Unlocking Successful Supply Chains in Emerging Markets

Introduction

Enterprise 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 their cash flow.

This guide will show 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 learn 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 whom can offer great benefits to established retailers from developed markets.

Countries such as Myanmar are noticing huge increases in the manufacturing sector thanks to foreign investment and economic reforms, experiencing an excellent GDP growth rate of 8.05%. Myanmar has now received around £58 billion in foreign investment up to November 2015, and what with its strategic spot between India and China, a marketplace of 2.3 billion people, manufacturing in Myanmar is certainly on the rise. With this, you now see huge companies such as Adidas having operations in Myanmar, while still maintaining moral and ethical production processes.

Furthermore, we are witnessing growing industrial output and expanding exports from Vietnam, which have reached a value of $143 billion in exports in the first 10 months of 2016 alone, and an increase in 7% of exports of items such as garments from Cambodia.

This is in direct comparison to countries such as China, who are usually the go-to country for manufacturing, noticing some of the fastest decreases in the sector that they have experienced in several years.

Not only are countries such as Myanmar, Vietnam, Cambodia or others, such as Kyrgyzstan, experiencing growths in their manufacturing, but they also offer many benefits over other countries such as China as well.

Countries such as those mentioned above can produce goods at a lower Cost of Goods Sold, meaning that it will be less expensive for large retailers to tap into these markets. This is alongside the fact that the quality of the products produced by these emerging markets can often be higher and allows for emerging markets to cater for retailers better than developed countries. Therefore,

~$58 billion
foreign investment in Myanmar

~$143 billion
in exports from Vietnam January 2016 - October 2016

building relationships in these markets acts as a win-win for both sides, although it may require different strategies to do so.

Unfortunately for leading retailers, manufacturers, and wholesalers, it can be difficult to tap into these up-and-coming markets, particularly because of the restraints of international finance. The limitations of banks in emerging markets and difficult payment terms make it incredibly difficult for these relationships to become fruitful. Suppliers in emerging markets struggle to provide adequate payment terms, and they can find it difficult to secure funding locally because the financial systems are underdeveloped.

This is down to local banks that are setup to serve State Owned Enterprises and have a lack of interest in serving private clients, a heavy document process that becomes extremely time-consuming, a much higher level of rates, smaller limits and bigger collaterals, and a weak range of available financial services. Some also suffer from excessive government intervention. This is alongside other risks that emerging countries have to endure, such as bribery and corruption.

So what can be done to alleviate these pressures and unlock access to these lucrative supplier relationships?

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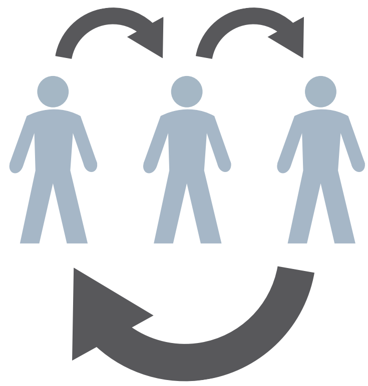
How to source higher quality suppliers that are cheaper, more flexible, and give better terms

Cost and quality will always be at the forefront of concerns for retailers, wholesalers, and manufacturers. If these businesses can gain access to emerging markets to open up the supply chain with the range of suppliers that they can choose from, then sourcing and procurement executives can drastically reduce their Cost of Goods Sold. This is while still maintaining, or even increasing, the high level of goods that they receive.

The trouble with trying to establish these new relationships is that most suppliers in the emerging markets need to get paid immediately upon shipment or else their business could be crippled. Their inability to offer delayed payment terms to buyers can make them a risky investment.



On the flip side, many suppliers may be unable to produce high-quality goods without payment due to lack of cash flow. As can be seen, there are problems for both sides, although it affects the suppliers greater than the established retailers.

Some companies, such as Puma, are offering short-term loans to suppliers in emerging markets to try and solve this issue. This is commonplace in developed markets, but cases like this are rare for emerging markets, and this is where trade finance services can help.

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, who can pay the supplier *and* offer delayed payment terms to the buyer, so that both sides get the financial outcome that they want.

Independent international receivable finance companies such as these are getting a great deal of support in emerging markets such as Vietnam and are helping to add to its status as one of the world's fastest growing economies.

Using a middleman doesn't mean that the suppliers can't work directly with the buyers, and this should still always be the aim in every business relationship. But other middlemen don't offer the same benefits as trade finance provider companies.

Other options, such as trading companies, will still offer the extended payment terms to buyers and a reduction in risk, but they have many disadvantages with extreme costs, sometimes as high as up to 40%.

Working with a trading company, although it has some benefits, will increase 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 up to 25% and the time to market up to 30-40%, but then the same problems arise of the extended payment terms for suppliers and buyers.

Other routes, such as banks like HSBC, are aware of the problem with suppliers in emerging markets but don't actually offer a great deal regarding solutions. And a solid solution is very much needed, as in some countries, such as China, unpaid bills are adding to their debt, with a current wait-time for payment at a 14-year high in 2015.

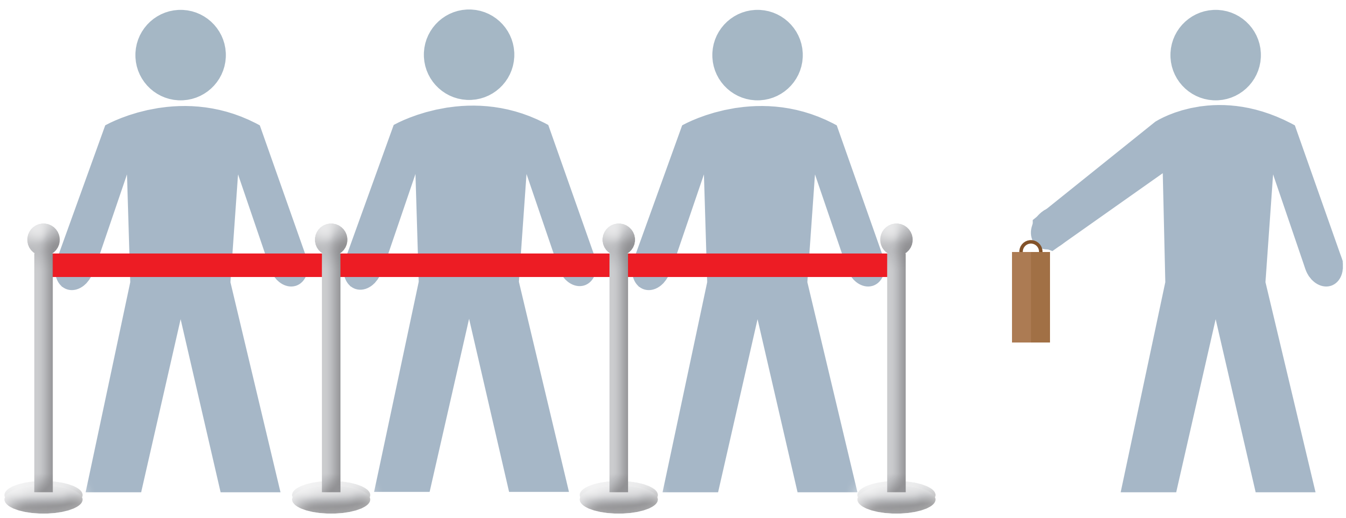
Working with a trade finance provider such as STENN, you can still work directly with the suppliers in emerging markets, reduce your costs, have a quick time to market, decrease risk *and* have excellent payment terms, all without the need for a trading house intermediary.

STENN take only a small commission from the supplier, meaning the risk is negated for buyers and suppliers can carry on operating. Alongside services such as a $300 million platform for helping suppliers in emerging markets, STENN's approach offers a robust and secure platform for suppliers and buyers to work directly together, resulting in a happy and profitable relationship.

Up to 25%
higher costs with trading companies

30-40%
longer waiting time to market

STENN's $300 million
platform for helping suppliers in emerging markets



The rise of delayed payment terms

Payment terms have historically been getting longer as time has passed. In 2009, businesses waited an average of 22.8 days to get paid. By 2012 this figure had risen to 29.2 days. Over time this trend has expanded at an alarming rate.

In some cases, the increase is hugely dramatic and damaging. Take Mars Inc. for example. Previously, their payment terms were 60 days. They've now raised this to 120 days. How can a small time supplier in an emerging market argue with a globally established company like Mars Inc.? If Mars want 120 payment terms, then that's what they're going to get.

And Mars aren't alone. Other big name brands like Kellogg, Mondelez, Church & Dwight, Procter & Gamble, and Heinz are demanding payment terms more favourable to themselves as well.

A spokeswoman for Mondelez, who are the makers of Cadbury chocolate, said "Extending our payment terms allows us to better align with industry practice and ensures we compete on a level playing field, while simultaneously improving transparency and predictability of payment processes."

Kellogg said, "It gives Kellogg and our suppliers more flexibility to manage our businesses effectively through better cash flow management."

Clearly, the big name bands are agreed on this. It better helps their businesses in the market. But how does it help the small time suppliers who struggle for cash flow? It, of course, doesn't.

The big name brands can't be blamed. Getting longer payment terms for themselves means that they have a greater cash flow. Procter & Gamble extending their payment terms added roughly $1 billion to their cash flow in 2013. Extended payment terms will also reduce a company's cost of goods sold, improves key business indicators and increases their supplier options, which lowers cost and raises quality.

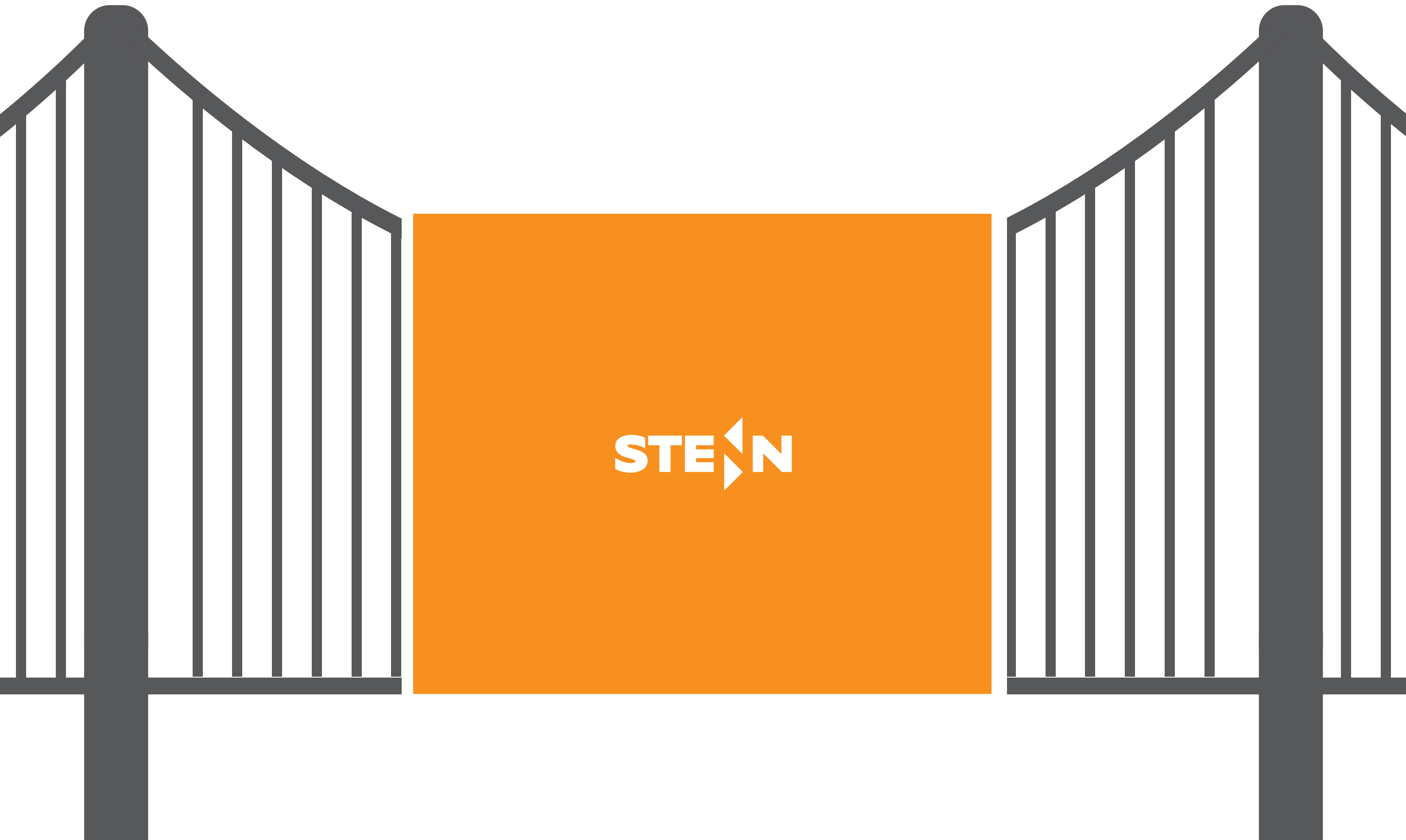
120 days
Payment terms for Mars Inc.

$1 billion
Appoximate cash flow for Procter & Gamble due to extending payment terms

Most businesses, to their credit, don't demand extended payment terms from suppliers in emerging markets as they know that they can't afford it. But they also often don't even ask suppliers beforehand if they can handle it, and then this also leads to situations where businesses just avoid suppliers in emerging markets altogether.

These multi-national brands have led the way in creating a new business norm. In 2016, if you are unable to get 90 days delayed payment terms from your suppliers, you are putting yourself at a disadvantage; competing in the battle for business with one hand tied behind your back. If your suppliers are unable to extend longer payment terms to you, then it's time to go to a specialist who can enable your suppliers to offer longer terms to you – An international trade finance team, like Stenn.

That's where Stenn can help. Our first recommendation is to simply ask your suppliers if they can extend their payment terms; you may be surprised at the answer! Failing that, Stenn is on-hand to help bridge the gap between businesses and suppliers in emerging markets, while maintaining extended payment terms.



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How savvy CFOs can better manage their credit lines and insurance limits

Using receivable 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 goods supplied.

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.

When providing the supplier with an LC, the buyer uses up their valuable, hard earned bank credit line. Quite often the suppliers and manufacturers in emerging markets can't even make use of this valuable resource due to the limitations of their domestic banks.

Not only does this reduce the credit line that could otherwise be spent on an expansion or new stores, but bank credit will also reflect adversely on your own financial statements. Failing this, suppliers will have to delay payment terms, and so will often take out insurance against the buyer failing to pay. This, in turn, will impact on the insurance limit of the buyers.

All trade finance credit insurance comes back to a very small circle of insurers. A trade finance facility that relies on insurance will ultimately take up any existing insurance limits that would otherwise be available to your other suppliers.

Clearly, this process is controlled by a select few and is beneficial to neither the suppliers nor the buyers. Greater successes can be found by working with external finance suppliers who can provide extended payment terms without impacting on any credit lines or insurance limits.

TRADE CREDIT

BANK DEBT

This can make for a smart, savvy move for CFOs. Any payment terms that are enabled with STENN will go on the buyer's books as trade credit, rather than bank debt. This will mean that your credit lines and financial positions are protected.

Furthermore, STENN does its own underwriting and does not rely on the approval of banks or insurance companies. The freedom that STENN can operate with means that we won't take up any of your valuable insurance limits, further allowing buyers and suppliers to strengthen their business relationship with the freedom that they want.

Conclusion

Seeking out innovative financial solutions can bridge the gap between buyers and suppliers in new and emerging markets. Emerging markets are on the rise, and buyers getting a foothold in this market will help to open up new avenues for global brands to reduce their Cost of Goods Sold while also taking on the advantage of better supplier relationships.

Furthermore, it provides financial advantages to buyers in that they can better manage their credit rating and available bank lines. By outsourcing the financial technicalities to a third party, both the supplier and the buyer can focus on what really matters; getting good, high-quality products to market.

About Us

STENN is a UK-based international trade finance provider, servicing cross border trade between emerging markets including Asia and Latin America, and developed markets. STENN was started by professionals that founded and built the largest receivable finance company in Eastern Europe.

In September 2016, STENN launched an additional $300 million financing platform to fund international trade receivables originating from developing countries exporting to creditworthy buyers globally. Innovative practices allow STENN to finance an entirely new segment currently unserviced in global trade. We work within a range of markets, with everything from apparel and footwear to consumer electronics and home goods, offering international trade finance facilities that other providers can't or won't provide.

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