Overview of Supply Chain

EC Trade Consultants Ltd

KK Yeung

What is a supply chain ?

- A supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer.

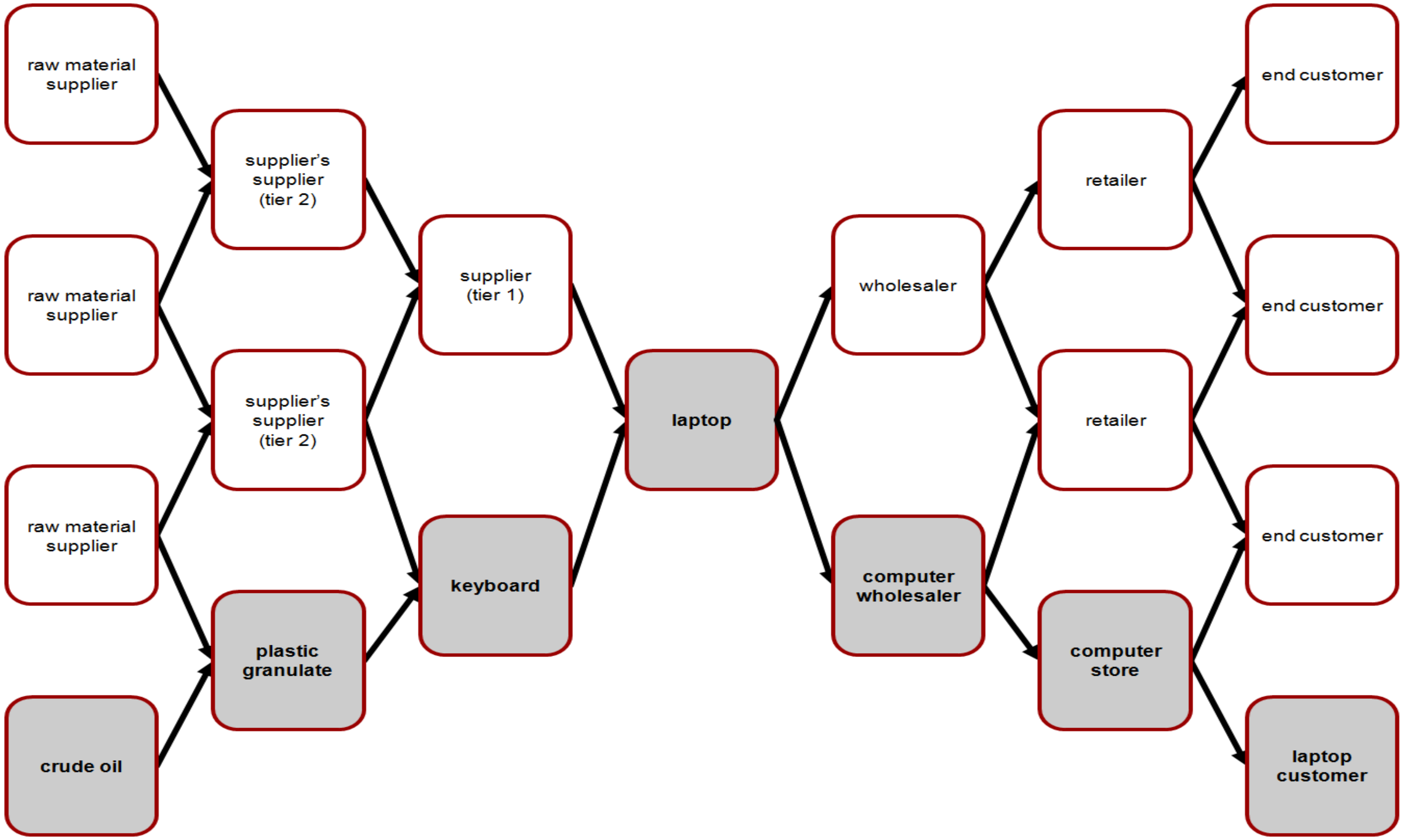
Supply Chain

Goods

Factory → Exporter → Trader → Importer → Distributor → Retail shop

Money

Complex Supply Chain



Today our customers focus on the entire supply chain

- Customers view their supply chain in its entirety
- Vendors
- Vendors to their Vendors
- Buyers
- Dealers/Channel Partners
- 3rd party intermediaries (i.e. carriers, brokers, inspectors, etc)

- Customers measure their own success against key financial metrics
- Days Payable Outstanding (DPO) vs Days Sales Outstanding (DSO)
- Free cash flow
- Inventory “turn”
- Cash conversion cycle (DSO + DIO - DPO)

What do Customers need?

Receivables

- Improve “quality” of A/R, earnings
- Lower borrowing costs, shorten Days Sales Outstanding (DSO)
- Broaden sales markets (revenue growth)
- Reduce payment and FX risk

Working Capital Optimization

Payables

- Extend Days Payables Outstanding (DPO)
- Lower Cost of Goods Sold (COGS)

Inventory

- Improve asset turnover and ROA
- Maintain / expand Vendor base
- Risk management
- Supply chain strategy

Supply Chain Management

- Supply chain management (SCM) is the management of the flow of goods and services, involve the movement and storage of raw materials, work-in-process, inventory and finished goods from point of origin to point of consumption.
- SCM has been defined as the "design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, leveraging worldwide logistics and measuring performance globally.

Manufacturing flow management process

- The manufacturing process produces and supplies products to the distribution channels based on past forecasts. Manufacturing processes must be flexible in order to respond to market changes and must accommodate mass customization. Orders are processes operating on a just-in-time basis in collected and analyzed by the firm, including cost, custom service, productivity and quality.

Physical distribution

- This concerns the movement of a finished product or service to customers. The customer is the final destination of a marketing channel, and the availability of the product or service is a vital part of each channel participant’s marketing effort

Outsourcing / Partnership

- This includes not just the outsourcing of the procurement of materials and components, but also the outsourcing of services that traditionally have been provided in-house. The logic of this trend is that the company will increasingly focus on those activities in the value chain in which it has a distinctive advantages and outsource everything else.

Performance management

- As logistics competency becomes a critical factor in creating and maintaining competitive advantage, measuring logistics performance becomes increasingly important, because the difference between profitable and unprofitable operation becomes narrower.

Warehouse management

- To reduce a company's cost and expenses, warehousing management is concerned with storage, reducing manpower cost, dispatching authority with on time delivery, loading and unloading facilities with proper area, inventory management system etc.

Workflow management

- Integrating suppliers and customers tightly into a workflow or business process and thereby achieving an efficient and effective supply chain is a key goal of workflow management.

Problems in supply chain

- With the supply chain lengthening as a result of globalization and offshore production, many companies have experienced a reduction of capital availability. In addition, the pressure faced by companies to improve cash flow has resulted in increased pressure on their overseas suppliers.

- Specifically, suppliers receive pressure in the form of extended payment terms or increased working capital imposed on them by large buyers. The general trend toward open account from letters of credit has further contributed to the problem.

- As a result, there is a need for global supply chain finance solutions

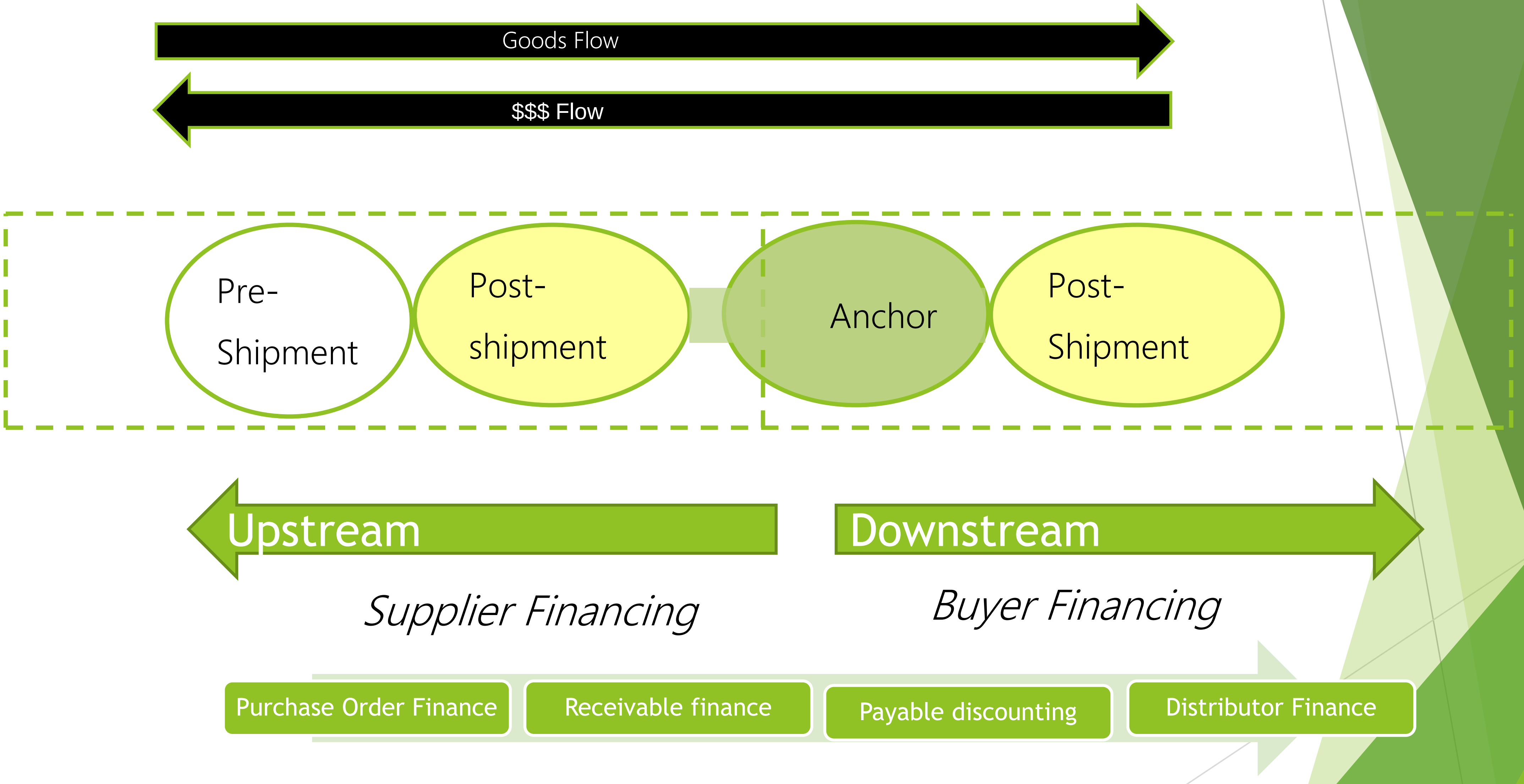
What is supply chain finance ?

- Supply chain finance, also know as supplier finance, is a set of solutions that optimizes cash flow by allowing businesses to lengthen their payment terms to their suppliers while providing the option for their large and SME suppliers to get paid early.

- This results in a win-win situation for the buyer and supplier. The buyer optimizes working capital, and the supplier generates additional operating cash flow, thus minimizing risk across the supply chain.

- SCF involves the use of a technology platform in order to automate transactions and track the invoice approval and settlement process from initiation to completion.

How does supply chain finance work ?



Win-win Situation

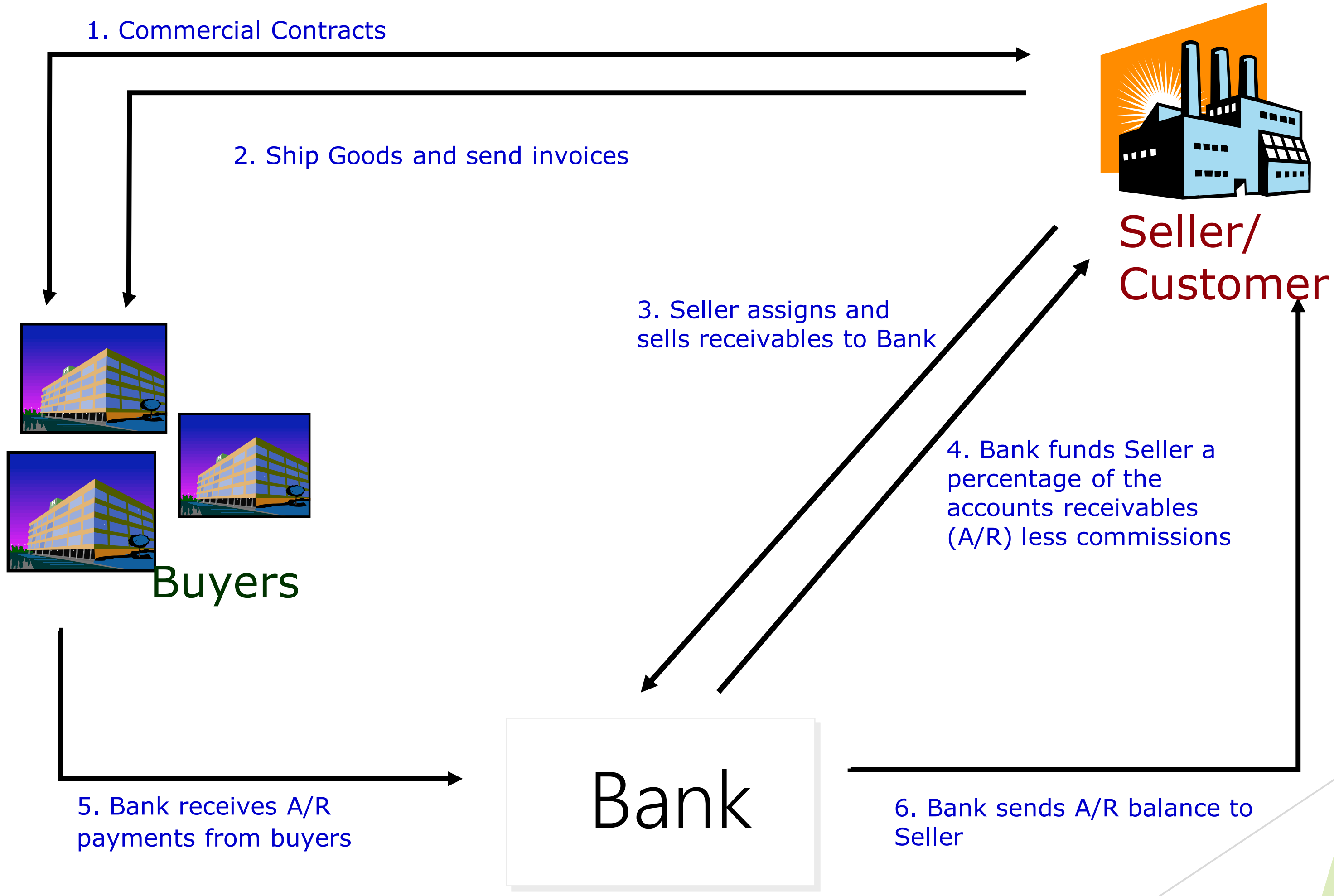
- SMEs often supply to or buy products and services from large corporations (anchors), directly or indirectly, yet are often unable to leverage these business linkage to obtain financing.
- SMEs also face problems meeting the loan requirements of banks to obtain financing, given their lack of acceptable collateral, land registry certificates, credit histories and audited financial statements.
- Many banks have been using supply chain finance (SCF) products to overcome these problems and have rapidly developed specialized products and service offerings.
- In general, SCF enables banks to provide financing to SMEs that would have been difficult through traditional financing channels, as it leverage the relationship and transaction flows with other parties in the supply chain, rather than relying purely on the limited strength of SMEs. Thus, all stakeholders stand to benefit from SCF,
- Banks can build such programs across multiple anchors with a homogeneous approach, creating economies of scale.

Types of Supply Chain Financing

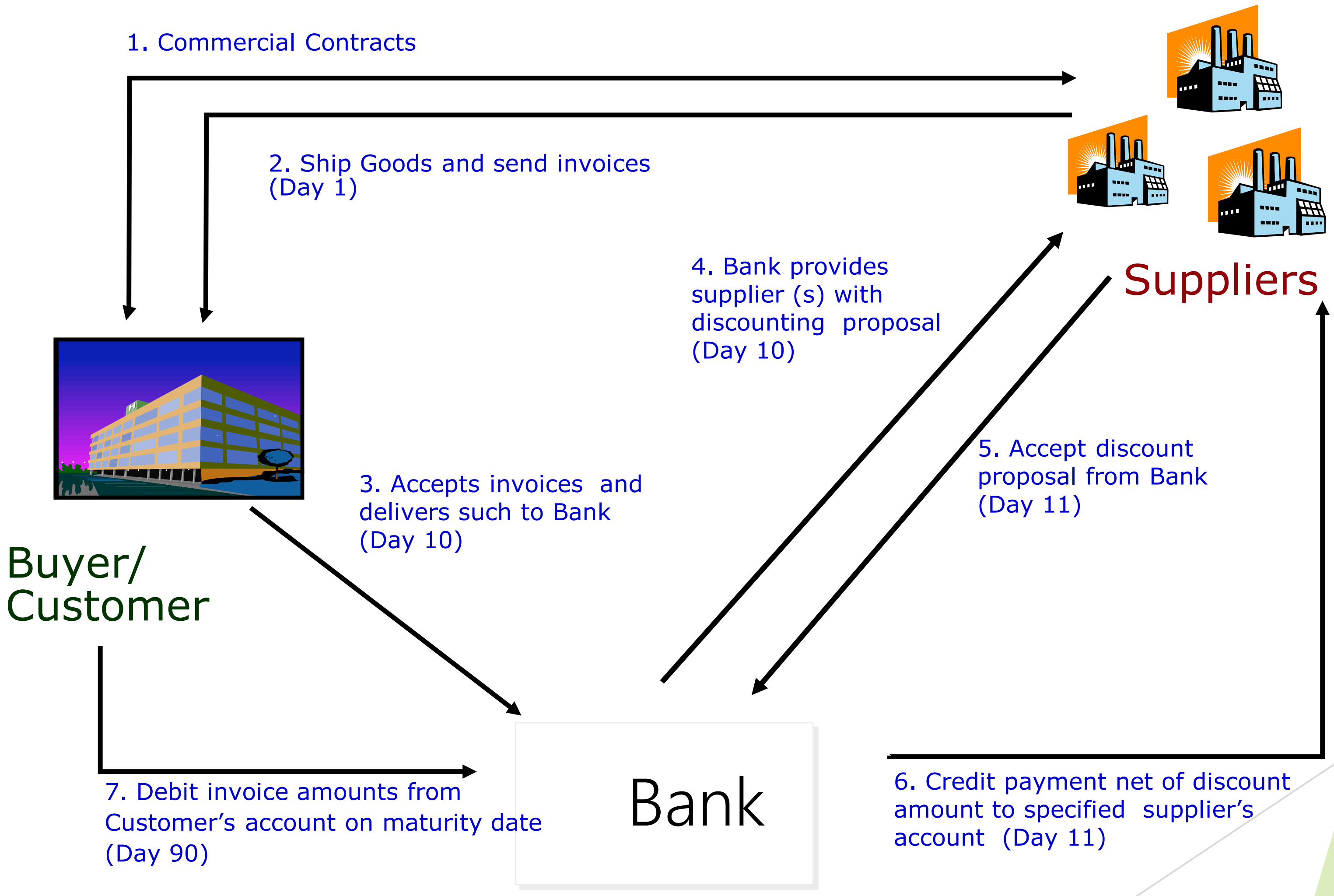
- Supplier Finance :
- As a buyer, provide critical financing to suppliers by offering them the opportunity to sell their open account receivable at a discount

- Receivable Purchase:
- As a supplier, secure financing by selling their open account receivables due from selected buyers at a discount, thereby accelerating cash receipt and reduce DSO.

Receivables Purchasing – Process Flow



Payables Discounting – Process Flow



How fast it is growing ?

- Supply Chain Financing (SCF) as a business line for banks grew between 30% to 40% during the two-year period
- 2011-2013.

- SCF is showing little signs of a slowdown.

What is a supply chain management 2.0 ?

- The term SCM 2.0 has been coined to describe both changes within supply chains themselves as well as the evolution of processes, methods, and tools to manage them in this new “era”. The growing popularity of collaborative platforms, which connect multiple buyers and suppliers with financial institutions, enabling them to conduct automated supply-chain finance transactions.

Case Study (Wal-Mart)

- Initially, Wal-Mart relied on the intermediaries in the sourcing process. It brought only 20% of its stock directly from suppliers.
- They came to realize that the presence of many intermediaries in the product sourcing was actually increasing the costs in the supply chain.
- In 2010, Wal-Mart announced a big change in its sourcing strategy in order to cut costs by dong away with intermediaries and started direct sourcing of its goods from the suppliers.
- In 2014, 80% of all Wal-Mart goods were between 5-15% as directly from the suppliers and cut down costs markups by the intermediaries.

Case Study (Wal-Mart)

- This strategy of direct sourcing not only helped Wat-Mart in reducing the costs in the supply chain but also helped in the improvement of supply chain activities through boosting efficiency throughout the entire process. In another words , direct sourcing reduced the time that takes the company to source the stocks the products in its stock.

- Wal-Wart realized that in order to maintain a steady supply of goods at a lower cost, it had to create strategic vendor partnerships with the suppliers. Thus the company has managed to source its products form same suppliers as bulky but at lower prices.

- The efficient communication between the company and the suppliers enables the company source goods without causing delays. Thus, efficient communication is another tool which is using to make the supply chain more efficient and cutting the costs.

Case Study (Wal-Mart)

- Wal-Mart also developed a supply chain financing program with its bankers to assist the small vendors to get refinancing.

- Once the purchase order is accepted by Wal-Mart, the vendors can ask the banks to discount its receivable and the risk is picked up by Wal-Mart. By doing so, the vendors can get a lower financing rate at any time they wish.

- By building a technology platform, Wal-Mart can automate the processes from initiation to completion

E-Platforms of Bank