

Export, Import and International Trade

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Well managed supplier finance provides competitive edge

ABSA SPOKESPERSON

MANAGING supply chains effectively can provide a competitive edge as it has the potential to provide as yet untapped liquidity to the South African economy, especially in the small and medium enterprise sector. As such, for larger businesses, it is important to ensure that supply chain partners have access to sufficient and steady financing on competitive terms.

This is the view of Jason Barras, head of trade and working capital at the Corporate and Investment Banking division of Absa, member of Barclays. His comments come as the role of supplier finance in supporting small and medium enterprise is increasingly recognised by the SME sector.

Buyers and suppliers have opposite objectives in managing working capital. Buyers will always be looking to extend their days payable, while suppliers will be looking to reduce their receivables. This creates natural tension in the supply chain.

Funding is essential for overall performance

The financial crisis saw general corporate recognition that suppliers' access to regular and cheap funding was a potential risk to the overall performance of their supply chain.

As a result, new strategies are being investigated to find solutions that benefit all parties in the supply chain.

"There is no question that supplier finance as a product is generating a far greater level of interest now than it has done previously. As a result, more companies are looking at what is involved in developing a successful supplier finance programme," says Barras.

Supplier financing provides buyers with an ability to inject working capital savings, effectively sharing the supplier's cost

reduction and profit enhancement benefits that result from their inclusion in the programme.

It also creates indirect supply chain cost savings and enhanced supply chain strength (timing, quantity and quality) due to the supplier's enhanced capacity to finance larger consignments and/or hold stock. For suppliers, there is early visibility of approved receivables and an ability to receive advanced payment at a discount.

Smoothing the supply cycle

Supplier finance is also a great way to demonstrate commitment to suppliers while alleviating cash flow concerns. Injecting valuable liquidity into the supply chain can also help smooth the supply cycle, fostering much closer working relationships with key suppliers.

Conducting large trade deals can have a significant impact on a business' cash flow. The time spent waiting to receive settlement on goods or services can deplete working capital, leaving businesses strapped for the funds needed to manage day-to-day business needs.

Traditionally, most businesses have financed their working capital through a variety of sources, such as the overdraft facilities, invoice discounting and receivables financing.

In many cases, however, the SME remains limited to the amount of finance they can access through traditional lenders, due to having insufficient collateral to provide to the bank as security.

The benefits in particular to small SMEs in supplier financing is that suppliers get access to secure off-balance sheet financing, on a non-recourse basis as risk is taken against the corporate buyer. The supplier finance proposition is classically structured around the arbitrage between the credit strength of the buyer compared with typically weaker credit ratings of suppliers.

Barras emphasises that supplier finance needs to be managed sensitively, meaning close co-operation with experienced practitioners is a key element of success. There are also a number of issues that must be considered to avoid sub-optimal results, and to ensure that the requirements of corporate buyers are clearly understood to achieve the desired result.

The type of buyers who would find this type of programme suitable include:

- Buyers with financial objectives, particularly cash flow or working capital;
- Buyers who are concerned about the financial health of their supply chain;
- Buyers who are seeking to extend terms or have recently extended terms;
- Buyers whose suppliers have sought early payment of confirmation of payment; and
- Buyers who place an emphasis on corporate social responsibility.

"At the heart of all successful supplier finance programmes is a meticulously planned implementation following best practice project management principles. These include good support at a company level and an accountable senior executive able, if necessary, to change priorities as required. They should also be able to ensure that key stakeholders within the company remain fully engaged throughout the process," concludes Barras



JASON BARRAS, head of trade and working capital, Corporate and Investment Banking division, Absa

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New 'Braz-broom' Sweeps World Trade Organization



Director-General Roberto Azevêdo delivers his inaugural speech to the WTO General Council.

HILTON ZUNCKEL

THIS month the new 'Broom from Brazil' will be sweeping clean at the WTO headquarters in Geneva. After more than eight years under the leadership of France's Pascal Lamy, Brazil's former WTO ambassador Roberto Azevêdo has taken over as director-general of the world trade body. He is already making his presence felt.

Azevêdo is likely to be a huge boost to developing country interests in the trading system, having championed these while being Brazil's lead trade negotiator. This is good news for South Africa in that we share a strong political alliance with Brazil through the BRICS configuration of leading developing countries (Brazil, Russia, India, China and South Africa).

Azevêdo has already made a start in establishing his credibility by making a sober and honest assessment of the state of WTO negotiations. The trade body has been struggling for 12 years to make headway on the Doha Development Round of trade negotiations.

Now the WTO's 159 member countries hold high hopes that Azevêdo's well prepared and credible negotiating style and reputation for identifying creative trade solutions for Brazil can be elevated to the benefit of the trading system as a whole. This is no 'lite' task as global trade is currently estimated at a staggering US\$18 trillion annually.

The new director-general has a penchant for systemic detail which he probably inherits from his early life as an electrical engineer. He has also developed key legal acumen in serving as a panelist (judge) on several WTO trade disputes. His first substantive test of these skills will be this December when global trade ministers meet in Bali Indonesia hoping to revive the Doha negotiations.

Azevêdo will no doubt be eager to make an impression and harvest some low hanging fruit and basket some agreement on 'trade facilitation' (essentially measures to streamline global customs procedures) and several agriculture issues related to enhanced global food security, obviously important to developed countries, such as South Africa and its neighbours in Southern Africa.

South African business will have a chance to see Azevêdo in action in Bali as Business Unity South Africa (BUSA) will have two representatives accompanying trade minister Rob Davies to the negotiations in December.

One of the BUSA representatives Lambert Botha, a director with HiltonLambert Practitioners of Trade Law commented recently: "It is crucial for businesses to make their mark on global trade by making inputs on WTO negotiating issues via their chambers of commerce and associations into BUSA".

He added: "it would be a travesty to miss out on our share of US\$18 trillion by being uninformed and unable to support government in the Bali negotiations. We need to be there actively realising the gains from trade boost the bottom line for our shareholders."

Businesses needing more information on the talks can contact Botha at: lambert@hiltonlambert.com.

Take the pain out of breaking into new markets

CG CONSULTING SPOKESPERSON

AS PART of its ongoing growth plan, a major international company decided to focus on its database last year, looking at leveraging its information and breaking into new markets. However, the business was unable to use the data effectively, as its analysis highlighted that the database was outdated and yielded few real results, despite being only a year old.

Top management called a retreat to figure out what they should do, they decided to scrap their existing database and obtain a more relevant one through a specialist database provider. This decision was significant as the company was focusing on growth in emerging markets where access to the correct information could make or break a deal.

"Achieving a comprehensive understanding of a target market, and the details of the individuals responsible for making purchasing decisions within that audience, is essential to any company looking to break into a foreign market. The best way to do this is through purchasing a well-managed database from a third-party database provider," explains Louise Robinson, sales director of CG Consulting. "In emerging economies, obtaining corporate data remains difficult."

Market segmentation is only the first approach identifying the correct contacts is essential to achieving results. "With this as a business tool, companies can determine the types of customers common to a market, as well as the best approach to them," says Robinson.

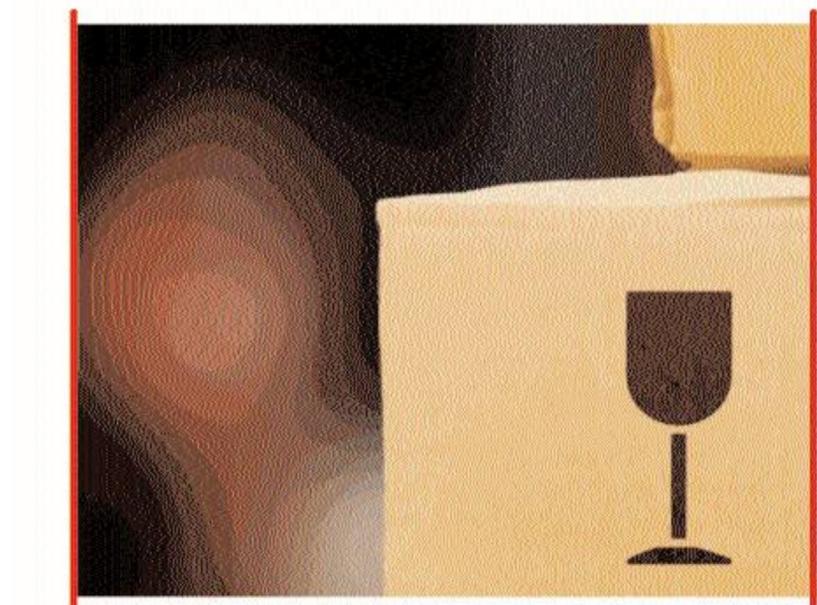
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