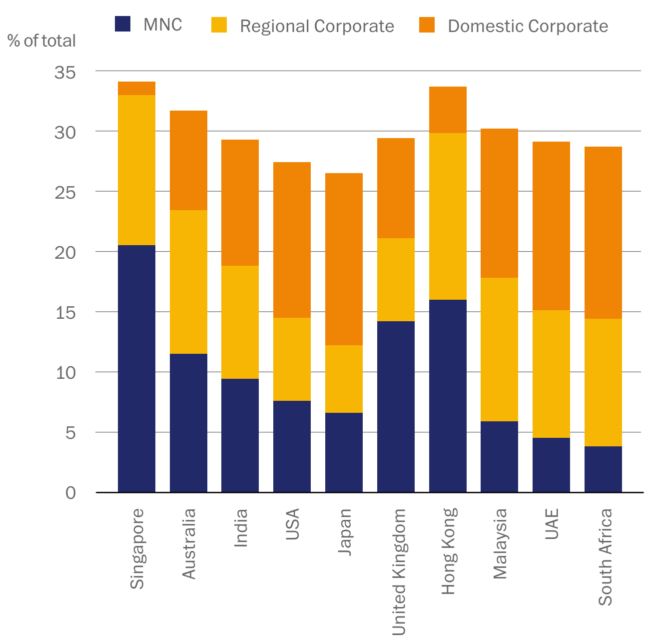
| | Sep 2014 |
|---|---|
| Agriculture, Forestry, Fishing | 5.5 |
| Mining & Resources | 8.6 |
| Manufacturing | 19.0 |
| Electricity, Gas & Water | 1.2 |
| Construction | 8.3 |
| Wholesale | 8.6 |
| Retail | 12.3 |
| Accommodation, Cafes & Restaurants | 2.8 |
| Transport & Storage | 7.3 |
| Media & Telco | 1.1 |
| Finance & Insurance (non-banks) | 4.6 |
| Property & Business Services | 11.8 |
| Personal & Other Services | 8.8 |
| TOTAL | 100.0 |

Note: banks specifically excluded from the France & Insurance sector coverage.

## AVERAGE TURNOVER OF INDEX COUNTRIES/REGIONS




## STRUCTURE OF INDEX SAMPLE



## KEY FINDINGS

- Motivation to achieve cash visibility was high globally, with an average score of 2.16 (on a scale 1 to 5, where 1 is "very engaged"). Countries/regions with higher engagement were significantly more likely to have higher levels of automation in the management of payables and receivables.

- Supporting expansion plans is a key driver for businesses in India and the UK, while cost cutting was prevalent with UK and Japanese companies.

- Only 8% of regional companies have access to real time cash visibility, despite the importance cash visibility plays in a company.

- Only 52% of global companies have a 30-day window of visibility of their cash obligations and only 19% have 60-day visibility. However, as many rely on data that is two-weeks old, they are really only forecasting two-weeks ahead.

- Only 12% of regional companies were extremely confident of the financial information in their systems to general cash-flow visibility.

- Only 50% of regional corporations use an electronic platform to manage revenues. Of this, 14.5% of their revenues are collected electronically. For payables, only 58% are managed electronically using a payment platform.

- The average company has 60% of its payables managed electronically using a payment platform, with 9.1% of paper-based payables ditigised into a system. This leaves 30% of payables managed manually.

- Many organisations spend up to 253 hours per week manually inputting data for cash analysis, indicating such reports are approximately ten-days old before consumed.

- For the purposes of forecasting, regional companies using an electronic platform can see 82% of their cash electronically. This number rose to 94% for companies in Singapore and Australia, while only 65% of Indian companies could.

## ELECTRONIC CASH FLOW REPORT READINESS

Enterprise resource planning (ERP) system reports of leading regional companies are only 65% ready for immediate cash flow forecasting and analysis. This is a 2% improvement on global peers, and on average 43% of these regional names need more than one day to manually complete their reports. At a global level, 48% of companies need more than a day to finish.

Broken down by country, Singapore is the true standard bearer in Asia-Pacific with 70% ready for immediate cash-flow forecasting and analysis. Only 20% need more than a day to manually complete their reports. Australian companies fair the same (71%) when it comes to cash flow forecasting and analysis, but an impressive 88% are able to edit their reports in a day.

Indian companies are laggards in this area, requiring manual intervention for 48% of their operations. On average, more than 40% of these companies require three days or more to complete their reports. Only a small percentage more said it could be achieved within one and three days.

Reports generated by Malaysian companies' ERP systems are only 56% ready for immediate cash flow forecasting and analysis, with 10% of the remaining needing more than three days to finish the job and 68% achieving it in just over a day.

*Expert commentary: "Levels of confidence were also marginally higher among regional corporates as opposed to MNC's. With fewer bank accounts and a smaller geographical footprint, regional organisations are not dealing with the same levels of complexity in their attempts to achieve visibility. "*

- Lachlan Colquhoun, chief executive, East & Partners Asia

## CONFIDENCE IN THE DATA

Confidence in the information ERP systems are pushing out was in short supply. Only 10% of the global employing fully automated platforms were "extremely confident" with the accuracy of their cash flow visibility reports. At a regional level this number only increased to 12% of companies with same standard of platforms.

Australian companies with fully automated platforms and "strong confidence" in their cash flow visibility reports reached 23%. This number dipped to 9% for Japanese companies and less than 6% of Malaysian corporates was extremely happy with the data that was coming through their systems.

Indian numbers provided some concern. As little as 36% of Indian companies employing automated payments platforms (with only minimal manual intervention) had confidence in their data.

In fact only 55% of Indian corporations use a payment platform at all. This compares to a global average of 83%. None of the 55% who use a platform said they had strong confidence and absolutely no Indian companies were extremely confident in the data they are capturing from their systems.

## ACCESS TO REAL-TIME CASH VISIBILITY

Only 8% of all the 811 companies interviewed have access to analytics reports that provide real-time cash visibility. Almost three quarters (73%) of regional companies are relying on reports that are more than a day old. Global companies on average claim they have 80% of cash visibility coming through their ERP systems.

In Singapore, 89% of companies do not have access to analytic reports that provide real-time cash visibility. A majority, 58%, is relying on reports that are more than a day old.

Australian corporates fare better, with about 85% lacking access to real-time cash data analytics. Just under half of those interviewed claim they are relying on reports that are more than a day old.

These statistics shoot up to very high levels in India (97.5%) and Malaysia (95%) where these companies do not have access to real-time cash visibility. In India 91% are trusting reports that are more than one-day old and only 15% have access to reports less than three days old. Less than 20% of Malaysian companies have access to cash flow analytics less than three days old.

## VISIBILITY OF FUTURE CASH OBLIGATIONS

Only 52% of global corporations have a 30-day window of their cash flow. However, analysis reveals that as they are more often than not relying on information that is approximately two-weeks old, actual visibility of cash flow can only be effectively forecast two-weeks ahead. Only one fifth of global companies are able to see beyond 30 days.

At a regional level, only half of those interviewed said they were able to forecast their cash obligations up to 30 days ahead, while 81% admitted they were unable to project 60 days ahead.

Again, companies in Singapore have compared well to their regional peers with 59% able to forecast their obligations up to 30 days ahead. That said, they are also working with data that is almost two-weeks old. Only 19% of  the same companies have the capacity to project up to 60 days ahead.

In striking contrast, only 13% of Indian corporations are able to forecast their cash obligations up to 30 days ahead. A mere 5% said they could do it up to 60 days.

In Malaysia, a less-than-healthy 63% of corporations do not have the resources to forecast their cash obligations up to 30 days ahead, while 90% admitted it was not possible to project 60 days into the future.

## MANUAL TRACKING OF CASH FLOW OPERATIONS

Despite relatively noticeable delays in establishing access to full cash visibility, many companies run ERP systems that can track a reasonable percentage of their cash flows. However, plenty of cash is still tracked manually on spreadsheets, increasing the risk of human error interfering with data.

At the global level, 78% of cash flow is visible on an ERP at any moment. Impressively, this number is surpassed by regional peers who claim 83% of their cash-flow is visible on the ERP at any one moment.

That said, regional companies admitted they tracked 34% of their cash-flow operations manually on spreadsheets.
Companies in Singapore track 29% their cash manually, while Australia-based firms track only 26%. These numbers jump to 41% in Malaysia and 44% in India, where companies can respectively track 70% and 65% of their cash electronically immediately via ERP systems.

*Expert Commentary: "Dependence on spreadsheets is a double edged sword: they offer a backup and a degree of safety, but at the same time they represent the inability to fully leverage the ERP systems which represent a significant investment"*
- Lachlan Colquhoun

## PAYABLES MANAGEMENT

The average corporation globally has 60% of its payables managed electronically with a payment platform. However, only 9.1% of paper-based payables are digitsed into an ERP system automatically. This means effectively 30% of payables are managed manually.

Regional companies are in a similar boat, with 58% of payables managed electronically on a platform, while 9.3% of all paper-based payables are digitised into a system via automation. This means one third of payables are managed manually by regional companies.

Hong Kong companies provide stark contrast to their Indian rivals in the area of payables management. While 18% of payables of leading Hong Kong companies are still managed manually, this number shoots up to 82% in India. Approximately half (48%) of Malaysian companies' payables are managed by human hand.

## RECTIFICATION

Despite Singapore companies' high level of automation, companies typically spend 122 hour per week engaged in manual intervention rectifying errors founds in their cash flow reports. In Australia the number is similar, with almost 117 hours per week being filled with manual work dealing with errors.

## RECEIVABLES MANAGEMENT

Receivables management is surprisingly neglected compared to its payables counterpart. Only 40% of global companies have an electronic collection platform to manage their revenues, while only 14.1% of revenues are managed electronically by a collection platform.

At the regional level, 50% of corporations do not have an electronic collection platform geared to manage revenues. At the same time, only 14.5% of revenues are captured automatically by a payment system.

In Malaysia the percentage of companies who lack an electronic collection platform jumps to 83%, far higher than Singapore (28%) and Australia (24%). More of a concern is that only 6% of revenues from Malaysian companies are automated by a payment system. This compares to 12% with Indian corporates, 21% in Singapore and 25% in Australia.

*Expert commentary: " Organisations have clearly prioritised payables over their receivables as they configure their platforms, even though this would seem counterintuitive to goals of optimising cash flow. Even where there are electronic payment platforms, the question must be asked as to whether they are being utilised effectively*
- Lachlan Colquhoun

## BEHIND THE NUMBERS

In any benchmarking exercise, it is important to provide context for the above results. In this section we offer some core data points on the companies and their structures that should help you position your operations and your cash visibility amongst global and regional peers.

This can be broadly split into three key sections: corporate structure, electronic footprint, and overall cash visibility. All data listed below are a global average.

## CORPORATE STRUCTURE

The average company across the 10 markets in Cash Flow Visibility Index works with an average 4.3 banks. Companies from USA, UK, and Hong Kong typically have between six to seven banks, while those from the UAE, South Africa and Japan tend to work with two or three banks.

The number of bank accounts a corporate has is an indicator of how complex a company's account management can be. The global average number of bank accounts a company has is 224, with companies in the US (469), UK (368), and Australia (303) using the largest numbers.

### USE OF INTERNATIONAL BANK ACCOUNTS

| | Average number of accounts reported | Average accounts/ banks used |
|---|---|---|
| Singapore | 266 | 54.3 |
| Australia | 303 | 58.3 |
| India | 148 | 44.8 |
| USA | 469 | 68.0 |
| Japan | 123 | 43.9 |
| United Kingdom | 368 | 55.8 |
| Hong Kong | 242 | 42.3 |
| Malaysia | 161 | 53.7 |
| UAE | 88 | 40.0 |
| South Africa | 72 | 34.3 |
| TOTAL | 224 | 52.1 |

The size of management information staff (MIS) working in AP/AR roles can help provide an insight into the labour efficiency of a company in achieving cash visibility. The size of MIS teams for corporates globally ranges between 120 and 210, the overall average being 173.5.

In terms of efficiency, US MIS teams have a ratio of 3.9 accounts managed per staff member. South African corporates have the lowest efficiency of the 10 markets with a ratio of 0.4. India and Japan operate at 0.7 accounts per member staff.

The global average frequency of cash flow reporting is weekly, although regional companies are more likely to conduct analysis and planning on a monthly basis. In India, for example, the vast majority of companies (50%) commit to cash flow planning on a quarterly basis.

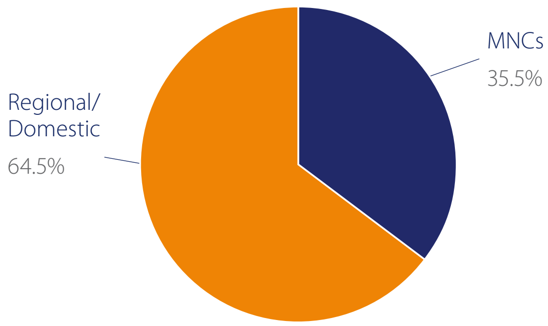
## ELECTRONIC FOOTPRINT

Companies with a higher number of corporates owning payments platforms generally had a higher percentage of their payables managed by the system.

In short there are three broad categories: countries/regions with total implementation (Singapore, Australia, UK, Hong Kong); countries with implementation of more than 80% (US, Japan, Malaysia); the remainder have less than 80%.

The level of electronic payment utilisation across the ten markets varies, as does the degree of payment and receivables automation available inside the platforms. For example, 83% of global companies have an ERP set up to manage their payables electronically. Only 9.1% of the remaining payables (whic are paper-based) are managed with paper-to-digital automation.

VISIBILITY OF CASH FROM ENTERPRISE SYSTEM
BY CORPORATE LOCATION




| | Average % reported |
|---|---|
| MNCs | 92.3 |
| Regional/Domestic | 70.6 |
| All Market | 78.3 |

## OVERALL CASH FLOW VISIBILITY

For the purposes of forecasting, multinational companies – defined as corporates with material assets and operations beyond the domestic headquarter country and immediate region – appears better set to achieve visibility, with 92% of their cash readily visible from the ERP system with a click of a button. For a regional or domestic company this dips down to 70%.

THE GLOBAL AVERAGE CORPORATE - ELECTRONIC FOOTPRINT

| Description | Global average |
|---|---|
| % ERP - Payables | 59.4% |
| % Automation - payables | 9.1% |
| % ERP - receivables | 14.1% |
| % Automation - receivables | 7.4% |
| % Cash visable on ERP | 78.3% |
| % Cash visable on spreadsheet | 35.7% |
| % Ready to use | 62.9% |

For the 92% of global companies who are not able to achieve full cash flow visibility immediately, manual intervention, report preparation and rectification all eats into valuable time. The longer the delay the less valuable the data is.

On average the global corporate will take one to three days to prepare and edit a cash visibility report. In terms of consolidating the data most companies will take between three days and one week. The average report's "up-to-date-ness", a measure of how close the raw data matches the present cash-flow, is also between three days and one week old.

All these factors play a dampening role in achieving accurate forward visibility. As mentioned before, most companies are really only able to achieve between two weeks and 30 days of forward visibility. Practically all Singaporean, Australian and Indian companies struggle to achieve 90 days and beyond.

## CONCLUSION

Cash Flow Visibility Index has delivered transparency in an area of treasury management long neglected by thorough and comprehensive research. By no means to be used in isolation, the index does however provide treasurers and chief financial officers with a vital tool in learning how to achieve a high degree of cash visibility, essential in the battle to harness cash flow.

Despite polling some of the world's largest and most sophisticated companies, it is surprising to learn that 92% in the region lack real time cash visibility, with only 50% able to achieve 30-day visibility of cash obligations.

What the report does reveal is how the lack of full electronic and automated reporting can stifle real-time visibility on cash. The results indicate that without the right systems in place, companies will spend up to 253 hours a week manually entering data and preparing cash assessment and analysis reports.

Even corporates with highly sophisticated systems geared for cash visibility don't have an overwhelming confidence in the numbers that are being collated, confirming that achieving cash visibility is not just about installing expensive systems and hoping for the best. Continued investment and time is required in ensuring the most accurate outcomes.

Visit Visa commercial solutions' website to find out more

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