DETERMINING THE PRODUCT SET

MATCHING PRODUCTS TO CLIENT NEEDS

Having mapped the market participants and the various product, information, and financial flows among them, a bank next needs to decide which financial products will best respond to client demands and needs across a complex and evolving value chain.

Quick jump for topics

INTRODUCTION

This step provides an overview of the different financial products used in value chain financing. It also provides examples of product selection from banks that

employ value chain financing on a regular basis. The business merits of cross-selling financial products and services to value chain actors is also highlighted.

FINANCIAL PRODUCT TYPES

Banks that employ a value chain approach offer a range of conventional financial products and services at specific points in the chain. Financial products used in value chain financing can be grouped into five different categories, each responding to the particular needs of the client and the value chain:

1. Product-linked financing: loans directly linked to production. Often used by aggregators or processors for advance payments to secure product.

2. Receivables financing: for providing working capital to aggregators, marketing companies, and processors. These include bill discounting, factoring, and forfaiting (the purchase of receivables from an exporter, for a margin).

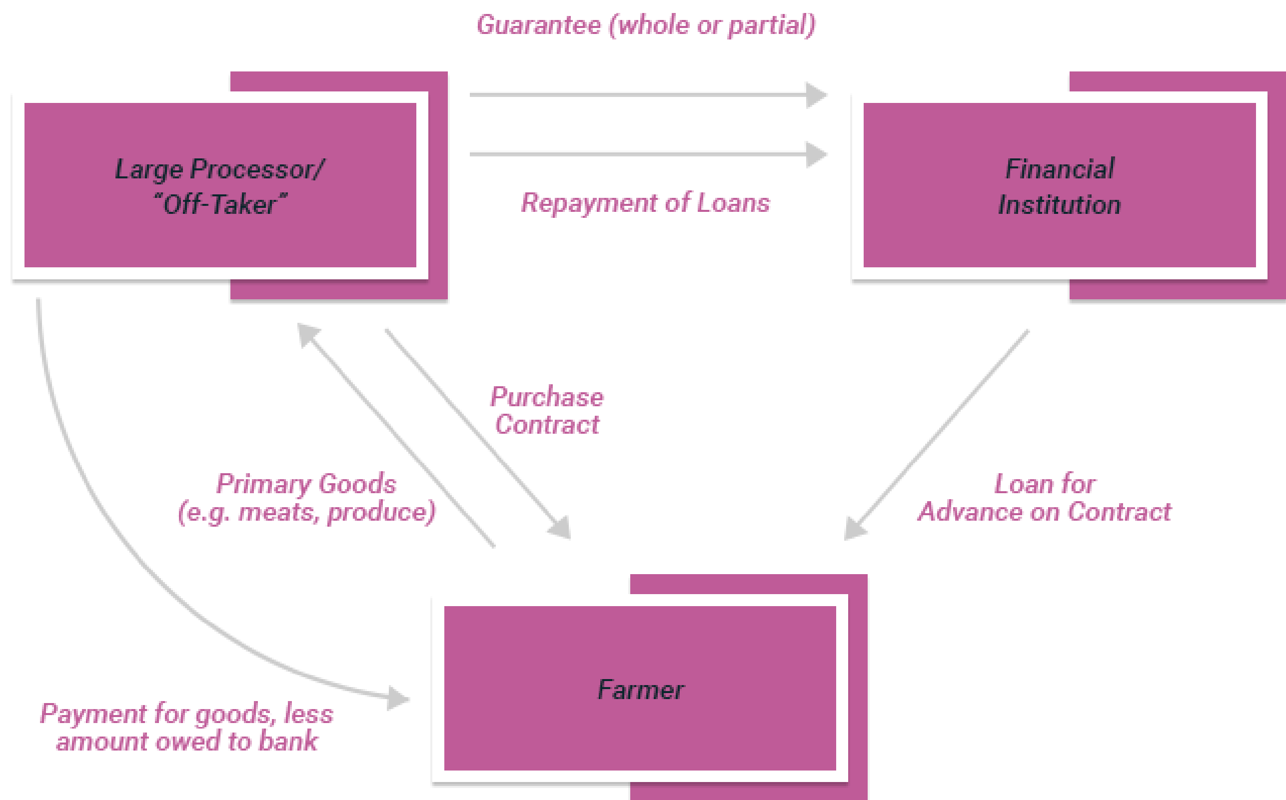
3. Physical asset collateralization: loans secured by guarantees or physical assets. The two most common products, warehouse receipts and repurchase

agreements, are used largely for working capital. Financial leasing, by contrast, involves the use of an asset over a fixed period of time, after which the client may or may not eventually take ownership.

4. Risk mitigation products: insurance, futures, and forward contracts. For the financial institution, risk mitigation products are particularly attractive as they can be offered to participants across the entire value chain.

5. Structured financing: usually loan guarantees to primary producers, sometimes by third parties outside the value chain.

Here is an illustration of a typical value chain financing products which involves uncollateralized loans to producers with secured repayments via the processor. The processor also shares the risk of producer non-payment via a partial guarantee with the bank.



Source: Agrifin VCF Bootcamp, 2014

CROSS-SELLING

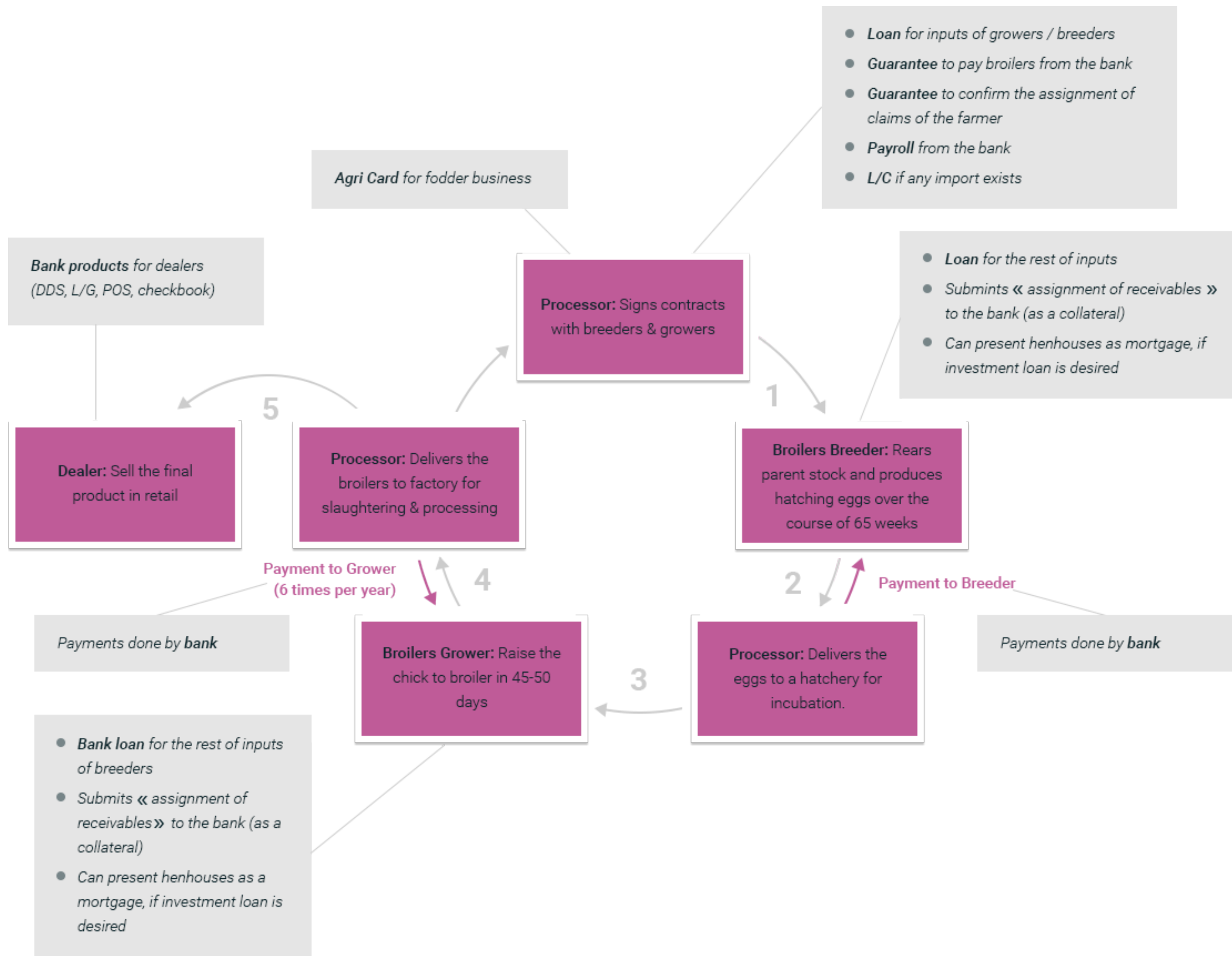
Cross-selling is the selling of more than one financial product to an individual client, or, in the case of value chain finance, to multiple value chain participants. This should be an important part of a financial institution's business strategy, turning a potentially unattractive business into a highly valuable one.

The business strategy of value chain financing, as such, is to focus on the entire value chain, identifying or creating profitable opportunities

for selling multiple products and services that satisfy the value chain's financial needs. For example, banks will often offer payment services to firms to ease the hassle and costs of making frequent payments to small suppliers. Read more.

Here is an illustration of the range of products that Yapi Kredi offers to different actors in the broiler value chain.

Cross-selling and tailoring products to the value chain



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