

# ON THE SAME PAGE

- More enterprises now sense that there could be great value in the data they generate
- Corporates are realising the need for clearer flows of data across the organisation

Deutsche Bank's **Axel-Peter Ohse** explains to Jim Banks why supply chain operations and finance departments need to work in harmony to get the most out of their data.

**M**any corporates have invested time, effort and money in improving the efficiency of their supply chains and the way they interact with their suppliers. Despite this effort to forge better external relationships, however, there often remain internal divisions – especially between the finance function and operations. The lack of communication between these divisions could be starving them of valuable insight that could dramatically change their performance against the competition.

While it remains in many organisations, this gap has at least become obvious to

a growing number of companies. More enterprises now sense that there could be great value in the data they generate from their operations, and that bridging the divide between internal business functions would help them realise it.

'There is a big gap between finance department and supply chain managers, though I have to make a distinction between large caps and the rest of the business world,' says Axel-Peter Ohse, Head of Trade Finance, Germany at Deutsche Bank. There is certainly a gap between procurement, logistics and finance in many organisations, and often there

is room to improve the use of available logistics data and combine it with treasury and financial data.'

'Procurement and logistics speak the language of the supply chain, finance speaks an entirely different language, and they don't overlap. Even if they use the same terms sometimes, they usually have different meanings.'

Integrating data from two very different business functions is not necessarily straightforward, particularly given the different languages they use. For instance, Ohse observes that finance personnel and supply chain managers may have a different interpretation of terms such as "key performance indicator (KPI)". Both functions have key performance indicators, but in each discipline they measure very different values.

'How much does finance understand the metrics used by the logistics team? And how much supply chain people understand the KPIs used in the finance department? Very little. So, there is a need to not only interlink data, but also to deliver data in a form that people can understand,' he remarks.

It is Ohse's belief that a company can unearth major competitive opportunities if financial risk assessment can be systematically integrated with supply chain management decision-making. He is keen to see more organisations find ways to bring the financial and physical supply chains together.

'A key issue is that financial supply chain management is not necessarily a topic on the CFO's desk. It usually resides at the level below, with procurement. In our experience of implementing supply chain programmes we have found that the process is only efficient and effective if it is driven by the CFO, and that if the CFO is not a sponsor then the project is much more difficult to implement,' Ohse explains.

### From theory to reality

The reasons for the divide between finance and operations are historical rather than cultural. It has arisen as a function of priorities, according to Ohse, who feels that changing times in the business world and global financial markets now demand a different approach.

'In recent years liquidity has not necessarily been a top priority, as there was plenty of it around. But the last nine

months have seen the credit crunch, so CFOs need to look at how to expand their sources of funding. Now, we are getting a lot of questions about the financial supply chain,' explains Ohse.

Corporates are now realising the need for clearer flows of data across the organisation, and for a means by which different internal business functions can

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achieve a better mutual understanding. At the same time, however, they also see the scale of the task.

'Bringing together different client silos like procurement, finance and logistics needs time, but the current hype over the financial supply chain helps,' Ohse adds.

Getting people to act means backing up this hype by putting forward a persuasive argument for the value of implementing a financial supply chain programme. The theory is clear, but companies need an impetus to overcome their inertia and start to making the necessary changes.

Generically, a financial supply chain programme offers immediate cash payment to suppliers while sustaining or even expanding supplier credit on the balance sheet of the buyer. The buyer can thus substitute part of bank debt by supplier credit.

'This is important, as financial analysts put more value on supplier debt than they do on bank debt when they are doing balance sheet analysis,' notes Ohse. Suppliers benefit because they get their money immediately, and the buyer has the advantage of better payment terms.

'Also, if you look at the relative position of the buyer and seller in any relationship the buyer's credit is often stronger, so it can fund itself at a relatively cheaper rate. This is where attractive financing cost can be transferred from buyer to supplier and where such financing cost becomes transparent to the benefit of the buyer,' Ohse continues.

'What's more, the buyer knows this when it is negotiating purchase prices later, which may give it an advantage.

This alone shows the need for finance and procurement to talk to each other. If they don't, they will lose the value of the information they have on their suppliers.

'This lets you fine tune your risk management,' he says. 'You can start to look at things like supplier scoring. Very few companies do this now, but it could be a very valuable activity.'

Furthermore, the bank providing the platform can also take over documentation processes, and it becomes possible to implement e-invoicing, which can have a significant impact of process efficiency.

In short, the role of banks is crucial, but their know-how is of little use unless a company addresses its internal functional divisions.

### Links in the chain

Any project to improve communication across an organisation or to implement a financial supply chain programme faces the challenge of complexity. Neither can be achieved overnight, so sustained commitment and engagement at CEO and CFO level is crucial. For Ohse, getting this commitment should become easier as

## Deutsche Bank's db-eBills system

Part of Deutsche Bank's financial supply chain management solution is db-eBills. This helps to ensure that online transactions are secure and reliable by incorporating digital certificates and electronic identity verification mechanisms. The solution ensures that only invoices that can be verified will be authorised for payment. Also, as a multi-user system, it incorporates flexible access rights management, so that the power of an individual user can be controlled

The platform helps to consolidate financial information in a secure environment that meets the strict requirements of the banking sector. It can integrate with back-end ERP and legacy systems through file transfer capabilities that accommodate a customer's required formats.

financial institutions change the way in which they put their message across about the value that lies at the end of such a project.

Financial supply chain programmes are complex, and in the past many corporates have focused on this complexity, rather than the potential gains they can achieve.

The first step in achieving this is to closely link the goals of a programme

complex process is simplified if there are fewer links in the chain.

Deutsche Bank's approach sees it take the complexity from the shoulders of its clients and its financial programme and electronic platform eliminate the need for a client company to engage multiple partners. Ohse points out that working with a vendor may address technical issues, but the vendor will

'You need all relevant parties involved in the discussions – that means treasury officers, procurement, logistics and everyone else.'

to a company's core business drivers to create better awareness of value creation. Secondly, companies need to understand that much of the complexity is dealt with by the bank as part of its financial supply chain services.

Ohse also feels that companies should be aware of the advantages of implementing a financial supply chain solution provided by a bank rather than a technology vendor. The premise for this approach is that a

need to partner with a financial institution to provide the funding. A company, therefore, takes on exposure to the vendor's bank.

'This is a big advantage we have over vendor-sponsored systems. There is far more integration if you use a financial institution that also provides the technology platform. We sell an integrated solution, not just an application or a simple credit service,' he explains.

'What's more, we have a credit relationship with the clients using our platform so there is more credit sustainability. With the credit crunch many funding programmes have had complications, but as a bank we can use our lending book. We have the platform, we have the liquidity and we also have modules for administration work. It is a comprehensive service along the value chain.'

He stresses again, however, that implementation will only achieve its goals if there is the right level of sponsorship within a client organisation. 'You need all relevant parties involved in the discussions – that means treasury officers, procurement, logistics and everyone else.' <sup>FBA</sup>

## Supplier finance services

Supplier finance programmes give companies many advantages:

- Effective utilisation of accounts payable to attain additional liquidity
- The ability to leverage solid credit rating to obtain funds at competitive rates
- Offering these competitive rates to selected suppliers in return for extended payment terms
- Better utilisation of cash within an organisation
- Suppliers can accelerate their accounts receivable at favourable discount rates to generate timely cashflows
- Lower short-term financing costs
- Improved cashflow predictability.



### Axel-Peter Ohse

Axel-Peter Ohse is head of trade finance, Germany at Deutsche Bank, spearheading various initiatives in the global sourcing and supply chain finance fields. He is one of the bank's pre-eminent experts on trade-related risk management.