East & Partners Europe
4 Cavendish Square, London, W1G 0PG
United Kingdom
www.east.com.au

Media Release

Top enterprises set to stray from domestic banks for supply chain funding

(29 May 2017 – Global) Domestic banks are in the firing line as the world's largest companies seek to streamline their global supply chain funding, an exclusive report from market analysts, East & Partners has found.

According to 736 corporate treasurers and chief financial officers (CFOs) from the top 100 revenue ranked businesses across eight geographies (Australia, Canada, China, Germany, Hong Kong, Singapore, United Kingdom, and USA), they plan to reduce their total number of supply chain funding providers in the next 12 months, with non-bank and international financiers positioned to benefit over domestic banks.

Currently, Corporates engage with an average of 14 banks along their entire supply chain. However, these large enterprises report that figure will reduce, with Canada (6.9 percent) and UK (5.2 percent) forecasting the biggest reduction.

The report, titled "Funding a Globalised Supply Chain", found Corporates expect to scale back engagement with local banks by 6.5 percent, while international banks and non-bank financiers are set to increase their relationships by 11.1 percent and 25 percent respectively, albeit from a low base. Regionally, Chinese Corporates have signalled the strongest shift towards international banks, with an increase of more than one third expected, nearly double their closest peers in Australia.

According to the research, suppliers to the world's largest enterprises have vastly different experiences in settling invoices. East has found that globally, supplier payment terms for these large corporates average around 63 days. German enterprises are the best performing (49 days), while those in China take the longest to pay their suppliers, stretching out to a maximum of 110 days.

Despite the obvious trend towards lengthening of payment terms by large enterprises around the world, they report that their suppliers are beginning to fight back. Globally, more than one in two large enterprises say suppliers are tightening payments terms. Most affected by shortening supplier payment terms are those in Australia and China, where around two thirds say their suppliers are seeking quicker payment terms.

Although German Corporates sit at the other end of the spectrum, with only around one in three enterprises reporting tightening payment terms from suppliers, more than 50 percent say their "terms and conditions are getting tougher", the highest across all regions.

Outside of shifting supplier payment terms, macro-economic and volatile geo-political issues are most important to CFOs and corporate treasurers of the world's largest enterprises. Rating at an average of 1.80 (where 1= important and 5 = not important) the biggest cause for concern among largest enterprises was encroaching trade barriers inspired by tougher domestic economic policies out of the United States, followed by the on-going uncertainty around the future of the European Union (1.88).

In the year ahead, 27 percent of enterprises interviewed cited "more off balance sheet financing of all kinds" as their biggest funding initiative, more than doubling other initiatives such as "refinancing their supply funding/changing financiers" and "reducing days outstanding across the chain(s)".

Head of Markets Analysis at East & Partners Australia, Martin Smith said: "East's report has found that large Australian enterprises are reporting tougher conditions, both for funding and supplier payment terms in comparison to their global peers. That landscape will only get more difficult should trade barriers, stricter payment terms domestic and other regulations stemming from protectionist sentiment come to fruition.

Banks, especially domestic lenders need to re-evaluate their core supply chain financing offerings and ensure they are meeting the shift in business demands. Otherwise, they will lose market share to international providers with wider reach, or niche non-bank financiers that provide better technology platforms that incorporate more easily with existing systems."

East & Partners Asia Business Head, Amit Alok added: "With intra-regional and international trade a cornerstone of growth for the Asia region, supply chain funding is a key financing aspect for top enterprises.

The report clearly highlights that dealing with China remains a difficult proposition, both for suppliers requiring payment, and corporates seeking funding along their supply chain in that market.

Chinese banks need to be aware of clients switching to global competitors as the market opens up. With Chinese corporates indicating that they will increase engagement with international banks by a third, domestic banks will feel the impact."

East & Partners Europe Business Lead, Simon Kleine said: "It's indisputable that Brexit has created uncertainty, and that is clearly the case for business. However, in anticipation of Brexit, UK corporates are clearly re-gearing with a shift from international to domestic-in-market trade, with plans to reduce their overall supply chain international volumes by 0.6 percent while increasing domestic by 1.4 percent in the next 12 months.

In the EU the opposite picture emerges with corporates in Germany looking to grow international volumes by 1.4 percent, while decreasing domestic supply chain volumes by 3.1 percent."

About the report

This report is based on primary research conducted by East & Partners in the first calendar quarter of 2017. A total of 736 Top 800 global corporates have been involved, with the individuals responsible for their firms' supply chain financing relationship(s) directly interviewed by East & Partners.

The top 100 revenue ranked corporates in each of eight key global markets were targeted for interview. All interviewees were involved in importing, exporting or both across Australia, Canada, China, Germany, Hong Kong, Singapore, United Kingdom, and USA.

For more information or for further interview based insights from East & Partners Europe, please contact:

Head Client Services

Simon Kleine
t: +44 207 947 9609
m: +44 7455 169 469
e: simon.k@eastandpartners.com

Media Relations

Nehad Kenanie
t: 02 9004 7848
m: 0402 271 142
e: nehad.k@eastandpartners.com

www.east.com.au