Managing Your Financial Supply Chain

Doesn’t Have To Be Difficult

In today’s dynamic and fast paced global environment, maintaining a strong and secure global supply chain is critical. But just as essential is the financial supply chain, which involves all transactions relating to cash flow from the buyer’s purchase order through payment to the seller.

Due to the ever-changing nature of international business, supply chains are becoming increasingly sophisticated. For example, an importer in Ohio may contract with suppliers in South Korea, Taiwan and Japan to produce components, which are then shipped to China for assembly, and when completed, shipped to the Ohio importer. This activity may be continuous, necessitating multiple purchase orders, and delivery and payment schedules.

Although many U.S. importers and exporters manage less complicated supply chains, the financial issues faced and end goals are very similar. For example, exporters and importers generally wish to:
1. Streamline operations and reduce costs,
2. Better integrate and align often-fragmented financial supply chains with physical supply chains,
3. Improve efficiencies, which often includes switching from a paper-based accounting process to an electronic one,
4. Develop more stable and secure supply chains, and
5. Improve buyer-seller relationships.

On the other hand, some interests are very different: importers typically wish to extend payment terms as long as possible, while exporters desire quick payments, improved terms, and reduced “days sales outstanding” (DSO), thereby lowering working capital requirements. How can these interests be reconciled?

By discounting a time draft under a bank guaranteed or letter of credit (a very simple solution), both exporters and importers can be highly satisfied. And the costs to achieve this are relatively low.

For decades, traditional supply chain financing has involved manually managing letters of credit and documentary collection activities. Increasingly, however, these functions are being woven into state-of-the-art software systems that automate the entire financial supply chain process. By utilizing this type of platform, financial supply chain efficiencies can be optimized. And both exporters and importers can obtain their objectives while improving their level of competitiveness.

The benefits are significant and often include:
1. A reduction of working capital needs and improved cash flow due to reduced DSO,
2. Lower financing rates due to decreased levels of risk,
3. The ability to improve inventory control and minimize costs by utilizing just-in-time techniques due to more accurate forecasting and greater predictability of financial flows, and
4. Greater insight into supply chain activities and possible problems through timely and continuous information availability.
Additionally, from the perspective of the importer, if the financial supply chain solution reduces the need to issue letters of credit, then valuable lines of credit which have become tied up can now be available for other purposes. But the benefits don’t stop there.

Whether it is vendor financing, letters of credit or receivables financing, effectively managing financial supply chain operations can eliminate what many view as a complicated and burdensome endeavor. The entire process can be made easier by working with knowledgeable professionals and utilizing automated systems capable of aligning supply chain finance needs with the goals and objectives of both importers and exporters.

A financial institution’s ability to better connect its people and systems to those of its clients can help companies achieve long term goals. And through this strategy, financial institutions, exporters and importers are better able to streamline the financial supply chain process, and in turn, improve efficiencies and speed achievement of objectives.

Managing the hazards related to international deals is more crucial today than ever. And the risks extend well beyond those precipitated by the recent financial crisis — from payment defaults, foreign exchange fluctuations and political instability, to piracy and risks posed by natural disasters. Successfully managing a global supply chain is not easy. But optimizing your financial supply chain does not have to be difficult.

For more information on improving your financial supply chain, contact Emy Ruiz at 954-514-3008, or email Emy.Ruiz@53.com.