

Supply Chain Management for Efficient Consumer Response Conference

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Valahia University of Targoviste, Romania

RISKS AND DISRUPTIONS IN FINANCIAL SUPPLY CHAIN RESILIENCE

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Risk is the extent to which there is uncertainty about whether potentially significant and/or disappointing outcomes of decisions will be realized.

The supply chain context more specifically defines risk as the potential occurrence of an incident or failure to seize opportunities with inbound supply in which its outcomes result in a financial loss for the firm.

Supply Chain Risk Management

- Risk identification and modeling – including the sources and characteristics or risks, what may trigger them and the relationship to the supply chain performance in terms of effectiveness and efficiency
- Risk Analysis, Assessment and Impact Measurement assessing the likelihood of occurrence and potential consequences
- Risk Management – generating and considering alternative scenarios and solutions, judging their respective merits, selecting solutions and undertaking the implementations
- Risk Monitoring and Evaluation – monitoring, controlling and managing solutions and assessing their impact on business performance outcomes
- Organizational and Personal Learning including Knowledge Transfer - seeking to capture, extract, distill and disseminate lessons and experiences to others within the organization and its associated supply chain members

Risks in supply chains due to the flows of cash between organizations, incurrence of expenses, and use of investments for the entire chain/network, settlements, A/R (account receivables) and A/P (account payables) processes and systems can be classified under financial risks.

Blue ocean strategy challenges companies to break out of the red ocean of bloody competition by creating uncontested market space that makes the competition irrelevant. Instead of dividing up existing – and often shrinking – demand and benchmarking competitors, blue ocean strategy is about growing demand and breaking away from the competition.

W. Chan Kim, Renée Mauborgne - *Ocean Strategy – How to Create Uncontested Market Space and Make Competition Irrelevant*,

Value Innovation

Value innovation is a new way of thinking about and executing strategy that results in the creation of a blue ocean and a break from the competition.

W. Chan Kim, Renée Mauborgne - *Ocean Strategy – How to Create Uncontested Market Space and Make Competition Irrelevant*,

When the world is flat, the company both can and must take advantage of the best producers at the lowest prices anywhere they can be found.

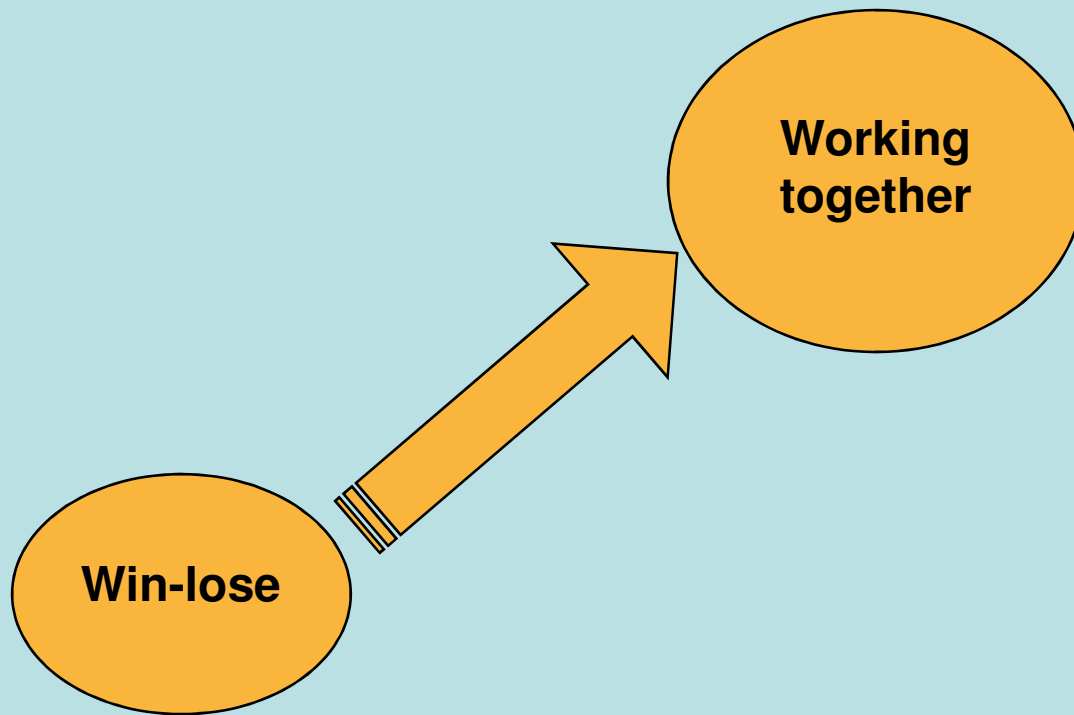
Thomas L. Friedman - *The World Is Flat: The Globalised World in the Twenty-First Century*

“Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. It also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, **finance** and information technology.”

Council of Supply Chain Management Professionals (CSCMP)

Supply – chaining is a method of collaborating vertically – among manufacturers, suppliers, retailers, and customers – to create value.

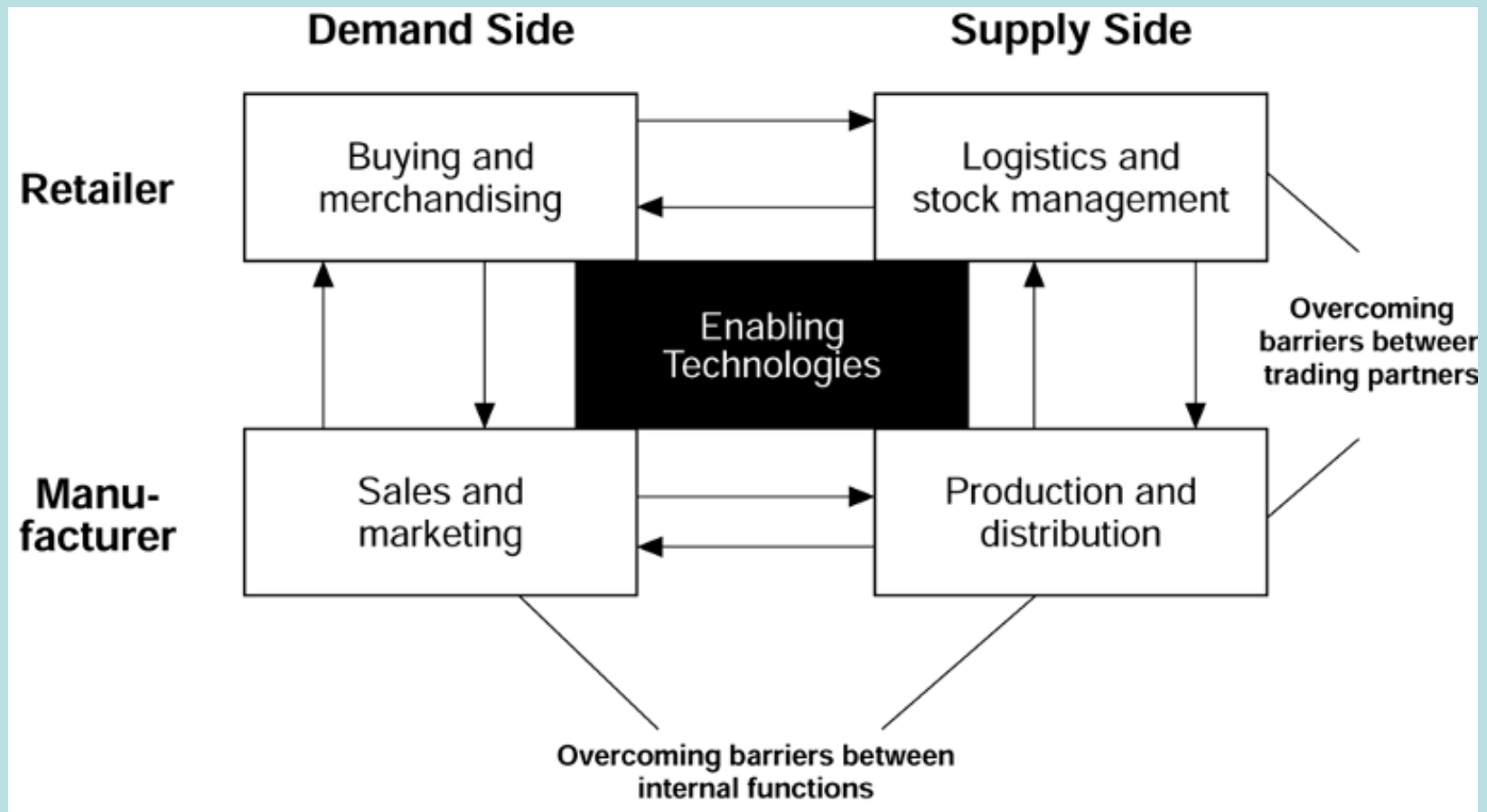
IYER, Ananth; SESHADRI, Sridhar; VASHER, Roy – Toyota Supply Chain Management



“Working Together to Fulfill Consumer Wishes Better, Faster
and at Less Cost”

ECR Europe

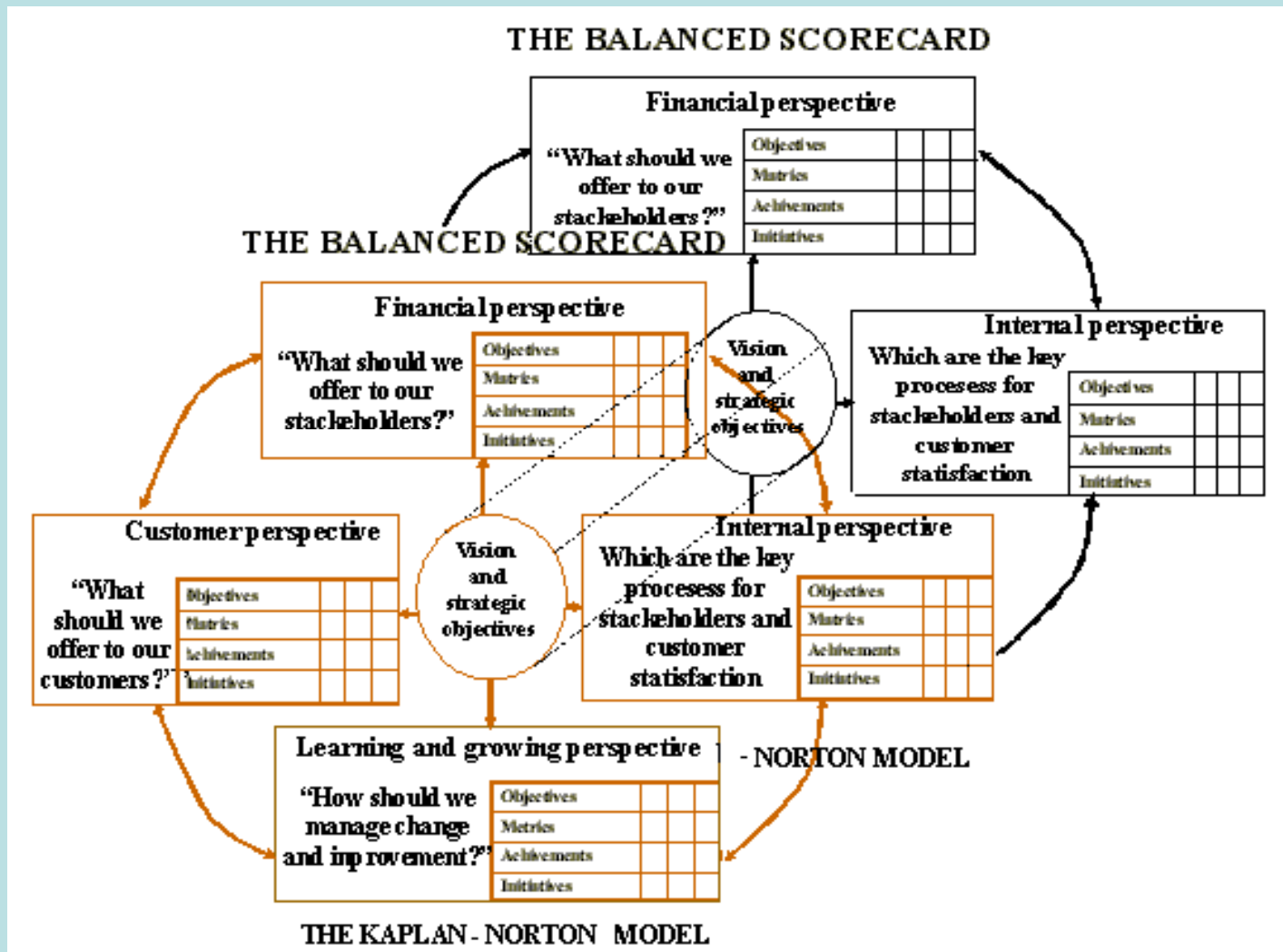
ECR Framework



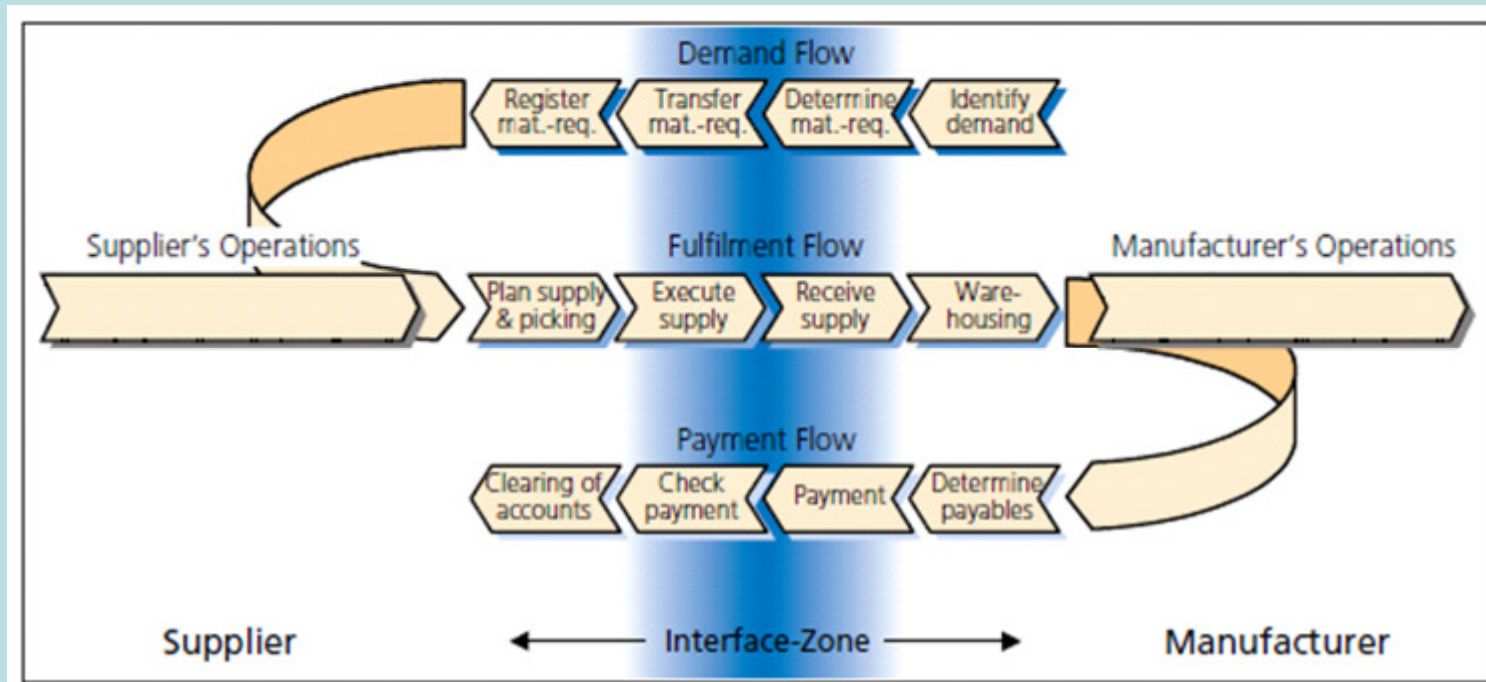
ECR Europe, 1996



Alliance Balanced Scorecard

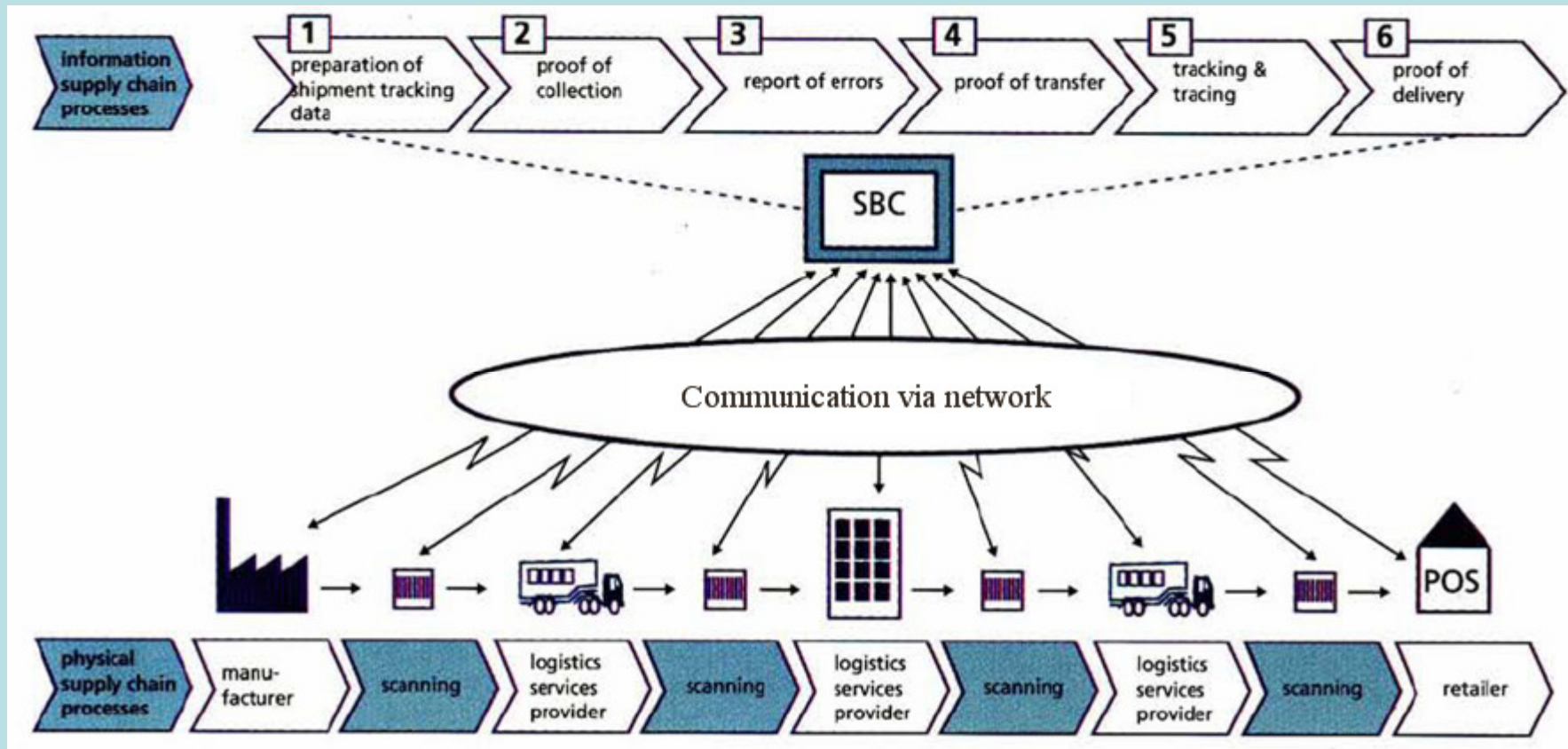


Integrated suppliers



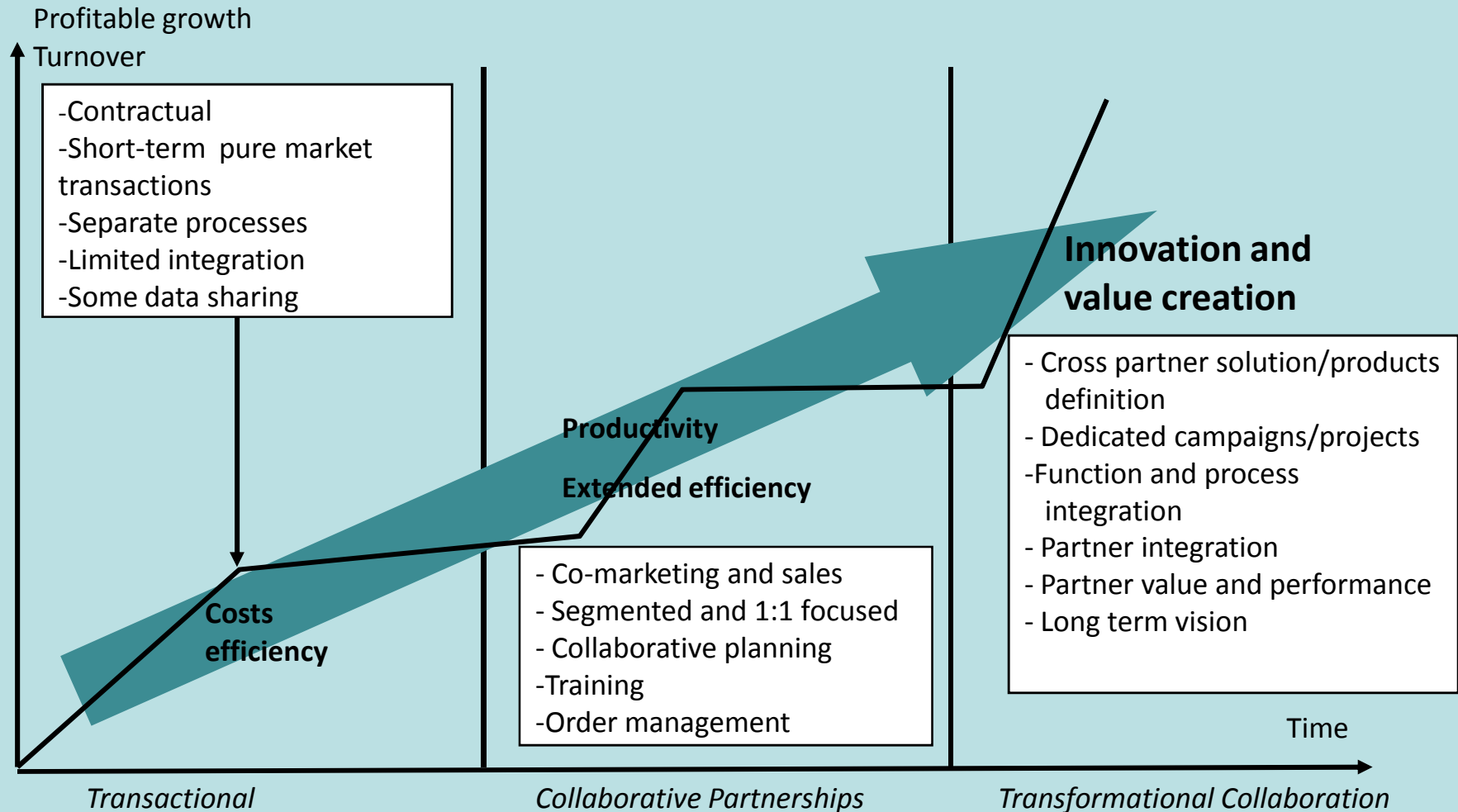
Source: ECR Europe, *Integrated Suppliers Report, 2000*

Supply networks



Source: ECR Europe, Integrated Suppliers Report, 2000

Collaborative relationships-partnerships



Atos Origin and IDC, Achieving Collaborative Excellence in the Consumer Products Value Chain, 2006

THE INFLECTION POINT

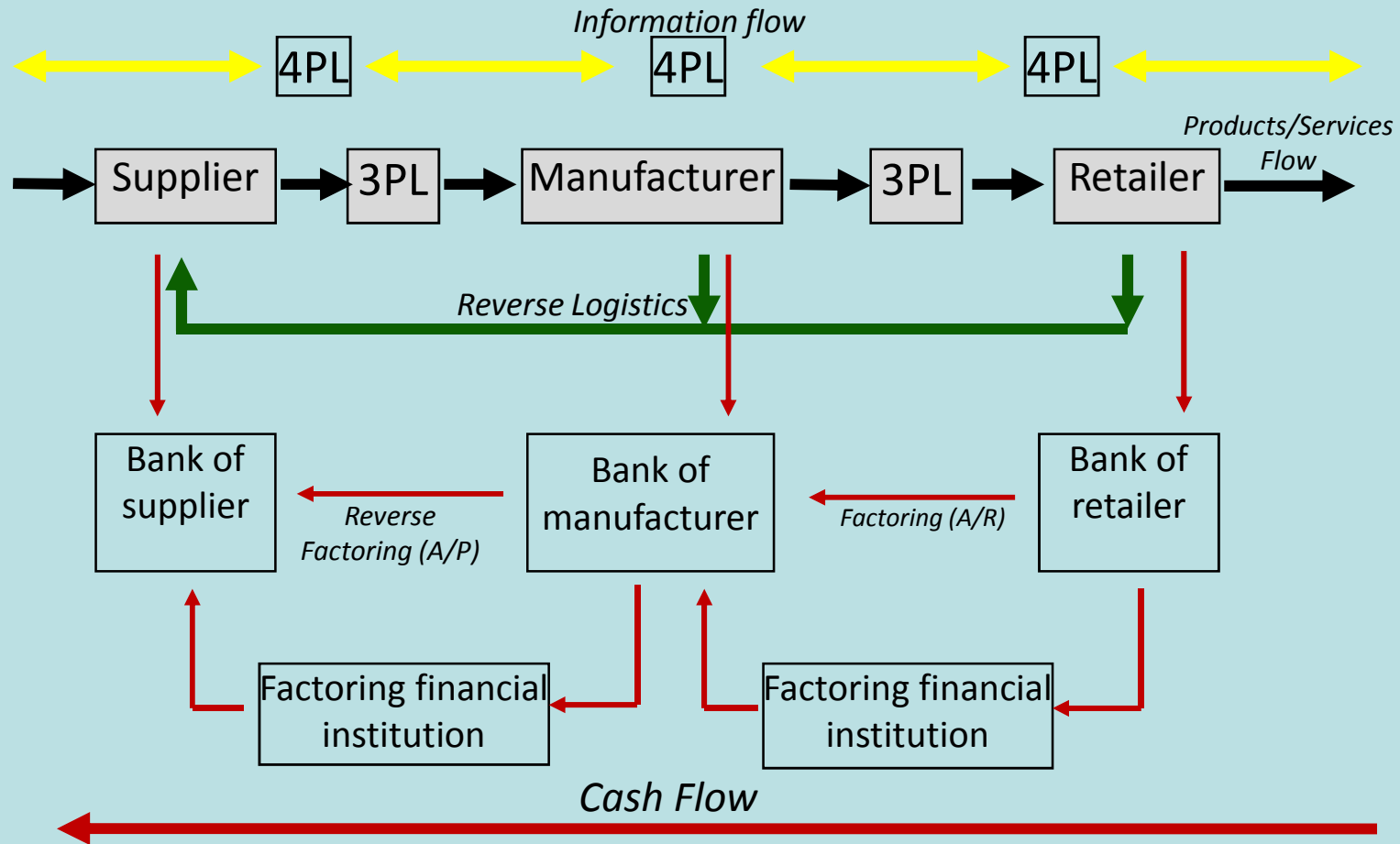
“A strategic inflection point is a time in the life of a business when its fundamentals are about to change. They are the result of an event which changes the way we think or act . . .”

Andy Grove, Chairman Intel



Financial Supply Chain Management

Working All Together (WAT) for Supply Chain Excellence



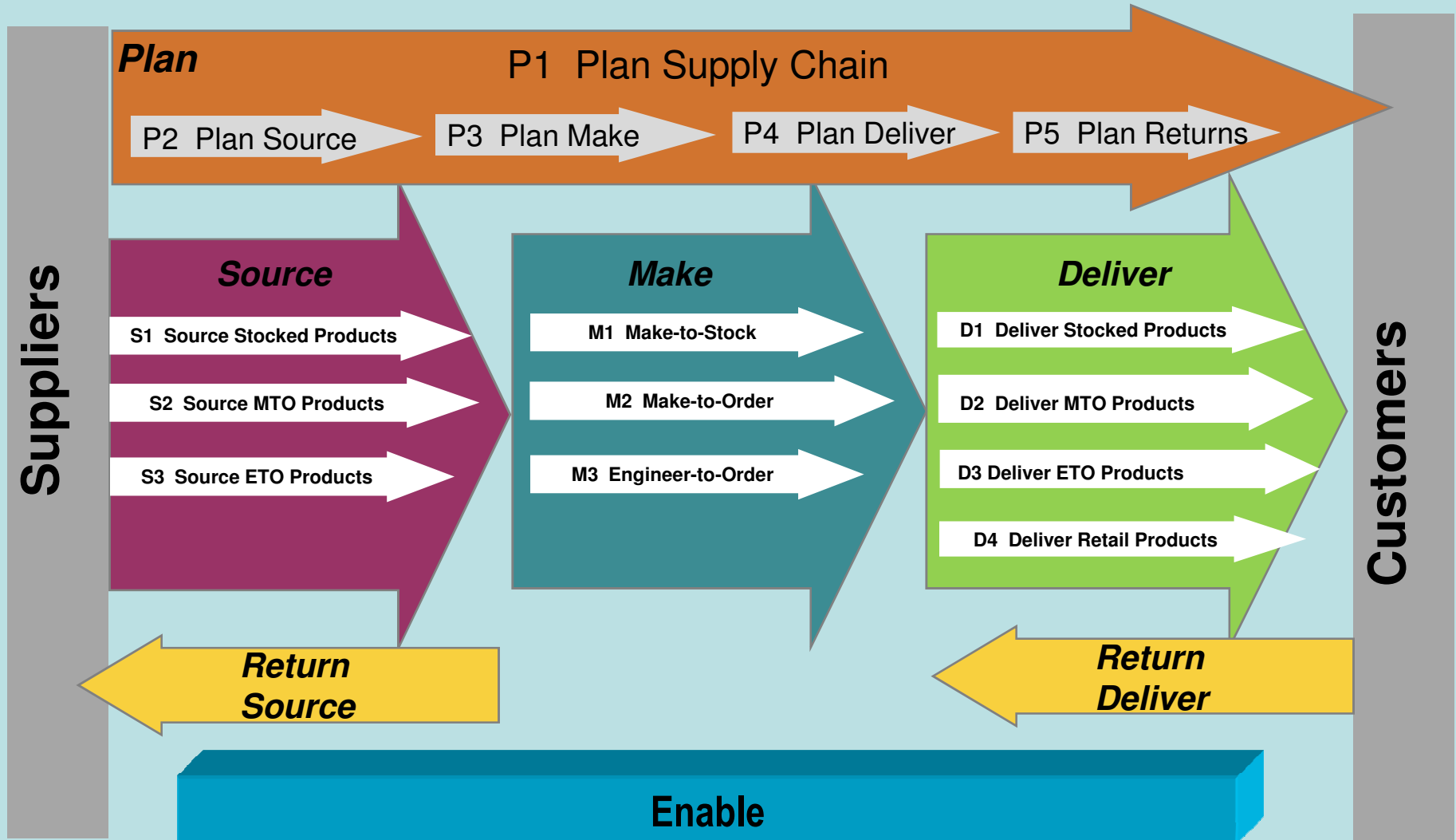
Definitions of Financial Supply Chain Management (FSCM)

1 - The financial supply chain parallels the physical or materials supply chain and represents all transaction activities related to the flow of cash from the customer's initial order through reconciliation and payment to the seller [Killen & Associates (2001)]

2 - The financial supply chain “a range of B-to-B trade-related intra- and inter-company financial transaction-based functions and processes begin before buyers and suppliers establish contact and proceed beyond the settlement process.” [The Aberdeen Group]

Our definition - Financial Supply Chain Management (FSCM) is the holistic and comprehensive planning and controlling of all financial processes which are relevant within a company and for communication with other enterprises.

Supply-Chain Operations Reference-model (SCOR)

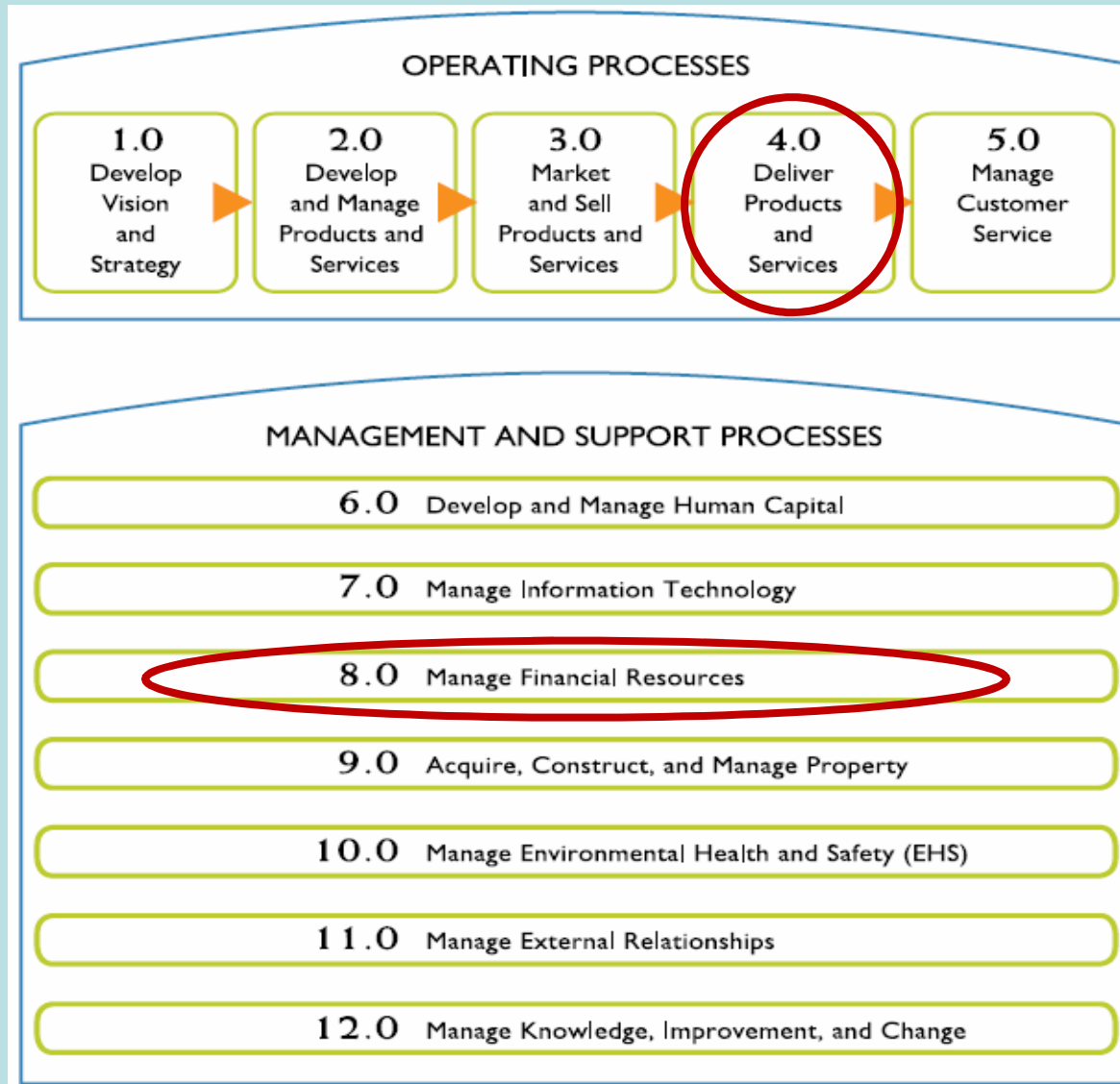


Source: Supply Chain Council

PLAN →	SOURCE →	MAKE →	DELIVER →
1.1. Supply Chain Planning 1.2. Supply/Demand Alignment 1.3. Inventory Management	2.1. Strategic Sourcing 2.2. Supplier Management 2.3. Purchasing 2.4. Inbound material Management	3.1. Product Engineering 3.2. Partnership and Collaboration 3.3. Product or Service Customization 3.4. Manufacturing Process 3.5. Lean Management 3.6. Make Infrastructure 3.7. Support Process	4.1. Order Management 4.2. Warehousing/ Fulfillment 4.3. Customization/ Postponement 4.4. Deliver Infrastructure 4.5. Transport 4.6. E-Commerce Delivery 4.7. Managing Clint/Customer partnership 4.8. post-Sales Technical Support 4.9. Customer Data Management
← RETURN			
5.1 Receiving and Warehousing 5.2. Transport 5.3. Repair and Refurbishment		5.4. Communicate 5.5. Manage Customer Expectations	
ENABLE			
6.1. Strategy and Leadership 6.2. Competitive Benchmarking 6.3. Product/Service innovation	6.4. Product/Service Data Management 6.5. Process Viability and Control	6.6. Measurement 6.7. Technology 6.8. Business Management	6.9. Quality 6.10. Security 6.11. Industry Standards

Source: Council of Supply Chain Management Professionals

The Process Classification Framework



Source: APQC (American Productivity and Quality Center)

4. Deliver Products and Services

4.1 Plan for and acquire necessary resources (Supply Chain Planning)

4.2 Procure materials and services

4.3 Produce/Manufacture/Deliver product

4.4 Deliver service to customer

4.5 Manage logistics and warehousing

8. Manage Financial Resources

8.1 Perform planning and management accounting

8.2 Perform revenue accounting

8.3 Perform general accounting and reporting

8.4 Manage fixed-asset project accounting

8.5 Process payroll

8.6 Process accounts payable and expense reimbursements

8.7 Manage treasury operations

8.8 Manage internal controls

8.9 Manage taxes

8.10 Manage international funds/consolidation

8.2.3 Process accounts receivable (AR)

- 8.2.3.1 Establish AR policies
- 8.2.3.2 Receive/deposit customer payments
- 8.2.3.3 Apply cash remittances
- 8.2.3.4 Prepare AR reports
- 8.2.3.5 Post AR activity to the general ledger

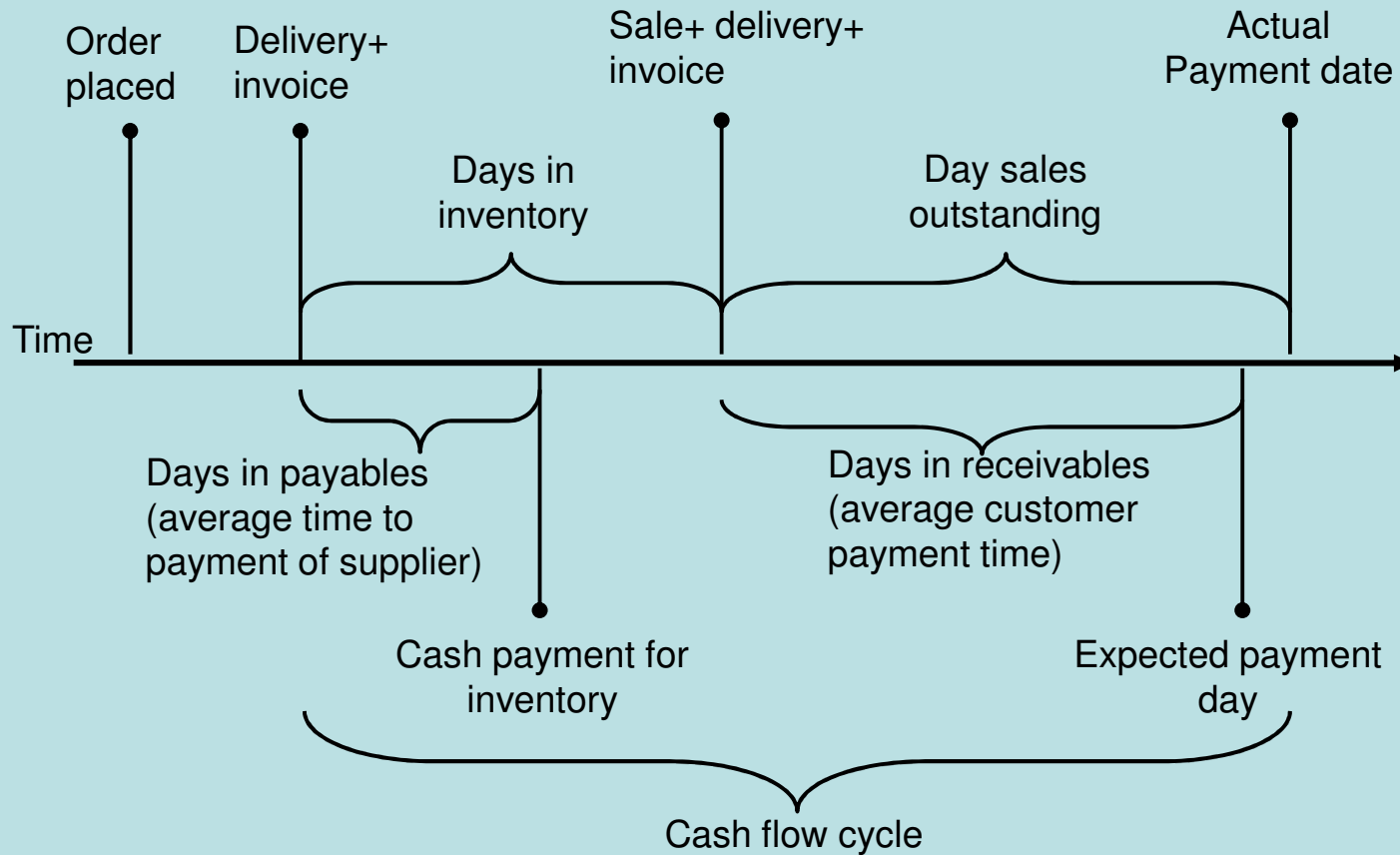
8.6.1 Process accounts payable (AP)

- 8.6.1.1 Verify AP pay file with PO vendor master file
- 8.6.1.2 Maintain/manage electronic commerce
- 8.6.1.3 Audit invoices and key data in AP system
- 8.6.1.4 Approve payments
- 8.6.1.5 Process financial accruals and reversals
- 8.6.1.6 Process taxes
- 8.6.1.7 Research/resolve exceptions
- 8.6.1.8 Process payments
- 8.6.1.9 Respond to AP inquiries
- 8.6.1.10 Retain records
- 8.6.1.11 Adjust accounting records

8.7.2 Manage cash

- 8.7.2.1 Manage and reconcile cash positions
- 8.7.2.2 Manage cash equivalents
- 8.7.2.3 Process and oversee electronic fund transfers (EFTs)
- 8.7.2.4 Develop cash flow forecasts
- 8.7.2.5 Manage cash flows
- 8.7.2.6 Produce cash management accounting transactions and reports
- 8.7.2.7 Manage and oversee banking relationships
- 8.7.2.8 Analyze, negotiate, resolve, and confirm bank fees

The cash flow cycle of FSCM

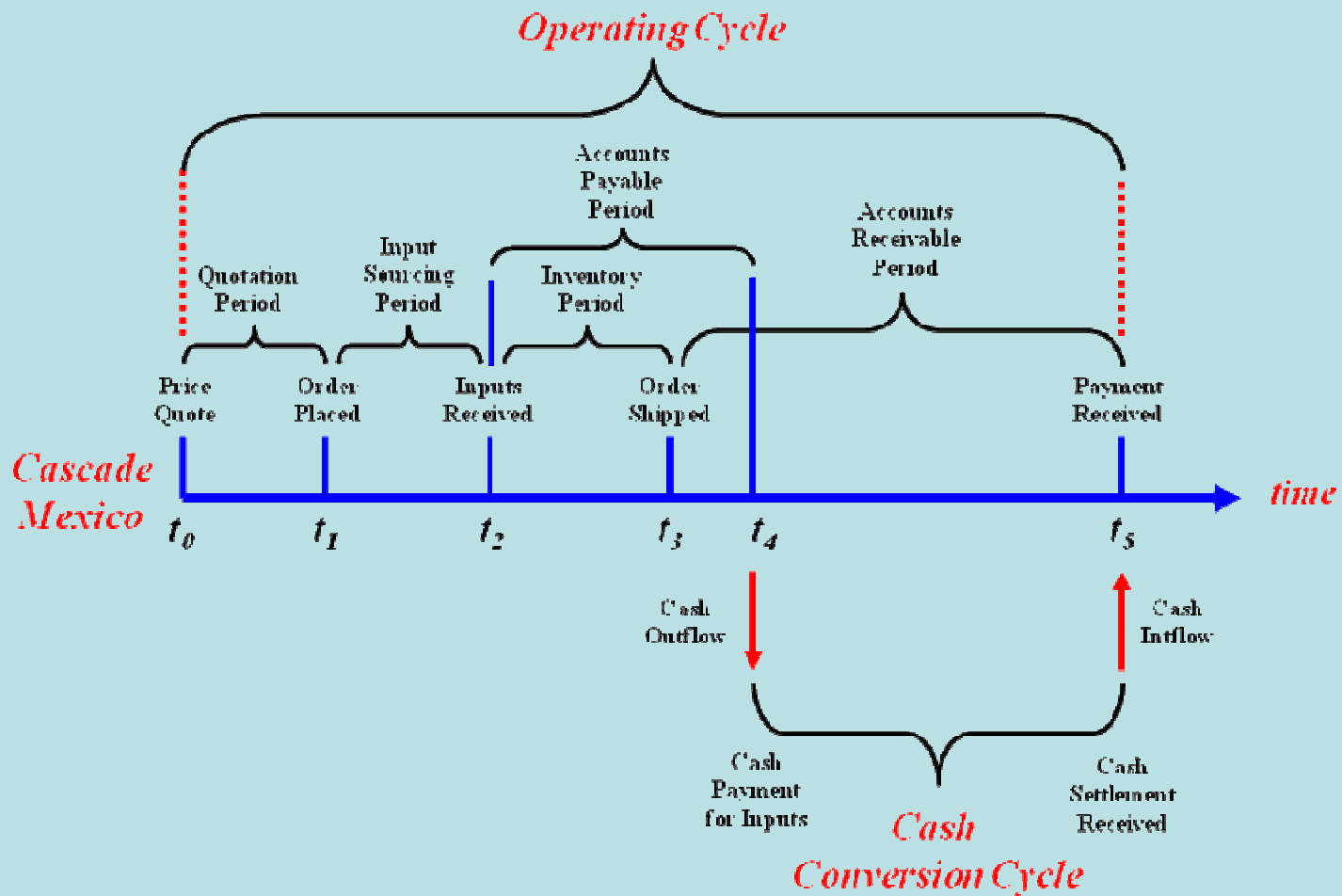


Source: Juergen Bernd Weiss, QFinance

The order-to-cash process includes, from the perspective of a supplier (or creditor), the following business process steps:

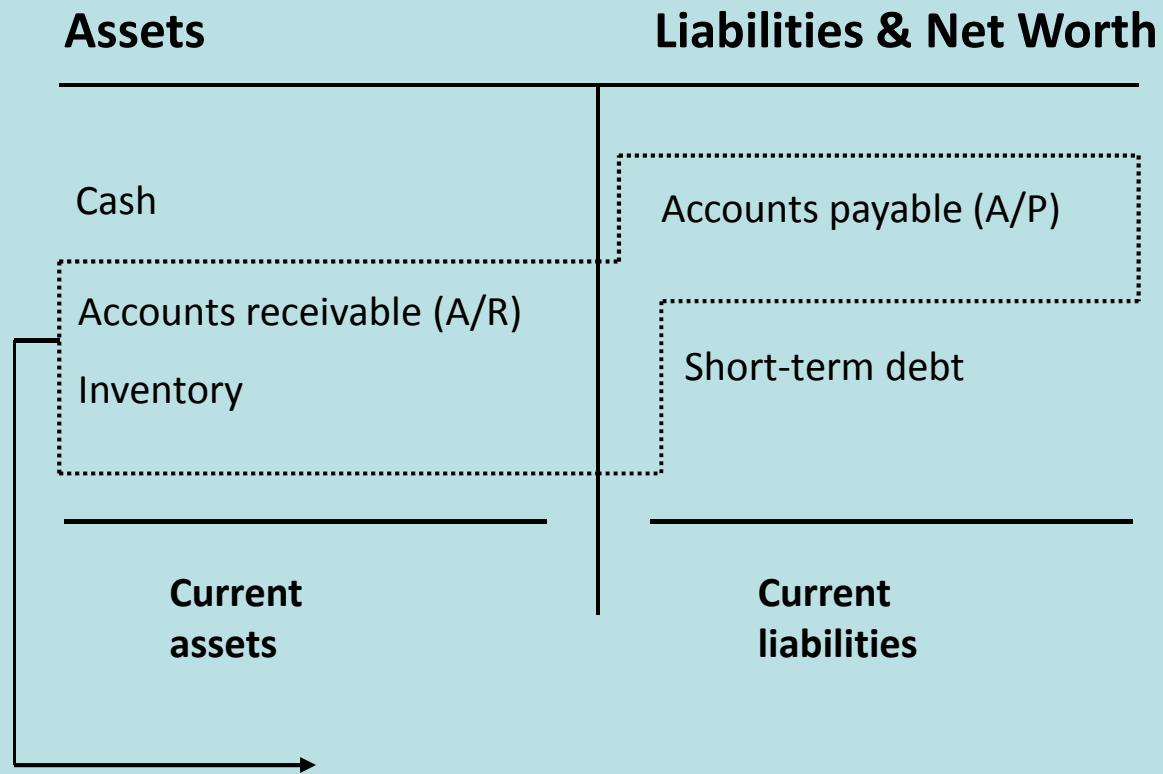
1. Creditworthiness check;
2. Invoice creation;
3. Cash forecast.;
4. Financing of working capital;
5. Processing of dispute cases;
6. Cash collection;
7. Settlement and payment;
8. Account reconciliation.

Operating and Cash Cycles for Cascade Mexico



Working Capital Management in the MNE – Pearson Addison-Wesley, 2004

The Balance Sheet with Net Working Capital (NWC)



Working Capital Management in the MNE – Pearson Addison-Wesley, 2004

These components make up *net working capital* (NWC):

$$\text{NWC} = (\text{A/R} + \text{inventory}) - (\text{A/P})$$

Essential Indicators of FSCM

1. Days Inventory Outstanding: $\text{Inventory}/(\text{total revenue}/365)$ - **DIO: *Year-end inventory plus LIFO reserve, divided by one day of average revenue.*** A decrease is an improvement, an increase a deterioration.

2. Days Payables Outstanding: $\text{AP}/(\text{total revenue}/365)$ - **DPO: *Year-end trade payables divided by one day of average revenue.*** An increase in DPO is an improvement, a decrease a deterioration. For purposes of the survey, payables exclude accrued expenses.

3. Days Sales Outstanding: $\text{AR}/(\text{total revenue}/365)$ - **DSO: *Year-end trade receivables net of allowance for doubtful accounts, plus financial receivables, divided by one day of average revenue.*** A decrease in DSO represents an improvement, an increase a deterioration.

4. Days Working Capital: $(\text{AR} + \text{inventory} - \text{AP})/(\text{total revenue}/365)$ - **DWC: *Year-end net working capital (trade receivables plus inventory, minus AP) divided by one day of average revenue.*** The lower the number of days is, the better. The percentage change is marked N/M (not meaningful) if DWC moved from a positive to a negative number or vice versa.

The commercial relationship

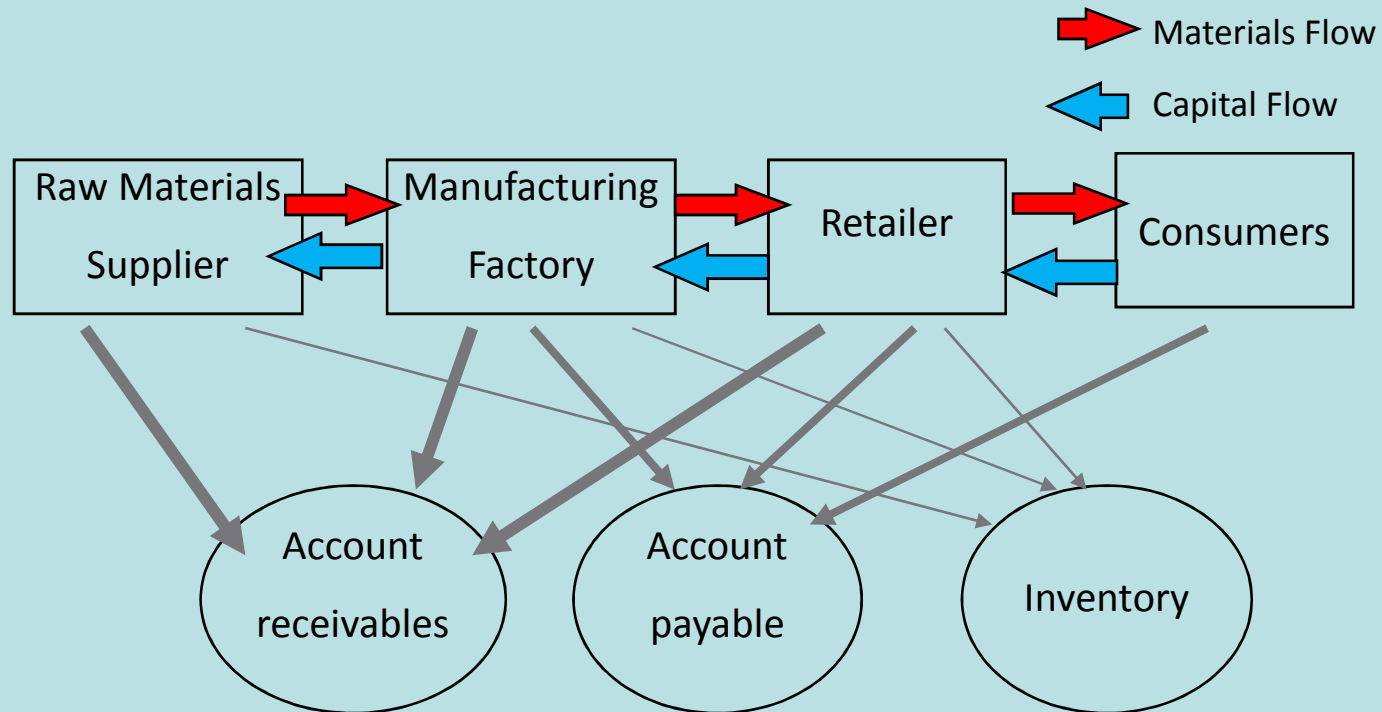
The commercial relationships between economic agents open the possibility of a mutual credit relationships, also called commercial credit, that can appear when selling the merchandise, as the delay of payment or when buying the raw materials and necessary materials for producing the goods.

A recommended solution: Factoring

Factoring classic and normal financial collaboration between manufacturer-retailer is made by commercial credit.

Factoring is a new comprehensive finance business including commerce financing, credit survey, receivables administration and credit risk guarantee.

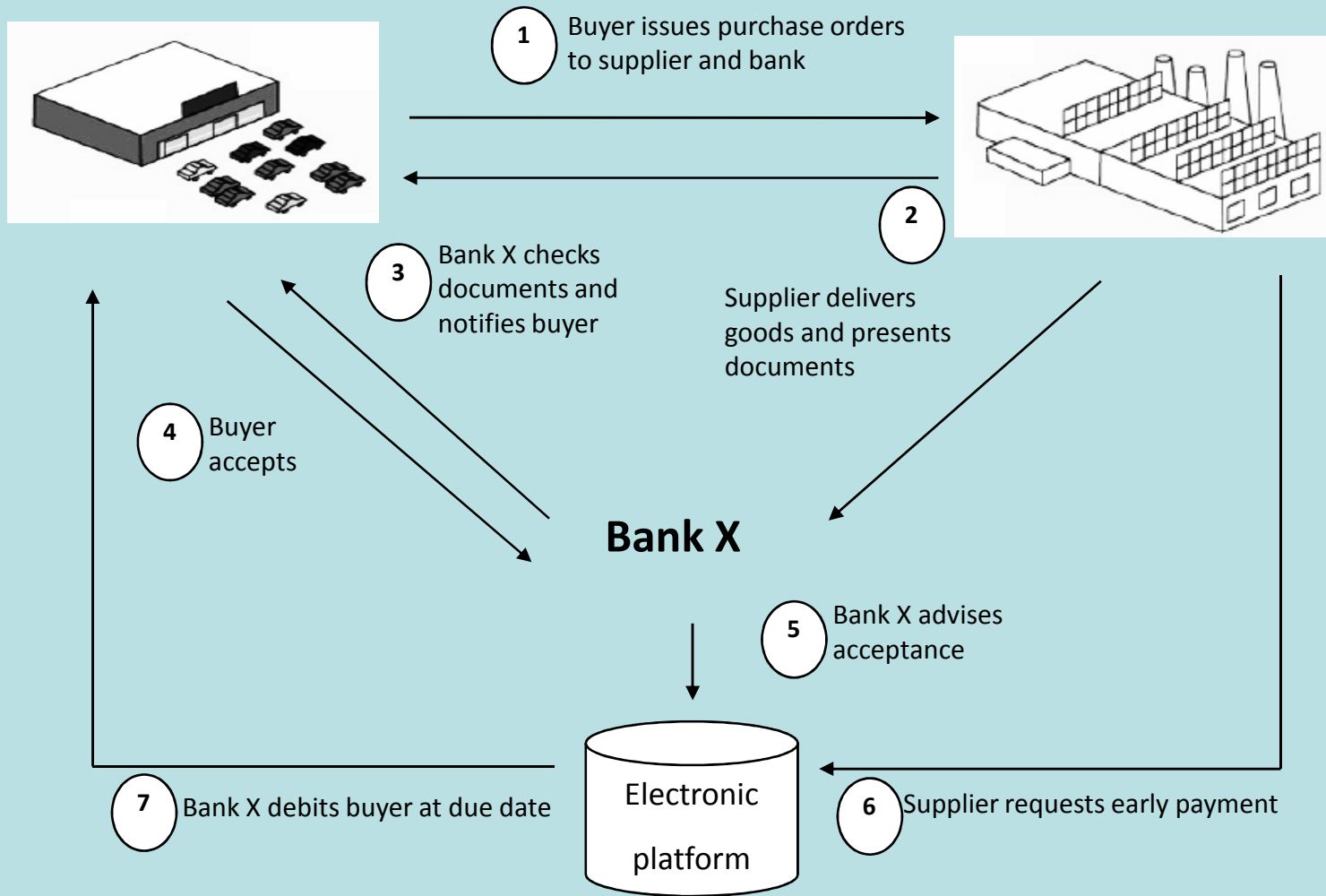
Typical supply chain financing request



A new solution for the win-win approach is:

Reverse Factoring

As the name reveals, reverse factoring solutions are based on factoring – a transaction in which suppliers sell receivables to factors for immediate cash



Source: SEIFERT, Ralf; SEIFERT, Daniel: **Financing the chain** - ECR Journal, Volume 10, No. 1, Spring 2011

**We have some
advices!**

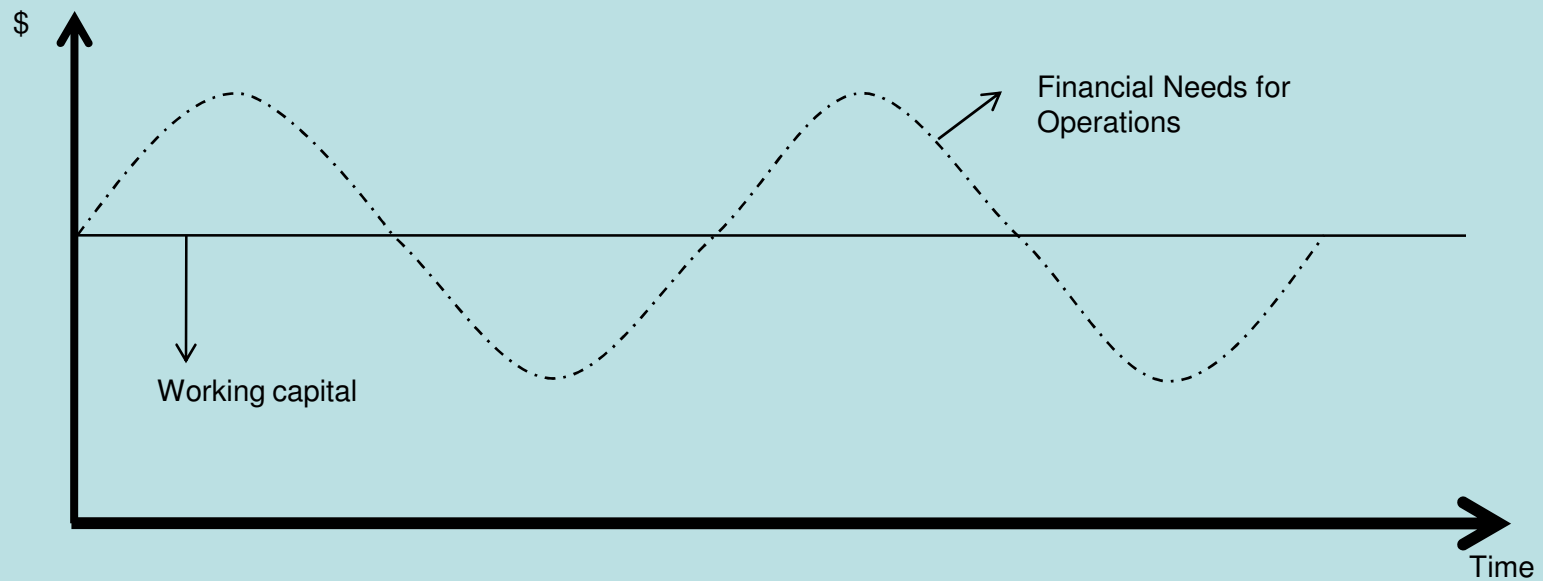
Strategic objectives and supply chain measurement indicators (SCOR Model)

Performance Attribute	Performance Attribute Definition	SCOR Level 1 Metric
Delivery Reliability	Supply Chain performance in delivering <ul style="list-style-type: none"> - The correct product - to the correct place and the correct customer - at the correct time - in perfect condition and packaging - in the correct quantity - with the correct documentation 	<ul style="list-style-type: none"> • Delivery performance • Fill rate • Perfect order fulfillment
Responsiveness	How quickly a supply chain delivers products to the customer	<ul style="list-style-type: none"> • Order fulfillment lead time
Flexibility	How quickly a supply chain responds to marketplace changes; agility In gaining or maintaining a competitive edge	<ul style="list-style-type: none"> • Supply chain response time • Production flexibility
Cost	The costs associated with operating the supply chain	<ul style="list-style-type: none"> • Cost of goods sold • Total supply chain management cost • Value added productivity • Warranty/returns processing cost
Asset Management	How effectively a company manages assets to satisfy demand. Includes fixed assets and working capital	<ul style="list-style-type: none"> • Cash-to-cash cycle time • Inventory days of supply • Asset turns

Source: Supply Chain Operations Reference – Model, Supply Chain Council

Financial needs for operation:

$$\text{FNO} = \text{Cash} + \text{A/R} + \text{I} - \text{A/P}$$



Other advantages

For the Retailer

- Wining an image in front of his clients offering fresh products always;
- The increase of the products rotation speed;
- Reducing the stocks in the store;
- Reducing or maybe even eliminating the lost.

For the Seller

- The repartition of production capacities on the whole duration of the day. In this way it is eliminated the augmentation of work time in the morning. In addition you can use production capacities thus released to serve new customers;

- Largest rotation of its products;
- Reduce or eliminate returns;
- Financial savings.

So the Supply Chain works: there is no out-of-stock, for witch both organizations can be responsible. The optimal shelf availability is guaranteed for the shopper/consumer. that increases shopper satisfaction at the moment of truth.

Good Practices in Romania and Community acquis

The Directive 2000/35/EC was transposed by the Government Emergency Ordinance regarding measures to combat late payment obligations resulting from the execution of commercial contracts, adopted in 24 October 2007.

A new directive adopted by EU in 24 January 2011, replacing the old previously mentioned that, if the payment due date or time is not set in the contract, the creditor is entitled to charge the interest on late payments after 30 calendar days from the date of invoice or an equivalent request for payment. As a general rule for businesses, the payment deadline specified in the contract should not exceed 60 days.

CONCLUSION

In crisis situations it is recommended the rescheduling of invoice payment and an alliance between the two organizations. It is more difficult for an organization to sell the credit to a recovering firm. Also, recovering the debts can be easily made by negotiating. The measures against firms with debts also consider the cash flow of the company requesting the payment and the one of the paying company. The way the rescheduling is made depends on the invoice value and how much the paying company represents from the business of the other company. If the company in debt is an important client, buying 15-20% from the products, it is more necessary to rescheduling the payment.

*Thank you for your
attention!*