TREASURY AT A GLANCE

FIFTH THIRD BANK
The curious bank.

Don't Let the Weakest Link in Your Supply Chain Be Your Financial Supply Chain Management

No matter the size of your business, in all likelihood you rely on a supply chain. Keeping that physical supply chain running smoothly can be fraught with difficulty, particularly if vendors rely on a hodgepodge of accounts payables and receivables practices. All too frequently, businesses focus primarily on managing the relationship with key suppliers, leaving issues around the financial supply chain as an afterthought.

The transactions that take place between trading partners involving the purchase of goods and services, or more commonly known as the financial supply chain, present an excellent opportunity for you to free up working capital in support of strategic goals. With today's low returns on deposits, many companies are coming to recognize that managing cash flow more effectively and efficiently to reduce transaction costs is key to business growth and success.

A Holistic Approach is Key

Taking a holistic approach to financial supply chain management can enable you to dynamically offer cash to your suppliers, funded through liquidity from your banking partner. In this way, you can better utilize your cash flow for strategic initiatives, while also improving your market capitalization. At the same time, such an approach to financial supply chain management can open the door to a more closely coordinated relationship with key suppliers, allowing them to use a working capital exchange to eliminate reliance on traditional financing.

Self-Examination: The First Step in Developing an Effective Strategy

The first step in developing an effective financial supply chain management strategy is to evaluate your organization's needs and establish critical goals. Treasury and finance teams should start by taking an intellectually curious approach, asking critical questions, such as:

- □ How do we currently receive invoices?
- □ How do we pay our suppliers? Do we use check, ACH, or wire?
- □ What changes would our suppliers be willing to support?
- □ What are our payment terms today?
- □ How do we manage our balance sheet?
- □ What is our vendor policy?
- □ How can we access additional liquidity without adding debt? And how will this impact our organization's working capital?

Once armed with insights into both the buyer's and supplier's Accounts Receivable and Accounts Payable processes, the organization can begin to consider implementing the latest best practices, such as strategically combining purchasing card, dynamic discounting and supply chain finance solutions to meet important business objectives.

Moving Suppliers to Electronic Payment Tools: A Win-Win Scenario

Innovative new electronic payment tools are creating opportunities for tighter integration of buyer and supplier financial systems, creating a win-win scenario for the entire supply chain. A bank, such as Fifth Third Bank, can be an invaluable resource, helping your organization to optimize their financial supply chain.

Putting a net income strategy in place can create a highly flexible supplier environment. Tools, such as dynamic discounting, which improve Earnings Before Interest and Taxes (EBIT), can put excess cash reserves to work, allowing the business to shorten Days Payable Outstanding (DPO) and obtain discounts that improve net profit. A commercial card payment solution can also be used as part of a cash conversion strategy, putting a company's debt capacity to work, extending DPO and creating operational efficiencies.

A debt strategy that injects liquidity into the financial supply chain is another viable option for strengthening the supplier partnership. A supply chain finance solution can be used to extend DPO to cover inventory, allowing you to leverage a strong debt rating to support suppliers and relieve onerous payment term pressure. This would allow you to put cash reserves to more effective use in meeting working capital management objectives.

Finding the Right Solution Starts with the Right Bank

Putting the right financial supply chain solution in place to support your organization's overall treasury strategy starts with gaining a better understanding of your own AP and AR needs, as well as those of your suppliers. The right bank can help you examine your business processes and then work with you to tailor solutions that meet your specific financial supply chain management needs. Fifth Third continues to invest in innovative technologies that support taking a holistic approach, weighing net income, debt capacity and balance sheet needs in order to meet your working capital management needs, while improving the quality of supplier relationships.

To learn more about how a holistic approach to financial supply chain management can improve your supplier partnerships and free up liquidity, contact Fifth Third today.

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