

# Global Supply Chain Finance: Synchronized Commerce Improves Company's Cash Conversion Cycle



UPS Capital®

**Our Insight.**  
A UPS Capital White Paper

Supply chains are moving to the top of the agenda in the executive boardroom...

When a US orthopaedic footwear company needed to streamline its elongated global supply chain it turned to UPS Capital to find a solution that would ease product demand and cash flow constraints. UPS Capital focused on transforming a tactical and reactive supply chain into one that was strategic, lean, and agile.

Supply chain executives face a daunting test each day as they manage the ever-changing global supply chain. Their main challenge and goal is to exceed the expectations of internal and external customers and deliver their product on time every time. They are also charged with balancing costs, inventory levels, and providing impeccable service.

Merge the flows of the financial supply chain with the physical supply chain, and these challenges multiply and achieving your goals becomes problematic. The supply chain can no longer be viewed just as a tactical consideration to be managed by the logistics department, because the overall economic value to an organization is maximized when these flows are aligned. Supply chains are moving to the top of the agenda in the executive boardroom, as both CEOs and CFOs begin to use their supply chains as competitive advantages to support their company strategy. Corporations are realizing the benefits of a synchronized supply chain that combines the three flows of commerce – goods, information and funds – to bolster their bottom line.

This shift occurred as globalization elongated the supply chain, creating a strain on cash flow for many companies. This cash flow strain is experienced by many companies engaged in international trade whether they are a shipping a dozen containers a year or thousands.

An elongated supply chain necessitates companies to seek ways to improve their cash conversion cycle. The cash conversion cycle is a metric that expresses the length of time, in days, that a company takes to convert resource inputs into actual cash flows. It measures the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash. This metric looks at the amount of time needed to sell inventory, the amount of time needed to collect receivables, and the length of time the company is afforded to pay its bills without incurring penalties.

Large investment-grade companies are often able to work with financial service firms to secure additional capital during a cash flow shortage or supply chain disruption, but smaller companies do not always have the ability to secure additional capital from financial partners. For smaller companies to improve their cash flow, they need a synchronized supply chain solution that mitigates the risks of global trade and merges the flows of commerce to improve their cash conversion cycle.

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Following is a case study that illustrates how one U.S. retailer of orthopaedic footwear was able to synchronize its supply chain, enabling it to reduce its cash conversion cycle while improving customer service levels. For the purpose of this case study the customer will be referred to as “Happy Feet.”

### Background

Founded in 1995, Happy Feet develops, markets, and sells orthopaedic footwear and believes that the first step on the road to happiness should begin with healthy feet. Happy Feet takes pride in knowing it provides the very best in orthopaedic footwear for men, women, and children.

The products are made with stretchable materials that enable the footwear to expand and contract more easily than traditional canvas or leather footwear to ensure a comfortable fit. Happy Feet sells its products in the US through a number of distribution channels; direct to customers, distributors, retailers, podiatrists, and other foot specialists.

For the past ten years, Happy Feet specialty footwear has been manufactured in China. Once manufactured, the products are transported from the factory to the port of Yantian in China with free-on-board (FOB) payment terms. The final destination is Happy Feet’s distribution center in the U.S. This physical supply chain is traditional and is made up of many legs which are operated by many different providers. The main focus of this supply chain is purely tactical – get the finished goods to the U.S. in the fastest and cheapest way possible. This tactical approach worked for Happy Feet during the early years while it was growing the business. But it is no longer acceptable as the company is now looking to launch new products and expand into new geographic regions.

### Problem

Like many small businesses dealing in international trade, Happy Feet found itself dealing with a constrained cash flow due to its elongated global supply chain. Although Happy Feet was

experiencing great demand for its footwear, cash flow constraints were preventing more rapid sourcing. The funds and the goods were not synchronized.

With the current payment terms, Happy Feet was essentially paying for the goods prior to leaving China. An ocean container movement from China to Happy Feet's U.S. distribution center takes 30 to 45 days. Demand for Happy Feet's product was growing so quickly that back orders were accumulating during the transit period, which resulted in up to 60% of the ocean container being sold before its arrival at the distribution center.

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Once the goods arrived, Happy Feet would work non-stop for three to four days to ship out all of the back orders. In an effort to keep its valued customers satisfied, Happy Feet had to incur extra shipping costs by using premium shipping, UPS Next-Day® and UPS Second-Day® Air services, to reduce transit time on back-ordered shipments. Happy Feet invoices its customers on the day the goods leave its distribution center with standard 30 day payment terms for customers. This equates to an approximate 75-day gap between the time Happy Feet pays its supplier for the goods and the time it receives payments from its customers. This supply chain gap could grow much larger due to supply chain disruptions experienced in the past; country holidays, port delays, Customs-Trade Partnership Against Terrorism (C-TPAT) container holds, Customs issues, or rail delays.

Happy Feet realized that the growth of back orders was causing lost revenue opportunities because of invoicing delays. The company also began losing customers to competitors because of the need for timely delivery. Happy Feet was unable to forecast when its product would be available to fulfill back orders due to the lack of shipment visibility with its current supply chain. These supply chain issues were affecting customer satisfaction.

The root cause of Happy Feet's problem was the cash flow constraint that made it impossible to fund any additional orders from its Chinese supplier. The traditional way of dealing with this type of cash flow constraint is to borrow against the goods while they are in transit up to when they are sold to customers. This type of loan is only applicable when the goods are domiciled within a jurisdiction that allows the lender to perfect the lien. Happy Feet felt it was walking on hot coals and knew that it had to come up with a solution.

## Solution

UPS Capital focused on transforming Happy Feet's tactical and reactive supply chain into one that is strategic, lean, and agile. UPS Capital worked closely with Happy Feet to engineer a unique global supply chain finance solution that used ocean container financing and UPS Supply Chain Solution (UPS SCS) transportation services. This physical and financial solution is grounded in the ability of UPS to simultaneously manage three key flows of commerce – the flow of goods, information, and funds. This supply chain solution was managed as follows:

### Flow of Goods

UPS Capital engaged its sister company, UPS Supply Chain Solutions, to re-engineer the physical transportation of the goods from the manufacturer in China to Happy Feet's distribution center in the U.S. The first step was to replace the multiple transportation vendors and use UPS ocean freight services. As one of the world's leading non-vessel operating common carriers, UPS was able to maximize the routing and transit time options and manage the shipments from door-to-door. Managing the end-to-end shipment provided UPS with control of the goods. This control enabled UPS Capital to offer financing of the in transit inventory.

Happy Feet began to feel in control of its supply chain with UPS booking the cargo, arranging for pickup and delivery, providing cargo insurance, managing the shipping documentation, and providing shipment milestones for all to see in the UPS global visibility system.

### Flow of Information

With the goods now flowing through the UPS ocean freight network, both Happy Feet and UPS Capital gained access to critical information regarding key transportation milestones. This information is aggregated and made available through the UPS global visibility system. This visibility provides Happy Feet with the data to plan for shipment arrivals and provide estimated arrival times that the customer service team could confidently share with customers.

### Flow of Funds

A synchronized supply chain is achieved when the three flows of commerce – goods, information and funds – are seamlessly intertwined. Happy Feet has been able to achieve this by using UPS ocean freight services for control and visibility of the goods.

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When UPS Capital offered ocean container financing to Happy Feet, the solution was complete. Financial institutions are not comfortable lending on inventory that is located in foreign countries or in transit. UPS Capital, on the other hand, is willing to finance overseas or in transit goods, if they are in the UPS network. Because UPS Capital receives detailed visibility into the disposition of the goods it can confidently lend against these goods.

This financing enabled Happy Feet to accelerate its payments to its Chinese supplier and fund additional orders to solve its back-order situation. Specifically, UPS Capital has enabled Happy Feet to begin to make full payments to its Chinese supplier 24 to 48 hours after the goods have sailed from China.

## Results

Happy Feet realized a number of benefits from working with UPS. By synchronizing the physical and financial supply chains and aligning the supply chain flows of goods, information, and funds, Happy Feet was able to:

- Improve its relationship with its Chinese supplier through improvements to the manufacturing and payment schedules
- Reduce time in transit between China and its distribution center by more than 10%
- Gain shipment visibility by using the UPS global visibility system, allowing it to communicate and commit to future delivery dates with and customers
- Reduce the number of back orders by ordering and funding an additional ocean container, made possible by the financing provided by UPS Capital
- Improve customer satisfaction and alleviate the threat of losing customers due to product availability
- Minimize the amount of time and effort that it took to communicate with multiple logistics providers by having a single point of contact with UPS
- Increase cash flow and accounts receivable, resulting in a positive impact on Happy Feet's cash conversion cycle. With UPS Capital now mediating financial transactions between Happy Feet and its Chinese supplier, Happy Feet is enjoying an increase in cash flow. This is allowing the company to grow and expand its core business.

At a logistics conference in Louisville, Kentucky, the CFO of Happy Feet said, "If you can confidently plan where each purchase order is going to land, when it's going to ship, when it's going to get here, that, of course, will improve our cash flow. Because if it speeds up at

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any point – even if it’s only two to three days or a week – obviously that money is coming back to us a lot more quickly.” He continued, “If we can tell our supplier in China, we’re working now with UPS Capital and UPS Supply Chain Solutions, we have these orders in with you, we are going to work with you on this, you will be paid on this day, he is going to turn around to us and say, ‘Fantastic. What else do you want me to do for you?’ And that will really strengthen the relationship we have with our supplier out in China.”

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## About UPS Capital

UPS Capital addresses the financial needs of the supply chain. Our services combined with the broad capabilities of UPS help enhance operations as well as improve bottom-line results. From protecting companies against the various risks associated with trade to assisting businesses with expansion into new markets, UPS Capital has a wide variety of financial solutions available for today’s growing enterprise.

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