



# 15 Best Practices

**For Your Financial Supply Chain**

Real-world Issues. Real-world Answers.



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### Summary

Current economic conditions have heightened risk levels in global trade. Rising production costs in China combined with uncertainty and credit issues spanning Greece, Italy, Spain and much of Europe have altered the dynamics of trade, resulting in companies placing a growing emphasis on the financial supply chain. The financial supply chain extends from planning and procurement through payment, encompassing everything from chargebacks to credit protection for suppliers.

Today, it's essential to know who you're working with, understand their business and find ways to partner with them. Consider your suppliers an extension of your business. For companies operating global supply networks, this is easier said than done. But tools and strategies exist to enable better management of the financial supply chain and visibility into trading partners to reduce risk, eliminate costs and improve performance.

An excellent starting point is the procure-to-pay process. Examine the documents and workflow in your procure-to-pay process for paper and manual tasks. If there is paper or if you are employing manual processes, there is a lack of visibility, and whenever there is a lack of visibility, there is a problem. Innovative companies today are taking advantage of procure-to-pay solutions that provide automation and lay the foundation for true collaboration with supply network partners. This approach can eliminate various forms of supply chain risk:

- Financial and credit related risk
- Risk related to the strength of trading partners
- Risk relating to rising production, materials and labor costs

More importantly, these tools can unlock savings and enable business growth for the entire supply chain. Technology and services available today can provide strategic procure-to-pay systems to improve performance in your supply network through greater visibility and automation.

## Financial Supply Chain Automation 101

Hundreds of billions of dollars. That's the collective amount of potential savings still stuck inside supply chains. Why haven't these savings been unlocked?

During the last three decades we've seen companies invest tremendous capital in their supply chains. Billions have gone into ERP and warehouse management systems alone – all in the name of improved productivity and just-in-time manufacturing.

These investments, to a large degree, worked. Productivity improved. Companies became leaner. Share prices went up. But hundreds of billions in savings still remain waiting to be liberated.

The barriers?

Manual financial processes and inefficient use of working capital. Here are two basic tips for overcoming these barriers – and realizing your share of the savings.

**1) Automate the movement of money – not just goods – across trading partners.**

Enlightened executives have found a way to unlock the savings and achieve total supply chain optimization. The big “ah-ha” for these executives is that automating the back office of their own enterprise alone is not the answer. The complexities of the interconnected supply chain – the network of factories, warehouses, distribution centers, buying agents, financial institutions, logistics companies, rep offices, and more – require multi-enterprise thinking if real savings are to be found. This collaborative approach has already led to great progress in the “front” or physical part of the supply chain, from design through manufacturing and shipping.

Unfortunately, the “back” – the processes from order through payment, also known as the financial supply chain – has been woefully neglected. Until an organization optimizes its entire supply chain, physical and financial, it will never realize the full benefits of the investments it has already made in supply chain technology. That's because as long as paper exists in any part of the supply chain, processes remain opaque, the same data needs to be captured multiple times, and unnecessary errors exist. In turn, goods and materials move more slowly and cost more.

**2) Financial collaboration is possible – and profitable.**

In the past, it was understandable why many organizations failed to automate the financial supply chain. This part of the supply chain is rife with old paper-based financial processes and its participants are geographically and technologically disparate. But recent advances in cloud technology have enabled these parties to make significant strides and achieve full integration.

By weaving together the whole supply chain, both physical and financial, innovators are generating significant savings and moving to a world of both just-in-time manufacturing as well as just-in-time working capital.

The vision: a future state where all the paper is removed from the supply chain and all of the parties collaborate on, and have visibility into, every process, from order through settlement. Accounts payable and accounts receivable processes can be fully automated and dispute management is electronic and available online. Financial services are not only delivered electronically but also automatically, and at more frequent stages throughout the transaction. Working capital is optimized through the entire supply chain to make all parties more effective.

The good news is that the technology exists to automate the financial supply chain without scrapping the investments companies have already made in their physical supply chain and ERP systems. The even better news is that cloud software delivery models allow companies to pay for this technology only when they use it, which aligns cost with value delivered.

I speak with executives who have made these changes, or who are heading in the right direction. Their organizations have *typically cut \$3 to 6 million in costs for every billion dollars of procurement*.

In short, now is the time to address the last frontier of supply chain automation – the financial supply chain. The companies that achieve full end-to-end automation, from physical to financial, will gain a measurable advantage in their marketplace.

## Putting Finance and Operations on the Same Page

There's a wall between finance and operations. I say, tear it down. Because when finance and operations collaborate, companies lower the cost of goods, use capital more efficiently, and compete more effectively.

This isn't some ivory-tower academic concept. It's a reality on the ground today. For instance, some companies use early payment programs to help suppliers handle the smaller, more frequent orders that come with demand management initiatives. Other companies analyze procurement to take official "ownership" of manufacturing materials at the most financially opportune moment.

Whether you're a finance or supply chain executive, these kinds of projects are a great opportunity to gain high profile, cross-disciplinary visibility. The starting point for nearly all of them is automating the financial processes from procurement through payment. Once these processes are automated, operations and finance teams have the procurement and financial information they need to partner. Here are three tips for ensuring collaboration adds value to your organization – and your career.

### 1) Working capital management is a sensible starting point.

From an operations perspective, manual financial processes are error prone and labor intensive, *adding five percent to the cost of global trade* – not to mention delays to the flow of goods.

But how do manual processes impact finance? In addition to swamping the payables department with paperwork, they make it hard to precisely predict when and in what currency different suppliers must be paid. This increases short-term borrowing and its expense, while shrinking the capital available for other use.

Automated financial processes indicate what accounts will be paid, at what time, and in what currency – far sooner than manual financial processes could determine. Your finance team can use this information to fund accounts used for payment at the last possible moment, liberating cash for higher yield investments, growth and other business strategies. That's why working capital management is a great way to broach the subject of automation.

### 2) Optimize supplier relationships for cost and speed.

Once financial processes are automated, finance and operations can collaboratively address more complex issues, such as helping suppliers support demand management.

Take one retailer I know. Its executives use financial supply chain automation to consistently collect early payment discounts from suppliers, getting them the capital they need to fill more frequent orders – all while creating savings for the retailer. Automation also

gives the suppliers advance notice on incoming orders. They use the extra time to procure the necessary fabrics and materials, shaving days off the retailer's procurement cycle.

In addition, financial supply chain automation helps several apparel executives that I speak with to scorecard supplier performance. The factors are a mix of financial and operational metrics, like the accuracy of financial documentation and the timeliness of shipments. With the results, executives determine which suppliers are the most cost effective business partners. Some companies are even using automated financial processes to incent and penalize various supplier behaviors. For instance, financing costs are automatically cut for vendors who produce error-free documentation. Penalties are automatically assessed to vendors that delay the supply chain with processing mistakes or shipping errors.

### **3) Use the cloud to leverage existing systems – and lower your risk.**

Large ERP or CRM software implementations promised integration and automation, but many only delivered results after great pain and expense. Fortunately, new technologies make it possible to further automate without large upfront investments and long implementation cycles.

Consider a large footwear brand I recently visited. Rather than implement software across its sourcing division and hundreds of suppliers, the company used a cloud-based platform to automate financial processes. The platform extracts purchase orders from the brand's ERP system, and then automatically populates and routes other documents necessary for the transaction, such as suppliers' invoices. From a technical standpoint, what makes this possible is open data exchange. The cloud-based platform can accept nearly any data formats and transport, from EDI and AS2 to XML and flat files. Thus, all the work the retailer and its suppliers have done to create data on existing systems, such as ERP, for procurement, fulfillment, payment and workflow is re-used. Each party can continue working with its existing technology, business processes and logistics or financing partners while integrating operational and financial processes.

## **Three Tips for Fluid Global Sourcing**

Rising labor and production costs are forcing brands and retailers to seek new sourcing locales.

I don't have to tell you about the impact these changes have on logistics. Most executives carefully prepare for that. What they don't always prepare for is the impact on the financial supply chain. So why should they?

Consider what a major apparel brand's COO recently told me. According to him, the cheapest manufacturing locales have changed rapidly in response to economic development and evolving regulatory environments. His organization had a solution to manage logistics globally.

Yet the accompanying financial transactions were done with antiquated systems that relied on e-mails, phone calls and faxes. This approach grew too costly and time-consuming in the face of global sourcing's complexity – even as the COO established more stable relationships with suppliers in locations like Sri Lanka, Cambodia and Vietnam.

Think about it. The apparel brand, its suppliers and sometimes its banks were forced to manage multiple documents in multiple formats across multiple modes of communication –

all to close one transaction. A simple mistake in this financial supply chain added time and expense to the flow of goods.

Of course, some executives have solved this problem. They automated their financial supply chain to grease their physical supply chain – and put a serious dent in sourcing costs along the way.

Based on these executives' experience, here are three tips to consider when evaluating the impact of global sourcing.

**1) Stress-test your ability to handle cross-border financial transactions.**

When it comes to international trade documentation, a re-keying inaccuracy can add days to the supply chain. International suppliers may also require letters of credit – error-prone documents that are notoriously complicated. My point is, doing business in more countries means taking on more variables. Can your organization efficiently handle them? What will be the impact on purchase order delivery, accounts payable, settlement and financing processes? How about warehouse reconciliation and chargeback management?

It's important for the folks in charge of these processes to benchmark their current workload and estimate the effect of any changes. This helps ensure that internal processes complement, rather than hinder, global sourcing. After all, the goal is saving money – not slowing down the flow of goods, or shifting costs to another department.

**2) Share data with all your trading partners, not just your suppliers.**

Take a footwear brand that I work with. A few months ago, the company and its suppliers climbed on board a cloud-based financial supply chain platform to reduce sourcing costs. An added benefit is that when suppliers prepare an electronic shipping notice, the corresponding freight company is automatically alerted via e-mail. The freight company then reserves container space for the shipment, reducing wait time at the port.

The lesson? Data is more valuable when you share it. Likewise, multiple departments within your own organization may find financial supply chain information valuable. Treasurers, for instance, would gain sharper visibility into payables data. They'd know when particular accounts were due for payment – weeks ahead of time. This liberates cash for higher yield investments, growth and other business strategies. It can also reduce short-term borrowing.

**3) International suppliers often face cash flow issues. It makes sense to help them.**

Last month, I spoke with executives at a Taiwanese supplier. A major customer had just shifted from 30- to 45-day payment terms – while asking the supplier to meet soaring production demand in smaller, more frequent shipments. In short, the supplier's business was poised to grow, but working capital was stretched too thin to support the increase.

This situation can hurt a supplier's solvency, slow down production time or even impact the quality of goods. It's a reality that is all too common in the global sourcing scene.

Early payment programs are one way to help. They give suppliers the option of early payment in exchange for a discount off invoice, providing a source of operating cash flow in addition to bank lines. Early payment is made possible – and programmatic – through financial supply chain automation. With the right provider, buyers can fund payment with their own cash or through financing from a partner financial institution.

Why would your organization be interested in this? In a nutshell, the benefits are a stronger balance sheet and stronger suppliers. That's because early payment programs can far surpass

the return from extending payment terms, while ensuring that suppliers have the working capital they need to meet demand.

## **Supplier Financing: Should You Lend a Hand?**

One of a company's key suppliers is on shaky financial ground. So the company helps the supplier secure access to working capital...by providing a second mortgage on his home.

It's far from a typical scenario. But when I heard this true story, I couldn't help but think how relevant it is to large buying companies. The supplier I mentioned was a solo operation – a genius professor producing complex high-tech components in his basement. His buyer was a top global manufacturer. To be sure, your suppliers may be larger and more stable financially. But finding alternate sources of financing is likely one of their strategic imperatives, particularly with the trend toward longer payment terms and smaller, more frequent orders.

To help suppliers remedy this issue, many buyers use financial supply chain automation. With the right platform, this approach not only streamlines procure-to-pay processes between trading partners – it also delivers automated third-party financial services, like credit protection, export financing and early payment programs. These services provide a supplier with additional flexibility to support a buyer's treasury and logistics best practices.

Sometimes, they even serve as a profit center for buyers. Here are three tips for helping suppliers this way – and, most importantly, delivering measurable benefits to your own company.

### **1) Don't shift costs. Eliminate them.**

A supplier's costs and delays become a buyer's costs and delays. That's practically a cliché, as well as one of the strongest drivers behind all the supply chain collaboration we've seen in the past decade. The same thinking should apply to the way suppliers finance their production cycles.

Take one large apparel brand I've worked with. A few years ago, it had scores of international suppliers stuck using letters of credit. The suppliers bore the brunt of these labor-intensive documents – but the time and cost constraints trickled back to the brand.

The AP department had more work; the sourcing folks faced more delays; and the cost of goods was higher than it needed to be. The brand responded by adopting a financial supply chain platform – one that automated procure-to-pay processes, while layering in third-party financial services for suppliers. Now, the suppliers can access credit protection with the click of a mouse, instead of going back and forth with buyers and banks on costly letters of credit. The great thing is that the brand hasn't assumed any additional financial risk, even though the suppliers are benefiting from its good credit rating.

### **2) Collect early payment discounts. Profit from procurement.**

Buyers have historically shied away from early payment programs for two reasons. First, their working capital was often stretched too thin to pay early. Second, their AP departments



could not approve and pay invoices fast enough. That's because these departments were bogged down with manual processes and paperwork.

Now, with a good financial supply chain platform, you can automatically collect early payment discounts using third-party financing. This financing can be integrated directly into transactions between trading partners. Cash-rich buyers can also fund payment themselves, further boosting their return on invested cash.

In either case, suppliers benefit from more predictable cash flow, while buyers lower their cost of goods. Another important feature of these programs is that they can help buyers extend days payable – without hurting suppliers' cash positions. Of course, you may not want to negotiate early payment rates. So don't negotiate, just offer. Many companies have found that with an automated early payment program, a surprising number of suppliers will opt in without any negotiation on the procurement team's part.

Furthermore, you can use an automated solution to test a variety of discount rates until you hit on the rates that work best for your supplier base.

### **3) Reduce your risk profile. Protect your supply chain.**

Think back to 2007, when the economic crisis rippled across Asia and companies watched their cash inflows dry up. Some manufacturers were forced to grind operations to a halt. Others were able to keep producing because of cross-border securitization products that kept capital moving.

The point is, when financing breaks down, so does the supply chain. This isn't just about weathering regional or global financial storms. It's about helping suppliers – and in turn, your own company – to handle changing operational environments. Help your trading partners ensure access to trade finance, payment protection and other risk mitigation tools.

## **Four Ways to Create Near-Term Value from the Financial Supply Chain**

When it comes to the billions of dollars trapped inside the financial supply chain, what can you learn from the hundreds of companies that got their share out?

I just visited with a large retailer whose COO asked this same question. He's automated the movement and tracking of goods across his supply chain, but manual financial processes cause delays and add costs. For instance, errors in financial documents – such as letters of credit or invoices – have to be detected and amended by hand. Changes then have to be approved by both the retailer and its suppliers. Amendment practices differ from supplier to supplier, with notification methods spanning e-mail, fax and overnight shipping.

In short, a simple re-keying error can add days to the retailer's procurement process. It's a real headache for an operations team that has physical logistics turning on a dime. To fix these problems and **reduce transaction costs by up to 70%**, the retailer is automating the processes from order through payment – known as the financial supply chain – and linking them to the rest of its supply chain. Here are the five tips I gave the COO.

### **1) Carefully consider a cloud-based solution**



Traditional software implementations and upgrades can be cumbersome to roll out when many different companies are involved and, in turn, business processes extend across corporate boundaries. (Lots of executives know this firsthand from automating the physical supply chain.)

Executives sometimes remedy this issue by using a cloud-based platform – which a company and its suppliers can access anywhere, while still integrating with back-end ERP systems for data exchange. The platform should accommodate common file types and transfer protocols, so everyone can keep their existing technology in place.

No matter which route you choose, make sure you and your trading partners get shared visibility into financial transactions and all the documents associated with them. That way, transaction errors and miscommunications no longer trip up the flow of goods, and everyone operates in sync.

## **2) Physical supply chain data enables the financial supply chain.**

Think about the physical supply chain data that's already available – like purchase orders, shipping notices, packing slips and customs documents. A good financial supply chain platform re-uses these documents to automate the processes from order to payment.

In fact, some manufacturers integrate suppliers' packing slips into the financial supply chain, to give their treasury department a view of upcoming payables way in advance. That enables the treasury folks to save significant amounts of cash through better working capital management.

## **3) Document matching and money movement capabilities save big bucks.**

Not every company needs to take their financial supply chain beyond trading partner connectivity and basic workflow automation, but many do. For example, some companies ask multiple suppliers to ship multiple times against the same purchase order. A good financial supply chain platform can automatically match all the associated documentation to the original purchase order, check for errors, and route appropriate notifications to all parties. In the end, this feature can shave days off the procurement process. Another important capability is automating payments according to your schedule, or upon compliance with preset factors. It's the cornerstone for money-saving financial techniques, like eliminating letters of credit, capturing early payment discounts and instituting supplier-financing programs.

## **4) Your trading partners' ramp-up time is as important as your own.**

When it comes to financial supply chain automation, the more trading partners you bring on board, the more value you see. So look for a platform that makes it simple to connect with trading partners – or better yet – one that already has your partners on board. All of this goes for your third-party financing, logistics and inspection providers, too. It is also important to choose a financial supply chain service provider who can show you best practices for rolling out these changes to supplier networks.

**About the Author, Kurt Cavano**

Kurt Cavano is Founder, Chairman and Chief Strategy Officer of TradeCard, Inc. He maintains overall responsibility for driving TradeCard's strategic direction, for disseminating the company's track record of innovation and market success, and for guiding key customer, industry and partner relationships. He has over 25 years of experience helping corporations improve their business performance through the intelligent application of technology. Prior to founding TradeCard in 1999, he was a Vice President at American Management Systems, an international business and information technology consulting firm. Mr. Cavano managed the Corporate Banking Practice of the AMS Finance Industry Group. Featured as one of World Trade Magazine's 50 most influential people, Mr. Cavano is a frequent speaker and writer on topics concerning international trade and global supply chain management. He holds a BS in Bioscience from Penn State University and an MBA from New York University.

**About TradeCard, Inc.**

Since 1999, TradeCard, Inc. has transformed global supply chain collaboration by boosting visibility, cash flow and margins for over 10,000 brands, retailers, suppliers and service providers operating in 78 countries. TradeCard delivers a cloud-based network that enables complex, multi-enterprise sourcing transactions across multiple layers of the supply chain. More than 45,000 individual users leverage the TradeCard Platform to streamline transaction flows, from purchase order through production tracking, shipment and payment. Embedded financial services throughout the supply network reduce capital costs and minimize risk. Multi-enterprise collaboration on the platform delivers visibility into the movement of goods, from raw materials to the store shelf. TradeCard's on-the-ground trade experts around the world allow entire supply networks to rapidly join and drive value through the platform.

The world's leading retailers and brands, including Levi Strauss & Co., Columbia Sportswear, Guess and Rite Aid, leverage the TradeCard Platform and its member network for sourcing and global trade. TradeCard, Inc. is headquartered in New York City, with offices in San Francisco, Amsterdam, Hong Kong, Shenzhen, Taipei, Seoul and Colombo. TradeCard is located online at [www.tradecard.com](http://www.tradecard.com).