BANK OF AMERICA

From local to global – expansion for mid-sized companies

Host: Jonathon Traer-Clark

Co-hosts:

- Doug Houser, Head of Transactional FX
- Nick Arnell, Head of Corporate Electronic FX Sales

Jonathon:	00:00	You're listening to the treasury insights podcast. This is part of our broader objective to foster a treasury relationship that prepares clients for the future supports more strategic decision-making creates efficiencies and helps manage risk puts another way we want to give you the power to see what's next. On today's podcast. We would like to discuss the effects of being a successful regional business and how it can accidentally become a global company. Expanding globally unlock sales opportunities, but it also creates many new challenges. I'm Jonathon Traer-Clark, Managing Director GTS, and with me is Doug Houser, Head of Transactional FX; and Nick Arnell, Head of Corporate Electronic FX Sales. Doug, let's start with you. In your years of experience in the industry. How often do you hear about businesses accidentally becoming a global company and why does that occur and how does it occur?
Doug:	00:58	Thanks, Jonathon. The last 20 years, we've seen the increasing pace of globalization large companies are trying to become global much faster. Intentional growth has been so great, but you also see that it leads down into the middle market and into smaller companies. And usually when they come to us, they think of it as a problem. The rapid pace of globalization has meant that the multinational corporation isn't the only global player, but you see mid sized companies all the way down to the smallest mom and pop shops that actually have some global component to their business.
Jonathon:	01:34	Thanks, Doug. Would you say that trend has been increasing over the past five to 10 years? It seems to me that we're creating more and more of a global economy sourcing goods and services, and then selling them globally as well.
Doug:	01:45	Think about your own experience as a consumer. All marketplaces are global and if you're not, you're missing an opportunity because the ease with which you can become global and you can sell globally, all that friction has gone away with the advent of online commerce.
Jonathon:	01:59	Makes perfect sense. Thanks Doug. Nick turning to you, what about your views? Have you seen the same sort of things?
Nick:	02:05	A lot of times we come across companies who weren't necessarily trying to become international. Whether you're sourcing supplies from overseas and doing that at a lower cost, or whether you're looking to expand your business and develop sales capabilities outside the U.S. and therefore

you've got to have customers that are located outside of your home country. It's almost inevitable that companies that are in a growth mode are going to have to start looking internationally at some point. We come across a lot of companies who may have started as purely domestic companies that suddenly have exposure to some of these foreign countries, either from a sourcing supplier perspective or from a sales perspective.

Jonathon: 02:45 I agree with you that one of the biggest challenges for a treasury function or indeed just for a company is when you start to cross borders and go overseas, that creates all kinds of interesting challenges. We've discussed, it kind of happens naturally with today's globalization trends and borderless trade, shall we say. How do you manage the scope and the pace of it?

Doug: 03:04 One thing is there's help for this now from professional services, from accounting to consulting, there's people and organizations that can help you through the journey. I mean, one thing that's very difficult and let's face it. It's something that's a little bit scary to move into a new market is regulatory framework. I want to move into a country, but I have no idea what I'm getting into from a regulatory standpoint, just for the up and coming company to know we've seen this journey before and there is help to support a growing business and also industry groups and professional conferences. There's now a way that you can go engaging with peers and with service industry to be able to grow internationally and demystify the whole process a little. That's really, really what they want is some comfort as they grow.

Jonathon: 03:54 Thanks, Doug. We talked a lot about when you go overseas, we talked about, there's help available, which I think is great. We mentioned regulatory challenges. We mentioned setting up structures, but I think both you and Nick talked about there are steps that you can take to ease that migration into being an international company. I think one of them, which both of you are presumably would be quite keen to talk about would be around transacting in local currency. Doug, if I could get you to talk about some of the challenges that would happen there.

Doug: 04:24 I'll give an example of a domestic client in the United States, that when you see a domestic company that has only transacted in U.S. dollars, when they take that step, that first step to go to that next currency, that's the biggest leap for them because when they think about it now with that comes, oh I know nothing about this. How am I exposing myself to, how do I even transact? I think that something that we tried to do is to simplify this process and again, remove some of that friction. And by that, I mean it's an education process. If you've got an invoice in Canadian dollar, we want to make it easy to transact in Canadian dollar. Now let's layer in automation around risk management, or take that risk off the table. It's something where as you're up and coming, you don't have a staff of 20 people to try to manage risk. We can offload some of that. That's what we really see as those first tools are ones that make it easy to transact and also to easy to risk manage without a huge lift and without a long lead time for entire educational process.

Jonathon:	05:27	Okay. Thanks Doug. Nick, certainly I think one of the things that was interesting there was he was talking about risk management. If you could elaborate on that and perhaps some of the analytics and execution tools that we have available for customers or things that we would suggest that they think about.
Nick:	05:40	Sure. Let me add on to Doug's point a little bit there. On the foreign exchange side, when we go into talk to clients about their foreign exchange exposures, it's really a twofold conversation. As a global bank, we try to provide those types of solutions to our customers so that they are well aware of where they're transacting, how they're transacting and how they can do that more efficiently. The second part of that is how are you managing the risk exposure attached to those underlying currency pairs? Do you have balance sheet hedging programs in place so that you can actually mitigate the risk of currency exchange movements over the course of time?
Nick:	06:18	The interesting part in a lot of the companies that we speak to, especially those that are recently moving towards international markets is we'll go in and have that risk mitigation discussion. A lot of them will say, well, we don't have any currency risk because we transact everything in U.S. dollars. Which essentially means that they have moved into international markets. But because they're of a size where they don't want to take on the incremental tasks of having to operate through local currency, they've just continued to execute through U.S. dollars. That's oftentimes one of the first steps that companies will take when they move international. If you're sourcing those supplies and paying as U.S. dollars, that's fine. Technically you don't have any risk on your accounting books, but the supplier that's sending you those supplies does have local expenses and they need to pay their employees in local currency. There has to be some sort of conversion that occurs when you're purchasing those supplies and therefore there is inherent FX risk.
Jonathon:	07:16	Thanks Nick. Doug, if I come back to you for a second. I think the execution tools and the connectivity side is an interesting area for our clients. How do they connect with us and how can they interact with us? Does it have to be via voice, or is it all electronic now?
Doug:	07:31	Increasingly it's electronic. I do think that electronic is better for everybody simply put, I think we've all seen this recently. Being able to deal electronically everywhere has advantages in this environment more so

than ever. Everything is transparent. There's audit trails the entire way through. It wasn't the case that everyone had, for example, electronic books and records, right. But they had an accounting program at least, or something like that. That wasn't always the case. A lot of it was paper, but you don't see that nearly as much anymore. Even the smallest players all the way up to the largest players have some electronic finance that they use. The ability to integrate those tools with our execution tools.

Doug: 08:12 It's just very powerful. As they're growing, clients want to focus on their growth. They don't want to focus on the growth of their treasury organization. To be able to connect to them electronically, what that allows them to do is it takes that massive manual lift off of them and allows them to concentrate on really what they're in the business of doing. The financial function is something that should be supporting that growth. Not something that should be another way that they're growing and something that takes up a majority of their time.

Jonathon: 08:38 Essentially scale through digitization and business enablement through digitization and electronic channels. Something I know that's close to both of your hearts at this point.

Nick: 08:47 I think over the last five to 10 years, we've seen a big shift in the way FX is executed. It wasn't that long ago that treasury teams were reaching out directly to sales desks to execute what I would deem to be transactional effects. There's lots of electronic options out there from single dealer, multi dealer perspective. On the transactional side, we've seen a big shift towards single bank platforms, CashPro in our case, where clients can go in and you can do essentially everything electronically. You can then transfer funds, whether that transfer of funds is within country or outside the country.

Nick: 09:24 And whether that's U.S. dollars or foreign currency, it can all be done in one place. I think the shift that we've seen over the last 12 to 24 months and will continue over the next couple of years will be a move away from electronic platform where someone is going in and keying in information and more towards direct API connectivity between a bank and a customer.

Jonathon: 09:46 Great, thanks, Nick! Doug, back to you, this is all using advanced APIs and all that kind of stuff. How easy is this for a client to do? We talked about becoming accidentally global. Does it mean that I need to accidentally up my technical acumen or is this fairly easy to work with the bank to resolve?

Doug: 10:05 Well that's a key to what we've seen in the market is that clients don't want to just connect directly to us, but they want a way to be able to access our tools with this sort of integrated risk management component as well. If you have access to our banking tools and you have access to Cash Pro you have access to guaranteed rates. That's as simple as it gets.

If you can access Bank of America through any of our channels, you have access to this type of service. You're using a bank to help you manage risk. We're transactional in nature. It's exactly 45 days. It's not really risk management. It's really just us having that liquidity to be able to do that. Here, when you say I have invoices coming in some of the late paying, some are early, I'm not exactly sure. That's okay, we'll take on that risk. Now we're a real risk management partner. That's something that is very easy to use. We're saying rather than you take on the risk and manage the risks and think about it every single day, we're going to take that off of you. Combining both that transactional piece, which risk management really off-loading that burden again, we become accidentally global.

Nick: 11:14 Part of our job is to identify pain points for customers as it relates to that business, and they came back with pretty consistent feedback as it relates to transactional FX. I know I've got some economic risk, but it's not that large, and I don't know that I'm ready to implement a full-blown hedging program to manage that risk. The second is I got a lot of accounting noise. Let's say over the course of a calendar month or a calendar quarter, I might have 45 invoices to pay, in let's say, Europe, that means I've got 45 spot transactions, which means I've got 45 different FX rates.

Nick: 11:47 At the end of the period, someone in my accounting or treasury team has to reconcile all of that back to an accounting rate and also a budget rate. I've now got 45 executable rates, one accounting rate, one budget rate, they're all different that causes a lot of noise from accounting perspective. The last piece was with Dodd-Frank and credit components, et cetera. One product that we've been pretty aggressively introducing to customers, and we've gone down this path of talking about it through an API solution, but it doesn't have to be. Is this notion of a guaranteed FX rate and a guaranteed FX rate simply means an FX rate that is held for a period of time.

Jonathon: 12:25 Can you give us some examples of companies that they've had to deal with this and how they might have handled it? It sounds like there's a fairly simple path for them to kind of access this capability. I'd just be curious if there's any stories you could tell us.

Nick: 12:37 Sure, from the very simple we've had companies who are sourcing product from overseas and they've typically invoiced in U.S. dollars or been invoiced in U.S. dollars. And it kind of goes back to a point I raised earlier, which is they don't believe that they have FX risk. What they've found when they've asked for a dual currency invoice. There's a lot of the suppliers were actually including pretty substantial padding charges to those invoices. But again, you're locked in for that period of time. That's the most simple way of using it. You can then go down a path of doing it at an invoice level and doing it through an API, which is a much more integrated approach.

Jonathon:	13:17	Doug, what about, you? Can think of some examples, maybe next steps with how that grows?
Doug:	13:21	One story that I think of, is a client who came to us and said, I have tons of noise in my receivables that are coming in in foreign currency. We presented this as a way to potentially manage that risk. They said, I'll send you over my files of invoices and all the information about when they were actually received. That's very powerful data to have.
Jonathon:	13:43	I love that cause you're talking about essentially we leverage the data and the insights that the client's giving us, you gave very specific examples there. You're actually turning that into a conversation, not just about, as you say, the foreign exchange elements of a being academically global, but also the working capital implications, how they're managing their trade flows and everything else, so there's a portfolio of services and opportunities, frankly, for the client around how they're managing their business. Is that right?
Doug:	14:11	That's exactly right. We have that conversation and they're thinking about because you tend to tackle problems when it's so fast paced and you're growing so fast, you tend to be tackling these problems just as they come at you. If we can step back and say, let's look at the entirety of the process, let's look at how you're doing this. Even if we frame it in the context of one particular service in this case, foreign exchange risk management. It really leads us into conversations about now how can we actually help you grow in a sustainable compliant and efficient way?
Jonathon:	14:45	That's great. Thanks, Doug. Back to both of you just kind of final comments or observations, we have focused a little bit on FX, but I think we've also focused on the use of data and connectivity and how we can partner with our clients to help them grow overseas comfortably. And with a strong partner, perhaps I'll come to you first, Nick, anything else that you think that our clients should be aware of or things that they should think about as they cross borders?
Nick:	15:11	I think you've hit on a really key point there, which is data is key. There have been lots of examples where companies actually have flows in and out of certain countries that they didn't realize that were actually crossing themselves. They have expenses on sales and they're being managed by different teams. Once you can get all of that data into one place, you can have a much more informed conversation about what is your risk exposure? I do think the future is one through improved data analytics. I do think that predictive analytics will have a very important place in this world in the not so distant future, as I've mentioned already, I think API connectivity is also key.

Jonathon: 15:52 That's great. Thanks, Nick. It certainly sounds like we're getting towards a much more intelligent treasury. Doug, what about you? Any final thoughts from you?

Doug: 16:01 I feel a lot of what Nick is saying about how our clients are going to interact with us in the future and how they're going to interact with their partners, not just the banking partners, but all partners, with data being at the center of it. We talked about data and everyone says data as a buzzword, but really it's moving the analytics from just, what did I do yesterday? And then call it information reporting and everything like that. There's so much data, but very little information about actually what levers are going to move their business. Likewise, we have a lot of data and we have a lot of historical data on similarly placed businesses.

Doug: 16:40 We really want to get into a position in the future where the clients can come to us, and they can be able to give us their data in real time, and we can feed back to them insights such as you look exactly like this client was 10 years ago and this is what they did, and this is what they probably should have done. We're having a data dialogue to be able to come up with a smarter way to give recommendations for how you should structure, what you should do, how you should manage your risk and even things such as how you should grow. What countries you should grow in, what you should look to acquire. It's really exciting to see this evolution.

Jonathon: 17:20 Very well put, brilliantly insightful comments from both of you. I want to say thanks to both to you Nick and to you, Doug, for this fascinating look into the accidental global company. It's a huge topic. I mean, I think we've barely scratched the surface, but certainly an awful lot of leveraging of both technology and information to create better opportunities for efficiency and scale for companies that are experiencing that growth.

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