

Channel Finance

(Eliminating cash risks of MNC's)



Generally a market place can be defined as “the place where the buyers and sellers meet to exchange goods and services.” In order to make an effective exchange of goods and services the seller must be responsive to customers needs. In today’s dynamic context the customers not only search for a high-quality product but also additional value-added services such as after-sales services, credit facilities, easy payment schemes etc... Speed of response to customer demand has long been recognized as a key attribute to business success since customer loyalty can be won or lost on product availability. With everyone implementing lean manufacturing philosophies, companies additionally need to become smart chain managers and ensure continuous improvement to stay competitive.

Information technology enables new ways of competition and coordination changing the ways in which individuals and organizations exchange goods and services. In this paper we critically examine how technology, competition and changes in the Unilever (SL), and Fonterra (SL) two of the leading multi-national companies operating in Sri Lanka are re-shaping the structure of exchange among buyers.

Unilever

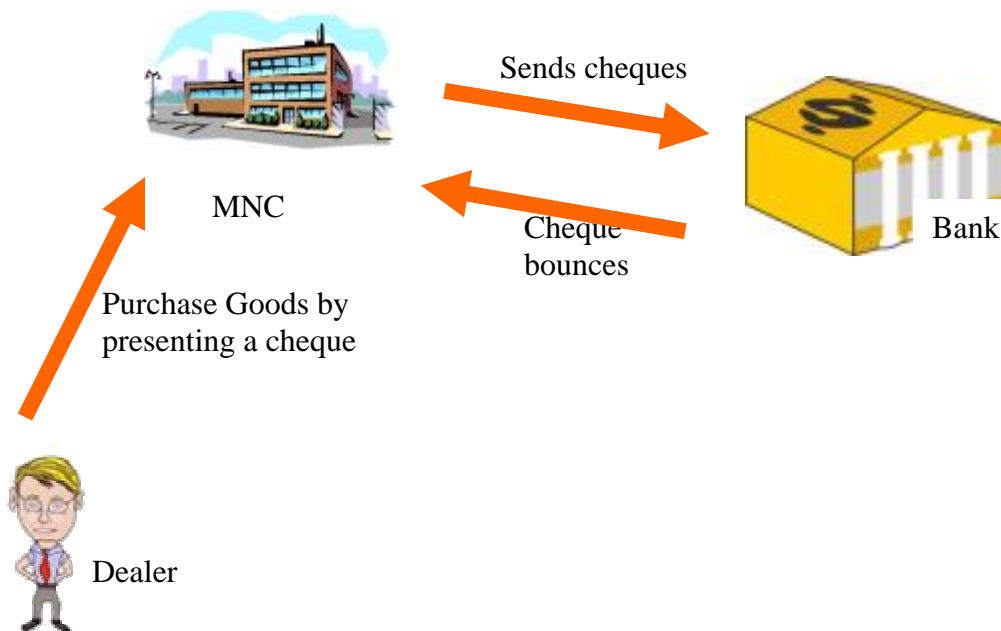
Unilever Sri Lanka is a wholly owned subsidiary of Unilever PLC and is one of the largest and most successful Companies in Sri Lanka. Unilever Sri Lanka Limited manufactures and markets high quality consumer goods. Amongst their well-known brands are Sunlight, Lux, Lifeboy, Sunsilk, Vim, Rin, Signal, Pears Baby, Astra, Marmite, Knorr and Lipton. (Reference: www.unileversl.com)

Fonterra

Fonterra Co-operative Group Ltd is a leading multinational dairy company, owned by New Zealand dairy farmers. They are the world's largest exporter of dairy products, exporting 95 percent of their production. Their global supply chain comprises of consumers in 140 countries. Collecting over 13 billion liters of milk a year, they

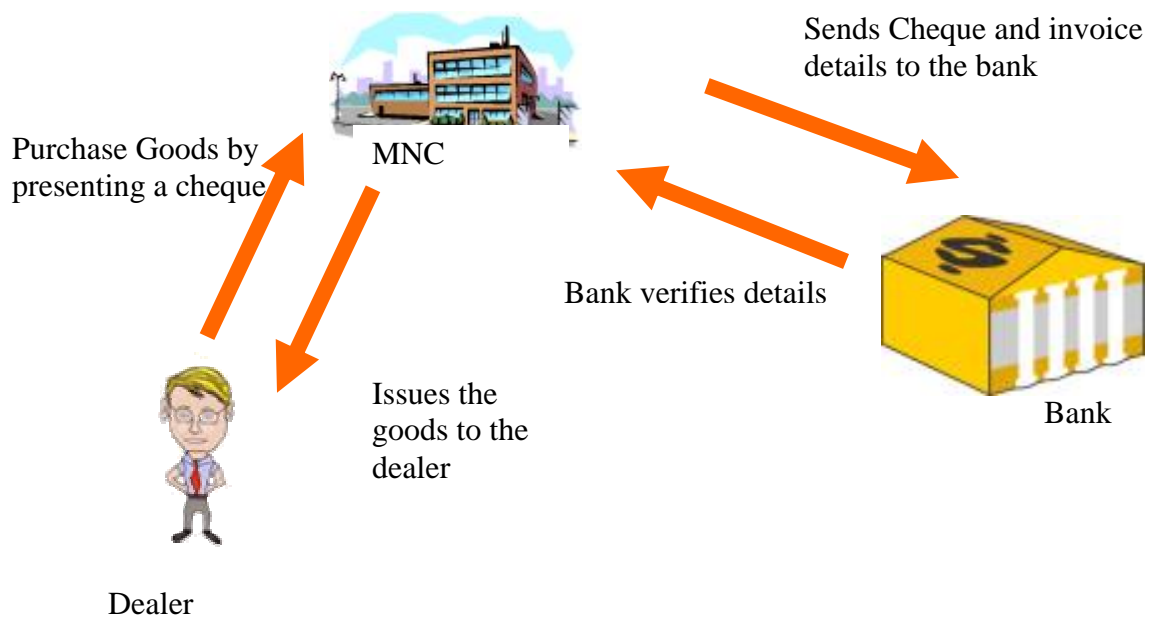
manufacture and market over 2 million tones of dairy products annually, making Fonterra the world's leader in large-scale milk procurement, processing and management.

Both of these two companies face a risk when it comes to dealing with cash receivables from the clients. When customers purchase goods from the company they will present a cheque for the value of the purchased goods. The MNC doesn't have any mechanism to check the funds availability of the respective client until the cheques have been realized. If the customer does not have sufficient funds in his bank account the company is in trouble. It might take considerable time for the customer to settle the overdue payment and extra bank charges. The MNC faces a major risk when dealing with this situation. Each bounced cheque the MNC receives costs them money, as well as creating a gap and uncertainty in the cash flow. It could also point to flaws in the credit policy and credit control.



If the MNC is able to minimize the cash risk they are facing it would enhance their ability of serving their customers more effectively. The cash risk can be transferred to a financial institute where the MNC will freely concentrate on their core business. This is where the Standard Chartered Bank's role comes in as a service provider. As a bank

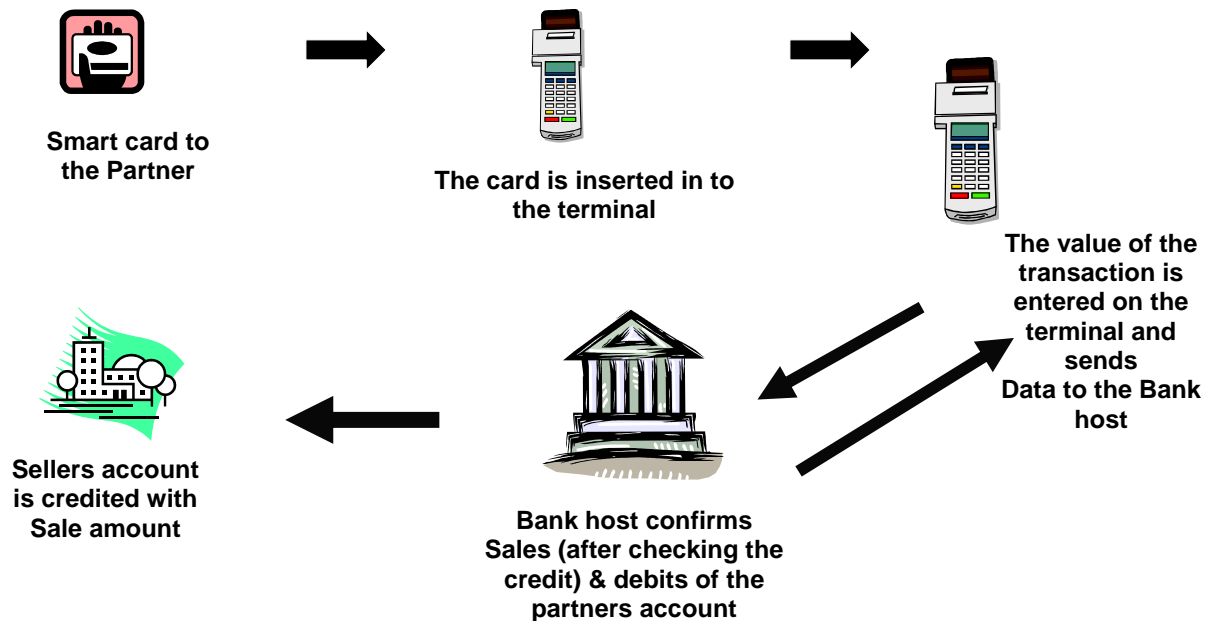
Standard Chartered takes all sorts of cash risks when dealing with their customers. In this case when the customer comes to purchase goods from the MNC with a cheque the MNC will hand over the risk associated with the transaction to the bank. The bank guarantees the safety of the cash flow to the MNC. The bank will take the risk on behalf of the MNC to collect the amount receivable from the client. The bank will make a profit by providing the service to the MNC and the customer. Even if the customer doesn't obtain sufficient funds to do the transaction the bank will provide the dealer with a bank guarantee. The bank guarantee can be used to purchase goods from the MNC.



The main technology behind this concept was implemented by AG Soft by using EMV Complaint electronic data capturing device (Lipman / Nurit 8000). It will facilitate the flow of information between the Seller of Goods Services and the Bank online electronically. By using the card the Seller of Goods / Services could verify the Channel Partner's available limits and transmitting the invoice details electronically to the Bank and obtain payment accordingly.

This system provides the user with a Simple, online information, automated collection system for Selling of Goods and Services. The system also provides

flexibility where the credit period, Credit limits, billing cycle etc could be customized per Partner. Since credit information is transferred electronically, additional safety mechanism such as Encrypted tamper proof front end application has been developed to safe guard the credit information of the dealer.



The main advantage to the MNC is the guarantee of the cash flow to the organization. As we noted in the beginning of this article, today we have to be where our customer wants us to be and provide the service that they require. It will facilitate the flow of information between the Seller and the Bank online electronically. It reduces the cash and cheque handling risks and charges on overdrafts and provides convenient mode of transaction in an efficient manner. By using the card the Seller could verify the Channel Partner's available limits and transmitting the invoice details electronically to the Bank and obtain payment accordingly. Not only does this system provide benefits to the seller it also offer some benefits for the dealer as well. The dealer is able to do transactions for credit based on the bank guarantee, which will increase the buying power of the dealer.