In the past five years, use of supply chain finance (SCF) has dramatically increased. The unsettled macro-economic and financial environment have highlighted the importance of working capital while changes to bank regulation – most notably Basel III – have increased the cost, and reduced the supply, of working capital finance to small and medium-sized enterprises (SMEs). In order to support their supply chains, and potentially lower costs, many multinational corporates have turned to SCF.

Initially, corporates focused on country- or region-based SCF programmes, often addressing suppliers working with a single subsidiary, for example. However, the success of these solutions has encouraged multinationals to become more ambitious in terms of the benefit and scope of their SCF programmes. Some now include suppliers in multiple regions or those working with more than one of their subsidiaries. As a result, the complexity of SCF programmes has significantly increased.

Taking a global approach to SCF has several benefits for corporates. Most obviously, it reflects the reality of doing business: most multinationals have suppliers in multiple countries and regions. Assuming a global SCF programme is managed by a single provider, it also offers the benefit of consistency in terms of technology, systems and programme support (both for the buyer and suppliers) and the potential to lower costs.

Working with the right provider
Choosing the right provider is critical to the success of an SCF programme. Many local and regional banks (as well as technology vendors) have developed products in recent years to tap into the growing popularity of SCF among corporates. Such providers are necessarily limited by their geography and cannot meet the requirements of a global SCF programme. Instead, a global provider is required to reach subsidiaries and suppliers around the world.

To deliver an effective global SCF...
programme, it is not enough simply to be
global. To be effective, a finance provider
must have a robust technology platform
that leverages the benefits of its globality.
Ideally, this platform should be integrated
into its other cash management, payments
and collections, and trade solutions in
order to improve a corporate’s visibility
and control and enable it to use data to
make informed decisions.

Banks providing global SCF should
have a service model that reflects the
requirements of their corporate clients.
A global SCF programme requires a
single point of contact at a bank. That
individual should be able to draw on the
bank’s local resources to provide up-to-
date information about the programme
– in every country where it operates – to
the client’s headquarters. Equally, local
bank staff, interacting with a corporate’s
subsidiaries, for example, should offer a
consistent message and level of service.

While the scope of SCF programmes
is increasingly global, each country
has different laws, regulations and
complexities, regarding supplier
onboarding, for example. These
challenges require a bank with local
knowledge (and language capabilities)
if a solution is to be effective.

Consequently, a bank offering global
SCF must have an on-the-ground
presence, a deep understanding of local
risks, opportunities and regulations in
key markets.

Why Citi is different
Citi was one of the first banks to offer
SCF and has capabilities in over 70
countries worldwide. The bank’s scale
enables it to meet the requirements
of its most global clients, which have
supply chains that reach into tens or even
hundreds of countries.

Citi’s reach means that it can onboard
suppliers easily, ensuring a successful
SCF programme. It has multilingual
supplier onboarding in 16 cities,
supplemented by support in more than
100 countries so that local suppliers are
approached consistently. Citi works with
clients to segment and target suppliers
using appropriate strategies and messages
– aiming to maximise both a corporate
buyer and its suppliers’ working capital
benefits, for example – so that uptake of
the SCF programmes is optimised.

Citi has consistently invested and
innovated to develop global SCF
capabilities that facilitate standardisation,
automation and greater efficiency –
matching the objectives of multinational
companies. As a result, multinationals
are able to achieve consistency around
the world.

Citi’s SCF product suite is accessed
through the CitiDirect BE electronic
banking platform, an award-winning cash
and trade management solution. New
capabilities include Citi Supplier Finance
Mobile, which is powered by CitiDirect
BE Mobile and allows suppliers to inquire
about the status of payments and discount
requests from almost any mobile device,
without requiring them to be clients of
the bank.

Exploring new ground
The scale and growth of many global
corporates means that their SCF
programmes may require participation
from other banks to ensure credit
availability and liquidity. To provide
greater capacity, Citi is at the forefront
of multi-bank securitisation and asset
distribution initiatives. Rather than
holding all SCF assets on its balance
sheet – as was the case with past SCF
programmes – Citi distributes SCF
assets, with both relationship and non-
relationship banks. As a result, liquidity is
enhanced and pricing optimised.

Citi continues to innovate in asset
distribution. In December 2013, Trade
MAPS, a multi-bank asset participation
programme jointly deployed by Citi and
another bank, issued US$1bn of three-
year rated asset-backed securities of trade
finance assets originated by the two banks.

Citi is also participating in the recent
initiative by the International Chamber
of Commerce to standardise SCF
terminology, which could open up new
opportunities to make SCF assets more
marketable and therefore increase liquidity.

Citi also works to bring the benefits of
SCF to a wider range of companies. In
the UK, Citi has created the first public
sector supply chain finance programme
in EMEA. The Department of Health
programme is available to pharmacies that
fulfil £10bn of drug prescriptions. Over
1,000 pharmacies use the programme,
many of which are SMEs: they are now
paid in just eight days rather than 30 days
as in the past.

Citi is also looking at other
opportunities to benefit smaller suppliers,
by using electronic invoices to facilitate
early pay discounts, for example. One
possible opportunity is President Obama’s
SupplierPay initiative, which seeks to
strengthen small businesses by increasing
their working capital. This partnership
involves 47 private sector companies that
have pledged to pay their small suppliers
faster or enable a financing solution to
help their suppliers to access working
capital at a lower cost.

A bright outlook
Corporate – and supplier appetite – for
SCF will continue to increase in the
coming years. The changing regulatory
environment for banks is putting further
pressure on the availability of working
capital finance for SMEs. Corporates that
want to ensure the stability of their supply
chain around the world will increasingly
offer SCF to their suppliers – and
strategic suppliers will increasingly expect
it to be offered.

SCF also aligns with corporates’
goals of centralisation (through shared
service centres) and automation
(of reconciliation, for example). By
digitising information – through the
use of electronic invoices – SCF has
an important role to play in further
improving treasury efficiency. For Citi,
SCF is a core product. The bank intends
to remain at the forefront of supplier
finance by investing in technology,
leveraging its scale and global footprint,
and listening – and responding – to its
clients’ needs.