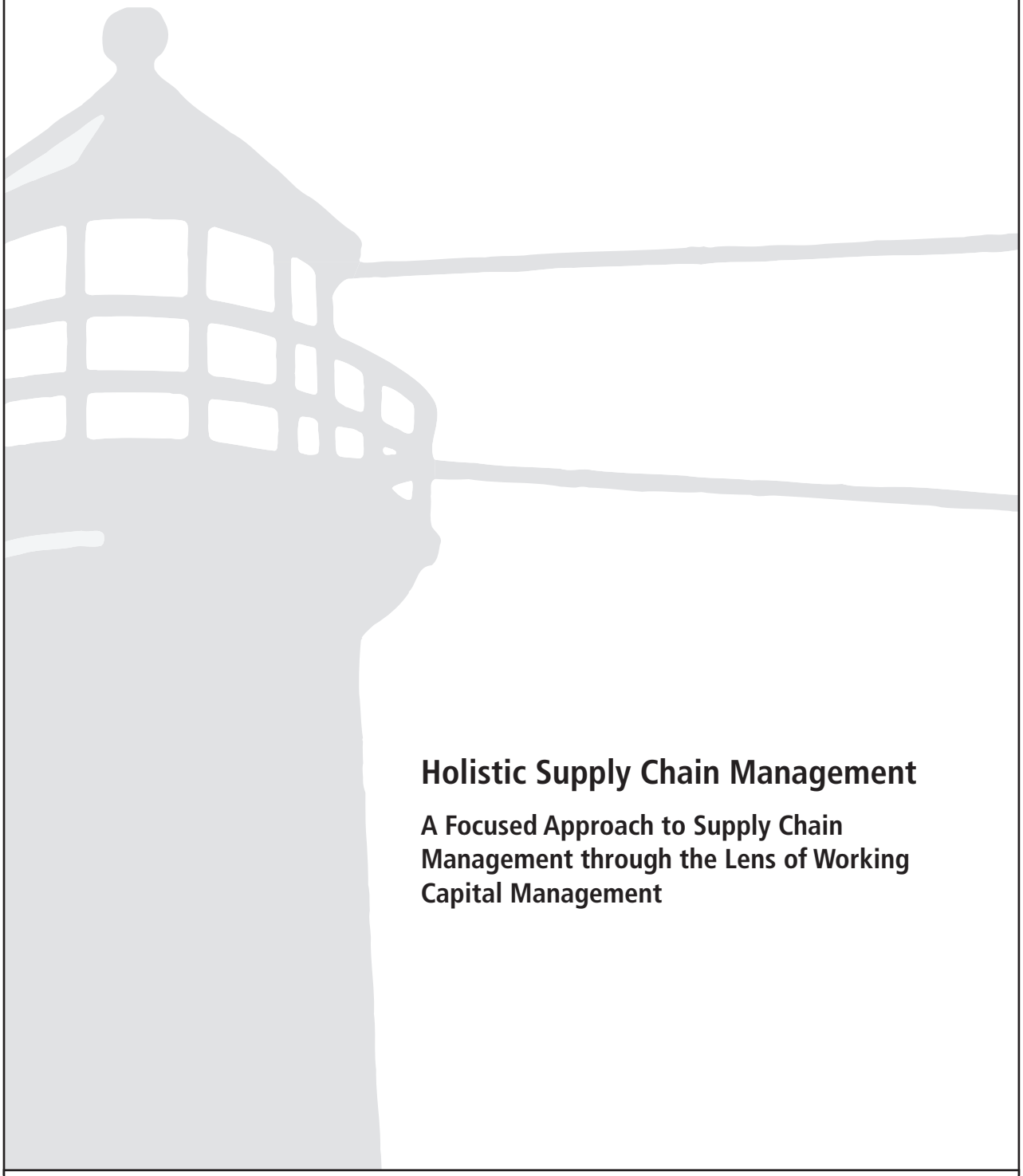


Holistic Supply Chain Management

A Focused Approach to Supply Chain Management through the Lens of Working Capital Management

GT NEXUS™

A GT Nexus White Paper

Executive Summary

There is a renewal of interest in the financial elements of supply chain management today. Businesses are using agile, cloud-based technology to optimize working capital and glean liquidity from improvements in supply chain activities.

Managers who were previously immersed in day-to-day operations are beginning to see their role in working capital management take on a new form. They are inspecting the different components of the cash conversion cycle and finding ways to free up cash in the supply chain — a responsibility once reserved for the CFO.

Working capital management has its roots in the cash conversion cycle because in the supply chain, the more quickly a company can convert purchases from its suppliers to cash from sales, the more quickly it can use that money to finance other operations. This is particularly important in a volatile economy or tight credit market, where sources of external financing are not guaranteed.

In a rapidly changing global trade environment, organizations must use cash wisely while remaining open to investments that support long-term prosperity — in technology, people, and infrastructure. Today, companies are illustrating the importance of a holistic approach to working capital management, embracing new technology while adapting workflow to meet the demands of an agile, global supply chain.

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Working Capital Management — New Rules, New People, New Tools

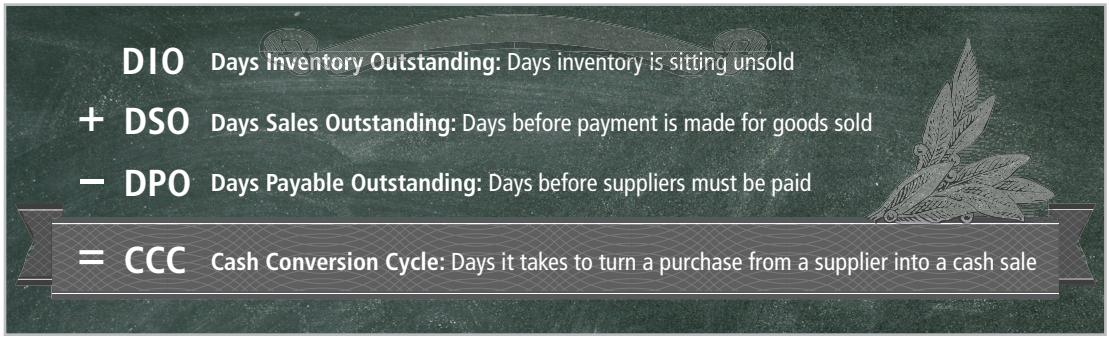
In a bullish economy, companies can rely on revenue streams and credit from financial institutions to fund their operations and investments. In a downturn, they must reign in spending and find internal sources of cash; extracting liquidity from managing working capital has become an increasingly popular way of accomplishing this.

Who Cares about Working Capital?
Managers in finance, logistics, and supply chain are coming up with new ideas to manage their working capital. Cloud technology providers are creating the tools to make their ideas a reality.

Now, the global trade environment is conducive to innovation. A residual air of caution from the most recent economic downturn has kept the spotlight on optimizing working capital, as analysts and investors put a higher premium on companies with greater liquidity. The CFO's role has become more strategic and shifted some of the responsibility for working capital to division managers in supply chain, finance, and logistics. Furthermore, the increasingly complex demands of global supply chains are encouraging companies to embrace the technology they need to view a clear picture of supply chain activity across their network of trading partners.

Managers are taking their knowledge of global logistics and their tools for increasing visibility into the supply chain and focusing on the most effective area for managing working capital: the cash conversion cycle. This measurement shows how efficiently a company uses its cash to run operations — from making purchases from suppliers to selling the finished goods to customers. Managers can deconstruct the parts of this equation to shorten the cycle and free up cash in the supply chain.

FIGURE 1: Working Capital 101



Strategy: Reduce Days Inventory Outstanding (DIO)



How many days is inventory sitting in the supply chain from the point at which it's purchased from a supplier to the day it's sold to a customer?

TACTIC **Lower the amount of buffer stock needed to maintain customer service levels.**

Buffer stock can help guard against stockouts, poor customer service, and the need for costly expedited air freight to meet demand.

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However, by increasing visibility into inventory moving along the supply chain, a company can lower the amount of goods it keeps on hand for emergencies.

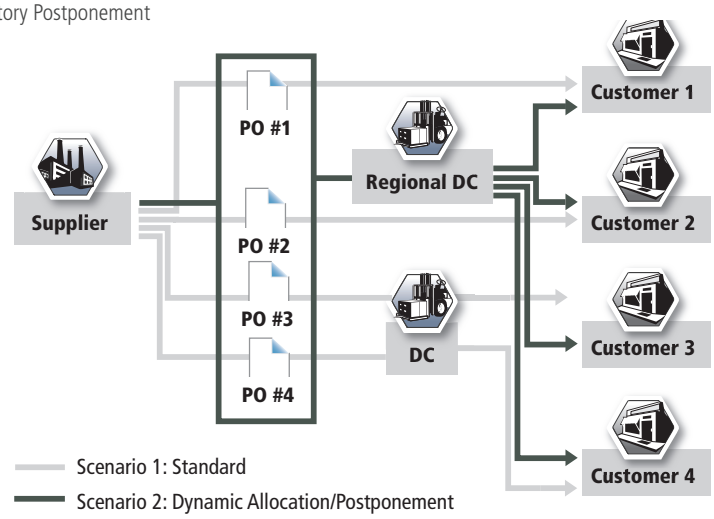
- Use a supply chain platform that provides full visibility into in-transit and on-hand items to improve the accuracy of inventory counts and reduce unnecessary orders.
- Look at real-time transit data and make reallocation decisions based on current demand — before the point at which costs of freight skyrocket.

TACTIC Use inventory postponement to reduce cost of goods sold (COGS).

Companies can improve goods first cost — in other words, the actual supply cost before the goods are moved through the supply chain and into stores — by concentrating orders with suppliers, moving them to a regional warehouse and allocating smaller shipments to the final destinations.

- Use software that provides real-time logistics data to choose the best route for your manufacturing and retail footprint.
- Order in larger quantities from suppliers to save in sourcing costs; this reduces cost of goods sold, therefore bringing down the overall days inventory outstanding.[1]

FIGURE 2: Inventory Postponement



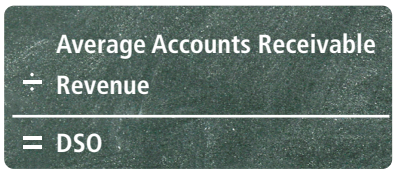
OPPORTUNITY Reduce COGS by shifting the burden of supply chain costs.

Isolate supply chain costs from components that go into a supplier's calculation of the first cost, which includes costs it incurs to move, package, and get paid for goods sold to its customer. If the customer is larger and has better buying power than the supplier, the customer can take on the responsibility for these costs and reduce overall COGS.

[1] In the simplified equation above, it appears that reducing COGS will increase DIO. However, typically a reduction in COGS will reduce the average inventory balance by a greater proportion, thus reducing overall DIO.

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Strategy: Reduce Days Sales Outstanding (DSO)



How many days does it take to turn materials from suppliers into cash from sales?

TACTIC Use a collaborative platform for shipment planning and execution.

Technology is playing a huge role in managing shipments, especially in the execution stage where visibility was non-existent with legacy ERP systems. Companies are relying less on past data and forecasted demand and more on real-time data — often using current information from stores and warehouses on sales and inventory.

- Use advanced shipment planning tools to ensure that inventory never sits idle after production.
- Monitor dynamic transit data to get shipments to customers more quickly, resulting in faster payment.
- Share updated data from stores across a network of supply chain partners, adjusting shipment plans accordingly.

TACTIC Get cleaner, faster documentation in the cloud.

Automated, electronic documentation leads to shorter payment cycle times — invoices, bills of lading, and other documents can be generated electronically, leading to earlier verification and approval. Translation and reconciliation is done in the cloud, over the network, and not at the end of the spokes at each individual partner. Everything is updated and instantly visible over a company's approved trading partners, which accelerates payment and lowers DSO.

- Aim for 100% electronic documentation to expedite the payment process.
- Eliminate discrepancies that may cause banks and customers to delay payment with data standardization in the cloud.

OPPORTUNITY VAT Invoice Refund

Companies with local offices that buy from local suppliers may be subject to value added taxes (VAT). If a company exports goods to its customers or owns stores abroad, it is eligible for a VAT tax refund.

However, refunds can be delayed if a government tax authority identifies discrepancies in the invoice documentation. This can tie up cash in the supply chain that could be used elsewhere.

By using a cloud-based platform that generates documents from a single data repository, a company can remove discrepancies as a cause for delayed VAT refunds. The sooner a tax refund arrives in a company's account, the sooner cash is freed up in the supply chain.

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Strategy: Increase Days Payable Outstanding (DPO)

Average Accounts Payable
÷ COGS
= DPO

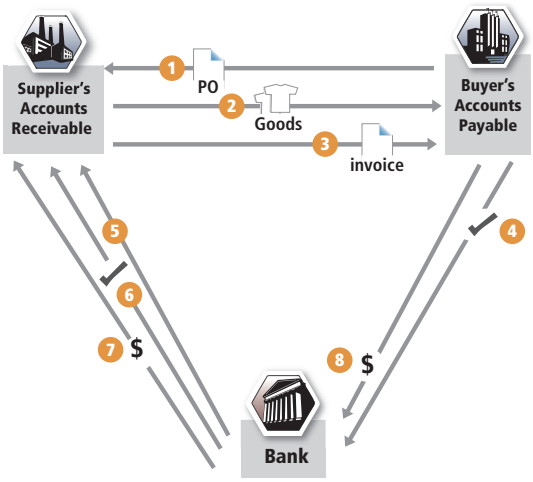
How many days does it take to pay suppliers for purchased goods?

✓ TACTIC **Improve and automate supply chain finance.**

Buyers who want to employ a holistic approach to supply chain management must do more than stretch payment terms to the limit. Eventually, extended payment terms cause suppliers to suffer, weakening the overall supply chain infrastructure. An alternative to the traditional way of increasing days payable is to employ a supply chain finance strategy that allows suppliers to get early financing through their buyers' relationships.

- Craft a supply chain finance strategy that benefits both the buyer and the seller.
- Leverage buyer credit ratings to extend better financing to smaller suppliers through bank-buyer relationships.
- Use a platform on which buyers, sellers, and banks can collaborate in a cloud environment.
- Streamline purchase-to-pay on the platform to avoid errors and obtain quicker financing.

FIGURE 3: Supply Chain Finance in Action: Sellers can leverage their buyers' stronger credit ratings to get financing based on buyer-approved invoices.



1. Buyer issues purchase order
2. Supplier delivers goods
3. Supplier invoices buyer
4. Buyer approves invoice for payment; sends confirmation
5. Supplier offered early payment discount
6. Supplier accepts early payment discount
7. Bank funds early payment
8. Buyer makes payment on original due date

Amazon's Negative Cash Conversion Cycle Defies the Norm

Online giant Amazon maintains a negative CCC. The company manages to hold inventory for only 30 days and receive payment within 10 days; it then pays payables in 54 days. Because Amazon sells online, it doesn't hold much inventory and often sends POs to suppliers after the customer pays with a credit card.

Not all companies can pull this off while keeping their suppliers satisfied and holding enough inventory to meet customer demand. However, those that can't operate with negative working capital can still keep in to a minimum by using supply chain finance software on a virtualized platform of trading partners.

Source: Forbes

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Supply Chain Improvement from Every Angle

Managers are choosing to focus on working capital optimization because it is comprehensive. A holistic plan encompasses all of the supply chain operating levers: inventory, receipts, and payments. Executives can set clear operating goals in each department, all of which will work towards the same solid objective — fewer days in the cash conversion cycle.

These working capital strategies can be propelled into action over a collaborative, cloud-based supply chain platform. The technology provides inventory visibility and in-transit data over the network while improving documentation and communication shared among trading partners. Transactions between banks, suppliers, and buyers happen instantly and accurately. Data quality is vastly improved, allowing for better measurement of progress against goals.

The result of this approach is a healthier financial position, a solid long-term management strategy, and a simple metric by which the company can measure the efficiency of its supply chain. In the increasingly complex and segmented global trade environment, a strategy that works across the board can be a priceless tool.

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