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Big brands warm to Cameron's lending call

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UK Prime Minister David Cameron invited leaders from FTSE 100 companies to Downing Street last October to urge them to sign up to supply chain financing programmes and boost financial support to their suppliers.

Photo credit: Getty Images

Large companies including food retailer Sainsbury's and mobile provider Vodafone already offer such programmes but Cameron wants more companies to get involved.

Transaction bankers say that more companies are expressing an interest in these programmes, because they realise that their fate is inevitably linked to that of their suppliers in an often complex supply chain.

There are two main forms of supply chain financing between buyers and suppliers. Buyers can set up a supplier finance programme whereby they allow suppliers to use their bank's credit lines to obtain cheaper funding.

Anil Walia, head of trade and supply chain advisory at Royal Bank of Scotland, said: "A supplier who was funding himself at 6% through his own bank can now fund at 2% using the buyer's bank, because its credit risk now reflects that of the buyer, which is typically stronger."

Alternatively a supplier can sell the invoices it would normally give to the buyer to a bank, with the buyer's approval. That allows the supplier to secure its money earlier from the bank, in return for a fee, while the buyer promises to pay the bank its invoices at a later date, typically within 45 to 60 days.

Philippe Lepoutre, general manager of Compagnie Générale d'Affacturage, Societe Generale's commercial factoring unit, said that the risk is concentrated on the buyer instead of the supplier.

He said: "Increasingly, corporates are aware that they have a real common fate with their suppliers. It makes sense for them to take care of suppliers' financing needs and keep them in business."

Banks can structure and run online supply chain financing programmes that connect buyers and suppliers.

Societe Generale developed a new platform last year in conjunction with cash management company Kyriba that processes supply chain financing requests in multiple languages, currencies, and with multiple banks.

Societe Generale's Lepoutre said supply chain financing programmes are popular in countries such as Spain, where large buyers help finance smaller suppliers that might otherwise struggle, and the concept is spreading to other countries. He said: "We are seeing more requests for programmes that serve suppliers in eastern Europe, because they may face problems funding in their local markets."

Financing without borders

Transaction bankers predict a surge of cross-border supply chain financing as western buyers source more goods from foreign suppliers.

Bart Ras, head of supply chain finance in transaction services for Europe, the Middle East and Africa at Citigroup, said this is a big growth area for large banks.

He said: "If you look at a supply chain, within a couple of steps it quickly becomes a collaboration network over different regions and continents. Therefore, only banks with a global footprint can support these cross-border SCF programmes."

Lepoutre said: "More than half the requests for supply chain financing that come across my desk involve cross-border supply chain financing."

According to research published by consulting firm Demica, the cross-border supply chain finance market serving supply chains of larger companies domiciled in the UK, France and Germany is estimated to be more than €460bn.

RBS is one bank that is building its cross-border supply chain finance business and has earmarked it as an area of growth.

RBS's Walia put this down to Asia being the "manufacturing hub to the occidental world" but said that Asian suppliers need help from European buyers with their financing because of high interest rates.

He said: "Suppliers in countries such as India and Turkey, where interest rates are high, can end up paying between 7% and 10% interest on their local currency borrowing. But with a SCF programme, they can get liquidity at a lower interest rate of around 2% to 3% and reduce borrowing costs."
European buying companies can offer better priced liquidity and bank credit lines to their Asian manufacturing suppliers.

Martin Knott, head of trade, global treasury solutions for Emea at Bank of America Merrill Lynch, said successful domestic supply chain programmes are going cross-border, where companies want to target new suppliers abroad and extend their existing programmes.

He said: “Bank of America Merrill Lynch definitely sees growth in this area, for both domestic and cross-border programmes.”

According to RBS’s Walia, there are opportunities for cross-border programmes within Asia, financing south-south trade, where a buyer from one Asian country buys goods from a supplier in another.

Axel Miller, partner within the financial services practice group at consultancy firm Oliver Wyman, said regional banks are offering low-key domestic supply chain financing and achieving success attracting clients. He said: “For example, Malaysian bank CIMB has established a supply chain finance programme to cover its key Malaysian clients.”

But despite the untapped potential of this form of financing, there are legal and regulatory obstacles to overcome.

Walia said banks need to have offices in the relevant supplier countries to deal with those suppliers, and have to factor in compliance procedures.

Conflicting laws and language barriers can create complexities. Sometimes banks have to use local banks because they have better knowledge of local habits and practices.

Lepoutre said: “They may sometimes have an easier access to liquidity in the local currency than a bank in the buying company’s home territory.”

The renminbi is one currency that is becoming increasingly important to companies that import from China.

Knott at Bank of America Merrill Lynch said: “Global companies that are importing from China get potentially better payment terms if they can accept invoices in renminbi. Having a multi-currency cross-border SCF programme allows them the flexibility to extend it to suppliers in China.”