

## Global Trade Advisor — Fall 2009

### Interest in supply chain finance grows as companies seek liquidity, stability

Global credit tightening has heightened interest in and demand for supply chain finance solutions.

The global credit crisis has hampered supplier access to working capital and increased vendor financing costs. Suppliers are having difficulty obtaining bridge financing or competitive credit rates for their working capital needs, while the buyer tactic of extending payment terms is placing even more pressure on their cash flows.

As a result, interest in supply chain finance has risen dramatically in the past 18 months, according to Mona Ghazzaoui, senior vice president, North American Supply Chain Finance, at RBS. "We've seen a major shift in the market due to the liquidity squeeze," she says. "Companies are taking a step back, looking at their working capital structure, and realizing that within their supply chains they have untapped sources of working capital funding."

In the past, supply chain finance was but one of many capital-raising strategies a company could pursue, along with options such as commercial paper, revolving credit lines and asset securitization. But with these other avenues impeded by credit constraints, more companies today have been revisiting supply chain finance, even to the point of assigning dedicated employees to evaluate and implement supply chain finance solutions, a rarity in the past, Ghazzaoui says.

"The liquidity squeeze has made it a priority for corporations to allocate resources to create ownership of these projects," she says.

#### Financing takes precedence

Supply chain finance solutions are built upon two central components: enabling technologies and financing.

Enabling technologies include Web-based accounts receivable/accounts payable reconciliation and settlement platforms with dynamic discounting or third-party financing features, supplier collaboration portals, and various types of global visibility technology and analytics tools. These technologies support real-time online information sharing, funds transfer, dispute resolution and other related supply chain processes.

While supply chain finance solutions aim to make supply chain management processes more efficient and visible to all participants, they also enable suppliers to obtain easier access to credit on more favorable terms at various stages in the supply chain.

Supply chain finance was once driven by large corporate buyers primarily focused on improving supply chain processes through technology. But now that so many of their suppliers are facing extreme liquidity challenges, the financing component has emerged as the main attraction, Ghazzaoui says. "Above all else, large corporate buyers today are looking to secure their supply chain, and so they have a vested interest in ensuring that their suppliers have access to working capital liquidity," she says. "Their main goal with these solutions is to maintain a stable and reliable supply chain."

### **In-country solutions**

One notable trend is the rise of in-country supply chain finance solutions in highly developed countries such as the United States and the United Kingdom, Ghazzaoui says.

"Originally, the product focused on finding participants primarily among suppliers in Asia or other emerging markets where the need for financing was particularly keen," she says. "Starting about the middle of last year, we've seen a growing interest in participation among domestic suppliers in places like the U.S. and the U.K., because they're running short of alternatives for financing their working capital."

### **Abundance of technology platforms**

Another trend in supply chain finance is the increasing number of technology platform alternatives, Ghazzaoui says. While only banks can offer financing, both banks and independent technology companies offer Web-based supply chain finance platforms. And the number of banks with their own platforms is climbing, she says.

At the recent Sibos conference, a major international gathering for financial institutions held in Hong Kong this year, several banks announced the launch of their own proprietary supply chain finance platforms.

### **Keys to success**

Ghazzaoui offers the following advice for companies implementing a supply chain finance solution:

- Assign a dedicated project manager. Many supply chain finance projects have not been implemented because no one was assigned ownership, she says.
- When selecting a bank to provide a supply chain finance solution, focus on its ability to lead arrange large deals and help your company onboard large numbers of suppliers in a timely manner.
- Establish a pilot program before initiating a large-scale, global solution. A pilot program will enable you to test the technology and the overall effectiveness of the solution before proceeding.
- Look at your supply chain finance investment as a long-term solution rather than a short-term financing fix. Once in place, a supply chain finance solution can sustain and support a company's supply chain well into the future.