2019 Outlook Series: Supply Chain Finance Outlook

Taulia

Craig Jeffery: Welcome to this episode of the 2019 Outlook Series. This one is on supply chain finance and working capital management. I'm here with Cedric Bru, who's the CEO of Taulia. Taulia is a fintech that helps companies optimize working capital on a global basis. They were founded in 2009. They operate in 168 countries. You'll find their headquarters is in San Francisco. They have offices across Europe and they've most recently expanded to APAC and last year they enabled the acceleration of nearly $24 billion in early payments and they grew its network to over 1.6 million businesses. Cedric Bru is the CEO and head of the firm. Welcome to The Treasury Update Podcast, Cedric.

Cedric Bru: Thank you Craig. It's a pleasure to be today with you and all the treasurers around the world.

Craig Jeffery: So, supply chain finance seems to have become far more mainstream throughout 2018 and every time we talk about supply chain finance, we can't get away from managing working capital. So, let's start off. If you could give us a quick analysis of 2018 for both supply chain finance and working capital management. So, if you could just take us through some of the highlights that you've seen in the industry, maybe the most important elements.

Cedric Bru: Sure. Happy to do that. You're exactly correct. Supply chain finance is a solution as part of the practice of optimization of working capital management and I think that the best way to introduce the concept and what happened in 2018 is that all businesses in the world exist to grow, to generate cash, but first they need to survive and they need to optimize their business and there is a very interesting statistics that I read from Accenture recently talked about the lifetime of a company and basically the statistics mentioned that 50 years ago the average lifetime of a company was 75 years. Today, it's 15 years and the number one reason why companies fail is because they lack access to working capital, to cash. So, I'd say very important topic as you can imagine and equally important in order to win in the marketplace. Corporations now and all businesses need to go through a transformation, especially the digital transformation that requires access to working capital, access to cash in order to make the necessary investments to be differentiated and win in the marketplace.

Cedric Bru: So, if you combined a need to survive with the need to grow and be differentiated and working capital being so core to being able to thrive as a business, it really makes working capital as the center of what CFOs and treasurers are thinking about in North America, but also in Europe and in Asia and Latin America. So, what we've seen over the past couple of years, as a matter of fact, is a lot of awareness about the topic. I studied personally to be exposed to the concept of supply chain finance seven years ago and at the time when I had discussions personally with CFOs and treasurers, a lot of the conversation was about explaining the benefits of supply chain finance, how they could be differentiated from their competitors by using supply chain finance, how they could fund projects that they had on a list that they could not before.

Cedric Bru: So, it was a lot of education. Today I believe that most businesses have heard about supply chain finance, for sure they heard about the working capital management. I wouldn't say that everyone has invested in it yet, not everyone is taking steps, but there is definitely awareness and that is really translated into what we've see in Taulia. In 2018 you mentioned some of the numbers, Craig, earlier we financed more than $24 billion of invoices on our network. We had more than 1.6 million companies around the world connect to our network to have access to working capital. That's really what happened in 2018 and all of this was really driven by the fact that there was no technology available to treasurers, to procurement teams, to the CFO office to manage working capital management. I think that in the past there was a lot of discussions about working capital and what to do, but a lot of companies didn't know how to act on those goals, they didn't know what they had to do to make it happen and technologies democratizing basically the practice of supply chain finance and more importantly the execution of supply chain finance.

Craig Jeffery: Yeah. So, you said a couple of really interesting things there. One was the lifetime of the company and the survive and grow, those are pretty dramatic numbers and in 50 years, we lost 60 years of the average lifetime of a company. Yeah, we use the term working capital management, liquidity, supply chain finance or cash flow and so, it might depend on the size of the organization or their focus. Someone may say, "We need liquidity, we need access to capital." You can make money on paper, but you have to have the liquidity to be able to address those needs and I think that is clearly one of the at least two major items impacting organizations, the rate of change and the requirement to handled the liquidity the organization needs. So, you're absolutely spot on. That's a great background for what's been happening there. What do you see is happening in the macro economic environment? What's happening globally that is impacting this area of liquidity, working capital management?

Cedric Bru: So Craig, I feel that we are in a very unique time and that's something that businesses really need to think through. We are on the 10th or perhaps the 11th anniversary now of a bull market. Very low interest rates around the world. Businesses have had the chance to have relativity good access to working capital. One way or the other, it will change. I think a lot of predictions were on the fact that these inflection points or the change would happen at the end of last year or potentially at the beginning of this year. Some of the decisions made by the Fed recently are going to likely delay those changes, but I strongly believe that as we head towards the end of 2019 and the beginning of 2020, we are going to see as consumers and businesses some changes and to me they are driven by a couple of different dynamics.

Cedric Bru: The first one is uncertainty, whether it is the trade war between the US and China or Brexit. The reason I have uncertainty in the world that have given a compelling reason now for the to not increase the rates further. There were some commitments made that the Feds would increase rates as you know. The decision recently from the US Treasury was not to do that for awhile. I think that if this uncertainty changes, the Feds will likely go on with some interest hikes and business will have to think about the impact to their operations and their financials. The uncertainty here will have a lot of different impacts to to us again as consumers and businesses.

Cedric Bru: The second one is that there is also a key change happening in physical supply chains. A lot of large corporations in particular are rethinking how to create a competitive advantage by moving their supply chain from a country to the other and that is true all around the world.

Cedric Bru: We talk of course about many companies in the US moving some parts of their supply chains back to the US. It's not as fast or as broad as maybe people expected a year or two years ago, but that's definitely in motion. Same thing for Chinese companies, 10 or 20 years ago, most of the supply chain of local Chinese companies were in China. Now a lot of Chinese companies are outsourcing their operations to other countries in Southeast Asia and in some cases to Africa and when supply chains are relocated, it really requires a lot of attention to the relationship with suppliers.

Cedric Bru: Here we are not talking about onboarding one supplier in a new country. We are talking about onboarding 1000, 2000, 3000 suppliers in the new country, the new location and it requires a lot of work to ensure that those new suppliers will see their new customer strategically, that those suppliers are stable and they will be able to fulfill the demand coming from their new customer. It's not a given that those supply chains can be moved from one country to the next without disruption to the supply chain of those corporations. So, I think that the key aspects to watch from a macroeconomic perspective are really related to uncertainty. Brexit, trade wars, that will or will not have any impact to interest rates and then the second major macroeconomic trend that I encourage everyone to think of is the impact of supply chain locations, what procurement teams are doing and the impact on the financial supply chain of businesses.

Craig Jeffery: So Cedric, just a couple of things on that. With the uncertainty around trade wars, we've seen what appears to be more stability with North America. The US, Canada, Mexico being settled. So, now it seems to be solely focused on US and China. So, maybe that's simplified a bit and then on the interest rate side, like you said at the end of the year, some of those things were pulled back. The guidance of decreased number of interest rates or at least the expectation of less interest rates, not on autopilot and then the quantitative tightening, not on autopilot dumping 50 billion back into the market and certainly the European Central Bank and Japanese Central Bank or the Bank of Japan are not unwinding their asset purchases. So, I think there's a couple of things that have minimized it, which I think makes for perhaps short term certainty, but maybe that's still an overhang to your point on that. The interesting point on the supply chain relocation, you mentioned 1000 to 3000 suppliers. If you move your supply chain somewhere else, maybe you're a large company, are there that many more suppliers coming to bear because the entire ecosystem of a car manufacturer starts moving there. Someone else. There's the companies that manufacturer and those that manufacture sub components and they all relate. Is that why it's so many?

Cedric Bru: Well, that's exactly right. I mean when we are talking about the two, 3000 suppliers, there are some very direct suppliers and the reason the supply chain of those suppliers themselves. When I look at Taulia, some of our customers have 20, 30, 35,000 suppliers on a global basis and some of those companies are thinking about moving about 10% of their supply chain within the coming 12 months. Do the math. You come up with those two or 3000 suppliers that they left you to secure and I think what's really important here is that in the same way as we look at the health of the financial supply chain and the financial metrics of large corporations I think is very important for those companies to also think about the financial health of their suppliers. It's empathy towards the supply chain. At the end of the day, if you want to work with a brand new strategic supplier, what is very important to think of is what's going to be the relationship like?

Cedric Bru: How am I going to ensure that this supplier will consider me as their priority? How am I going to ensure that if I grow my business with that supplier, they are going to support me in my growth? If my demand increases by two X between this year and next, how do I know that this supplier will be able to cope with that demand? And of course you can do a lot of things to ensure that this supplier's the right one for you and you can do some due diligence, you can ensure that they have their credentials and the financial stability to do that, but if you can also provide a solution to have the supplier so that they can manage their own working capital better, for sure your part of the game and it becomes more of a partnership than a vendor to customer relationship.

Cedric Bru: So, we've seen that happen quite a lot between our customers and their own suppliers. When our customers will offer a solution where their own suppliers can manage their receivables better, they can reduce their day's sales outstanding, they can collect the cash faster and as a result they are more comfortable with their financials. They can make additional investments into new products, new manufacturers. It makes the supplier more stable and as a result, a better strategic partner for our customers. So, that's where the financial supply chain and supply chain finance as a tool can really work closely with the physical supply chain in creating a healthy, strong supplier base for our customers.

Craig Jeffery: So, as companies are moving parts of their supply chain to other areas, you mentioned China and other parts of Asia, US looking to bring things home or moving them across. A couple of thoughts come to mind, not necessarily on the focus for 2019 alone. Will these changes happen more quickly? Because traditionally when people move to Japan and they were running their banking area and then it moved to Taiwan and then to China and India, they had to follow both the creation of factories, the physical components to create them, the training of people to do it and access to mature banking services to provide that type of liquidity. With that, I'm making a few assumptions, but will this speed the movement to other parts of Asia, parts of Africa? Banks can grow there more quickly, providers or those that reduce the friction to get at capitol like Taulia, the supply chain finance providers can help companies immediately tap that area and not be stressed by growing at 50, 100% rates, which is creating a cash demand while they have a capitol demand to build larger factories. Is this going to make the movement and the shift of the supply chain itself occur more rapidly?

Cedric Bru: Yes. Historically the decision making process for businesses to decide to put their supply chain in one country versus the other, the process was mostly to look at the cost first of all and any political considerations that they were subject to. I mean, those were the two-

Craig Jeffery: Rule of law type things?

Cedric Bru: Exactly, yeah or the fact that some countries are not allowed to work with others or the fact that the country may become unstable because of their government, but cost and political assessment were really the two key decision criteria. I think now as you say, first of all, because of the availability of working capitol throughout the supply chain, that is not bagged necessarily to the availability of a financial institution in a given country, you broaden significantly the location where your supply chain can be based and what I mean by that is that with a solution like supply chain finance, a supplier based in Ecuador does not need necessarily to rely on a local bank located in Ecuador to have access to working capital. They can work with their customer located in the US, in Europe or in Latin America and instead of waiting for 60 or 90 days to be paid on the invoice, they can decide to be paid now or as soon as is desired and that becomes a very easy and cheap way to access cash in that way. So, that completely broadens the number of countries in which those large corporations can locate to their suppliers. That's what I would say is going to change.

Craig Jeffery: You brought up a couple good points and made me think of, you talked about the democratization of technology, right? It gets shared around and because things like working capital management, supply chain finance also has a liquidity component. It's the democratization of capital, right? It's easier. You were taking more friction out of the process to make it immediately available, but I do want to ask, you can either comment on that or also answer the question about in previous conversations we had, you talked about de-risking the supply chain. That's one of the key components and responsibilities of both the treasurer and the head of procurement. Is that still the case? What is important to think about from a de-risking standpoint?

Cedric Bru: So, I'll use an example. A couple of years ago we had a customer conference and we invited our customers to attend, large corporates as well as their suppliers and one day there was a supplier on the panel and a question to that person was, "How did you come across Taulia?" And the person on the panel started to cry. As a matter of fact, it was very emotional moment and the person shared a story where they were in a challenging time for the company. They had great products. They had a good team, they had good customers, but they had to make so much investment to cope with the demand of the customers that they got an in a situation where the CEO walked onto the floor and shared with the employees that they may need to close business. They were unsure if they would have the cash to make payroll the following week and none of the banks were really willing on helping necessarily here.

Cedric Bru: We know that a lot of banks have relocated a lot of assets to large companies and probably less to the SMB sector and that person said they knew that one of their customers would offer through Taulia a way to be paid earlier on their invoices and if I fast forward a little bit, what happened here is that one of those people got into the Taulia network. It took 90 seconds from the time they read the email to where they were invited to register, to see all their invoices that they had open with their customer and then request the payment to not be made at maturity of the invoice, which was 45 or 60 days later, but to be paid tomorrow, the following day. They took action, requested the early payment. The following day, the cash was on their bank accounts. The company was able to make payroll on time and ultimately, they stayed in business, and they thrived thereafter. So, that's a key example where technology can make it extremely easy and extremely fast for a company to take action on their working capital needs and get in the situation that they want versus to be affected by some complicated payment terms or transactions that they have very limited leverage on. That's an example of how technology can democratize the optimization of working capital.

Craig Jeffery: I really liked that story, that element of de-risking the supply chain. I mean, that's really an example of it. Success on a business to grow really rapidly can create the liquidity challenges and that's one way of de-risking the supply chain. Is there anything else on the supply chain de-risking that you wanted to comment on?

Cedric Bru: Well, I will say that in the example as just mentioned, so obviously that SME got in a comfortable situation and continued operation and thrived, as I said. Equally importantly, their customer was also extremely pleased that they could continue being in business. So, when we talked about de-risking to supply chain, we are also looking at that from a customer perspective of course and we create a win-win here where not only the supplier gets in a good position, but their customer can also be in a better position and continue relying on their supplier.

Craig Jeffery: I don't know if this is a summary or just a couple of key points that I'd like you to make. When you think about the head of procurement and the treasurer to think about having a mature perspective, not just always simply going for the lowest price or extending terms to reduce the amount of working capital that one company has and making it a win-lose situation. What does a mature perspective or set of perspectives look like in today's world?

Cedric Bru: Yeah, I think Craig, it starts by having a clear goal for working capital. So first of all, not all companies are really clear about the goal. Some of them do have a goal that is mutually agreed. Typically it's a goal that is agreed between the treasury team, the CFO and procurement team. So, some of a goal, but then the question is how are we going to make it happen? A lot of companies we work with need assistance to define a strategy and a path to reach the goal and this is where technology comes into play.

Cedric Bru: We believe in the world where all treasurers should have access to assist them, where they can really see on the bottom of basis their cash forecast for the coming year plus. Looking at the outstanding receivables, payables, their inventory position and even some predictive aspects about maybe their payables are estimated based on the invoice outstanding, but if you can go and look at the purchase orders that have been issued, that can give you an indication about your future payables and take that into account your cash forecast, but it really starts with a very accurate, bottom-up forecasts for your cash over the coming 12 plus months and then from there being very clear about what you want to do to address the times when you anticipate to have some excess cash and what you want to do to anticipate the times where you might be short on cash.

Cedric Bru: Maybe there is a quarter where you need to pay dividends. Maybe there's a quarter when you need to pay a higher amount of executive compensation. Maybe your CFO wants to build balance sheet to support some MNA transactions. Maybe your COO or your head of manufacturing would like to open a new manufacturing somewhere and cash will be required to support the project.

Cedric Bru: The fact is that it's very important to know your needs of cash in the future and the times also when you have excess cash and then from there also rely on technology to be clear about what you're going to do with it. So, if I contrast that with our clients at Taulia, when our clients anticipate to have excess cash, then we give them an opportunity to deploy this excess cash and pay their suppliers earlier in return for discounts. So, the suppliers are happy to be paid earlier in a very affordable fashion and the customers deploying this excess cash are able to realize a yield on that cash. That sums up. Now, when they see that they will have a gap in there, a cash forecast with a solution like Taulia, they can also take action. They can decide to harmonize the payment terms, hold onto cash a little bit longer to improve their payables.

Cedric Bru: They can also look at some receivables they have and decide to be a bit earlier on the receivables and convert the receivable to cash faster or they can also try to optimize the inventory by financing their inventory. This is a journey here that is important. It is being clear on the working capital goals than having visibility on the cash. Being able to identify those moments of excess cash or lack of cash, and then having a plan to address those very specific times. I think this is a reflection of a modern and sophisticated treasury team. Every day we see companies in the world winning in the marketplace because they have a better working capital management strategy than others.

Craig Jeffery: Yeah, I mean what you were just describing was well in other areas of the organization can use the levers of inventory, AR and AP. You want to collect sooner, you offer discount and some people take advantage and it's less well known. What you're talking about with SCF is making those levers longer and you can pull them over a larger period of time. So, it's a better lever, but let's circle back about what's going on in the space and as we look ahead, the size of networks, I mentioned the growth of your particular network, the democratization of technology, making things easier and faster and you gave a story about how quickly someone can sign up and how that streamlines the access to capital. Technology goes beyond just the basics of that and we hear a lot of stories about machine learning and AI and some of those are not connected to the finance world yet. You are definitely using AI. There's a very good story to tell and I wanted to hear you just tell the audience a little bit about an example of how AI makes a difference. Something that people can't do, but leveraging this type of technology and intelligence to help the process.

Cedric Bru: At Taulia, we invested into AI and machine learning about two and a half years ago. I have to say that this is the single most important milestone that the company has had to date. Very key to what we offer to our customers and the value that we are ultimately offering to our customers and I'll take a couple of examples to explain that Craig. Today we are talking about supply chain finance when basically a supplier can decide to be paid earlier on an invoice and not wait until the invoice matures. So, the art of the matter here is to be able to find a rate at which the suppliers would be keen to be paid earlier rather than waiting and the solutions that those suppliers have today, some of them are very archaic. Think about factoring for example. They are very manual, very cumbersome. They will finance on your portion of the receivables, they will be expensive as well and they will likely require the supplier to pack all their receivables to such a solution. With a supply chain finance solution like Taulia, those suppliers, as I said earlier, come on board in 90 seconds.

Cedric Bru: It's really fast. It's very cheap because it leverages the critic quality of their customers. They can decide to take the early payment on one invoice, on two invoices, on half, on all of them all the time or sometimes during the year. So, it's very flexible and again, as I mentioned, the price is very affordable, but the key is to define what this price is. What machine learning and AI have done for Taulia is that today we are able to predict with an extremely high level of predictability the interest rate at which any business in the world will be interested to be paid earlier and that's really the art of the platform. It is impossible to manually look at a business specially. The business is not publicly traded and anticipate again the rate at which these supplier will be interesting to have access to cash, but with the data that we have, Taulia's processed more than a trillion dollars of transactions with the knowledge we have on patterns, behaviors.

Cedric Bru: Again, we are able to predict very accurately the rate of interest for those businesses all around the world and that's what AI has done for us. The second aspect of AI and this is really the opportunity here is that not all businesses are created equal very obviously and when we talk about improving receivables, improving day sales outstanding, not all businesses talk in the same language.

Cedric Bru: A construction company based in San Francisco does not necessarily think about working capital in the same way as a Telco company based in Ireland. What AI has been able to provide to us is that we're able to segment suppliers, segment all businesses and have really a way to engage with them. So, now we're able to say that we believe that the best time to engage with these construction company of $50 million in San Francisco is talk to the CFO of the supplier on the first week of the last month of the quarter with a certain message and a certain offer and perhaps the best time to really connect with the collection person of the Telco company in Ireland is the last week of the last month of the quarter with a different message and a different offer and that's ultimately what drives adoption to the network and ensures that there is critical onboarding of their supplier base of a given customer on the network and create more win wins between parties and I believe that only AI can do that.

Cedric Bru: If you combined the AI engine I talked to you about here and you combine that with the ease of onboarding, the 92nd onboarding process I just mentioned, you're able to create a network, you're able to connect all those businesses together and they are not connected in a point to point relationship. It's not connecting customer A with supplier one, two and three. It is to connect customer A, B and C who are likely in the same industry all together with supplier one, two and three so that the supplier one can connect and optimize their own working capital, not just with customer A, but across customer A, B and C and that's really the power of the network. Now we are at the point where we have 1.6 million businesses on this network, which means that if a new business joints on our network, they will have a significant piece of their supply chain of their own suppliers already connected to Taulia network ready to transact. So, it drives a faster time to value. We didn't have to wait months or years to ensure that the supplier base of a given customer is connected. We know that it can be done right away and very fast.

Craig Jeffery: Yeah, so the value of a network is in its size and what you can do with it and how easy it is to do with it. Those are excellent examples. Do you have any examples, any best in class examples or what other people are doing that you haven't already mentioned that would be useful as people look ahead to 2019, 2020 look to de-risk their process or provide better support? Anything that would be useful to the audience?

Cedric Bru: Yeah, I've got two thoughts. The first one is a trend that I've seen and I completely endorse that. I talked to Craig earlier about the importance of defining clear working capital goals for a company, which is really a shared discussion between treasury, CFO and procurement and what I've seen some companies start doing is to appoint the head of working capital management, someone who is solely focused on achieving those goals. Someone will be empowered to work across the company, across divisions, across countries with treasury, with procurement to just make that happen and in the same way as there have been some new jobs created in companies over the past few years, like the role of a chief people officer in HR for example. I believe that we are going to see more and more head of working capital management or maybe a chief of cash. Who knows whatever title it takes.

Cedric Bru: Having someone dedicated and empowered to work on these topics I think is best in class and it's going to move the needle here for companies who take that step. The second recommendation I have is to really look closely at supply chain finance, see how supply chain finance can really assist achieving those working capital goals and ultimately look at making the supply chain finance program available to all your suppliers, not just a few that are big or just a few that are in a given country or a few in a certain currency. I'm talking about all of them. Yesterday I was in a review of a customer. There are a multinational company headquartered in the US as a matter of fact and we've been partnering with them for a little bit more than 12 months on their supply chain finance initiative and I'm pleased to report that as of yesterday then, they had onboarded around 20,000 of their suppliers. So, it's not their top 10 suppliers, like many companies have, it's literally all of them, 20,000 suppliers. It's really creating a win win situation with every of their suppliers. That can be completely disruptive because it can help them to achieve their working capital goals faster obviously, but it can also help to de-risk the supply chain, strengthen the relationship with their suppliers and demonstrating empathy to their suppliers, which is something very important here.

Craig Jeffery: Sure. So, let's do a shift as we wind down the podcast, this episode of it. Can you just give us a quick overview of what you're doing expansion wise? I know you're going into Asia, but where are you going? Where are you growing most rapidly?

Cedric Bru: So, first of all, we continue to broaden our capabilities to onboard suppliers all around the world. We have now businesses in 168 countries. We still have a few more to cover. I think there are about 220 countries, if I'm not mistaken, around the world. So, we'll continue to add a few more, making sure that we offer an outstanding customer experience across languages, across currencies, across any characteristic that those suppliers require to be on the platform and transact and then from a go to market perspective. Historically a lot of the focus of Taulia has been on supporting large corporations in North America as well as in Europe. As you mentioned earlier, we now have presence in Asia-Pacific. In particular, we have an office that we opened at the beginning of the year in Australia, so we are going to continue opening up offices around the world. I think that the demand for supply chain is really something that is across the world.

Cedric Bru: As a matter of fact, just that in some countries it's a little more mature or in some regions like Europe, but a lot of the companies we talk to are interested in this topic around the world and it's not restricted to the largest companies anymore. We see a lot of demand as well coming from what we will call mid market companies, companies below $1 billion that also want to have access to a tool that can help them achieve their working capital and a solution that can help them de-risk their supply chain and create a strategic relationship with the suppliers. So, it's not just for a few countries anymore, it's not just for the largest companies in the world anymore. It is for everyone.

Craig Jeffery: Thank you Cedric and I do want to thank you for your outlook on working capital and supply chain financing. Congratulations on a great 2018 and I wish you and your team much success as you continue to grow and have expansion plans and de-risk the world's supply chain. Thank you.

Cedric Bru: Thank you, Craig. It was a pleasure.