

# Point of View Setting Up Payment Terms for Global Trade

As supply chain executives continue to leverage low-cost country strategies and manage relationships with manufacturers and distributors overseas, they will have to get creative with terms of trade to ensure predictable performance. It is difficult for small suppliers to change production plans and acquire the forward financing they need to serve today's supply chains. In a market where average order size is shrinking and order frequency is increasing, this challenge is going to get larger. Supply chain executives and Chief Financial Officers need to explore creative means to finance their supply chains to maximize return on investment and service.



## The Vision

**Think** stabilization. Think about providing production financing to smaller manufacturers and reducing the cost of goods sold (COGS) to drive your gross profit (GP). If the typical manufacturer can get market financing at 20% the value of an order, think of providing 5% short term financing and reducing COGS 10-15%. The benefit is both financial and operational.

Operationally, your supplier can improve their management of day-to-day production and allows for time needed for inspections and quality reviews. In an era when the make up and quality of globally sourced products need to be under heightened scrutiny, this is an important variable in managing your total global supply chain. By providing the financing, you improve the supplier's ability to respond to demand changes and production capacity challenges. You improve supply chain stability by eliminating a variable participant: the local bank. You increase supply chain visibility and controls by interacting more with your supplier.

## Getting From Here to There

Retail and Wholesale companies are excellent at fulfillment. They are organized, measured and aligned around acquiring product and moving it to a point of consumption. They are not global financial institutions that are set up to fund manufacturing and sourcing operations of small, foreign suppliers. Changing to take advantage of this opportunity will require an expansion of the financial organization's role in the buying process. It will also require you to look at the way you establish and manage your supplier relationships. Are your suppliers third parties with separate economic and operating objectives? Or are they an intricate part of your brand success and therefore, businesses that need to be supported to ensure your success?

## Conclusion

Global sourced product remains highly variable in quality, predictable delivery and production flexibility. Finding means to stabilize overseas suppliers by providing creative financing is one way you can improve your ability to meet demand and secure delivery on your brand promise.

## The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm. We are a leading provider of strategy and business consulting services to retail and consumer goods companies. We work with our clients to help them research and develop strategies, design improved processes and execute change. We specialize in integrating customer insights and multi-channel business models. If you would like to learn more about our vision or understand how you might take advantage of this strategy, contact us at:

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