Supporting the Supply Chain

"Stronger supply chain equals better products and services for the operator. It's now possible to deliver compliance, credit analytics, insurance and finance tools to SME firms in developing country supply chains."

Multinational Operators and Local Supply Chains

Mid-size and large operators, particularly in upstream Oil and Gas, often need to buy goods and services from local SME firms in the countries where they operate. Host governments often grant a license which requires the operator to spend significant sums with local firms (Local Content) to stimulate the host economy or face hefty fines. In other situations, only local firms have the capacity to supply the goods and services needed. In either case, the operator may be buying from hundreds of local firms which it must ensure are KYC compliant, of good standing and operate to a certain minimum standard in terms of quality, health and safety standards.

A responsible operator with a long horizon will want to go further: to make sure its own suppliers buy inputs which meet the operator's own quality standards and maybe even go as far as specifying exactly how the supply agreement is to be satisfied in terms of the quality and type of inputs to be used by the local supplier. This can result in the supplier facing higher input costs and need for more capital which it may not be well placed to find in the local market.

Data, Trading Tools and Efficiency

Buyers and sellers along a supply chain in developed and developing countries need finance and tools to manage compliance and credit risk. These products are all dependent on data supplied by large, global firms although that is changing as technology lowers barriers to entry with more firms using Fintech-led products and services, delivered on a SaaS basis at an attractive cost. The problem for SME firms from lesser developed countries acting as suppliers to big operators is having access to the products and services which first world suppliers take for granted.

Remarkable as it may sound, KYC / KYB compliance data, business reports and credit insurance are often available for lesser developed countries but typically not on an 'pay-as-you-go', integrated basis using a web browser. If SMEs in a supply chain could have access to such products and services, it would be a win-win situation not only for the supplier in the supply chain but also, indirectly, the operator.

The Solution

The Fintech sector has matured with hundreds of agile, highly-focused firms offering specific products and services for international trade at low cost. It is now possible to integrate multiple business-critical services (e.g. compliance, business reports, credit insurance and funding) into a 'full stack' service designed for international supply chains and delivered from a web browser. This includes:

- Compliance reports
- Credit reports
- Contract certainty
- Insurance against payment default
- Access to third party funding

It is obviously easier to do this for transactions in a supply chain between developed world firms operating in mature, sophisticated and competitive economies with data and financing products to match. However, there are at least 100 countries, big and small, where information, credit risk tools and third party capital can be accessed if there is a high grade end buyer such as a large Oil and Gas operator at the end of the supply chain. What is needed is to integrate individual elements and then to deliver them in an international supply chain context.

The idea could even go one step further and solve the dual problems of capital rationing and high interest costs which so often restrict the SME supplier: the operator itself, through its international treasury or lending conduit, could provide buyer credit financing to its supply chain partner to buy the goods and services needed to deliver under the supply agreement. The credit exposure could be insured and deliver the operator an adequate return on funds.

Who Pays?

The key question is who in the supply chain is going to design, build, deliver and pay for such a solution (platform)? One or more of the larger operators or the hundreds of small firms in the supply chain acting as a group? The economist’s theoretical answer would be unambiguous - the firm(s) who get the most benefit will want to pay.

For centuries, small businesses in the UK operated as ‘guilds’ (trade associations) undertaking centralised, bulk buying, sharing expertise, training and supply chains in order to be stronger and benefit from economies of scale. Elegant though that sounds, it would be impossible to persuade and organise tens, maybe hundreds, of SME firms who know not even about the existence of others in the supply chain to sign up to such an initiative.

Given the reluctance of governments to develop technology, the only remaining solution is for a group of operators to take the initiative. This could be on the basis of an open, industry-vertical marketplace model or a closed enterprise solution for one or a handful of operators on a cost sharing basis. To the extent that operators would be concerned about sharing details of its supply chain with potential competitors, opt-ins and permissions could be used to create private trading networks.

Although the idea sounds ambitious, the technology already exists. What is needed is the will and foresight from the larger operators at the end of supply chains to see the value for themselves and the whole ecosystem from sponsoring such an initiative.

Manu Duggal, Managing Director, EXIML Ltd.

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