Financial Supply Chain Management: Asian Trends

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Demand for financial supply chain solutions shows no sign of abating and many Asian markets remain ripe for deployment of these solutions.

While concerns surrounding risk and liquidity management have certainly driven the demand for financial supply chain management (FSCM) solutions in the wake of recent turmoil in the global economy, several other factors have also been contributing to growth in this area.

A key driver has been the continued growth in global sourcing among all corporates, driving increased trade flows between the developed and emerging worlds, as well as making a significant contribution to the growth in transactions between individual emerging economies. The fragmented nature of many emerging regions, such as Asia, and the absence of any unified regulatory regime of single currency add additional complexity to the task of managing trade flows in these regions — something that can often be mitigated by taking an integrated and holistic approach to managing supply chains.

A closely related development has been the growing sophistication of many emerging market corporates — these businesses are now increasingly demanding more sophisticated cash and trade management solutions and are adopting the latest inventory and supplier management strategies. While increasing efficiency, such strategies can often leave buyers vulnerable to interruptions in supply — something that can also be mitigated by the judicious use of FSCM techniques.

Efficiency

Taking Asia as an example, the key drivers for the uptake of FSCM are the export-driven nature of many economies and the highly fragmented — in terms of currencies, legal jurisdictions and languages — nature of the economic landscape in the region. Coupled with this fragmentation, Asia has also been experiencing a decline in the use of documentary credits for risk mitigation, a trend that has been prevalent across the entire global economy for some time. This has led to corporates seeking new ways to manage trade risk — something that was given extra urgency by the recent downturn.

While it is likely that most trading corporates could derive some benefit from addressing inefficiencies in their procurement and supply arrangements, techniques such as supplier finance can often work best when implemented between large well-rated buyers and smaller suppliers. For example, buyers can leverage their credit ratings to offer their suppliers competitively priced working capital funding while securing themselves more favourable payment terms — and often considerable goodwill — from their suppliers. Solutions such as these are often delivered using web-based systems to expedite payment and document transfer, as well as increasing the visibility of processes. Indeed, process efficiency is often a pertinent issue for many emerging market corporates that are enjoying high rates of growth.

Regional Differences

While we are starting to see a high number of corporates in emerging markets move away from paper-based processes toward electronic systems to increase process efficiency, corporates in these regions often place a greater importance on the financing aspect of these solutions than some of their counterparts in more developed markets. This is perhaps due to the supplier-centric nature of many Asia economies. In developing solutions for large buyers in Europe and the US, platform sophistication is often a key consideration; however, suppliers tend to be more concerned about the nature and flexibility of the financing on offer. In addition, cost plays a determining role as there is less pressure to move away from labour-intensive processes when working in low-cost economies.

Another differentiator between how supplier financing is being applied in Asia compared to Europe and the US is in the timing of financing opportunities. In Europe, for example, we often see payables discounting as the preferred financing method, while there is more demand in Asia for financing at the pre- and post-shipment stages of the trade cycle. This is also likely attributable to the buyer-focused stance of FSCM in Europe and the US, compared to the supplier-oriented nature of this space in Asia.

Increasing Integration

Looking at the broader transaction banking industry, the relentless rise of FSCM and related solutions is indicative of a broader movement in the industry toward taking a more holistic approach to client needs. Indeed, product silos such as "cash" and "trade" are increasingly breaking down and, within universal providers such as Deutsche Bank, we are even seeing transaction banking becoming more integrated with other related areas such as capital markets. In this respect, we are likely to see growth in FSCM continue for some time, as it represents both a driver and a consequence of a more integrated approach toward meeting the needs of corporates in an ever-changing global economic landscape.