

Adapting to survive



Duncan Jeffcock

Duncan Jeffcock, global marketing director for Voyager Maritime Payment Systems, says all players in the bunker industry will have to have a good look at how they conduct their businesses, if they are to weather the downturn

The impact of the recent extraordinary turmoil in the financial, energy and shipping markets has left businesses seeking alternative ways to best manage their finances and weather the storm of uncertainty. We've seen freight markets fall by as much as 90%, oil prices dropping from a record high to their current levels, established companies going bankrupt, many newbuilding contracts cancelled and vessels being laid up in ever-increasing numbers. And some analysts are predicting worse to come with banks pulling the plug on finance deals, snatching back credit and actively encouraging owners to extricate themselves from orders or delay deliveries. In this climate of uncertainty, finding new ways to do business is essential in order to survive.

Adapting working practices

The current tightening of the credit market is increasing the pressure on many in the bunker sector to secure sufficient credit and working capital to run their businesses effectively. Perhaps with the exception of the financially strong oil majors and NOCs, a squeeze on credit could cause difficulties for many in the independent sector. To avoid this and to perform better in the current market, bunker players will need to strengthen their own credit portfolios, reduce the amount of working capital they have tied up in their operations and improve their overall profitability. This seems like a tall order, but is easily achieved for those willing to adjust their operating practices.

The current bunker industry model is one where fuel is delivered and the customer is given around 30 days to pay. But the current financial climate is forcing some suppliers to reduce their credit terms

to 21 or 14 days or even less. Getting paid earlier allows the supplier to turnover his capital more rapidly and to reduce the amount of cash needed to operate his business – a good move in today's restricted market – but it also reduces competitiveness, particularly if a rival operator is offering 30 days credit.

To some extent, it doesn't really matter how many credit days are given if, at the end of the period, the customer can't, or won't, pay. And with falling freight rates and increasing operating costs, default on payments is becoming more of a concern. The credit crunch has forced a number of insurers to withdraw from the marine market altogether and those that are left are hiking-up their premiums. This means that placing credit insurance to avoid defaults on payments is becoming much harder to achieve.

Financial third parties

Some of the more forward-thinking bunker operators have begun to introduce a financial third-party into their transactions to act as a counterparty to both the buyer and supplier. In effect, the financial third-party, such as a bank, absorbs all credit risk. This significantly strengthens a supplier's credit portfolio and enhances their attractiveness to their own financial backers – a healthy position to occupy in a credit squeeze.

But much more importantly, the bank can significantly reduce the amount of cash needed to operate a business and improve overall profitability. If the bank guarantees to pay the supplier within a few days of each fuel delivery then the gap between receiving customer payments and settling supplier invoices is shortened. This is known

as the cash conversion cycle and reducing it will free up a significant amount of capital within a business. This is welcome news in a time when cash is becoming scarce. And, since the third party is also acting as a seller to the bunker buyer, as long as it is well-capitalised, it can provide buyers with extended terms on a much larger line of credit than suppliers have been able to offer.

Not just about margins

Getting paid more quickly and on a risk-free basis, whilst still being in a position to offer extended credit to customers is a dream combination for any bunker supplier, particularly if their competitors are having to rein in payment terms or are being pressed by their bank. But it does rely on industry players taking a different view of their business. We have to move away from our often blinkered obsession with margins to take a more holistic view of the company by focusing on return



on investment, cash conversion cycles and working capital, which can have stunning results. A recent study carried out by my own company demonstrated that a medium-sized bunker supplier using a financial third party for just 30% of their transactions could achieve an increase in cumulative profit by almost 20% and a reduction in working capital requirement by up to 25%, all within a 12-month period.

In these trying economic times, companies need to make adjustments if they are to protect their business and enhance their profitability. Adopting effective ways to minimise credit risk and reduce the capital required in the business is one of the best options available today.



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