Global Transaction Banking

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Deutsche Bank

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INSIGHTS FROM CASH MANAGEMENT, US
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Dynamic Discounting Supports Global Trade

US corporations operating globally need to deconstruct the silos that often keep their manufacturing, logistics and supply chain functions at opposite ends of cross-border transaction processes from their finance and treasury organizations. It's important for business units to work together to address global issues. By doing so, they can tap into previously undiscovered business, operating and system efficiencies, minimize the risks of global trade and improve overall business processes.

For many internationally focused companies, "supply chain finance" techniques provide an answer. Supply chain finance can serve as a funding mechanism to increase liquidity across the global supply chain and improve transaction transparency with your trading partner.

Supply Chain Finance Defined

At a very basic level, supply chain finance represents the marriage of the flow of goods with the flow of money. Its ultimate goal is to advance supply chain profitability and visibility, often by using automation-enhancing tools to improve payment predictability and decrease discrepancies typically associated with paper documents and payments.

One of the hottest topics within supply chain finance assumes various monikers throughout the industry, including "dynamic discounting" and "reverse factoring." It permits a US buyer or importer to extend payment terms with domestic or global suppliers (e.g., from 30 to 60 days) and provide them with financing at terms close to the buying entity's borrowing interest rate.

Targeted users include buying entities, such as those with manufacturing or retail types of distributions, as well as companies with concerns about the integrity or continuity of their supply chains.

Another way to look at this supply chain finance strategy is as a comprehensive payables outsourcing arrangement that provides US buyers with an opportunity to migrate their suppliers from paper check to Automated Clearing House (ACH) receivables. What better way to lure domestic or foreign trading partners to convert to electronic payments than with earlier access to cash? This holds true for suppliers where cash discounts have already been negotiated or where the terms could be newly negotiated using your rating as leverage.

Other benefits for US buyers include optimized working capital and reduced supplier-based risks, extended payables outstanding and improved supplier relationships. These benefits are achieved by providing early cash and early visibility to when invoices are approved and whether deductions were taken. To the latter point, Accounts Payable will appreciate one fewer phone call from your suppliers asking about the status of the invoice payment.

Reaping the Benefits

Perhaps an even more crucial benefit is the ability for purchasing groups within the buying entity to leverage dynamic discounting arrangements and obtain improved pricing structures from their trading partners. This is possible because they've been able to maximize visibility into their cash positions throughout the cycle, from purchase to payment to financing.

Foreign sellers gain improved access to cash by reducing their days sales outstanding (DSO). They also may increase their access to additional funding sources because they don't have to rely on their own existing credit lines.

Key supplier questions that you should ask yourself or your accounts payable or purchasing group include:

- Does the supplier continuously ask for information on invoices, deductions, payments, etc.?
- Does the supplier have standardized terms?
- Does the supplier feel that it is not paid in a timely manner?
- Has the supplier requested to be paid electronically instead of by check?

Deutsche Bank's Integrated Approach

Deutsche Bank created its own supply chain finance platform that is highly integrated with its electronic payments and financing package. The Bank's offering incorporates invoicing and dispute management, and plans are under way to provide foreign exchange (FX) services in the future. Bundling FX services into the offering will help to firmly establish clients' relationships with providers in lower-cost countries who prefer to receive payments in their local currencies to avoid the cross-border payment fees for both buyers and suppliers.

Deutsche Bank's multi-currency offering comes in eight languages with payments linkages across nearly 40 countries. Users benefit from streamlined communications within their entire financial supply chain. To have all transactions residing under one platform provides maximum visibility into the entire supply chain, and enables earlier access to capital and electronic transaction settlement.

Supply chain finance ensures that, as US importers enlarge their supplier bases and grow overseas, their foreign suppliers can grow with them and establish stronger ties.