Financial Supply Chain Solutions  
– a Must Have in an Uncertain World

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As globalisation continues to gather momentum, supply chains have lengthened and become more complex. This process has been accompanied by greater risk awareness and this has acted as the catalyst for a growing appetite for financial supply chain solutions (FSC).

When they are employed effectively, FSC programmes can help manage risk, optimise working capital and cash flow, and improve the flow of transaction data between trade counterparties, without the need for costly implementation processes. FSC solutions have come to the fore in the aftermath of the financial crisis of 2008. The so-called credit crunch was responsible for many things, including the reduction in availability of bank-supplied credit lines and more limited access to capital markets – which is still being painfully felt today. The result of all this is that corporates worldwide are reducing their dependency on debt by improving working capital management and working more closely with trading partners.
management and working more closely with trading partners. Advances in working capital management solutions are being promoted not only by the major trade banks, but also by corporate treasurers – notably from the MNC sector - who are also driving the agenda.

So how can corporates improve liquidity and risk management? The benefits of FSC solutions as a stable and reliable source of liquidity are widely acknowledged. Unlike other sources of liquidity, such as credit from the capital markets, FSC programmes are flexible and serve as an incremental source of credit as they add to, rather than consume, existing cash resources.

These solutions can also serve to improve working capital cycles, thus enhancing cash flow management. Extending this cycle, through increasing the days payable outstanding (DPO) – perhaps from 45 to 60 days - is one way to improve working capital. In exchange for these terms, suppliers can leverage the creditworthiness of their larger trading partners to obtain more favourable access to credit than they could in a bilateral situation.

Greater financial security and supply chain strength helps to mitigate risk of financial loss. Between the order of goods and the receipt of payment, there is always the risk that the trade process will be interrupted, resulting in financial loss to one or both parties. If trade entities are in a position to better absorb potential fiscal damage, short-term losses can be overcome with little or no effect on long-term business sustainability.

Nevertheless, there are challenges to overcome. The increasing length and complexity of supply chains comes with a growing awareness – and perhaps uneasiness – among corporates that all it takes is one weak link in the supply chain to cause major problems around working capital management. The inextricable link between problems in the supply chain and company cash flow has been demonstrated several times – as witnessed in the freezing of market liquidity following the credit crunch. The Japanese tsunami of March 2011 brought business to a halt in many cases, underlining the need for contingency plans to prevent business disruption due to natural disaster. This threatened supply chain security and called for an alternative source of financing to best ensure the longevity of trade flows and commercial cycles. The conflicting interests between buyers and suppliers, with the former calling for relaxed payment terms and the latter desiring earlier payment, will always be relevant. FSC solutions are now a well-recognised means of best dealing with these matters.

Despite the rising demand for FSC solutions, few banks are in an advanced stage of product and commercial development. This is not an optimal situation, especially in a climate where clients are looking to their banking partners to help them navigate very difficult waters. The few major trade banks, however, have responded by investing in sophisticated, global solutions that constitute a ‘full package’ offering. Such holistic solutions require a combination of expertise and experience in the creation of credit structures, state-of-the-art technology platforms to provide maximum efficiency and rich functionality, along with robust implementation, on-boarding processes and client support capabilities to cover global trading activities.

Deutsche Bank understands that having a comprehensive capability to structure, implement, on-board and support clients from end-to-end is a prerequisite for meeting a corporate’s working capital objectives. We have long recognised that our solutions and processes must be closely aligned to the needs of many different types of companies and their trading partners. Therefore we remain committed to delivering a long-term, mutually beneficial partnership with our clients in this rapidly developing space.

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Jon Richman is Managing Director and Head of Trade Finance North America and Financial Supply Chain Americas, Global Transaction Banking, Deutsche Bank. Based in New York, he is responsible for the North America trade finance business and the financial supply chain business (including accounts receivable and supplier finance activity) across North and South America. Jon has also served as Deutsche Bank’s Global Product Head, Trade and Financial Supply Chain within the Product Management function of Global Transaction Banking.

Before joining Deutsche Bank in 2008, he spent over 20 years at Standard Chartered Bank, in a number of positions based out of New York, London and Hong Kong. Jon has a wealth of trade and transaction banking experience in areas including sales, risk and product management. During the course of his career, he has developed a number of innovative and market-leading trade and supply chain finance products.

Jon graduated from Indiana University School of Business and gained his MBA at Henley Management College in the UK.