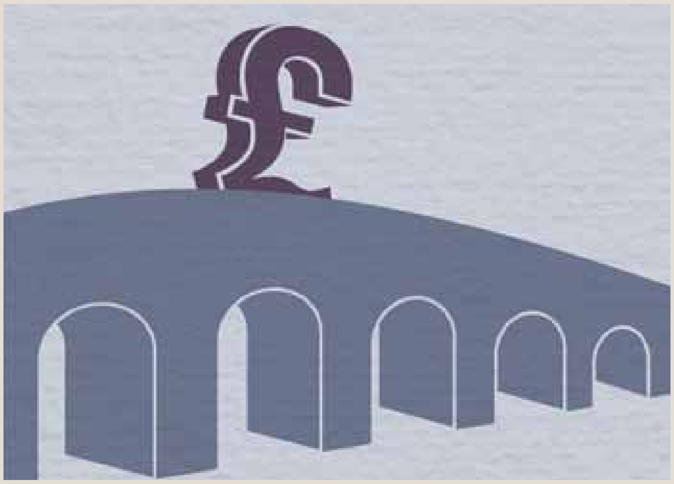
BUILDING BRIDGES

SUPPLY CHAIN FINANCE BRINGS SECURITY TO LARGE CORPORATES AND BOOSTS WORKING CAPITAL FOR SMEs, SAY CÉSAR QUINTANA AND PETER CURRY



In response to the Breedon Review on alternative finance, published in March 2012, the UK government sounded out major banks, the British Bankers' Association and large corporates about the potential benefits of making greater use of supply chain finance (SCF) in the UK. Convinced these were significant, it pledged its support to an initiative with leading UK companies last October that will help tens of thousands of businesses to access higher levels of affordable finance. In total, 38 of the UK's larger companies committed to "continue to offer supply chain finance or to review the feasibility of offering such programmes in the future".

The government's pledge is the latest in a series of schemes aimed at breathing life into UK industry, particularly the SME sector, and supporting job growth and business expansion. In our experience, SCF is a powerful, flexible tool that can make a significant contribution in these areas.

Five years after the banking crisis, SMEs' unquenched thirst for finance continues to hinder business activity and growth in the UK. With some lenders more risk averse than ever and their lending capacity focused on stronger credits, the funding that SMEs need is in short supply, let alone affordable.

At the top of the supply chain, larger corporates are putting pressure on small suppliers by demanding longer tenors, greater price discounts or both. Late payment trends are also becoming more noticeable, particularly between big corporates and SMEs. So the government's SCF initiative is a sorely needed bridge between these buyers and their suppliers, who need invoices paid on time or better.

The opportunity

SCF, although widely used in Europe and South America, is still relatively underdeveloped in the UK market. For example, Santander launched its first SCF product in Spain in the early 1990s, in response to the challenging economic situation the country was then facing. In the two decades since, its global platform has grown in sophistication and scale to handle seven currencies and serve buyers in 17 countries and suppliers in more than 40 economies. Five years ago, it extended the SCF platform to the UK.

Win-win

SCF is a win-win for both suppliers and buyers. Suppliers win because they can sell their receivables to the bank for an immediate cash injection – normally at a cheaper rate than other forms of finance thanks to their buyer's creditworthiness – and get on with growing their business. They also save even more money because their buyer's commercial risk passes to the bank, making credit insurance redundant.

> SCF is a powerful, flexible tool that can make a significant contribution

Buyers win because they will secure their supply chain at no cost, putting them in a position to agree more favourable payment terms. While treasurers, procurement experts and their banking partners need to work closely to set up a supply chain programme, process and system changes are usually minimal, requiring only very minor IT development. Buyers pay their invoices as usual – only their creditor is now the bank and not their supplier.

Both buyers and suppliers also benefit from greater transparency within the invoice approval process, as well as reduced administrative costs.

Flexibility, flexibility, flexibility

The great beauty of SCF is its flexibility. Once the programme is set up, suppliers – whether domestic or international – choose which invoices they discount and when. There are no fixed costs or volumes and they can continue working with their own bank.

Buyers enjoy flexibility, too, with no commitment and no changes in payment processes. There is also flexibility on pricing, allowing stronger suppliers to benefit from more aggressive discount rates, yet provide compellingly cheaper costs all round.

SCF is a powerful, versatile product that has proven its worth on both sides of the Atlantic. In the UK, it is gaining a higher profile within government and it's now time for UK corporates and SMEs to reap its benefits, too.

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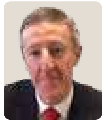

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