Avoiding Risk By Automating Supply Chain Finance

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The supply chain hasn't always been a traditional area of responsibility for a company's treasury department. However, more and more chief financial officers and treasury departments are finding that they can leverage technology to automate supply chain finance, avoid risk, and improve liquidity. Bob Stark, VP for Kyriba Corporation, a corporate treasury automation company that offers a cloud-based (SaaS) treasury management solution, recently spoke with us about this technology, how it works, and what kinds of effects it is can have on supply chain relationships.

Interview by Mike Schmidt

Q: Can you give us a little background on the company and your treasury management solution?

Stark: Our treasury solution helps provide visibility, productivity and control over treasury operations. Of our current customers, almost 85% came to us from spreadsheets — performing tasks such as cash management, cash forecasting, and being able to link and interface with their ERP solution. They found that projecting cash for a very large organization — having that much cash and dealing with all the transactional activity and the volume of information — is hard to run on an Excel spreadsheet. So they look to Kyriba to automate much of the tasks to give them visibility into their cash and treasury activity. Many organizations are multinational, so they have banks and bank accounts that are overseas. As a result, just knowing how much money they have is not the easiest task. Gaining visibility is one of the most important aspects for treasury. So we provide that visibility, we give them the ability to link together all the different financial positions, including cash, so they have a complete picture. We also help with productivity. Certain processing, such as payments to the bank, creating accounting entries, being able to make sure your positions are appropriately hedged, all of the things treasuries are typically responsible for in an organization — these are very manual and through our tool they can automate these tasks to free up time.

Q: ERP integration, as with any technology offering, is critical here, correct?

Stark: Every single one of our customers has some flavor of ERP, that's absolutely correct. I say flavors, as there are a lot of organizations that have grown either organically or through acquisitions. Many have multiple systems in place. Or some of our customers will use a single ERP system but will also have different instances of that around the world. So it ends up being that there can be a high level of decentralization, even though the whole goal of the ERP is to centralize that activity. From a treasury perspective, we’re bringing in information from the ERP to help the cash forecasting process. That helps visibility. We’re also delivering some of the accounting entries to the ERP for those transactions that treasury is the owner for. That would be bank transactions, financial instruments such as debt or investments or foreign exchange trades, things like that. And that helps productivity.

Q: Investing in the proper technology is key here, but so is partnering with multiple banks. Can you expand upon that a little bit?

Stark: Multi-bank is just the reality of doing business for most of our customers. There are very few customers that have a single banking relationship. There are a variety of different reasons, of course. Sometimes the customer operates in different regions, outside of where a single bank has a presence. Other times it is to take advantage of the specialization of bank services. It can also be to remove the risk of having one supplier for all your bank services.

Kyriba is simply a facilitator. Whether a customer has one bank or they have dozens, they want the workflow and the visibility to be exactly the same. They don’t want to have to worry about how to get reporting from each of their banks. Just because they have more banks doesn’t mean there has to be more problems.

Q: What kind of feedback have you received about your Supply Chain Finance offering?

Stark: If you think about the main requirement for an organization, it’s that they want to preserve as much cash as they can. Any opportunity to pay late is a great thing as it improves working capital. There is also an equal opportunity to save cash by taking an early payment discount. Either way the risk is that could hurt the supplier financially. As a supplier, especially if you are a little bit smaller and don’t have access to the same balance sheet that maybe some of the buyers have, then you want cash as quickly as possible to improve your own working capital. You also don’t want to give a significant discount to make that happen. So it’s kind of a contrasting force. Everyone wants to hold the cash and no one wants to get rid of it. That’s the needs that customers have brought to us; they are asking for tools to better communicate with their suppliers and to be able to take advantage of more of these creative financing solutions that involve third-parties, such as banks. What we’ve done at Kyriba is to connect all three parties — buyers, suppliers, and banks — on a single web-based platform to enable the early payment of suppliers at a relatively small discount compared to other alternatives they might have. The buyer, of course, wants to have their cash too and through this third-party relationship, they have the opportunity to improve their payment terms.

Q: Can you discuss the benefits of the fact that Supply Chain Finance is on a single web platform?

Stark: We think it is extremely important for the simple reason that it doesn’t require installed software and IT to be involved. That's difficult enough if you are just dealing with one organization. When you have to collaborate between multiple parties (buyer, suppliers, banks), it becomes a show-stopper. A web-based solution, also known as software-as-a-service, is the right way to go. This deployment makes it possible to collaborate by different parties and not require outside technology and IT to be involved. So it keeps the cost down and increases the access, making it simple for everyone.

The collaboration, I think, is also extremely important. Our customers would like to work with more than one bank, and without a multi-bank portal, they really don't have that opportunity to be efficient about it.

Visibility is equally important too. If you want to successfully run a Supply Chain Finance program, having all of your invoices across all of your banks and having all of your suppliers be able to see all of the same information is absolutely necessary, so a supplier can say "We'd like to get paid early on this set of invoices." As a buyer, you can see those invoices and have them all completely synchronized with your AP within your ERP system, so you don't have to worry about looking in different systems to see what really should be the same information in one location. That's where the technology makes a big difference. It offers accessibility, so you have complete visibility, and it minimizes your team's time to make that happen.

For more information, please visit www.kyriba.com *[2].*

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