Create a Competitive Advantage With an Innovative Supply Chain Finance Program

Executive summary

For a large, global manufacturer with strategic suppliers, procurement departments and ERP systems spread across multiple continents, enabling vendors to borrow at lower interest rates, is just one of the multifaceted competitive advantages of having a supply chain finance program that continues to evolve and grow. The following is a case study in innovation, integration and improving shareholder value, with a focus on both the present and future of supply chain finance.

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It’s a story that will sound familiar to many U.S. businesses — decades of domestic growth, followed by several years of expanding sales, operations and purchasing activities across multiple countries and continents. An irrefutable success story, but for the complexities arising from the acquisition of multiple businesses, systems and processes that prevent a clear and complete line of sight into the company’s ever-expanding global supply chain. A supply chain, that is, with a complex ecosystem of procurement divisions and systems, along with suppliers that have various levels of electronic data capabilities. Relationships with otherwise enormous potential to more efficiently leverage information, better identify opportunities, improve efficiencies, significantly lower the cost of capital — and produce greater competitive advantages.

When representatives from treasury, finance, procurement and technology at a large, global manufacturer sought out Bank of America Merrill Lynch to discuss supply chain finance, they quickly realized the importance of aligning all their internal resources and stakeholders in order to best manage and achieve the greatest value. Yet, for a company made up of diverse business and regional functions, turning myopic thinking into an enterprise view would mean close coordination, strategic planning and leadership across multiple departments within the company.

Creating a win-win proposition

The company’s initial dialogue focused on understanding the fundamentals of supply chain finance and benefits for the enterprise, participating departments and their various business relationships. Today, supply chain finance is about bringing together buyers, suppliers and banks through a shared technology platform designed to optimize both the availability and cost of capital. Beyond increasing liquidity, supply chain finance generates a wealth of information on the flow of funds and physical goods.

However, Bank of America Merrill Lynch is quickly raising the bar from traditional supply chain finance to a concept of total supply chain management that fully integrates all the parties involved in a traditional trade transaction. The transformation from paper-based trade to data-based trade is well on its way. And this was a key focus of the discussion.

The bank explained that by connecting the key parties electronically and matching vital data elements using innovative technology, companies can experience extremely high levels of efficiency and cost reduction. This creates faster and more complete visibility into the dynamic risks and opportunities across a company’s supply chain, thus enabling more informed decision-making at the enterprise and individual department levels. This is certainly of equal value to the working capital improvements and can often be even more important to companies.

As a large global enterprise, the company’s credit rating is stronger than that of many of its suppliers. Supply chain finance enables a company to use its credit rating to help its suppliers obtain financing at rates more favorable than those offered by their local banks. In return, the buyer can negotiate better terms and conditions with sellers, such as extending days payable outstanding (DPO). For example, it’s to their mutual benefit.
for the supplier to receive financing at a rate of Libor +300 versus 6%, and in return, to extend the buyer’s payment terms from 30 to 90 days. Reducing the supplier’s financing charges can lower the cost of the goods and, by aligning procurement terms to match sales terms, the buyer can potentially sell the product and generate revenue before having to pay for it.

Buyers also benefit by moving suppliers away from traditional letters of credit, which are more costly and time-intensive than open account trade arrangements. Plus, the company can strengthen supplier relationships while protecting against supply chain disruptions caused by a lack of seller liquidity, which can ultimately affect sales and create reputational risk. Importantly, the integration and automation of supply chain finance enables accounts payable departments to reduce paper, streamline invoice processing and redeploy resources.

For suppliers, participating in a supply chain finance program both broadens their access and reduces their cost of capital by not drawing on their current credit lines. The on-demand nature of supply chain finance also helps suppliers improve their cash flow forecasting and flexibility. They gain a clearer picture of transaction information and can choose when to draw on the financing, if at all, based on their real-time liquidity needs and market conditions. Moreover, if they pay less to finance materials and production, suppliers are better positioned to compete on both price and terms versus other suppliers who are subject to local bank lending rates and capacity.

### Benefits of supply chain finance

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<th>For buyer</th>
<th>For seller</th>
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<tr>
<td>Extend days payable outstanding</td>
<td>Improve cash flow by reducing days sales outstanding</td>
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<tr>
<td>Move suppliers from letters of credit to open account trade</td>
<td>Broaden access while reducing overall cost of capital</td>
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<tr>
<td>Reduce cost of goods</td>
<td>Improve cash flow forecasting and flexibility</td>
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<td>Align procurement terms to match sales terms</td>
<td>Improve competitive position by offering lower-cost goods with better terms for buyers</td>
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<tr>
<td>Manage accounts payable processes more efficiently</td>
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### Leveraging global expertise and reach

With suppliers located across multiple countries and continents, the company knew that it required the global expertise and reach of Bank of America Merrill Lynch to help maximize the benefits of its program. We began by helping the company strategically assess its supplier base and procurement spending to identify its largest, most important suppliers, as well as a select number of smaller suppliers whose liquidity issues could create supply chain risk. Given the company’s reliance on multiple procurement groups, ERP systems and
paper-based processes around the world, generating the necessary information to accurately assess its spending required significant internal coordination. But it proved highly valuable in enabling the company to focus first on suppliers representing the highest spend and, thus, the greatest opportunity. We also leveraged our global experience to highlight unique program criteria in countries that have complex legal and regulatory requirements around trade finance. In addition, the bank’s global supply chain finance platform, Trade Pro®, enabled the company to accept invoice files from its multiple processing centers located in six different countries, and provides comprehensive, integrated treasury and trade functionality through a single system.

Taking an innovative approach

In addition to the bank’s global platform and expertise, the company found BofAML’s supply chain finance structures highly innovative. By having two different program types, the bank is able to streamline key activities in certain markets. Our experience entering new countries has allowed us to create a structured process and quickly establish programs that might otherwise take longer. This allows the client to more easily engage suppliers and experience program benefits in strategic countries much quicker.

The bank’s approach to supplier onboarding was also a key factor in earning the supply chain financing mandate. We leverage specialized in-market and local language expertise to help educate suppliers about the benefits and parameters of the program. This global manufacturer quickly realized that our proven six-step enablement process covers all key aspects and activities required to successfully implement a global supply chain finance program. The six steps are: engage, analyze, plan, educate, enable and extend.

Our dedicated supplier enablement team then proactively followed up to answer questions, provide additional information, reinforce the value added through supply chain finance, and facilitate a smooth transition—all of which contributes to maximizing program benefits, increasing participant satisfaction and strengthening relationships.

Riding the future automation wave

The company implemented a range of automation and process efficiencies to reduce reliance on paper- and time-intensive processes prior to implementing supply chain finance. However, as the industry moves toward more fully automating the purchase order-to-pay process, the future promises even greater opportunities. According to a study by
the Hackett Group, there is a high correlation between electronic invoice processing, low cost per invoice and on-time payment percentage. Today, it’s estimated that only a quarter of all invoices in market are electronic. When you consider that a company may spend $50 or more to process a paper invoice versus $2 or less per electronic invoice, the potential savings can be game changing.

As a leading participant in all the major international trade banking organizations and other governing bodies, Bank of America Merrill Lynch is at the forefront of the coming automation wave. The next generation of supply chain finance will generate large volumes of valuable data instead of unwieldy paper and technology solutions, and will provide advanced matching engines that capture and confirm all the important transaction elements — giving all supply chain participants greater visibility for faster, more informed decision-making.

Evolving your global supply chain

Despite worldwide economic challenges, global trade volume and relationships will continue to proliferate as companies and regions forge new business connections. Leading participants across the supply chain continuum will continue to embrace innovative strategies and technology that enhance automation, integration and information. The present and future of supply chain finance — including the evolution of trade matching and settlement — offers significant opportunities for adding greater value to enterprises and individual stakeholders around the globe.