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SUPPLY CHAIN FINANCE PROGRAM ANALYSIS TOWARDS CORPORATE PERFORMANCE IN PT. ABC

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Abstract. PT.ABC is a steel fabricator company with many projects and experience in steel industry and infrastructure. As one of the manufacturing company, PT.ABC is relaying their operational activities through supply chain management. Supply chain management is one of strategic decision of a business. Supply chain management is also a network of organization that includes supplier, manufacturers, distributors, retailers, and customers. Focus of supply chain management is took place in the customers side, the primary purpose of the existence of supply chain management is to satisfy the customer needs, alongside the process of gaining profit. In order to maximize the operational activity of supply chain management, financial side is taking support in background. To support supply chain management there are several tools that also taking advantage in the financial side, one of them is supply chain finance (SCF). Supply chain finance is an alternative funding consists of three different parties' there are financial institution (bank), buyer, and supplier. SCF form a different way of funding that affected company's financial performance to leading into operational performance. The purpose of this study is to identify impact from applying SCF program toward four different indicators as the working investment, account payable desk on hand, the cost of goods sold, and current ratio specifically seen from buyer's perspective. To analyze the findings, a quantitative descriptive analysis employed. The result of this study could use to evaluate operational performance through financial performance in the company. The result is important because it will explain the improvement of performance and the impact of applying SCF program based on four indicators. By knowing those indicators, it can help PT.ABC to decide whether to use this program or not in the next year business activity.

Keywords : Supply Chain Finance, Buyer perspective, Corporate performance, Steel fabricator, Manufacturing.

Introduction

In this modern and global area, the importance of supply chain through business is crucial and important to thing to consider to. Supply chain management includes supplier, manufacturers, distributors, retailers, and customers. The focus of the chain is customers, since the primary purpose of the existence of supply chain management is to satisfy the customer needs, alongside the process of gaining profit (Chopra and Meindl, 2001). On 2008 crisis hit Lehman Brothers, a sprawling global bank that cause a breakdown world's financial system around the world. One of the solution is introducedas innovative funding called Supply Chain Finance. Supply chain finance (SCF) is an approach that aims to improve the supply chain efficiency. Supply Chain Finance is an intercompany optimization of financing with the integration of financing processes with customers, suppliers, and service providers to increase the value of all participating companies (Pfohl and Gomm, 2009)

PT.ABCas an object of this research is a steel fabricator company with many projects spreading out in all provinces in Indonesia and has more than 30 years of experience in steel industry and infrastructure. The core's business of this company is steel fabricator. The Company's products include steel from lights (LSTRU) to Heavy Steel Structure (HSTRU), steel plate work manufacturing, designer and producer Modular House, Pre-fab House, Modular Parking, Angle Steel Rolling Mill, Automotive Assembly, and H-Beam Rolling Mill. The production capacity ranges from 100.000 ton to 136.000 ton per year. The market in this industry is growing up in the early 2010's, which build the opportunity for PT.ABC. Alongside with the opportunity, the company is facing the need of working capital for investment purpose. At this moment, there is solution of funding that called Supply Chain Finance that later be used by the company in the 2014 business.

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Literature

The importance of supply chain through business is crucial and important to thing to consider to. The name that called "supply chain management" is growing and changes over the years. The name and terms of supply chain management is commonly used in order to illustrate executive responsibilities in corporations (La Londe 1997). Supply chain management includes supplier, manufacturers, distributors, retailers, and customers. The focus of the chain is customers, since the primary purpose of the existence of supply chain management is to satisfy the customer needs, alongside the process of gaining profit (Chopra and Meindl, 2001).

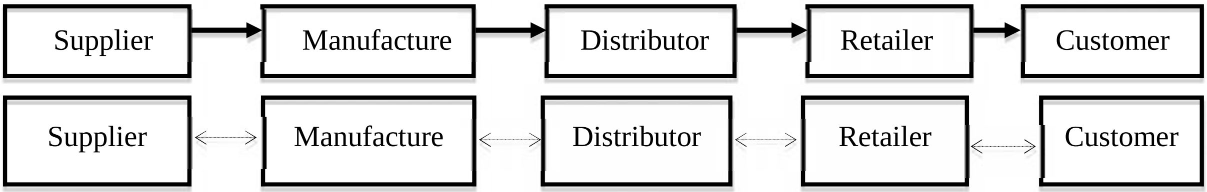

Figure 1: Supplier-Buyer Stream

The terms of supply in the name of Supply chain management, commonly defined as sharing objective of every function in the chain and important in strategic because the impact on overall cost, profit, and even market share. The approaches for different type of the Supply chain management used terms, the inventory management for instance that utilized as a balancing mechanism of last.

Supply chain finance (SCF) is an approach that aims to improve the supply chain efficiency. It is intend to improve payment terms, to reduce costs and to accelerate cash flows. Collaborations between the financial side and the operating side need an encompassing approach. It should not be an isolated concept but rather as an aspect of a more integrated system or program to map the gaps between SCM operating performance and financial performance (Timme et al. 2000). Supply Chain Finance is as the alternative of funding, can be achieved when three parties join to create their own operation financial flow. Every part in the flow is crucial one to another, the flow in the SCF program is basically can be seen easily to approve that this program is useful and helpful for every party that doing this program.

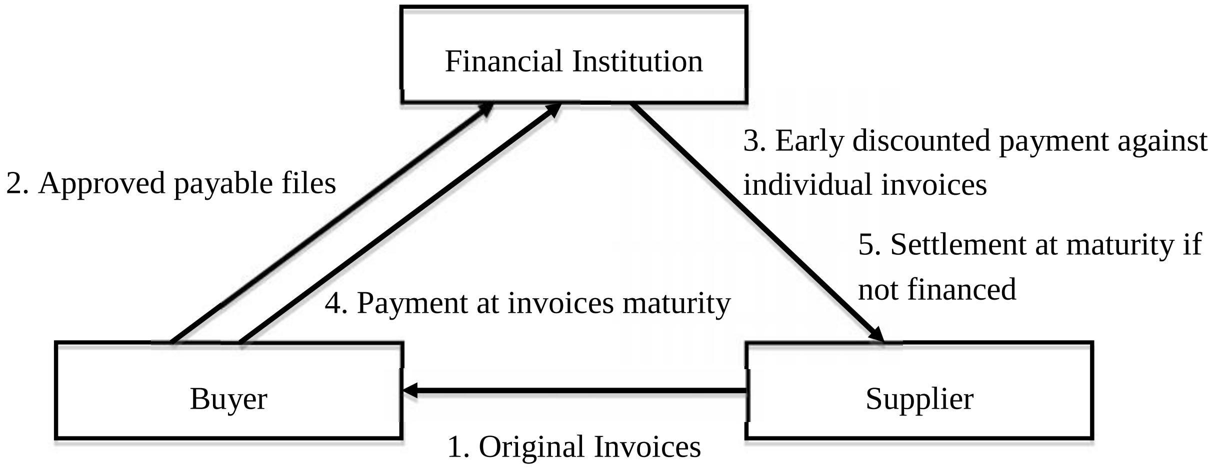

Figure 2: Supply Chain Finance Flow

The strong interdependency between operations and financial departments enables corporate to maintain a competitive advantages in the industries. The competitions among companies rely on a more cost-effective chain – a lower cost to serve the final marketplace and achieved in the shortest period possible.

Methodology

Measurement

There were several steps in this research. First was getting financial statement then group and compare. The comparison of primary data which is financial statement. Then conducting the literature review to identify the affected indicator to be measure. To measure, there are several formula to be compared with

Working investment = (Trade Receivable + Inventory) – (Trade Payables + Accrued Expenses)

Cost Of Goods Sold/Sales = Σ Cost Of Goods Sold / Net Sales

Account Payable Desk on Hand = Trade Payables / Σ Cost Of Goods Sold) * 365

Current Ratio = Current Assets / Current Liabilities

Data Collection

The data that will gather is primary data only from two different year of financial statement. The aspect or detail that further will be spotted from the financial statement are came from the Balance Sheet, with specific of data from assets (cash on hand, trade receivable, inventory), liabilities (trade payables and accrued expense), and income statement (cost of goods sold). The three components will later be used in the calculation and will be processed. The processed data again will be comparing to shown the improvement on each data. From the processed data from financial statement, one of the important things for author to examine is fact sheet that produced from each data.

Findings

Working Investment

Table 1 – Table of Working Investment

	2013	2014
TRADE RECEIVABLES	IDR483.601.176.539	IDR428.869.038.169
(EST DOUBTFUL RECS)		
NET TRADE RECEIVABLES	IDR483.601.176.539	IDR428.869.038.169
Share holder Receivable		
OTHER RECEIVABLES		
INVENTORY	IDR389.876.405.095	IDR417.715.011.226
FINISHED GOODS	IDR77.356.703.151	IDR61.943.620.327
WORK IN PROCESS	IDR92.279.358.883	IDR133.408.336.899
RAW MATERIALS	IDR220.240.343.061	IDR222.363.054.000
MISCELLANEOUS INV	IDR0	IDR0

TRADE PAYABLES	IDR245.470.050.273	IDR120.250.185.349
ACCRUED EXPENSES	IDR2.914.961.903	IDR1.781.245.713
WORKING INVESTMENT	IDR625.092.569.458	IDR724.552.618.333

In specific, trade receivable act as number of receivable that the company have for business purpose, number of inventory represent how much value of goods in the inventory of company and the last for account payables and accrued expenses is number of payable that the company have for suppliers. The indicator shortly shown decrease in result, but after breakdown on each indicator such as inventory and trade payable begin to show the improvement of applying SCF program in the inventory value and account payables has major help. The increasing number of working investment is also affected by number of project that the company do in particular year, for addition of the capital, table below can show the prove of SCF program that help the company's payable.

The indicator of account payable that getting major help by the SCF program increases the importance of working investment in the end. This conclude that the improvement of performance is getting better because the company has less payable and the company is liquid which in show good performance in short-period of time
Cost of Goods Sold/Sales

Table 4.4 – Table of COGS/SALES

	2013	2014
NET SALES	IDR893.106.012.828	IDR1.010.820.950.549
COST OF GOODS SOLDS	IDR719.394.814.686	IDR800.357.476.958
COGS/SALES	81%	79%

From calculation above, cost of goods sold is not alone. It needed to get the percentage of the COGS to avoid bias from number of project that the buyers have on particular year. Net sales are helping to define as percentage of real COGS shown in percentage. COGS/SALES are used because of this data shown in the percentage of how big is the COGS comparing the Net Sales (gain). So, it can prove that even if the COGS is increasing but if the net sales is increase too and surpass the rapid increase of COGS, this indicator is show a good performance and improvement for the company.

From the table 2 shown that net sales from 2013 to 2014 is increasing rapidly and the number of COGS is increase but not as good as number of net sales. That indicates that the COGS in general are decreasing. The decreases of COGS in buyer's perspective are a good sign and indicate that benefit from SCF program is achieved.
Account Payable Desk on Hand

Table 3 – Table of AP/DOH

	2013	2014
TRADE PAYABLES	IDR245.470.050.273	IDR120.250.185.349
COST OF GOODS SOLDS	IDR719.394.814.686	IDR800.357.476.958
A/P DOH	125	55

Table 4.5 show that the trade payable on year 2014 has major decrease same as explanations from working investment that the payable is decrease because of the bill from suppliers is already paid by the bank through SCF program. The result is the payables from SCF covered up in trade payable, which affected on their payable's number of day that change and getting majority change from 125 days a year on 2013 into only 55 days a year on 2014. On cash flow, it supposed to be better if the A/P DOH is getting longer, but in terms of balanced sheet, the shorter the A/P DOH meaning that the company has lower liabilities shown from the payables is getting major decrease covered by the SCF program. Then, shorten days in this indicator indicates that performance of PT.ABC is increasing because it is seen from balanced sheet perception, that later can aggressively affecting the liquidation of the company because company's liabilities is getting lower than before. Another benefit is it will be affecting the suppliers performance, the shorter the number of payable given to the suppliers will create a better cash flow for the suppliers which can affected company's inventory. Company's inventory is affected because the suppliers getting fresh cash from buyer then supplier's supply chain and that is not disturbing operational performance. By that affection that is the reason why with this SCF program causing companies to reduce the A/P DOH and lowering numbers of day the company to paid the bill (bill still covered up by the SCF program and paid by the bank).
Current Ratio

Table 4.6 – Table of Current Ratio

		2013	2014
CASH ON HAND & IN BANKS TIME DEPOSITS MARKETABLE SECURITIES		IDR33.800.980.356	IDR33.258.826.251
TRADE RECEIVABLES (EST DOUBTFUL RECS)		IDR483.601.176.539	IDR428.869.038.169

Table 4.6 – Table of Current Ratio (Continued)

	2013	2014
NET TRADE RECEIVABLES Share holder Receivable OTHER RECEIVABLES	IDR483.601.176.539	IDR428.869.038.169
INVENTORY	IDR389.876.405.095	IDR417.715.011.226
FINISHED GOODS	IDR77.356.703.151	IDR61.943.620.327
WORK IN PROCESS	IDR92.279.358.883	IDR133.408.336.899
RAW MATERIALS	IDR220.240.343.061	IDR222.363.054.000
MISCELLANEOUS INV	IDR0	IDR0
CURRENT ASSETS	907.278.561.990	879.842.875.646

	2013	2014
STD - BANK	400.519.802.270	452.084.744.481
STD - BANK (new)		
NEW DEBT - UNALLOCATED		
CPLTD - BANK / LEASES	-	-
CPLTD - BANK / LEASES (new)		
TRADE PAYABLES	245.470.050.273	120.250.185.349
ACCRUED EXPENSES	2.914.961.903	1.781.245.713
TAX PAYABLES	5.900.505.944	8.557.139.178
DIVIDEND PAYABLES		
DUE TO AFFILIATES		-
SUNDRY CL/Others payables	77.796.001.192	41.205.526.935
CURRENT LIABILITIES	732.601.321.582	623.878.841.656
CURRENT RATIO	124%	141%

This indicator is not should be affecting for operational performance of the company, but it is indeed affecting on company's performance overall. This indicator is affecting the liquidity of a company. Percentages of this indicator indicate that the company is in healthy condition when it has percentage and or greater than 100%. In year 2013 the overall performance get 124% of current ratio, but in 2014 it increase to be better. It is indicate that after applying SCF program, the company is getting healthier and more liquid than before. The reason why this indicator is putted up is because it one of the main indicator of company's performance (liquidity aspect).

Conclusion

The conclusion can be made in several indicator which are working investment, cost of goods sold/Sales, account payable desk on hand, and current ratio. The working investment in the research is still getting a little increase, however a major significant is show in the account payable. Another improvement is shows from the capital that company get, in year 2014 there is a major significant changes for loans that transforms into SCF instead of regular loans from banks. Next, number of cost of goods sold in the company seen from the percentage is having a minor change but indicate an improvement from cheaper price. Account payable desk on hand have major changes, the changes is link to the operational performances for the suppliers. The shorter A/P DOH is meaning that the company could paid the bill faster and the suppliers is getting help by it then support the buyers later. Inventory is one of an aspect that shows major increasing based on this indicator. Current ratio from the company show major increase of liquidity from 124% to 141%, even before the SCF program company's liquidity is good but this prove that SCF program could help company's become greater based on corporate performance liquidity.

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