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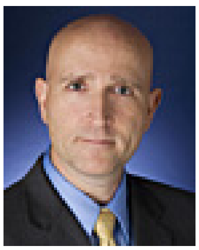
# Supply Chain Financing Enhances End-to-End Working Capital Management



By
Drew Arnold
Trade and Cash Solutions – Advisory Team, Global Transaction Banking
drew.arnold@db.com

As corporations strive to recover from the financial crisis and identify new liquidity sources, many are finding success with financial supply chain initiatives.

Trade payables are a major component of the balance sheet, so stretching out payables terms can have a meaningful impact on working capital. As such, treasury departments need to not only manage cash already in their accounts, but also take an active role in managing the impact that payment terms can have on liquidity.

This task can be difficult, however, because while treasury typically manages working capital, the procurement department often manages payment terms. Without effective communication between these groups, it's difficult to have clear cash visibility, or influence the generators or users of working capital.

For example, typical sales terms used to be 30 days, but in order to retain business in a competitive environment, many organizations have extended their customers' payment terms to 90 days. This creates an imbalance if procurement still pays vendors on 30-day terms. Corporations in this situation are financing a 60-day cash-flow gap, which could result in a massive unbalancing of the balance sheet.

A financial supply chain initiative can restore the balance and provide access to additional liquidity by extending payables terms on the supply side. Simultaneously, corporations can help to ensure the health and stability of their suppliers by providing them with access to a low-cost source of funding offered by a third party like Deutsche Bank to reduce their suppliers' days sales outstanding and cost of financing.

Corporations interested in pursuing financial supply chain initiatives should follow these steps:

- **Form a multifunctional team and set clear objectives.** Gather representatives from the treasury, finance, procurement, accounting, technology, legal and operations departments, and start planning. This sounds simple, but conflicting objectives among group members can cause a finance solution to fail and must be managed. For example, procurement's desire to reduce the cost of goods sold and/or capture early payment discounts could *shorten* payment terms and simultaneously disrupt treasury's desire to improve working capital by *extending* payment terms.

- **Determine where to inject financing.** Multiple financing options are available, so decide where it makes sense to inject financing in the physical supply chain (e.g., when purchase orders are affected, when goods are received, etc.).

- **Perform a cost/benefit analysis.** Identify what types of spend to target and measure the cost-effectiveness of the proposed solution. Analyze, for example, the value of focusing on the 20% of your vendors that account for 80% of your spend.

- **Address technology needs.** Efficiencies can be gained through technology, but not all corporations need advanced solutions. It comes down to transaction volumes and repetition. It might make sense for one corporation to dedicate 3-6 months on a technical integration so its platform communicates automatically with its bank's platform, whereas another corporation can succeed with manual or semi-automated processes.

- **Align with the corporation's strategic objectives.** Corporations need to contemplate any plans to open a manufacturing plant in Europe or source more from Asia, for example. Being able to meet today's supplier financing needs is one thing, but future needs must be considered, too.

Next, as corporations sort through what they want from their financing provider, they should consider any geographic limitations.

Many banks offer supply chain financing, but they may just offer pieces of a solution or only be a regional provider. Without people on the ground in the countries where you conduct business, a provider won't know the local customs to support your foreign suppliers or whether local regulations prevent or make it impractical for you to even offer financing.

Because trade is global, financial supply chain initiatives must be global, too.

*Deutsche Bank is an innovative provider with feet on the ground in 72 countries. Our consultative advisory services will bring your business up and over the steep learning curve to pick the right financing solution for your needs. Contact your Global Transaction Banking representative to learn more.*