

UPS Capital:

From supply chain to eco-system



For the last seven years UPS Capital has been developing its offering around the concept of 'synchronised supply chain' to bring together the flow of information with the movement of goods and tie it in with trade finance. Justin Pugsley reports.

As a global logistics supplier, UPS feels it is in an excellent position to bring about the marriage of trade finance and the supply chain. A marriage that chief finance officers (CFOs) of large multinationals have been demanding for years. With better visibility of the movement of goods, they can manage funding requirements more precisely. In other words they can look to fund trade for shorter periods and possibly on lower margins. Unfortunately for banks, the evolution in supply chains also means less use of documentary letters of credit as trusted trading partners move towards much cheaper open account

transactions. However, it is a fact of life they are learning to live with. Indeed, technology around supply chains has grown in leaps and bounds over the past decade. Those technologies are designed to optimise the flow of goods across continents and exploit price arbitrages between goods and labour across the globe. Integrated supply chains or trading hubs are becoming more widespread and globalised, which poses further challenges to financiers. The advent of the internet has made many supply chain-related technologies easier and cheaper to deploy. That in turn means supply chain communities are growing in size and depth.

Supply chains to grow

Practically every multinational manufacturing group is in some way involved in one. A recent study by US-based research firm, ARC Advisory Group, predicted that the market for supply chain management solutions will grow at an annual compound rate of 8.6% over the next five years. One key driver behind this is the desire to synchronise different activities

within those trading communities. These include gathering and distributing accurate real time information from operations to improve decision making processes within the corporation and its trading partners. "We believe the movement of goods and the financial aspects of that are inextricably linked," says Chris Vukas, senior vice-president, finance and accounting, at UPS Capital. Indeed, as supply chains have become optimised, the trade finance component has failed to keep pace, much to the frustration of CFOs. Vukas believes that along the way the funds aspect has been disassociated with the movement of goods and the movement of information relative to that.

The group has been working hard to bring the two back together by leveraging off its logistics platform. As a global logistics provider and shipper, UPS is in an excellent position to provide much-needed

transparency to the supply chain. The tracking information delivered in real time can serve as trigger points for the various stages of trade finance. "By being visible around what those goods are, and where they are, we can



Vukas at UPS Capital

Visibility & status is key

provide either UPS Capital, or any financial institution, with information relative to those goods and that collateral," explains Vukas.

Indeed, this is basically what is unique about the group: "On a real time basis we can track the movement of those goods from point of origin all the way to point of destination and all the way to the end user customer." That information can be made available to other parties in the supply chain whether suppliers, buyers or financial institutions. That information can be delivered in standardised or customised reports.

Staying alert

Some highlights on the Flex Global View platform include alerts. This is when an event that was anticipated to happen by a certain date doesn't, such as the goods failing to turn up at the port on time. The various parties to the transaction are notified immediately. Or maybe only 10 crates turned up at the port instead of 12. Again, this would generate an alert. This can give the buyer the opportunity to make alternative arrangements.

Also, of great value is that UPS is providing an independent evaluation on the movement of the goods, which is of considerable comfort to a lender. The lender can effectively see the status of the assets in real time. The movement of goods can be tracked through Flex Global View.

For a traditional bank to be able to match that capability, they would have to work with all their various customers' logistics providers and bring together all relevant data. Given that there are possibly as many 10,000 such companies around the globe with differing levels of technical ability, this could be extremely difficult. Undoubtedly, some banks are

looking at their own solutions for integrating the trade finance and logistics side.

"One of our key services is that we can transport goods and move them through customs, provide visibility on the status of those goods and that's

very key to financial institutions," says Vukas. "We can then fund against the status of those goods because we know at what stage those goods are." He adds that generally speaking a financial institution would have to interact with another logistics provider to get that information.

"Essentially we're looking to provide a bundled offer," says Vukas.

Speeding up trade finance

In the meantime, UPS Capital is constantly adding new functions to its platform. Ultimately, it is about blending the finance functionality with the various key trigger points that occur along the supply chain.

"If we are validating goods against purchase orders and putting those goods on the ship we believe we can create original bills of lading that are negotiable," says Vukas. "And that's a trigger event for a financial institution to lend." This can help accelerate the availability of funds to that borrower under a revolving line of credit by anywhere from two to four weeks. For that

borrower this could have a tremendously important impact on their funding position.

"These are all golden nuggets which we are trying to extract from the trading eco-system," he says.

Another area UPS Capital

focuses on when making lending decisions is the length of time of the trading relationships within the 'eco-system'. For suppliers this can have an important bearing on the cost of their finance. A US-based multinational is likely to enjoy a much stronger credit rating than, say, its smaller

Brazil-based supplier it purchases components from. The cost of credit to that Brazilian company is likely to be very high. However, with a fully optimised supply chain and with UPS validating the goods, the Brazilian company can benefit from the US company's superior credit rating.

This is particularly important given that so many try to force suppliers to hold on to inventory for as long as possible before taking delivery. Large supermarket chains are notorious for this. Often they don't want pay until 30 to 90 days after they've sold the goods on. For a supplier, the financial burden can be considerable.

"The key here is how long has that supplier been working with the ultimate buyer," says Vukas. He explains it might

be possible to advance funds to the Brazilian supplier at the point of origin because SCS, a subsidiary of UPS, has collected the goods and is dealing with entire logistics of getting them to the US customer including clearance through US customs. This in itself is an increasingly complex and cumbersome process. Failure to do it properly can land the supplier with all kinds of delays and even fines.

Taking control

"We take control of the goods so there's no problem with backing for the loan," says Vukas. "Financial institutions for the most part are dependent on their borrower to inform them of the status of their inventory and this has sometimes led to problems." With a credible logistics provider taking charge of the goods, lower borrowing costs can be achieved for the supplier as many of the risk factors for the lender have been mitigated. There are benefits for the buyer as well. It could translate into lower prices or simply mean their supplier being able to afford carrying on doing business with them. Financing can even be stretched to pre-export financing. Under these circumstances UPS Capital would normally work with a local bank with an intimate knowledge of the market. Indeed, they are looking to build relationships with strategically placed financial institutions around the world. The advent of non-traditional financiers such as UPS Capital is adding to the pressure for traditional trade finance banks to get more deeply involved in their customers' supply chains. Indeed, could it be long before a major trade finance bank takes the plunge and possibly buys a logistics provider to boost its offering to clients?

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