

THE CFO'S GUIDE TO IMPROVED CASH FLOW



Retailers, wholesalers and manufacturers have an unprecedented opportunity.

'By unlocking new supplier relationships within emerging markets they can lower their total cost of goods sold, while improving cash flow.'

This guide shows you how you can build a relationship without having to go through cumbersome banking systems or other costly third-party financial solutions such as trading houses. Read on to see how you can build successful and profitable connections around the globe at no cost to your company.



The state of international supply chain and finance in emerging markets

It's fair to say that emerging markets are popular once again, with suppliers increasingly flocking to new manufacturing nations. There are a growing number of small independent suppliers within emerging markets from around the globe, all of which can offer great benefits to established retailers from developed markets.

We are witnessing growing industrial output and expanding exports from countries like Vietnam, which exported goods valued at \$143 billion in the first 10 months of 2016 alone, while Cambodia increased its exports by 7%, with a focus on items such as garments.

This is in direct comparison to countries like China, which until recently were the usual go-to locations for manufacturing, but which are now experiencing some of the fastest decreases in manufacturing for several years.

Unfortunately for leading retailers, manufacturers, and wholesalers, it can be difficult to tap into the up-and-coming markets, particularly because of the restraints of international finance. The limitations of local banks in emerging markets, and difficult payment terms, can make it incredibly difficult for a business relationship to become fruitful.

How CFOs can better manage their credit lines and insurance limits

Using receivables finance is a great way to boost cash flow for both suppliers and buyers, as neither has to sacrifice money. The relationship can be maintained, the risk lowered, and the quality of goods increased.

But these aren't the only benefits of using an international non-bank receivable finance company. Agreeing on terms to finance ordering from suppliers in emerging markets can be difficult, as large banks often require buyers to request a Letter of Credit (LC) to fund the transaction.

The impact of a Letter of Credit

When providing a supplier with an LC, the buyer uses up its valuable, hard-earned bank credit line. Not only does this reduce the credit line that could otherwise be spent on expansion or new stores etc, but bank credit will also reflect adversely on a company's financial statement.

Where the buyer doesn't supply an LC, or if the LC is for an insufficient amount, the buyer may also be

insisting on delayed payment terms, so suppliers will often feel compelled to take out insurance against the buyer failing to pay. This, in turn, will impact on the insurance limits taken out against that buyer by other suppliers in that market, and could prevent the buyer from completing other desired deals with those suppliers.

Greater successes can be achieved by working with an external finance supplier that can provide extended payment terms without affecting any credit lines or insurance limits.

Any payment terms that are enabled with Stenn will go onto the buyer's books as trade credit, rather than bank debt. This protects credit lines and financial positions.

How to source higher-quality suppliers that are cheaper, more flexible, and offer better terms

Cost and quality are always chief concerns for retailers, wholesalers, and manufacturers. If these businesses can gain access to emerging markets to open up the supply chain with a range of suppliers to choose from, then sourcing and procurement executives can drastically reduce their cost of goods sold.

On the flip side, many suppliers may be unable to produce high-quality goods without timely payment, due to lack of cash flow. So there are problems for both sides, although they affect suppliers more than established retailers.

Current financial solution

Working with a trading company, although offering some benefits, increases costs and time-to-market for buyers, ultimately scaring them away from emerging markets. The only other option is to work with the supplier directly, which can reduce costs by up to 25% and the time-to-market by up to 40%, but then the same problems arise of the extended payment terms, for suppliers and buyers.

Some key players, such as large banks like HSBC, are aware of the problems associated with suppliers in emerging markets, but don't actually offer a great deal in the way of solutions. And a solid solution is very much needed, as in some countries, such as China, unpaid bills are adding to debt, with current waiting-times for payment recently reaching a 14-year high.

Independent international trade finance providers can supply risk-free, no-cost financing options to open up new supplier relationships in emerging markets. This is done by using an international non-bank trade finance provider, such as Stenn, which pays the supplier and offers extensive delayed payment terms to the buyer, so that both sides get the financial outcome desired.

The growth of delayed payment terms

Payment terms have historically been getting longer as time goes by. In 2009, businesses waited an average of 22.8 days to get paid. By 2012 this figure had risen to 29.2 days. Today it is longer still.

Benefits of extended payment terms

Extended payment terms can reduce a company's cost of goods sold, improve key business indicators, and increase their supplier options, which lowers costs and raises quality.

Most businesses, to their credit, don't demand extended payment terms from suppliers in emerging markets as they believe they can't afford it. But often they don't even ask suppliers beforehand if they can

handle these terms, and this can lead to businesses simply avoiding suppliers in emerging markets altogether.

If your suppliers are unable to extend longer payment terms to you, then it's time to go to a specialist that can enable your suppliers to offer longer terms to you – an international trade finance team like Stenn.

Our first recommendation is simply to ask your suppliers if they can, in fact, extend their payment terms – you may be surprised by their answer! If they say they can't, Stenn is on-hand to help bridge the gap between businesses and suppliers in emerging markets, while maintaining extended payment terms.