Treasury and the Supply Chain: A New Model for Working Capital Management

Understanding physical and financial supply chain relationships can generate working capital management strategies for growth.
Best-in-class companies align supply chain and treasury operations in order to support the entire organization’s corporate finance objectives. Treasury professionals need to view financial decisions as interlinked with the physical goods movement decisions made by colleagues in logistics, procurement and compliance functions. Understanding critical physical and financial supply chain dependencies will better prepare treasurers to select the working capital strategies that drive corporate growth.
Imagine an eager shopper who enters your clothing store looking for the latest fashion. Her size isn’t in stock, so she heads out the door and crosses the mall to find what she needs at a competitor. A man enters an electronics superstore to look for the flat screen television he saw in the Sunday paper. It is not available, so he buys it online instead. Now think of a factory rushing to turn out an order for a key customer. Critical parts arrive late, and the assembly line shuts down.

In each of these cases, breakdowns in the supply chain had a direct impact on end customers and cost the company not just revenue but customer goodwill — which takes its toll in lost future sales and higher costs. A smart supply chain is key to delivering not only goods but reliable financial performance as well.

There are certain times when an end customer derives maximum utility from a product or service and is willing to pay a premium. For example, an umbrella has greater value on a rainy day than on a sunny day. A Christmas tree is much less valuable the day after Christmas. A company able to deliver the right product at the right time in an efficient manner can maximize revenues and keep costs down. Companies that miss the optimal delivery window, or drive up their expenses in an effort to make the window (expediting with airfreight, for example) reduce their potential margin. Extended global supply chains heighten the risk of “Diminished Value”: the profit opportunity missed by companies when their supply chains fail to perform consistently at an optimal level.

Intense competition and demanding end customers have led to the development of increasingly complex supply chains as companies seek unique product mixes and low-cost advantage. The resulting global model adds a host of new challenges to supply chain planning and product delivery, in addition to substantially increasing the risk that all players in the supply chain will be affected by diminished value. Serving global markets compounds the level of risk.

The longer or wider a supply chain becomes, the more inventory and cash flow is contained within it. For multinational organizations and their suppliers, the global supply chain has come to represent a significant user of working capital within each enterprise, an important factor in the financial dynamics of the entire supply chain. Consequently, the opportunity to improve supply chains should be seen as an opportunity to improve not only physical inventory management, but financial performance as well.

Regardless of how well it is managed, the supply chain and the inventory it delivers are significant users of working capital. Smart, financial-oriented management of the supply chain provides a framework to discover and realize financial benefits throughout the cash-to-cash cycle.

A treasury manager who understands the financial dynamics of the supply chain can employ an extensive array of tools and best practices to help the company meet its working capital objectives. Specifically, by viewing the supply chain through a financial lens and effectively cooperating with internal partners in supply-chain-related roles, treasury managers can have a real impact on making their firm more competitive. In effect, treasury managers can become the lynchpin of a comprehensive operational financial strategy that better manages working capital and drives corporate growth.
Actions in the physical and financial supply chain are interdependent. An action in one realm causes a reaction in the other — and not always for the better. A company’s procurement team, for example, might switch sourcing from Mexico to China in order to cut manufacturing costs. Though the company’s procurement team was able to reduce pure product cost in this scenario, transportation and logistics costs increased, as did the uncertainty related to the extended transportation network. Plus, the company loses potential savings available through NAFTA, the free trade program arrangement with Canada, Mexico and the United States.

When viewed in parallel, the financial supply chain represents the management of cash and capital as it supports inventory and sourcing; the physical supply chain represents the management of product and information. A company must identify any gaps in the business process/flow that create customer satisfaction problems, add cost or cycle time, and/or impact inventory — whether these gaps lie in the physical or financial arenas, or both.

Understanding the financial profile of supply chain activities is critical to evaluating alternatives (See Figure 1). As treasury and supply chain colleagues evaluate various stages of their enterprise processes, it becomes clear that multiple working capital requirements are tied to physical supply chain actions. Reducing the need for working capital reduces the company’s need for cash, thereby reducing the company’s dependence on outside credit facilities and/or freeing internal cash for alternative uses.
FINANCIAL PROFILE OF THE PHYSICAL SUPPLY CHAIN

**PHYSICAL SUPPLY CHAIN**
- Research and Development Design
- Global Procurement
- Logistics and Distribution
- Import Location
- Sales and Service Contracting
- Manufacturing
- Logistics and Distribution
- Sales and Service

**SUPPLY CHAIN ACTIVITY**
- Technology Encryption
- Models, Samples
- Product Information
- Labeling and Marking
- Research and Development
- Service Parts
- Production
- International Supplier
- Foreign, Domestic and International Carriers and Consolidation
- Broker/Customs and Transfer to Domestic Carrier
- Importing
- Traffic
- Receiving
- Storage
- Destination of Goods
- Buyer of Goods
  - Stores
  - International Related Parties
  - OEMs
  - Distributors
- Seller of Goods
  - Contract
  - Order Management
  - Order Fulfillment
- Manufacturer, Distributor, Nonproduction or R&D
  - Contract
  - Manufacturers
- Distribution
  - Traffic
  - Export
  - Customs and Foreign Government Agency Requirements
- Domestic and International Carriers and Consolidation
- Broker/Customs and Transfer to Domestic Carrier
- Stores
  - OEMs
  - International Related Parties
  - Distributors

**FINANCIAL SUPPLY CHAIN**
- Research and Development Expense
- Raw Materials
- Selling, General and Administrative Expenses
- Balance Sheet as Finished Goods Inventory
- Income Statement as Selling, General & Administrative Expenses and Balance Sheet as In-Transit Inventory
- Income Statement as Revenue, Cost of Goods Sold, and Selling, General & Administrative Expenses and Balance Sheet as Cash
Trade Compliance Impacts
Supply Chain Success

Trade compliance should be a central issue for corporate officers. Legally, it is the obligation of every U.S. firm’s board of directors or senior management to understand their compliance program and to provide regular oversight, adequate resources and direct access to the board for compliance officers—all in accordance with the Federal Sentencing Guidelines for trade regulation. Compliance issues don’t stop with corporate officers—supply chain and finance executives have reason for concern as well.

Trade compliance information is a common element that helps tie financial and physical supply chains together.

The proper presentation of documents is required to satisfy the financial obligations within a physical supply chain: documents that verify delivery of goods at a specified price, quantity and location, using the contracted transportation method. Trade documentation also records key data elements that show when ownership of goods is transferred from supplier to buyer, and who bears responsibility for duties, taxes and freight.

Elevated levels of risk inevitably drive costs higher and precipitate the inefficient use of working capital. Those assessing the risk profile of a supply chain must determine how much incremental risk is being added by deficient trade compliance processes. Compliance issues alone can disrupt or break a supply chain: border delays due to poor documentation, inability to comply with government security programs and inadequate vetting of suppliers, customers and partners are examples of inadequately managed compliance. Penalties, loss of cross-border trading eligibility and supply chain bottlenecks are common results.

Good compliance practices can also represent a competitive advantage. Achieving a desired trading status, using free trade zones effectively, and leveraging Free Trade Agreements (such as NAFTA or CAFTA-DR) are all examples of ways in which companies can leverage trade expertise and convert a potential challenge into a competitive advantage. Should an importer or exporter run afoul of government regulations, an active approach to compliance management and planning can even prove to be a mitigating factor.

Compliance failures can inhibit the physical delivery of goods, which directly impacts financial performance and can be a drain on working capital.

Global supply chains must be viewed from both a “physical goods movement” and a “financial capital movement” point of view.

Physical Supply Chain Failures Impact Finance

Today’s extended global supply chains contain a high risk of moving goods with diminished value: goods delivered to market later than intended and missing the optimal profit window. Costs associated with diminished value can prove particularly steep in supply chains that produce and deliver seasonal, fashion-oriented or time-sensitive goods, or for companies using just-in-time or lean manufacturing practices. Examples we have observed include the late delivery of back-to-school items (55% markdowns) and of vital hospital equipment such as MRIs (resulting in 15% lower prices). Additional diminished value factors to consider include high restocking costs, the risk of litigation from liability lawsuits and potential damage to the brand.

The impact of supply chain failures is not, however, limited to diminished value of goods — it extends all the way to a company’s top-level financial performance. In a study of the impact on company valuation of 800 supply chain disruptions from 1989 to 2000, firms experienced 33% to 40% lower returns on equity over a three-year period, beginning one year prior and ending two years after the announcement of the disruption. In addition, the same study showed that companies experienced an average 13.5% increase in share price volatility in the year after such an announcement was made.

Whether an organization is a multinational, an entrepreneurial growth company or a subsidiary looking for efficiency, the importance of supply chain management to the optimization of working capital is indisputable. Decisions being made about inventory are every bit as important as decisions regarding accounts payable and receivable strategies, and together they may help to answer some key questions for treasurers: What is the most efficient balance of cash, inventory and financing for the enterprise? What risks does this mix pose?

Supply chain failures and disruptions negatively affect company valuations and contribute to share price volatility.

2 An Empirical Analysis of the Effect of Supply-Chain Disruptions on Long-Run Stock Price Performance and Risk of the Firm by Vinod Singhal and Kevin Hendricks
Supply Chain Cycle, Treasury and Global Supply Chain Management

Working capital management efficiency is closely linked to supply chain efficiency. To optimize working capital usage, treasury and all parties involved in global supply chain management must develop a working relationship in which finance and supply chain partners collaborate to develop and support supply chain improvement strategies. Best-practices companies that have been successful at improving global supply chain management strive to include all affected constituents in the planning and implementation process — representatives from treasury, accounts payable, procurement, compliance and technology — in addition to the supply chain team.

Such collaborative working relationships require an understanding of how various functions interact. While it is in everyone’s best interests to optimize working capital, continually drive efficiency and mitigate risk, it is often difficult to comprehend exactly how individual actions in one part of an organization impact other aspects of a company’s global supply chain. Inefficiencies in either the physical or the financial supply chain elevate risk exposure and contribute to additional working capital usage.

A detailed review of the entire global supply chain can pinpoint where individual job functions intersect and sometimes overlap. As a first step, a treasurer should review the standard physical supply chain model (Product Development-Production-Distribution-Selling) and overlay basic financial supply chain actions on that cycle model, documenting these connections and potentially identifying areas for business process improvement (See Figure 2).

**Figure 2**
Integrated Financial and Physical Supply Chain Model
TRADITIONAL SUPPLY CHAIN ACTIVITIES CAN BE DIRECTLY LINKED TO FINANCIAL REQUIREMENTS AT EACH STAGE OF THE CYCLE AS FOLLOWS:

- **Product Development.** As a company conceives and designs a product, suppliers are selected and vetted. The company needs to calculate the total landed cost of the new product and understand the potential transportation requirements from various origin locations while deciding on supplier payment strategies.

- **Production.** A company then determines the best sourcing arrangement to maximize the value of their cash by balancing cost with efficiency. Suppliers are then contracted, payment terms are negotiated, service levels are determined, the manufacturing process begins and plans are made to move the finished product.

- **Distribution.** Finished goods are moved to warehouses or end customers using the most cost-efficient method to meet timing and delivery requirements. Documentation is created in accordance with global regulatory requirements and distributed along the supply chain.

- **Selling.** As the supply chain cycle closes, final documentation is submitted, financial settlement is made with all parties and the entire process is reviewed for efficiency and accuracy. Were the right items delivered at the right time for the right cost? Were they sold for the right price? Were all legal obligations met?
Product Development Phase: Sourcing to Buying

For international supply chains, keeping abreast of global developments is indispensable. Companies should maintain and employ up-to-date knowledge of shifting supply chains, economic and political developments in key sourcing locations, changing compliance and security requirements, foreign exchange fluctuations, labor and commodity price indexes, free trade program development, port operations and even weather.

Inadequate planning and the failure to include a risk component in the initial development and forecasting phase can later lead to supply chain breakdowns, which inevitably signal a drain on working capital. As companies begin the product development process, they are challenged to source materials and calculate the final cost of goods. Often, a company’s supply chain operation does not support the most effective overall business model. For example, firms may create product elements from “scratch” when sourced components are readily available; or they may misread the market’s supply and demand balance, resulting in delivery of the wrong product mix. Errors made at the start of the cycle have a compounding ripple effect throughout the rest of the supply chain.

Tangible business impacts of these missteps include excess inventory, obsolescence and write-offs. Stock outs can occur, which in turn cause customer dissatisfaction and lost sales. Worse, attempts to mitigate supply chain failures can result in even more costs and risks. Premium freight services for rush delivery mean not only increased costs but increased exposure to fuel price escalation and volatility, as well as risks inherent in circumventing normal logistics processes.

Moving from indirect to direct sourcing carries its own risks. Common mistakes made by growing companies include not accounting for “total landed cost” (cost of the goods plus transportation fees, duties, taxes, etc.) and using cost as the primary criteria, which inadvertently leads to selecting an inappropriate vendor that delivers poor-quality goods. Quality issues manifest themselves in rejected shipments and scrap, higher rates of returns from customers, an overall increase in time spent working with the supplier and an increased need to carry inventory buffers to cover variability. In addition to customer dissatisfaction, the business impact of poor quality can cause an increased variability in plan versus actual inventory positions, leading

Stage 1: Product Development Phase:
As a company conceives and designs a product, suppliers are selected and total landed cost is calculated to understand the potential transportation requirements from various origin locations. Concurrently, supplier payment strategies are determined.
to increased inventory and premium freight charges, more resources and travel expenses needed to manage the supplier and increased overhead costs to handle reverse logistics.

Foreign exchange costs from a multicurrency business environment must be addressed and calculated. Managers should test a given sourcing or fulfillment decision under different currency exchange scenarios, ranging from minor (10%) to major (30%) fluctuations. Fluctuations can also have an adverse ripple effect in the form of unexpected costs, such as increased duties, taxes and fees, and international freight. Even companies buying and selling in a single currency — USD, for example — should consider the impact of currency fluctuations on their overseas suppliers. For example, an apparel company buying garments from Chinese suppliers with a contract denominated in USD should understand the impact of the USD's depreciation on that supplier's costs and cash flow. Understanding the key cost drivers beyond foreign exchange costs in the sourcing decision is important in order to monitor the health of the program. Fuel prices, labor costs and commodity costs can all fluctuate due to market conditions and turn once-sound sourcing decisions into questionable ventures.

Finally, incoterms (standard trade definitions most commonly used in international sales contracts), payment methods and payment terms are often not coordinated. Financial managers may aim for extended payment terms in a drive to extend Days Payable Outstanding, while procurement and sourcing teams are willing to negotiate shorter terms in the quest for a lower cost of goods. The two parties may actually be measured or compensated for achieving diametrically opposed goals, leading to inefficient institutional behavior and increased working capital requirements in the extended supply chain, often categorized under Days Inventory Outstanding, Days Sales Outstanding and Days Payable Outstanding. Fewer inventory turns generally mean an increase in the overall cash-to-cash cycle, as well as an increase in cost of goods sold.

Companies must also take into account the impact of their selection of payment instruments and payment terms on their suppliers' financial picture, and consider employing tools that help mitigate the effect of any changes and inject liquidity into the overall chain. Buyers and finance managers should agree upon a practical and unified payment strategy, aligned with corporate finance goals, and ensure that job performance incentives support that strategy.

**BUSINESS PROCESS IMPROVEMENT STRATEGIES INCLUDE:**

1. **Sourcing Analysis.** This study determines the best location and geography for supplier selection for a specific company and a specific good, incorporating duty analysis, free trade programs and logistics requirements.

2. **Restricted Party Screening.** This process ensures that suppliers are not “denied parties” according to the U.S. government and are therefore eligible to legally receive business from a U.S.-based company.

3. **Distribution and Fulfillment Study.** Evaluation of various manufacturing or distribution center strategies via analysis of inbound total landed costs, variability, risks and working capital requirements, and outbound customer service levels, costs and risks.

4. **Supply Chain Financing.** Examination of buyer-driven payables/receivables discounting solutions that deliver beneficial financing arrangements to suppliers in order to support their production operations.

5. **Landed Cost Analysis.** Step-by-step accounting for all the costs involved to design, build and deliver goods to the end customer.

6. **Compliance Planning.** Ensure that all regulations are observed, correct documents are generated and compliant processes are in place. Classifications and duty treatments should be established and evaluated while origin of parts and materials should be analyzed in order to maximize value of free trade programs and minimize duty exposure.
**Production Phase: Buying to Inventory**

The production phase of the supply chain is when working capital needs are determined and supply chain activities initiated. Treasurers must understand the typical pitfalls of this part of the cycle — specifically, unexpected working capital demands and impact of supply chain variability and failure.

As production begins, arrangements are made to facilitate the eventual movement of goods, and decisions are made regarding potential Free Trade Agreement eligibility and the application of relevant security programs. Unanticipated regulatory requirements and frequent changes in import/export regulations can result in delays at ports, which in turn may lead to time-consuming customs inquiries, inspections and seizures. Other adverse consequences vary from the minor (brokers constantly requesting information to complete entries) to the more punitive (ranging from excess duties, taxes and fees — often incurred by not taking advantage of Free Trade Agreements — to potential fines and penalties). In a worst-case scenario, a firm’s supply chain actions at the border may trigger an audit by a national regulatory agency. Such risks can be mitigated, however, through better planning, broker and import entry management, accurate product classification, specialized FTA program management, duty minimization and customs compliance support.

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**Business Process Improvement Strategies Include:**

1. **Accounts Payable Strategy.** There is a wide range of payables options with varying degrees of risk and cost: wires, checks, prepaid and debit cards, commercial purchasing cards, letters of credit and open account processing. Third-party vendor payment solutions known as “order-to-pay” can provide connectivity, transparency and efficiency.

2. **Free Trade Program Participation.** Companies can revamp sourcing arrangements to leverage one of the many regional trade agreements that reduce taxes, quotas, duties and fees for certain goods to encourage trade. Programs can be complex and paperwork intensive, but they still yield substantial benefits.

3. **Classification Analysis.** Ensure goods are properly classified to speed movement through customs and determine eligibility for free trade program participation. Upfront planning and dynamic audit and evaluation processes are critical.

4. **Broker Management.** Transform broker relationships into strategic partnerships by selecting a few key brokers, developing mutually beneficial relationships and negotiating volume-based discounts on fees. Prevent unhealthy dependence on a single supplier by working through a single interface, with multiple partners sharing agreed-upon procedures and service standards.

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**Stage 2: Production Phase:** The best sourcing arrangement is determined and suppliers contracts’ are signed, payment terms are negotiated and service levels established. The manufacturing process begins, and plans are made to move the finished product.
Distribution Phase: Inventory to Settlement

The distribution phase starts when goods roll off the production line and must be transported to another factory, a distribution center, the store shelves or the end customer. Financial supply chain activities take place in parallel to physical supply chain activities. Depending on the payment and settlement tactics being employed, the timing of key events in the physical and financial supply chains may begin to diverge.

A treasurer needs to understand that accounting treatment for the goods — for example, when they move from inventory to accounts receivable — can be a complicated process. Some companies carry zero inventory and immediately move product to a third party or end customer as it rolls off the production line; others opt to carry inventory as an asset. Vendor managed inventory (VMI), extended payment terms and accelerated payments further complicate this picture. Physical supply chain inefficiency leads to excess inventory in the warehouse and on the balance sheet, which drains working capital and slows inventory turns, negatively impacting a variety of financial metrics.

A company’s financial strategy is typically not a focus of procurement, compliance and supply chain professionals, who instead concentrate on moving goods quickly to the end customer or keeping their shelves stocked with plenty of inventory. For example, a firm’s traffic department may be focused on the lowest cost of transport, while the distribution unit is attending to the contracted order fill rate. Meanwhile, the store needs to time their deliveries due to limited space, and the customer simply wants the product delivered or available at the time it was promised.

Considered separately, these departmental measurements are useful indicators of efficiency; when they are viewed together it is clear that individual goals can compete, decreasing overall efficiency and driving up the need for working capital. In addition, firms balancing inventory among multiple locations around the world can further complicate inventory management and build additional working capital inefficiency into the supply chain. Lack of visibility to goods in the supply chain makes it difficult to detect these inefficiencies. A review will likely reveal increased inventory to cover delivery variability or frequent premium freight charges to cover poor demand forecasting and planning. However, these red flags are raised after the damage is done.

To uncover such “hidden” scenarios, it is important to measure and track standard efficiency metrics, such as Days of Inventory, Days Sales Outstanding and surplus stock in both markdowns and scrap.

Companies must also take into account the impact of their sales terms on their customers’ financial picture, and on the customers’ own financial supply chain, and consider employing tools to help mitigate the effect of any changes and inject liquidity into the overall chain. For example, a company selling high-tech product into Russia through distributors with payment and revenue recognition dependent on installation may need to extend sales terms from 30 or 45 days to 90 days to allow for increased import times and variability of transit within Russia. If the same 30 or 45 day payment terms are used for Russia, the distributor will need to secure financing at higher interest rates and will be able to take fewer large orders at any given time.

Whether caused by suboptimal supply chain planning, an unpredictable transportation pipeline or a lack of visibility, excess inventory drives up supply chain costs.

Stage 3: Distribution Phase:

Finished goods are moved to warehouses or end customers using the most cost-efficient method to meet timing and delivery requirements. Documentation is created in accordance with global regulatory requirements and distributed along the supply chain.

Business Process Improvement Strategies Include:

1. **Outsourced Logistics Management.** Streamline and integrate global import and export processes to ensure regulatory compliance and minimize supply chain delays.

2. **Trade Document Preparation.** Centralize and automate the preparation and collection of documentation needed to satisfy predetermined financing agreements. Ensure data correctness and compliance back to the product development and purchase order issuance processes. Coordinate with counterparties to make certain that a good export translates to a good import.

3. **Trade Compliance Review.** Full assessment of global export or import operations to pinpoint compliance failures that stall delivery of goods, ensure systematic compliance and reduce risk.

4. **Inventory Financing and Vendor Managed Inventory.** Financing options that minimize the time inventory sits on the balance sheet.
Selling Phase: Settlement to Sourcing

The settlement phase of the supply chain is the process by which payment is received by various parties including the seller, the supplier, the financing entity and the like. The settlement phase also includes sorting paperwork, managing deductions and chargebacks, and resolving disputes. Costs and profits are totaled, the process assessed and business process improvements identified. A review of the entire cycle and subsequent adjustments should help remove bottlenecks, highlight opportunities for efficiency, minimize future risk exposures and eliminate unnecessary working capital usage in the next cycle.

An efficient supply chain helps deliver goods to the end buyer through the right window, allowing the seller to maximize revenue and profit. An ineffective supply chain means diminished value, increased transportation costs and excess inventory. Supply chain processes should include decisions about when and how to collect and process payments as well as efficiently manage disbursements — all timed to both exporters’ and importers’ needs. Individual assessments and audits of import/export management processes as well as freight costs and foreign exchange opportunities should be evaluated as part of the search for operational improvements.

Importers and exporters benefit alike from safe, efficient integration with their bank’s worldwide transaction capabilities. They can streamline settlement processes by outsourcing document checking, accounts payable and foreign exchange processes. They can review and audit freight bills, audit the customs compliance process, evaluate carrier and partner performance, and measure whether or not the supply chain is meeting established performance standards. Effective integration can even help players in the supply chain to gain access to more efficient financing.

A growing variety of translation tools and industry standard file formats (EDI ASC ANSI X.12, UN/EDIFACT, SAP IDoc and XML) facilitate direct exchange of electronic information.

Stage 4: Selling Phase:
As the supply chain cycle closes, final documentation is submitted, financial settlement is made with all parties and the entire process is reviewed for efficiency and accuracy.

BUSINESS PROCESS IMPROVEMENT STRATEGIES INCLUDE:

1. **Import/Export Assessment.** Evaluation of all import/export operational processes to mitigate risk exposure via documentation of compliance with global regulatory requirements. Postentry audit process for customs entries or export filings to ensure compliance and optimal duty treatment.

2. **Freight Payment and Audit.** Exercise greater control over entire freight payment and information process by centralizing freight contracts and service-level agreements in a database and auditing invoices for accuracy, duplication and rate errors.

3. **Foreign Exchange and Commodity Management.** Banking services that facilitate cross-border payments in various currencies in order to optimize working capital and help trading parties to ensure predictability of cash flow, control and costs, and enhance financial stability for supply chain partners.

4. **Structured Trade Finance.** Financing strategy designed in partnership by bankers, ECAs (Export Credit Agencies) and other credit and capital markets providers to support large, strategic projects and transactions.

5. **Supply Chain Operational Review.** Evaluation of supply chain functionality, including ability of the supply chain to operate according to agreed-upon metrics. Analysis should include identification of bottlenecks and performance of supply chain partners.
Conclusion

Today’s treasurers and financial professionals must understand precisely how finance integrates with ever-lengthening physical supply chains in order to set long-term strategy, accurately forecast financial requirements, manage risks and ensure compliance with global regulations. Without such a comprehensive view of the product supply system, companies will miss low-cost sourcing opportunities and profit maximization potential and endanger customer relationships. Managing supply chain issues on a “firefighting” basis rather than through foresight, planning and robust management processes introduces unpredictability, drives up costs and exposes the organization and its officers to penalties, fines and headline risk.

Financial professionals are in an ideal position to help ensure that an organization’s supply chain is properly aligned to deliver not just goods, but also deliver on the organization’s financial goals. However, to accomplish this, they must develop a close working relationship with all corporate areas materially involved with the supply chain. This working group must establish a framework for understanding from a financial perspective every aspect of the product supply chain, from the first steps of development and production through the final stages of distribution and settlement. Partners that marry finance and trade expertise with a full range of supply chain offerings can help treasurers and their supply chain colleagues identify tools, tactics and best practices that promote growth while ensuring a healthy balance sheet and optimal use of working capital.

Today’s global business environment is rife with pitfalls, but active physical and financial supply chain collaboration can provide a healthy framework to navigate the landscape. A treasurer’s unique perspective on the capital invested in supply chains can be a significant tool to help effect such corporate change. After all, a well-managed and financially integrated supply chain can be a company’s secret weapon — a competitive advantage that can be far more difficult for rivals to replicate than the product itself.

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ABOUT J.P. MORGAN

The Global Trade Services group at J.P. Morgan is a worldwide leader in providing solutions for global trade management. The group provides logistics and trade finance solutions designed to help clients enhance physical and financial supply chain operations, improve compliance with government trade regulations and optimize working capital. Logistics solutions include trade management consulting, outsourced operations management, technology and trade education and compliance training.

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