



Israeli Tech Companies: How to Go Global

Israeli tech companies stand out for their exceptional global growth rate. Yet at the same time, they typically have extremely lean finance teams due to their business focus and their life cycle stage. Nadav Yigal - Global Liquidity and Cash Management Consultant at HSBC - examines the implications of this for achieving the optimal global banking infrastructure as efficiently as possible.

Start-up Nation

Israel attaches much importance to its tech industry and particularly the R&D funding of its tech companies. Figures from Israel's Innovation Authority show that in 2018 the Authority invested in 920 companies and financed ~1500 innovative projects with total funding of ILS1.7bn (~USD0.5bn). Israel also has the largest number of start-ups per capita in the world: approximately one start up for every 1400 citizens¹. (Five times the UK's ratio, ten times France's and twenty times Germany's.)

Moving from start-up to a global business

However, striking as these figures are, a key point is how these start-ups can scale up and make the transition to become global corporations². To name just a few, Israeli companies such as Fiverr, IronSource, Wix, Taboola, Outbrain and AppsFlyer have already made, or are making, this shift.

Once companies leave the start-up phase and enter the growth stage, their growth rate will be determined by the extent to which the market adopts their product or solution. The business models of Israeli tech companies often make them inherently globally scalable at this point in their evolution. This is because they may not need a significant physical presence in every country into which they expand, as they may not be manufacturing and shipping physical merchandise across borders.

Supportive banking model

However, this also means that they require a very specific and unique banking model during this growth stage. The administrative overhead of establishing and maintaining bank relationships with a mixture of global, regional and local banks in multiple locations will impact their growth either now or further down the road, particularly in view of the multiplicity of electronic bank platforms involved.

Something that can address this challenge is if a single bank's service proposition is able to mirror the tech company's own structure at all levels in all locations globally. If it can, it should also enable the bank to gain a deeper insight into how the company's business functions and its priorities going forward.

Understand the client's business

Armed with this understanding, the bank should then be able to deliver a genuinely proactive and consultative working relationship for companies in their growth phase that are expanding globally. For fast growing Israeli tech companies this can make a significant difference to their performance, as the bank should then be able to anticipate and offer advanced and tailored banking solutions specific to their needs, such as:

- ◆ Payment factories
- ◆ Treasury centralisation
- ◆ Advanced liquidity solutions
- ◆ Global cash flow forecasting

¹ <https://www.forbes.com/sites/startupnationcentral/2018/05/14/israeli-techs-identity-crisis-startup-nation-or-scale-up-nation/>

² <https://www.jpost.com/Business-and-Innovation/Minority-Report-Israel-won't-transition-from-Start-Up-Nation-to-Scale-Up-Nation-500017->

It should also help deliver high quality client service and ameliorate some of the practical problems faced by fast growing companies expanding globally. One simple example is the opening of bank accounts and the optimisation of bank account infrastructure. In order to comply with KYC/AML regulation, this can easily become a laborious process. However, with a bank relationship that mirrors the client's own business infrastructure, it becomes possible to streamline and coordinate this far more efficiently.

Centralisation

As already mentioned, fast-growth Israeli tech companies typically have lean finance departments, which makes bank technology that can minimise manual processes, while maximising centralised visibility and control, especially valuable. Ideally, the head office finance team should be able to see all the company's bank balance reports and transactions globally online in real time. If it can, this makes efficient liquidity management far simpler.

If the partner bank's electronic banking platform can also be easily integrated with the company's Enterprise Resource Planning system, this facilitates more accurate cash forecasting and enables the finance team to maximise the use of internal liquidity and minimise unnecessary external borrowing costs. It also raises the possibility of centralising both accounts payable and receivable at the level desired by the client, plus host to host connectivity. The net result is that the company benefits from financial centralisation and automation, without incurring substantive overheads or workloads.

This consistency is obviously easiest to achieve with a bank that has a large physical presence across the globe and can provide accounts in the largest number of locations possible. However, in some jurisdictions, accounts with local banks are mandatory for certain activities (such as tax payments in some Asian markets). Nevertheless, by leveraging SWIFT standards for electronic end of day and intraday bank statements, it is possible to have a consistent degree of transparency that includes third party bank relationships.

In a business that is expanding rapidly and internationally in its growth phase, it can become challenging to maintain sufficient control, so a banking platform that enables granular definition of roles, responsibilities and access can be invaluable. Global expansion also implies new foreign currency exposures, so access from within the same platform to real time FX services makes for a more efficient workflow. Finally, because finance personnel are now far more directly involved in supporting the business than was once the case, they now also travel far more. This means that a robust mobile banking platform that is properly adapted to mobile devices (rather than just a re-skin of a desktop version) is essential for ensuring productivity while on the move.

Global/local integration of banking services

A critical factor in the value a global bank can offer Israeli tech companies is how well it can integrate the global and local services it provides. Crucial to the quality of this integration is whether the bank concerned actually has an Israeli banking licence or merely operates a rep office. If it only has a rep office, that can only provide information and refer potential customers to its overseas parent; it cannot conduct banking transactions or other business activities in Israel³. This means that the bank cannot deliver true integration of local and global services. It effectively necessitates the client maintaining an additional relationship with another locally licensed bank for its domestic transactions, which is less efficient and also more costly. By contrast, if the global bank also holds an Israeli banking licence, the client can benefit from complete local and global integration of services – a significant advantage.

Local knowledge

For organisations such as Israeli tech companies in their global growth phase, acquiring sufficient local knowledge of new markets can be challenging. This applies both in general and specifically to the finance function. In addition to general business information, such as local practice in relation to commercial credit terms, finance teams also need to be fully up to speed on the minutiae of matters such as local clearing systems and currency controls.

Particularly where the finance function is lightly staffed and several time zones away, this can be problematic - to say the least. Fortunately, it is also an area where a bank with a truly global physical network can add a great deal of value, especially if it has also mirrored the client organisation's business structure as outlined earlier. Under these circumstances, it becomes relatively straightforward for extremely detailed market intelligence from experienced bank personnel on the ground in country to be delivered quickly to the most appropriate individual(s) in the client organisation. This can have a major and positive impact on the success of that organisation's global growth.

Conclusion

For any corporation, picking the right bank is obviously important. However, for those such as Israeli tech companies that are expanding globally extremely quickly in their growth phase and that also have limited financial resources, the stakes are even higher. These companies are often trying to achieve in months what many traditional manufacturers or first generation tech companies took perhaps decades to accomplish. This means that global finance processes and structures have to be developed to an exceptionally compressed timeline.

Under these conditions, partnering with a bank that combines the most sophisticated and flexible technology with a global physical network adds value. If that bank is also truly committed to developing a deep understanding of the client's business so it can anticipate and fulfil future needs with tailored solutions, then it can spell the difference between success and failure.

³ https://www.boi.org.il/en/Research/Pages/neumim_neum040e.aspx http://www.inhouselawyer.co.uk/wgd_question/is-mere-cross-border-activity-permissible-if-yes-what-are-the-requirements/

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