The Future of Supply Chain Management is Both Global and Local

by Sebastian Hölker, Head of Innovative Trade Products, UniCredit

Many assume that globalised supply chains come hand-in-hand with the centralisation of management processes. But this doesn't make sense for all aspects of the supply chain, and in a globalised economy, local expertise is increasingly important and each supply chain needs to be approached according to their individual characteristics, argues Sebastian Hölker, Head of Innovative Trade Products at UniCredit.

There is no doubt that globalised supply chains have created a huge amount of efficiency for companies worldwide. For many, perhaps the natural next step would be centralisation by consolidating the control of similar processes in a single location. Indeed, already many such processes – such as cash management and IT infrastructure – have been centralised to good effect by forward-thinking companies.

But other elements equally important to supply chain managers – such as national regulation and rules governing important financial aspects such as credit risk analysis – are proving more difficult to centralise on account of their regional nuances. In our view, it is increasingly important that companies do not lose sight of the value of local expertise for these components. In fact, we believe that the most effective strategies of the next few years will be carried out by supply chain managers who leverage local expertise while building their international supply chains.

Some centralisation is beneficial

In some cases, banks may suggest that centralisation is the natural next step in an efficient, global supply chain – indeed, some banks even tell their clients that the most efficient solution is one run by a single bank. Of course, corporates can see that there are some benefits in rationalising their banking relationships, but the banking crises have revealed that doing business with one bank alone can expose firms to an unnecessary level of risk concentration. As such, the diversification of banking relationships is pursued by many businesses for good reason.

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But even in terms of efficiency, we argue that one single bank is not always capable of providing the best solutions for every aspect of a modern multinational firm's global supply chain. In our view, supply chains can be broadly split up into five flows: goods, money, rights, risk and information. Taken together, there isn't a single solution for all of these components – nor should there be. But there are efficient, centralised, global management systems for some.

For instance, logistics providers like DHL and UPS had become so efficient that until a few years ago, international freight often arrived before the money intended to pay for it - even if dispatched simultaneously. While this sounds somewhat embarrassing for banking providers, it means that centralised logistics management is a practical and efficient way to oversee a company's flow of goods.

Meanwhile, the flow of money around the world is increasingly commoditised and the barriers to trade – even in countries like China – ever easier to overcome. Again, this makes the consolidation of cash management processes relatively straightforward.

Local knowledge remains crucial

While the management of goods and money flows are becoming ever more centralised, we believe the opposite is happening in other flows in global supply chains, such as the flow of risk. Indeed, judging a debtor's credit risk requires intimate knowledge of their business practices, and this is best done locally for a number of reasons.

Firstly, local partners are far more likely to have long-standing relationships as well as the required documentation – such as Know Your Customer certificates – in place. Moreover, the regulatory treatment of credit risk differs markedly from country to country, even within Europe.

It is true that the Basel accords have given Europe a certain amount of harmonisation in this respect, but individual states are still granted significant leeway in how they follow the guidelines. Taken together, these factors make it difficult to accurately assess the credit risk presented by a corporate in another country without hitting a number of buffers. And that will have an impact on pricing.

Similarly, the regulatory standards for purchasing receivables can be very different from one country to another. In some countries, like Germany, there are few requirements and the process can be relatively freely designed by the parties involved. In others, like Italy, far more formalised standards are in place. Knowledge of each, specific, legal system is crucial to execute the process efficiently. Rather than considering these local variations a nuisance, forward-looking corporates should build partnerships with banks that are able to leverage their local expertise to overcome local challenges.

And these differences can even extend to cultural peculiarities – another area in which local know-how can help to grease the gears of business. Even within Europe – a relatively small geographic area – the disparities in business conventions can be huge from region to region and country to country.

At UniCredit, our clients in France, Germany and Spain often ask us for help in dealing with their partners in Central and Eastern Europe – areas in which our large footprint is very useful. We rely on our local colleagues to know the issues that regional businesses face – eliminating uncertainty and providing for better results on both sides of the transaction.

Leveraging local expertise with international systems

By these methods and others like them, local expertise can be leveraged in an international framework. We believe that this mindset will lead to the largest advances in supply chain finance practices over the next few years.

Indeed, specific products are being developed to work this way, like the Bank Payment Obligation (BPO). Using a BPO, banks can take risk from both exporters and importers by funding the deal: putting up the cash and paying the exporter to boost days payable outstanding for the importer.

This model allows banks with large networks of correspondent banks, like UniCredit, to finance their clients' side of the deal and ask a regional affiliate to take the other side. In this way, banks handle the cross-border part of a transaction and keep the bank-to-corporate relationship local. While the technology and distribution of information is shared globally, the actual credit risk analysis remains the domain of two local banks.

These developments work efficiently in an international context while accounting for local nuances – crucially, they do not pretend that all elements of a global supply chain can be handled from one central location. Even in today's efficient, globalised economy, it is clear that local expertise can be leveraged in new, innovative, ways to yield better results. ■

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Sebastian is responsible for Global Trade & Supply Chain Finance Innovative Products in Global Transaction Banking at UniCredit. He is responsible for the management, innovation and further development of innovative trade products offered by UniCredit worldwide. Additionally, he is responsible for structuring deals for trade and supply chain finance products in Germany and selected European countries. The portfolio puts special emphasis on the newest generation of both supplier-driven and buyer-driven supply chain finance programmes, which represent the major area of growth in global trade finance.

Before taking over this function, he led various national and international supply chain finance implementation projects within the GTB organisation of UniCredit, where he contributed to the structuring, implementation and marketing of integrated supply chain finance solutions.

Prior to entering the banking sector, Sebastian worked as a solicitor in an English law firm and as an in-house lawyer with a fund initiator. He uses his inter-disciplinary experience to apply both cash and trade banking solutions to the evolving needs of corporate clients and work with them to profit from product innovations.