



TREASURY RESOURCES

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Effective Working Capital Management with Supply Chain Finance (SCF): The General Mills Experience

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Agenda

- **Why Supply Chain Finance and Why Now?**
 - CPO and CFO Concerns
 - Working Capital and the Supply Chain
- **What is Supply Chain Finance (SCF)?**
 - SCF Definition
 - The SCF Process
 - The Cost of SCF
 - The SCF Win-Win
- **Implementing SCF and the General Mills Experience**

Top CFO and CPO Concerns

Top CFO Concerns

- Cost of Working Capital
- Credit / Receivables Risk

- Supplier Risk

- Hiring Freeze / Staff Cuts

- Commodity Price volatility

Top CPO Concerns

- Initiatives to Preserve Cash

- Monitor and Mitigate Supplier Risk

- S G & A cost Structure

- Reduced budgeted Capital Investment Spend
- Freeze Discretionary Spending
- Renegotiate supplier Agreements

Categories

Working Capital

Supply Chain Risk

Process Efficiency

Spend Savings

Source: The Hackett Group 2009

SCF and Working Capital Optimization

- **Cash Conversion Cycle (CCC)**

- Expresses the length of time, in days, that it takes for a company to convert resource inputs into cash flows

$$\text{CCC} = (\text{DSO} + \text{DIO}) - \text{DPO}$$

Days Sales Outstanding (DSO); Days Inventory Outstanding (DIO);
Days Payables Outstanding (DPO)

- **What is the optimal cash conversion cycle?**

- 0 days (“pay when paid”)

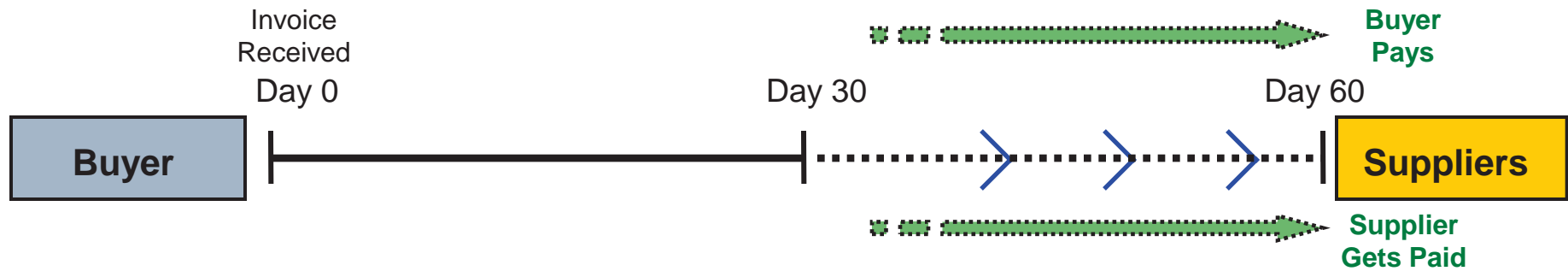
- **What was the average cash conversion cycle in 2008?**

- 36 days (Source: REL study of 1,000 companies across 58 industries)
- \$100MM unnecessarily tied up in the financial supply chain per \$1B in spend

- **What is the most efficient way to reduce CCC?**

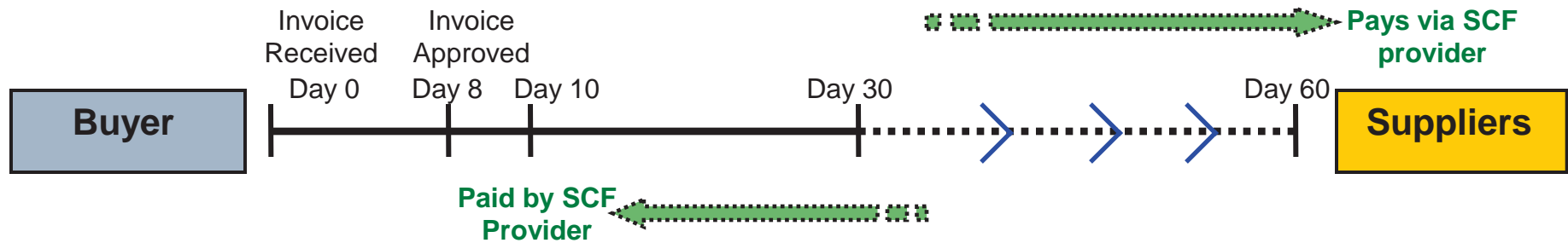
- Increase the DPO by extending payment terms with Suppliers

Negative Effects of Payment Terms Extension



- **The Problem?**
 - Lack of visibility and Supplier DSO is tied to Buyer DPO
- **Working Capital is not Optimized for Both Parties**
 - Buyer needs to pay on Day 60
 - Supplier needs to get paid on Day 0
- **Typical negative effects of term extension on Suppliers**
 - Increases Suppliers' DSO, negatively effecting working capital
 - Increases costs, putting upward pressure on cost of goods
 - Delays cash flows, increasing risk of supply

Payment Terms Extension and SCF



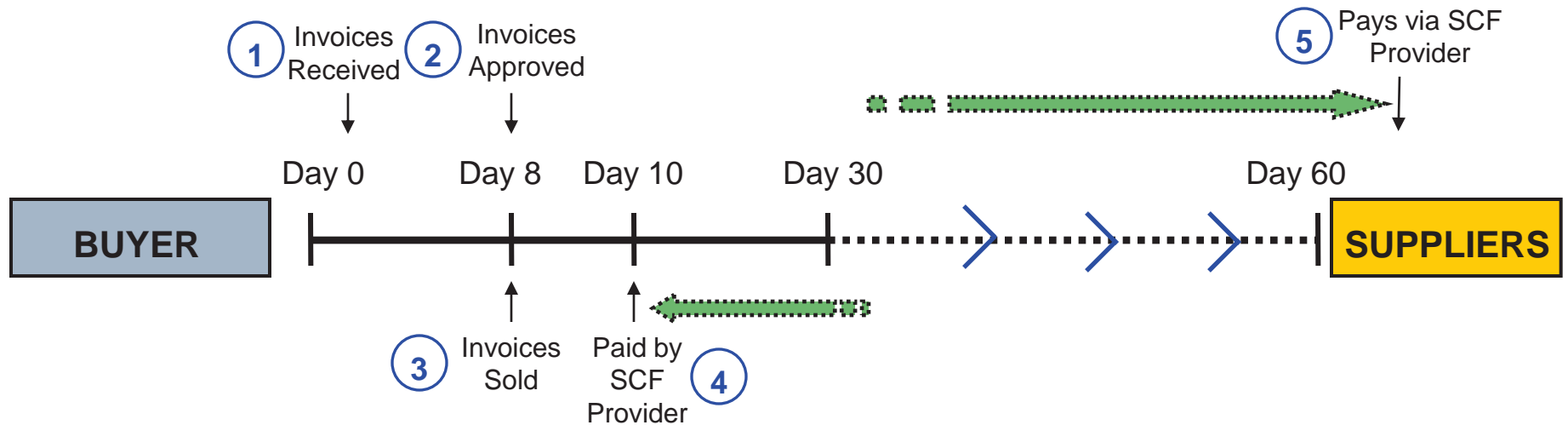
- **The Solution? – Supply Chain Finance**
 - Visibility into invoice approval and delinks Supplier DSO from Buyer DPO
- **Working Capital is Optimized for Both Parties**
 - Buyers can pay on their optimal payment terms Suppliers can get paid as fast as possible, upon invoice approval
- **Term extension with SCF**
 - Increase DPO while Suppliers decrease DSO
 - Decreases costs, putting downward pressure on cost of goods
 - Accelerates cash flows, decreasing the risks of supply

What is Supply Chain Finance (SCF)?

Supply chain finance (SCF) is a collaborative trade payments and finance solution that allows Buyers and Suppliers to unlock value in the financial supply chain. It combines the benefits of 3 solutions in 1:

- **Approved Invoice Visibility Platform**
 - Buyer shares approved invoices automatically with SCF system
 - Supplier has real-time, immediate visibility via SCF web portal
- **Efficient Receivables Finance Solution**
 - Receivables discounted at a Discount Rate based on the Buyer's cost of debt
 - Supplier elects to sell all or a portion of the receivables at any time prior to maturity
 - SCF provider purchases receivables and delivers non-recourse cash to Supplier
- **e-Payment System**
 - Streamlined payments and automated reconciliation
 - Buyers initiate a single payment item covering all invoices to all SCF suppliers

The SCF Timeline



- **Step 1:** Buyer Receives and approves invoices for future payment
- **Step 2:** Buyer sends approved invoice information to SCF provider
- **Step 3:** Suppliers view invoices and elect to sell all or some receivables at a discount
- **Step 4:** SCF provider purchases receivables at a discount for early, non-recourse cash
- **Step 5:** Buyer pays via SCF provider at invoice maturity

What is the Cost of SCF?

- **Cost-effective Solution**

- SCF solutions usually carry no out-of-pocket costs for Buyers to implement
- All revenues are typically derived from optional Supplier financing activities

- **Sample Discount Rate**

- Base Rate (Libor): 0.30% (Based on Discount Period)
- SCF Spread: 2.50% (Funding / Technology / Supplier / Support)
- SCF Discount Rate (per annum): 2.80% (Libor + 2.50%)

- **Sample Discount Charge**

- Approved Payment Amount = \$100,000
- Discount Period = 50 days
- Discount Charge = \$388 $(50 / 360) \times 0.028 \times \$100K$
- Discount Charge (% of Receivable) = 0.38%
- Cash Paid to Supplier Early = \$99,612

SCF Addresses CPO / CFO Concerns

- **Working Capital Optimization**

- **Challenge:** negative impacts of terms extension on Suppliers (zero-sum game)
- **SCF:** mitigate negative impact of terms extension / revolutionize buyer – supplier dynamic by replacing the zero-sum with a collaborative “win-win” solution

- **Supply Chain Risk Mitigation**

- **Challenge:** I want to pay Suppliers later, but want to ensure Suppliers have access to cash
- **SCF:** hold on to your cash while granting Suppliers access to cash fast and at an attractive discount rate

- **Process Efficiency**

- **Challenge:** Driving efficiencies with minimal cost and impact on current processes
- **SCF:** Full process automation with no cash cost and minimal (if any) impact on current business processes

- **Spend Savings**

- **Challenge:** I want to optimize working capital without putting upward pressure on prices
- **SCF:** Buyers reduce costs for Suppliers, putting downward pressure on prices

Who is Orbian?

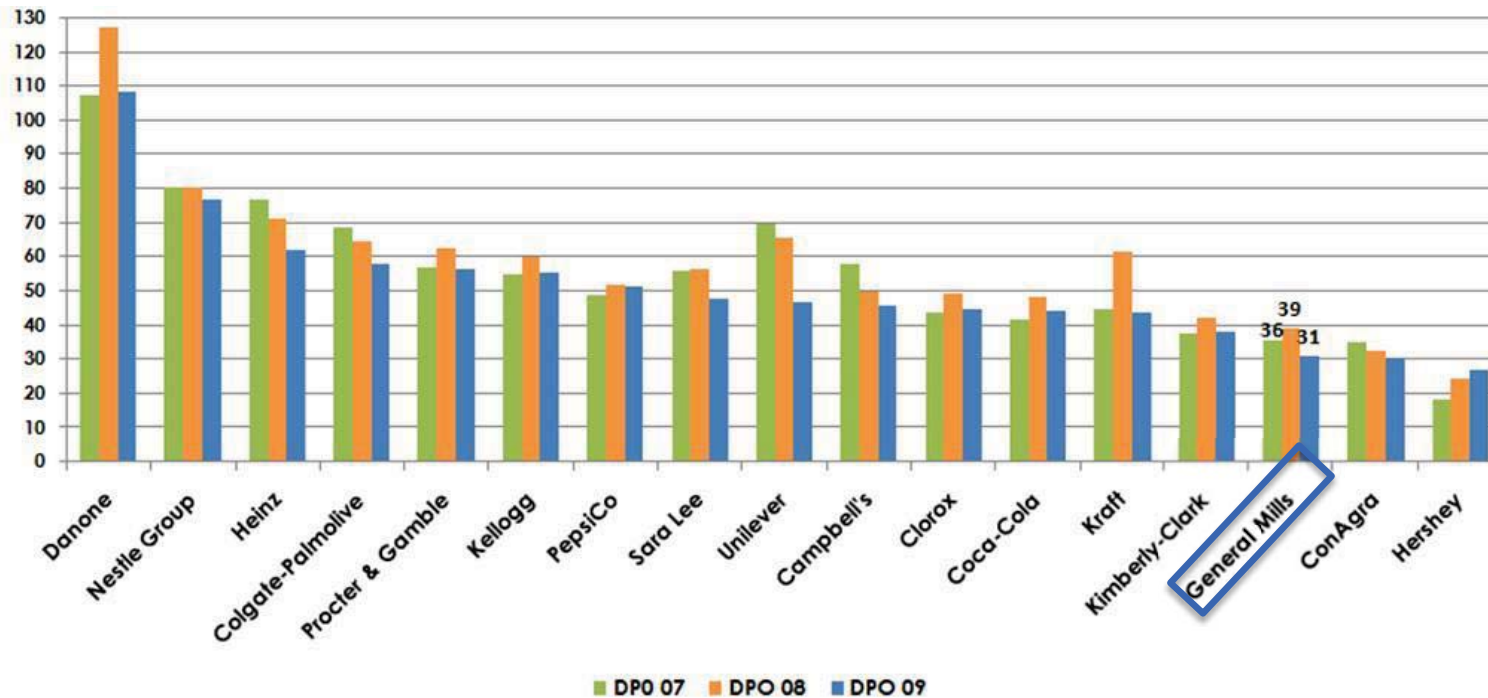
- **Innovator and independent provider of comprehensive SCF services**
 - **Funding:** Only provider of a Trust-enabled universal funding model with multi-lender, multi-currency financing capability
 - **Technology:** Industry-leading SCF technology platform
 - **Supplier Enablement:** Full-scale Supplier on-boarding and support operations
 - **Support:** Dedicated, on-going program management and support teams
- **Orbian is the world's leading supply chain finance solutions provider:**
 - Support 40 global corporate Buyer-clients and several global banks
 - 3,250+ Supplier-clients globally, representing 42 countries
 - 100% error-free transaction history
 - 10 years of proven success (launched in 1999, independent since 2003)
 - Best Global Supply Chain Finance Provider – Non-Bank (Global Finance Magazine, 2008-2010)
 - Best Global SCF Provider Award from gtnews
 - Gold Award from gtnews Global Corporate Treasury Awards

Implementing a SCF program

The General Mills experience

CFO Challenge to Improve Cash Efficiency

- GMI ranks near the bottom of CPG peers on DPO (Days Payables Outstanding)
- Improving DPO is important strategy to fund growth opportunities



Previous Initiatives to Extend Terms Met with Limited Success

- **Extending terms and utilizing SCF offers Suppliers an alternative to mitigate negative impact (if any)**
- **Orbian SCF was best choice for GMI**
 - Fit with SAP ERP environment
 - Securitized format of receivables
 - Trust structure
 - Manner of settling payments

Cross Functional Team Led Implementation

Team member

- Sourcing Finance
- Sourcing
- Corporate accounting
- IS
- Accounts payable
- Treasury
- Legal

Primary role

- Team lead
- Supplier strategy
- Financial reporting
- System integration
- AP integration
- Bank funding
- Legal risk mitigation

Implementation Challenges

- **Functional leadership alignment on strategic importance of cash efficiency**
- **Financial reporting alignment**
- **Legal due diligence on agreements and trust structure**
- **Relationship owner priorities**

Rollout Strategy Started with Direct Material Spend

- **Big commodity categories**
 - large \$ spend, “clean” invoices
- **2nd wave included ingredient, packaging suppliers**
- **Have rolled out outside direct materials**
 - External supply chain, warehousing, consumer, sales, corporate indirect
- **Developing supplier strategy for rollout in GM Canada**

Keys to Success

- **Alignment on strategic importance of cash efficiency**
 - Executive level management endorsement and/or buy-in
 - Visible support of CPO
 - SCF goals aligned with individual / departmental incentives
- **Dedicated/committed cross functional team**
 - Clear roles and responsibilities
 - Continuity -12 months to go-live
 - Navigate with competing priorities
- **Effective Communication**
 - Internal - Finance and Operational lead for each function
 - External - direct communication with Suppliers

Results To Date Are Very Encouraging

- Improved cash efficiency and DPO
- Increased awareness of payment terms in all supplier negotiations
- Driving “standard” payment terms from 30 to 60 days
- Improved A/P operating efficiency
- Established platform for ongoing cash efficiency improvement

Conclusion

- Working capital, supply chain risk, and cost reduction are key areas of focus for corporate executives today; and SCF helps alleviate those concerns.
- SCF is a cost-effective tool allowing trade partners to optimize working capital, mitigate risk, and reduce costs in the financial supply chain.
- SCF is a collaborative, “win-win” solution that eliminates costs from, instead of shifting costs around, the financial supply chain.
- SCF will become a standard tool for CFO’s to effectively manage working capital in the supply chain, and early adopters can gain a significant competitive advantage.

Questions?

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