Expanding Rapidly? Don't Grow Alone

From online gaming and shopping to education and software services, the digital, technology and communications industries saw continued and even accelerated growth during the global pandemic while many other industries suffered from supply chain issues.

With online distribution models and few physical assets, companies with digital offerings are built for growth — and rapid expansion often calls for speedy decision making. But hasty banking choices made early on can lead to major headaches down the road. A strong banking partner can help avoid those issues.

Senior executives at these "digital" companies are understandably focused on business expansion, and they may not have the time or resources to devote to less glamorous banking decisions. Others may understand the importance of making strategic decisions on payments, collections, and other transaction services, but quickly grow frustrated if their bank cannot move fast enough. The right banking partner solves both problems — allowing management to stay focused on business growth while positioning the company to scale up efficiently and quickly.

*TO ILLUSTRATE SOME OF THE PITFALLS ENCOUNTERED BY FAST GROWING COMPANIES, LET'S IMAGINE AN APP DEVELOPER — WE'LL CALL IT **FASTGROWTH** — WITH A GROUND-BREAKING NEW PRODUCT.*

***FastGrowth* can effectively become a global company from day one. Its product is distributed via app stores, so it has the potential to enter dozens of markets worldwide almost instantly. After launch, the product is a hit in the home market, and senior management decides to expand into five more countries within the region by the end of the month.**

Accounts

FastGrowth knows that launching into international markets means offering payment options in local currency via familiar methods, because consumers have come to expect this. *FastGrowth* wants to move rapidly, so it decides on opening bank accounts with a local bank in each country. The local banks are abundant and can open accounts in a few days.

Collections

To facilitate the actual collection and movement of revenue from its app into the new accounts, *FastGrowth* chooses an established payment service provider. This requires no development and the provider's solution is widely available, which allows *FastGrowth* to fully enter the new markets in just a couple of weeks. The provider even transfers all income in *FastGrowth's* home currency, eliminating the need for FX conversion from the local accounts.

Scale

At this point the company's primary objective is scale. The app has been successful in 6 markets, and knowing that expansion can be achieved rapidly, the plan is to grow into 20 by the end of the year. The company starts adding a couple markets a month, in all different regions of the world. In a short time, *FastGrowth* has achieved a large international presence — but on the back of a complex and inefficient banking setup.

A year later, the cracks of the current setup start to show. With business booming, the CEO starts to ask the CFO for regular snapshots of the company's finances. However, each time it takes the CFO over a week to find out balances across the numerous different banks they work with — and a lot can change in that time. The CEO grows frustrated with the delay; the CFO's team grows frustrated with all of the manual effort that isn't appreciated.

Moreover, *FastGrowth* has belatedly realized that by working with local banks it has few opportunities to introduce automation using channels such as host-to-host or API technology to facilitate integration into its ERP system. The automation can technically be done, but it would have to be replicated dozens of times over with the different banks, and it simply isn't feasible.

Even for its operations staff to log in and make payments, a separate token and log-in is required, and each bank's system varies slightly. The time differences don't help either, as the headquarters can only rely on a small window of time where their collection provider and banks are all open at the same time.

On top of everything, an opportunity is being lost. With cash mostly sitting idle in every corner of the world, and no easy way to bring it all together, *FastGrowth* is missing out on the chance to easily invest or manage its excess liquidity.

With a dozen more markets on the horizon, growth is starting to be stressful rather than exciting. Is the current path sustainable? The CEO wonders how it all came to this.

What Difference Can a Banking Partner Make for a Digital Company?

LET'S IMAGINE A DIFFERENT FUTURE FOR FASTGROWTH, ONE IN WHICH THEY FOUND A PARTNER FROM THE BEGINNING THAT UNDERSTOOD THE IMPORTANCE OF A LONG-TERM PLAN AND ALSO APPRECIATED THE NEED FOR SPEED

***FastGrowth* has just launched in its home market and the app is a success. The next step is to roll out into five more markets by the end of the month. Instead of jumping straight to local banks, the company decides to call up a global banking partner…**

Planning Ahead

Citi sits down with the app developer to understand its vision. *FastGrowth* does not necessarily know the minutiae of which markets will be targeted and over what period of time, and it wants to leave space to respond rapidly to dynamic market conditions and moves by competitor firms – the digital space is fiercely competitive after all.

Nevertheless, like all digital companies, *FastGrowth* at least has long-term objectives at a high level. Citi learns that *FastGrowth* will not just launch into five more markets and stop. Eventually, the company wishes to expand beyond its home country and region. This information becomes invaluable and allows Citi to plan out the most efficient, relevant and cost-effective solutions.

Accounts

For example, Citi suggests a non-account based solution for *FastGrowth's* situation. Even if accounts with local banks are fairly easy to set up, there may not even be a need to have them at all. A non-account based solution would reduce complexity and lead to efficiency down the line as more markets are added, while achieving the same results of allowing *FastGrowth* to offer local payments.

Connectivity

Working with a global bank rather than multiple local banks allows for better connectivity options as well. *FastGrowth* can choose to establish Host-to-Host connections with Citi or utilize an API, which it only has to build out once with one bank. The company can also rely on a single file type, rather than multiple. And no more drawers full of security tokens or phones full of token apps when expansion becomes a reality.

Collections & FX

Citi also explains the benefits and drawbacks of using the existing payment service provider for collections. While it is tempting for *FastGrowth* to pay for an existing solution with built-in foreign exchange conversion, the exchange spread charged by the provider and the inability to control when FX is performed will limit *FastGrowth* in the end. Citi suggests keeping the funds in local currency instead until the time is optimal to convert. In five countries it may not make a difference, but in 20 the savings are significant.

Liquidity

When it comes to liquidity, a multi-bank solution would reduce opportunities for optimal use of cash. Citi offers to implement a consolidated global structure that automatically moves money between company entities on an end-of-day basis. *FastGrowth* can then invest excess liquidity while still keeping capital available to local entities as required. This flexibility is especially relevant in the current environment, where negative interest rates – for example on euro – can be detrimental to returns.

Visibility

Finally, a global bank can also offer a single window solution that displays information about all accounts, payments and collections. Next year when the CFO asks for a global cash position, the answer can come immediately and seamlessly, allowing for time-sensitive decisions.

How to Choose the Right Digital Banking Partner

Digital companies have captured the headlines and the imagination of the world in recent years because of their ability to grow rapidly. In our first fictional example of *FastGrowth*, this rapid growth called for similarly rapid decision making. Local banks and existing providers promised speedy access and minimal initial investment, but the longer-term implications of those early decisions caused growing pains down the line.

Fortunately, companies like *FastGrowth* can easily avoid those problems. The key? Find a bank who can support you throughout the entire growth journey. Citi can help digital companies understand the implications of their growth ambitions and the potential logistical and financial challenges that could result. Our expertise is available from the beginning when explosive growth is days away, all the way through to later stages of sustained expansion. Choosing a banking partner who can help you during both scenarios can make all the difference.

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