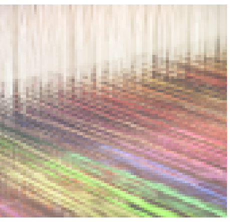
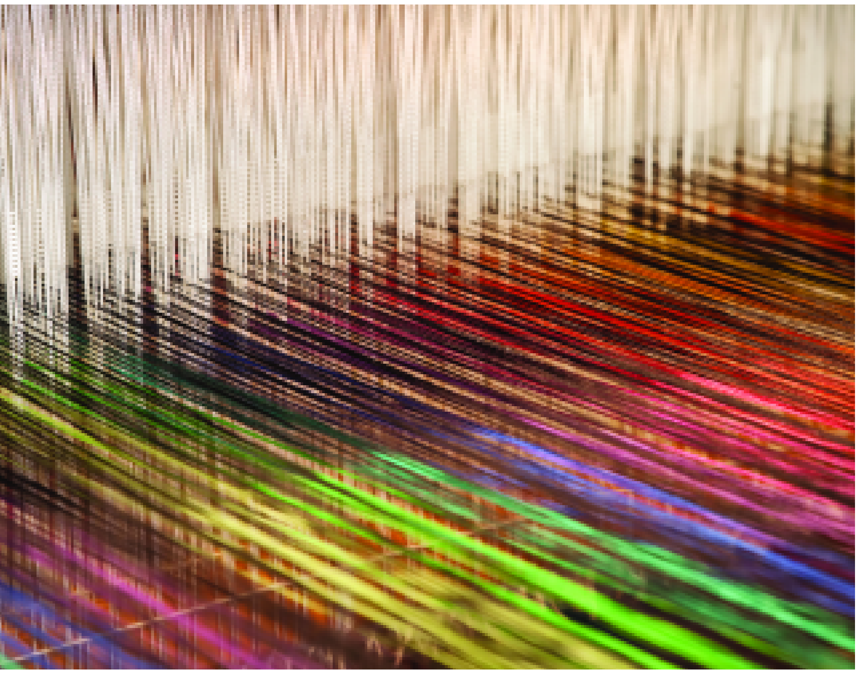


Just-in-time funding

THE TREASURER MAGAZINE TALKED TO **ROB KELLER**, RBS HEAD OF BUSINESS DEVELOPMENT & COMMERCIALISATION FOR THE UK & IRELAND REGION FOR GLOBAL TRADE FINANCE, AND **ANIL WALIA**, RBS EXECUTIVE DIRECTOR, HEAD OF THE TRADE AND SUPPLY CHAIN FINANCE ADVISORY FOR UK AND EMEA, ABOUT A SEAMLESS AND INTEGRATED APPROACH TO WORKING CAPITAL MANAGEMENT.



As market appetite for credit remains in short supply, companies are increasingly looking at new solutions to bring their cash and trade infrastructures together and make efficient use of resources.

While there are signs of improvement, the financial crisis of the past two years has clearly had a lasting impact on global decision-makers. In particular, companies have had to deal with operating in what is still a relatively constrained credit environment. For many organisations, securing credit at competitive rates remains a challenge.

A positive trend that has emerged from this scenario is the increased focus on improving the structure of the balance sheet by making more efficient use of working capital. This, coupled with the banks' interest in providing self-liquidating lending structures, has led to supply chain financing propositions that have helped to reduce costs and optimise credit and operational risk across the entire corporate supply chain.

Banks have moved a step closer to their clients – so instead of just lending money, the banks are providing financing at the point in the supply chain where it is most required: Anil Walia calls it "just-in-time" funding.

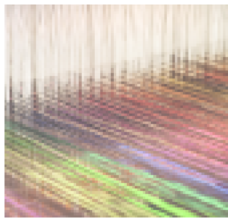
A NEW ERA Rob Keller says: "Historically, cash management and trade finance have generally been treated as two separate functions by corporations and, indeed, by banks." The activities of many large-scale organisations to improve efficiencies have been focused around centralising treasury functions and establishing payment factories. This meant it was more appropriate for a treasurer to view cash management and trade finance as discrete activities.

Once those initial priorities had been addressed, corporations were more receptive to solutions for further cost savings. Developments in web-based banking technology, coupled with the market-based factors mentioned above, provided the right environment for the development of solutions for improving supply chain efficiencies. According to Keller: "Developments in web-based technology have allowed banks to offer tailor-made supply chain finance solutions to their clients. These programmes are now on the way to becoming mainstream offerings in the banking industry."

As the comfort level and understanding of these programmes have grown over the past few years, treasurers are taking a much more integrated and holistic view of the tools available for working capital management. Integrating the cash management and trade finance processing structures is now high on the agenda for companies and banks. "Considering that every trade finance transaction ends in a payment stream, it is about time that this integration was available to the business," says Walia.

PROTECTING THE SUPPLY CHAIN The simplest way to improve a buyer's purchase-to-pay cycle has been to extend the payment terms for suppliers. But as suppliers faced problems raising funds over extended periods, they were unable to produce and supply parts to buyers, which led to a standstill of the latter's manufacturing activity. As a consequence, there has been a growing strategic focus on supplier relationships. One component of this has been the adoption of supplier finance programmes.

Typically, such programmes offer suppliers payment of their invoices on a discounted basis at costs that reflect the buyer's (usually superior) credit rating. Walia explains: "Supplier financing programmes create an arbitrage between the higher credit rating of the buyer and financing requirements of the supplier, providing payment to the supplier on (or shortly after) delivery at a cost that is lower than his own funding costs and that does not affect his own



credit facilities. Buyers are able to support and strengthen strategic supplier relationships, and reduce their own operational risk. This creates a true win-win situation for all parties and accounts for the increased popularity of these programmes in recent years.”

IT IS BECOMING INCREASINGLY MORE ADVANTAGEOUS TO INTEGRATE CASH AND TRADE UNDER A SINGLE WORKING CAPITAL MANAGEMENT UMBRELLA.

As awareness of the wider benefits of supplier financing programmes increased, a connection between payables, cash and supply chain finance became a natural step. However, the technical requirements of such integration have, until recently, been challenging. Recognising the potential of the concept, RBS decided to create a fully integrated solution, which was, at its core, easy to manage.

AN INTEGRATED SOLUTION – THE RBS APPROACH
Companies have payables programmes where they electronically upload files detailing supplier payments to one or a number of banks on a regular basis. When supplier financing programmes are managed separately from payables programmes, a second operational layer needs to be added to the payment process. This is because the buyer needs to differentiate payment of invoices that have been sold by the supplier to the bank from those that have not been sold.

The RBS solution circumvents the need for this additional task. According to Keller: “At RBS, our integrated payables and supply chain finance solution removes the hard work that companies would normally have to undertake themselves. Thus buyers simply upload one payment file and RBS manages payments of each individual invoice based on three clearly defined criteria.” The three criteria are:

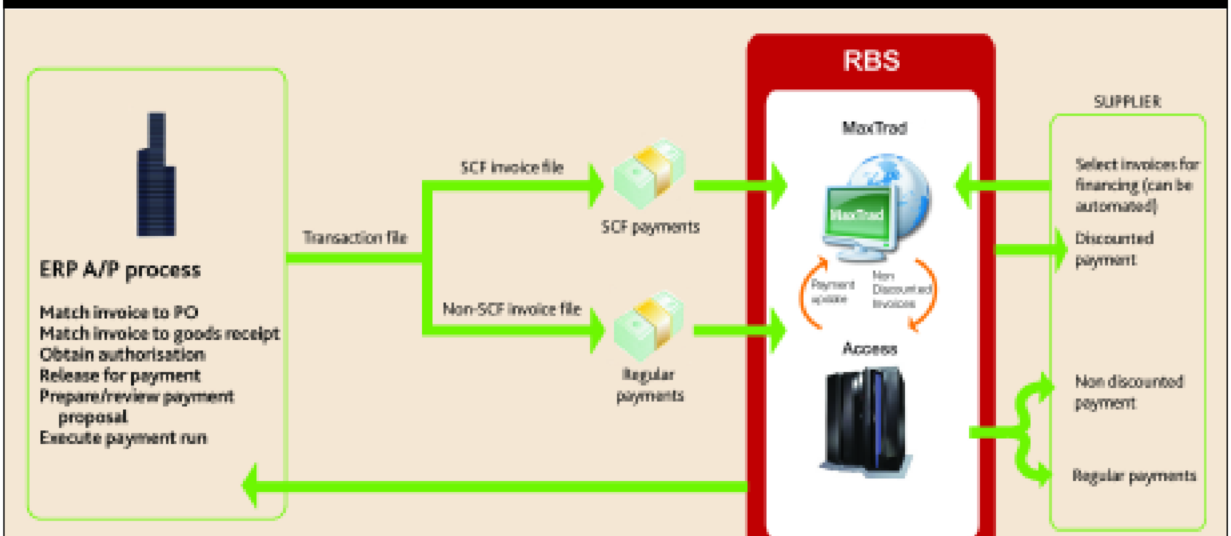
- invoice payments to suppliers that are not in the supplier finance programme and hence will be paid on the due date;
- invoice payments to suppliers that participate in the programme and have not opted to receive discounted payment; and
- payments to suppliers that have chosen to take part in the programme and have opted to receive discounted payment for the particular invoice.

RBS’s award-winning* global trade and supply chain portal MaxTrad enables the full integration of our cash and trade solutions in one platform. This simplifies and streamlines trading activity. Once a payment file is uploaded, management and reconciliation of payments are automatically performed by the system. “Our solution is flexible and can be adapted for a range of structures (e.g. shared service centres and third-party processing models). More importantly, clients only have to access one interface and channel to make three different payments types,” says Walia.

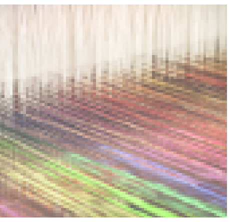
A PROVEN SOLUTION RBS has already successfully implemented this solution with a number of key clients, and it is available for single country programmes as well as global solutions across the RBS network. RBS is a leader in providing technological solutions that support integration of cash and trade. Our solution seamlessly joins the two aspects of the solution (payables and supply chain finance), allowing them to be administered as one.

The needs of multi-banked clients have been addressed by this solution, through the ability to reward their network of banks by allowing participation in the funding of receivables. “Bank-agnostic solutions have been a key focus in the cash management world recently. We have recognised this and

Figure 1: How the MaxTrad global trade and supply chain portal works



Source: RBS



have developed our solution to give corporates more options. With RBS's solution, corporates are able to distribute their business to different banks within their network without losing the operational efficiency that traditionally came from reducing bank relationships," says Walia.

A company's ability to strengthen relations with its most important suppliers is one of the benefits that an end-to-end payables and supply chain finance solution can provide. This type of solution can also result in lower costs and better utilisation of working capital. Our clients have already seen considerable progress in improving their days payable outstanding (DPO).

WHY INTEGRATE CASH AND TRADE SOLUTIONS? For multinational companies and those trading internationally, in particular, there are significant benefits to be had from taking a more holistic view of working capital:

- **Improve liquidity** – Funding can be provided efficiently by looking at the trade cycle as a whole, by matching payables and receivables. This increases the liquidity generated by buyers from their business activity, while simultaneously reducing pressure on credit facilities of the suppliers.
- **Manage risk** – From a risk management standpoint, identifying a company's net exposure to counterparty risk, be it payment risk or supply disruption risk, can reduce costs from over-hedging. In general, any such improvement in this area will enhance overall liquidity and reduce costs in the whole supply chain, benefiting both suppliers and buyers.
- **Enhance sales** – Making more efficient use of the working capital cycle can reduce the requirement for external and inter-company financing and, consequently, the total cost of production, allowing the company to improve its competitive position in the market.

FURTHER INTEGRATION There may be instances where improving individual aspects of your working capital management, with the aim of achieving specific objectives, will be more beneficial than combining the two. However, it is becoming increasingly more advantageous to integrate cash and trade under a single working capital management umbrella. Moreover, treasurers now have the opportunity to become even more involved in the overall strategy of their business, instead of simply devoting most of their time to the core cash and liquidity management areas.

This comprehensive working capital solution can be extended to include other RBS services. For example, in liquidity management it is possible to fully integrate a multi-currency physical and notional cash concentration scheme, where balances can be automatically included in a short-term investment solution.

** Best Online Trade Provider, 2009 – Trade & Forfaiting Review*

Box 1: RBS supply chain finance – key facts

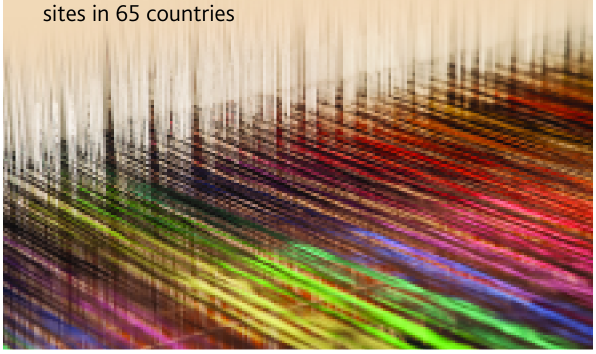
- More than 200 supply chain financing programmes internationally
- Over £4bn in approved facilities worldwide
- Over 30 host-to-host buyer interfaces deployed for SCF programmes among RBS clients
- Dedicated sector-specific solutions for consumer, petrochemicals, telecoms, manufacturing, automotive, metals and mining

THE RBS DIFFERENCE

- Innovative propositions to drive revenue growth for clients
- Engaging multiple client business functions to execute SCF programmes
- Customised trade processing and supply chain finance solutions
- Consultative, solutions-oriented approach which is delivered by our globally recognised experts
- Global network of specialist operations with round-the-clock capabilities and local interaction points
- Leadership roles in ICC, SWIFT, IFSA and FCIB and active participation in new industry initiatives keep us at the forefront of trade and supply chain innovation
- MaxTrad trade and supply chain portal is a market-leading and award-winning* technology infrastructure

GLOBAL REACH FOR OUR FINANCING SOLUTION

- Our branch network is among the top five globally, extending to 38 countries in both developed and emerging markets worldwide
- We have a footprint in the economies that account for 91% of world economic growth
- Online trade tools deliver real-time data and business insight to 16,378 registered users from 5,113 company sites in 65 countries



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