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A New Phase in Asian Financial Supply Chain Solutions

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Today's economic challenges — volatility, evaporating liquidity and low interest rates — are affecting the full spectrum of economic entities from small local businesses to large multinationals. In Asia, small companies are facing a severe shortage of liquidity whilst their larger counterparts, particularly multinational corporations (MNCs), are better able to access liquidity but are finding it comes at a much higher cost. And all corporations are affected by the dampened global economic outlook, along with increased competition, rising costs and tightening margins.

As the economic landscape continues to change, so too does the role of the financial supply chain (FSC) in Asia. First and foremost, supply chain financing must be mutually beneficial for all parties — enabling global corporates to optimise their working capital and mitigate supply chain risks without harming smaller Asian suppliers. Certainly, it is in the best interests of larger corporates to ensure their suppliers have reliable access to liquidity and cash flow, because this will have a direct impact on their own competitiveness. So, on the procurement side, there is increased demand for banks that are well-placed to provide supplier financing.

Secondly, on the sales side, growth pressures are forcing Asian corporates to venture into new markets and to look for new customers while offering more attractive terms. With this comes a growing demand for receivables financing solutions.

Evolving Solutions

Undoubtedly, FSC offerings have undergone a few distinct phases of evolution. Five years ago, for example, the market was heavily focused on supplier finance — the ability to provide substantial credit at the cheapest price to the greatest number of suppliers was all-important.

Subsequently, around two years ago, automation and platform technology came to the fore. Internet access provided clients with full visibility, and technological innovation and system enhancement produced highly sophisticated platforms — radically improving efficiency.

Today, FSC offerings are entering a third phase. Although platform capability and efficiency is still vital (and always will be), banks are now looking to meet evolving customer needs by providing all-encompassing solutions that address the entire financial supply chain process. Certainly, clients are expressing interest in solutions that can be implemented right from the beginning of the process, when a purchase order is first issued, and which then oversee the entire process — from data reconciliation to payment receipt and recording of payables.

Although this aspect of FSC is still being developed, we can expect it to be a feature of the market soon.

Market-Changing Innovations

As corporates seek to fine-tune the management of their working capital and risk, continual innovation in the FSC space is key. And a recent advancement that has dramatically improved market efficiency is the introduction of bank-neutral communication channels, such as SWIFT.

Previously, corporates were faced with tackling different communication formats when dealing with multiple banks. But with SWIFT, the format has been standardised on the client side, giving corporates the ease of using just one channel to communicate with their banks, resulting in greater efficiency.

Innovation is also occurring in cash and trade, where converged foreign exchange (FX) solutions are providing suppliers with discounts on the currencies they require for invoices. For example, a supplier based in India dealing with a USA-based MNC can now choose to get the discounted value of his US dollar invoice in local currency. FX conversions were not previously integrated into FSC solutions, so this innovation is providing suppliers with much greater flexibility.

Looking Ahead

Although FSC evolution and innovation is taking place across the globe, here in Asia the market is undergoing its own unique transformation, as MNCs begin to see the region not just as a sourcing hub but, increasingly, as a consumer market in its own right. Indeed, many MNCs, looking to expand their market footprint to grasp opportunities in the emerging markets, are setting up offices in the region.

Furthermore, companies within Asia, having previously concentrated on exporting to Western countries, are now looking to increase their level of intra-regional trade as well, to shield themselves from economic uncertainty and flattening demand from OECD countries.

Such developments suggest the future of FSC in Asia is bright, and banks like Deutsche Bank — which can provide local capabilities and solutions as well as the benefits of strong corporate relationships with large Western MNCs — are ideally positioned to meet the evolving financial supply chain needs of clients.