Reforging the chain

MANY BANKS HAVE DONE LITTLE TO DEVELOP THEIR SERVICE OFFERINGS AND MANY LARGER CORPORATES HAVE CONCERNS ABOUT GIVING A SINGLE BANK GREATER VISIBILITY INTO THEIR FINANCIAL SUPPLY CHAIN, BUT INTERNET-BASED PAYMENT MANAGEMENT SERVICES ARE ON THE RISE, AS **GRAHAM BUCK** REPORTS.

Sainsbury's implementation of an RBS-backed online trading finance service has brought benefits to both the retailer and its suppliers.

Two long years of credit crunch have given the financial supply chains of the corporates an added attraction for the major banks. While earnings from retail banking have melted away and bad debt write-offs have shot up, banks' transactions business has continued to enjoy solid growth and profits.

Although there have been suggestions that the general reluctance of the banks to lend, especially to smaller firms, could lose them much of their transactions business to competitors such as PayPal and Travelex, this threat still appears to be limited in scope. The banks' rivals mainly confine themselves to smaller businesses, and few companies are yet willing to entrust their service provision to an unregulated entity. Some commentators have even suggested that many banks have become complacent in this knowledge instead of doing more to develop their online service offerings.

“THERE IS NO REASON WHY A MULTINATIONAL SUPERMARKET GROUP OR MAJOR AUTOMOTIVE SUPPLIER COULDN'T PROVIDE THE SAME SERVICES.”

Royal Bank of Scotland has been among the more proactive of the banks. It was recently confirmed as funding provider for Sainsbury's Trading Finance Platform (TFP), an internet-based payment management system developed by PrimeRevenue. On its launch two years ago, TFP was hailed as a first for the UK retail industry. TFP aims to make it quicker and easier for the supermarket group's suppliers to access their account information and benefit from early payments.

It does this by supplying them with an online view of their trading account with the group. The view includes invoices, debit notes, remittance advices and payment dates as well as extending to their expected cashflow.

TFP's financial incentives for registered suppliers include the option of early cash payment once their invoices have been approved by selling their invoices to RBS at a “competitive” financing rate. Sainsbury's says this flexibility in payment terms allows it to support the cashflow needs of its main suppliers, while minimising the potential for supply chain disruption. The retailer says it has noted a “significant increase” in the numbers using TFP since its launch.

In earlier years, the ideal software was a seamless system that linked a bank's back-office and its clients. More recently, systems have been extended to include the company's trading partners, and banks should be involved in the relationship between the two sides.

This gives them the appetite and the capability for rolling out a broader range of electronic services, suggests Richard Spong, financial services industry marketing manager at Sterling Commerce.

He suspects that resistance comes rather more from the corporate financial community than from any IT considerations. Once an automated system is introduced, the bank gains considerable oversight as to who the main players are and which of them uses factoring services. Some companies, though, are nervous about banks gaining such a level of visibility. So while treasurers have expressed a desire for more online services, most would prefer them to come

from multiple providers and have qualms about restricting their choice to a single bank.

As the Sainsbury deal demonstrated, RBS is among the most proactive in online trading finance platforms, but there has been similar project activity from HSBC and BNP Paribas.

"There is great interest in making maximum use of the invoice – factoring in other words," adds Spong. "However, it does involve the banks getting a handle on many of the things that the company is doing. Many treasurers are nervous at the prospect."

The degree to which treasurers are willing to let a bank have oversight over the company's activities will vary according to the size of the company and the sector in which it operates, Spong suggests. While SMEs tend to be fairly comfortable with a single bank, the large multinationals are generally multibanked and have a greater ability to shop around. The ability to choose the best provider is key to their operations, so they are reluctant to reveal to a bank how much of their business goes to its competitors.

Another distinguishing feature separates industries that operate through a relatively linear supply chain and those that participate in a purchasing hub. In the latter, the science of supply chain management becomes more complicated and there is a degree of financial integration between the various spokes.

For the more complex enterprises offering a broader choice of products and services to their core customers, there are also more options in the supply chain and potential new markets to be explored.

Emerging markets around the world are keen to sell to companies in sectors such as textiles and clothing. So for those companies that have choices as to where they source their materials from and the opportunity to switch, the supply chain can change shape very quickly. This is less likely to happen for companies that use heavier materials, such as those in the construction sector, which are less agile and have to factor in considerations such as transportation costs.

A number of the banks could do more to develop their online services, but are waiting to see how the market develops and how acceptable some of the most recent innovations are, says Spong.

"Shipping, cash management and e-invoicing are among the areas closely related to supply chains, and banks may start offering these interactive services, either directly or on a hosted basis, particularly as they are losing money on their traditional activities," he says.

Those banks that hesitate may find it hard to move into these areas at a later date. The recession has forced companies to be more careful with their cash and effectively re-imposed good discipline, with old practical lessons being painfully relearned and less reliance being placed on expensive third-party finance. That could remain the case even when economic conditions eventually improve.

"The broader range of supply chain interoperability means also that you don't have to be a bank to be a player," says Spong. "There is no reason why a multinational supermarket group or major automotive supplier couldn't provide the same services, even if the current tough economic conditions make this an unlikely development in the near term."

Box 1: What is supply chain finance?

Supply chain finance is now the accepted term for the set of bank-led solutions that companies can use to finance their raw materials and inputs as they move from supplier source to corporate destination.

Globalisation and the record level of trading across the world have put pressure on the financial systems designed to facilitate cross-border commercial activity. The factories of India and China have become the workshops of the world, where the goods demanded by voracious Western consumers are made.

The challenge for those involved in these trade relationships – which have been only partly dampened by the global recession – has been how to create a financial supply chain that works in tandem with the physical supply chain which moves goods efficiently from, say, Zhejiang province in China to the cathedrals of retail such as Westfield in London.

Banks haven't been slow to spot an enhanced potential role for themselves in this globalised marketplace. They have always been key facilitators of trade through both their balance sheet and their know-how. In a digital age banks see renewed fee opportunities in making themselves indispensable players in bringing suppliers and customers together to create mutually advantageous deals.

Banks are vying with each other to prove that they have the best winning combination of a smart use of customer-friendly technology allied to a willingness to actually commit funds. Banks are using their knowledge of both international and domestic trade, and are keen to tell treasurers that they can bring together different parts of their business to facilitate dialogues with supply chain participants.

The idea behind the tools are not necessarily new. For centuries banks have been looking at ways to give suppliers certainty over the timing and receipt of their payments from customers and to offer decent payment terms for buyers, But banks are now also claiming expertise in the management of risk in the supply chain and have an ability to help the participants understand fully the risks they face. It is a strong sell in the current choppy conditions.

He also suggests that companies would benefit from greater connectivity within a company between the finance division and the treasurer, without the risk of confidential information being revealed to the bank.

If a corporate purchase is going to happen, then inevitably cash will move out of the company at some point, he adds. The treasurer would benefit from knowing in advance when this is likely to happen because it would help maximise capital efficiency. These cashflow forecast events could be linked to supply chain processes and accounting systems used by treasury. As Spong adds: "Although payment events are reasonably well connected, anticipation of them could be used much more effectively."

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