

# Providing a lifeline in today's trade marketplace

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The recession, or more accurately the credit crisis, has accelerated the demand for supply chain finance programmes. The challenges that all companies face – particularly, the smaller companies – in raising capital and in raising it at reasonable cost, has brought to the forefront the value of supplier finance programmes – allowing suppliers to efficiently monetize receivables from their larger, stronger buyers. The take-up of these programmes is fairly broad across industry type, but especially seen among those with well developed international supply chains.

## Broadening span of control

Companies need to ensure that they have an uninterrupted flow of components and materials for their key suppliers; failure of a critical supplier can impact production and shipment of goods to the distribution network. One of the challenges faced by multinationals operating in emerging markets is securing favourable payment terms among a diverse range of suppliers. Often suppliers may have little working capital and poor access to bank credit which in turn can result in a demand on buyers for quick payment.

This market, like any other, must be responsive to these evolving conditions.

The real value to suppliers accessing their financing by selling receivables from their buyers is in large part determined by the differential between their respective credits. It is generally true that the differential has widened with the cost of financing for suppliers, having increased to a much larger degree than the cost of credit of the larger buyer companies. In this environment the advantage for suppliers of these programmes has increased.

However, it is also true that programmes are functioning well even where the buyers' credit is of a lesser standing than their suppliers; this speaks to the fact that there are many benefits to the programmes beyond the simple arbitrage of credit ratings. The efficiency and productivity of the whole invoicing process, the implicit credit risk management of monetizing receivables, the value of such a flexible revolving short term working capital facility with no set up fees, and the access across many global markets has made this a favoured tool in many a companies' tool kit.

## Value proposition

Benefits for suppliers are:

- Attractive liquidity management tool through the early payment option
- Cheaper cost of finance as it's based on buyers' credit risk

- Conversion of accounts receivable to cash through attractively priced, non-recourse sale
- No need to provide the purchaser of receivables with onerous credit information.

Benefit for buyers are:

- Improves commercial terms without increasing cost to the supply chain
- Improves cash flow by reducing working capital and related funding costs
- Introduces visibility into the payment process
- Supports key suppliers through provision of sales-linked finance

It is important to keep in mind that these supplier finance programmes have never been mandatory; it is simply another tool for their working capital management from which they can choose. However, its operational and cost efficiencies make it a compelling choice even where L/C financing is a possibility.

## Partnership for solution

Given the capacity constraints in the banking sector, banks working with other financial service partners such as export credit agencies, development and multilateral finance institutions, and transaction services banks on a collaborative basis to support a company's supply chain, can provide the additional capacity needed to fuel this market and further reduce the programmes' costs. What's more, there are regular advances in the types of services offered to buyers and suppliers alike, by way of the improved reporting and analytics these systems offer and in the flexibility of their use by the supplier population.

Supply chain stability is a key factor in helping a company balance optimization of working capital with the soundness of their suppliers. Supplier finance programmes can increase efficiency in a company's existing payments system, freeing up working capital. Concurrently these programmes provide their suppliers with affordable financing to ensure the uninterrupted flow of commerce across the globe. And that partnership creates a 'win-win' solution for both buyers and suppliers. ■



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