**Igor Zaaks Interviewing Jens Noffke of La Roche**

**Igor:**

Okay, so welcome, everybody! This is a part of a webcast ahead of Consortia 21 event. It will be 19th and 20th October. I'm talking today with Jens Noffke, who is Working Capital Lead in F. Hoffmann-La Roche. And we will talk a little bit about a corporate view of various type of platforms and various type of tools available in supply chain space. So, Jens, let's start with a little bit of fundamentals. So, everybody will be talking about solutions. There are many, many very interesting solutions, very interesting technologies. But I want to talk a little bit about differently. I want to talk about the problems. So as a corporate, what problems you're trying to solve, when these solutions can potentially play a role?

**Jens:**

Yeah. Thanks, Igor. Thanks for having me, and thanks for the question. Look, cash is important for probably any business out there, right? And Roche is not different. The pharmaceutical industry by nature is a very cash-demanding business to be in. To bring a molecule to a finished product, right? That can take 10-15 years. We are one of the big spenders in R&D. I believe last year, we spent over 12 billion Swiss Francs in R&D. And we actually plan to spend even more on R&D going forward, simply because that's the core of our business, right? Innovative medicines. So in terms of, you know, trade and financing solutions, so we're looking for tools or working with tools that support our cash and working capital objectives. But at the same time, we want to offer true low-cost financing alternatives to our suppliers, to our supply chain. So our strategy is not to offer a program, you know, that ultimately costs 12-20% APR. So we're not trying to maximise return on investment, if you want. Our strategy really is to come up with tools that provide access to liquidity at very favourable conditions. That's really the idea here. And yeah, that's we are working with funding partners to provide that liquidity, and partially, we leverage our credit rating to make that low-cost funding available.

**Igor:**

And am I correct in my understanding that you are not particularly inclined to use your own cash for it, and you need to find the ways how you can mobilise external capital, but provide a lower risk environment for people who are deploying risk capital?

**Jens:**

Absolutely. I mean, that's the key reason for working with external funding partners. Look, when you think of passive working capital, right, having more cash and having that cash longer within your own operations is better than not having that cash, right? So it's a... but obviously, that creates a conflict between large buyers and large suppliers or even small suppliers, right? That demand for extending payment terms or delaying payment creates the cash crunch on the other side of the supply chain. So these trades financing solutions, they can truly be a win-win. Not in every scenario, right? But if you do it right, and if you partner with the right partners, this can really help both sides of the equation to optimise cash and liquidity, and to, absolutely, leveraging our own liquidity. That's not what we would like to do, right? And honestly, if we were to put our own corporate cash on the table, chances are that would cost probably even more than through our funding partners.

**Igor:**

So, yeah. And let's look a little bit like we are talking now about the technology solutions. We are talking now about platforms and consortia. And for sure, by now supply chain finance have existed for a long time, offered by a number of banks as Ra, Ra was relatively simple, relatively straightforward solution, for example, for finance, approved invoices. For sure, you're looking at things that are more advanced, you're looking at your finance and you're looking at the various things allowing you to farthest reach. Is there a particular market need in your view for it? You see a lot of demand for it? It's something that your suppliers believe it's very important for them?

**Jens:**

Yeah, very good question. And like I said, so our financing for invoice financing program, right, or supply chain financing, has been around for probably 10 years. And it's a very well-established program. And I'm also fully aware that Roche is not the only company out there offering this kind of programs or similar programs. But like I said, what it has been critical for us is the cost to the supplier, but also operational efficiency, right? Both for us and for the supplier, it needs to have a high degree of automation. So these two components. And now we're very excited to expand our payment option offering to the purchase order side. Because obviously, when you think of a supply chain process, right, traditionally, you would start engaging with a supplier by placing a purchase order, then there is this, you know, time period where delivery of goods or services happens, then you see the supplier submits an invoice, then the payment term period starts. So, traditionally, payment happens at a very, very late point in time. But very clearly the need for liquidity, the need for cash, actually happens at the very beginning of the supply chain process, right? When Roche places a purchase order, pay an order to manufacturer, chemical ingredients or whatever it is, to build a machine for us, usually that means, initially at least, the cash outflow on the supplier side - right now they have to go to the market and buy ingredients, buy chemicals, buy raw material. So it's actually a cash outflow at first, right? So with these two tools, so supply chain financing for the expediting invoice payments, that's something we've been offering for 10 years around about. And now we want to also be able to offer access to liquidity when we place that purchase order. And that's where we partnered with Trade Information Network (TIN). And we've had a very successful pilot with Deutsche Bank and one of our suppliers in Germany.

**Igor:**

That sounds great. And we actually hear that suppliers now have more of a liquidity squeeze due to COVID and logistics issue and it seems like, when you think about it, it is an external effective force, that is making it more urgent and more important to find the solutions for it and to walk with the various platforms like TIN, you know, to facilitate this process.

**Jens:**

Yeah. I don't know if COVID plays too much a role in this particular instance. I mean, when there is a need for cash, there's a need for cash, right? Whether there's a global pandemic or no global pandemic, if you need money, you need money. You know. And when we talk to suppliers, you know, every supplier is different, right? Some suppliers will tell us that they have access to cash, or they're cash rich. But that's rare. Right? That happens. Not very often. Yeah, there's definitely a demand for providing access or at least offering alternatives, right? Because most suppliers can go to the house bank and ask for a loan if they have to. Most of the suppliers would have, I don't know, a credit facility or an overdraft. But the question is, can we do better? Can we offer the better financing alternative? And again, that's it - comes back to pricing, right? We don't want to offer something that doesn't make financial sense. The programs that we put on the table; they need to be financially advantageous to the supplier. Otherwise, why have that conversation? Right? If they can access that cash cheaper, through a traditional bank loan without us getting involved, there's no point having these conversations. So it needs to be a truly low cost alternative. And that is independent of pandemic or even interest rates, right? If you need cash, you need cash.

**Igor:**

And if you look again, now at the platforms of various type of consortia, what will be your criteria? So, for example, TIN is coming to you, or another provider is coming to you, and for sure you have a long queue of people knocking on your door, offering various type of solutions. How do you evaluate it? What will be the things that are most important for you when you're making your decisions?

**Jens:**

Now, at the risk of repeating myself - cost of the program, right? How much does it actually cost a supplier to receive early payment? Is it 0.xx percent? Or is it 7%? Or is it 12%? Right? That is an important driver. But at the same time, operational efficiency. How well can we integrate solution into our European systems and buying process? Right? Is it a plug and play? I mean, everybody tells you it's plug and play, but is it really, you know? But we also keep an eye on what does it mean for the supplier? You know, how easily can they reconcile their accounts receivable, other tools available to automate? How do we make sure they know what Roche has paid? So it's I would say cost and operational efficiency is very important.

**Igor:**

And if you go, because obviously, you have a very commodities as approved payables finance, not reverse factoring. It's like very simple, very clear, you can definitely look at the cost. And you can look at operational efficiency. If you look at things like pure financing, it's much less than that. Not everybody is doing the same thing. So if you're saying, one is doing a little bit cheaper, another doing more expensive. The question is, doing what? Because obviously different people do different things and have different ability in terms of the debts, in terms of advanced rate, in terms of different things. How do you balance it? So how do you look when you are looking for solutions that are more sophisticated?

**Jens:**

Now, that's a very broad question, right? I mean, we do keep an eye on the market frequently to see what's happening. I mean, you know, we know a bunch of the fintechs; we know a bunch of the banking providers. Obviously, the hurdle for a large corporation like Roche to implement something new is pretty high, right? It's the... never change a winning team or a winning process. I mean, our supplier financing program, like I said, has been running for a number of years, like a very well-oiled machine, right? it's super easily integrated into our payment process, reconciliation, fully automated, no manual intervention whatsoever. So to consider something new, right, you have to take all of that into account. What does it mean in terms of pricing? What does it mean in terms of potentially financial risk, integration into your day-to-day operations into your payment process? All of that plays an important role. But like I said, you know, we keep an eye out on the market to see what's happening. Obviously, when we started our supply chain financing journey, some of the tools that are available now weren't even around, right? In terms of new technologies, or specifically purchase order financing, you know, it is something new to us as well. I mean, TIN hasn't been around for that long, Trade Information Network. But what we find, what I find very appealing is that idea of a marketplace, right? A marketplace, where not only do you share trade information, data, but you basically bring together the banks, the buyers and the suppliers, right you exchange information and basically you can now pick the funding partner that serves you best, right? So our hope is that TIN grows further with even more participants participating so that we really create that marketplace look and feel where the supplier can present a purchase order and you know, ultimately maybe have four or five offers to choose from.

**Igor:**

And you have a network effect - more participants, you have more benefit, you get favourable**.**

**Jens:**

Yeah.

**Igor:**

And let's go a little bit to the technology because obviously, a lot of people talk about distributed ledger and about, you know, using blockchain about permission versus open ended ledger. Do you care? Is it anything that is important to you? Or, generally speaking, you are saying - we are indifferent to technology; we are interested in functionality or so. Somebody delivered on centralised system, decentralised, you know, open, permitted, whatever it is, we don't really see much of a difference. The real question is what is there?

**Jens:**

Yeah. It doesn't feel like everything and anything is called blockchain these days, right? It's one of those buzzwords. Look, you got me? I am not the blockchain expert here. I know at Roche there is a team of people looking into this, you know, where, what are the application areas? what I've been told it's in very early stages. Personally, I couldn't care less, right? If it's called blockchain or not. It is about functionality, right? And whether you call it something fancy or not. Look, I'm not saying blockchain doesn't have its purpose and its application areas. But I personally haven't seen anything in the space of trade financing solutions that has blown me away, just because it was blockchain. Maybe it's there. But if it is, I don't know about it.

**Igor:**

And let's talk a little bit about the future. Let's talk a little bit about the things that you do not see, but you want to see. So what will be the issues and the solutions that have a potential to be there, but are not there yet? What, as a company, you are not seeing on the market you like to see going forward?

**Jens:**

Now, to be honest with you, it's probably more an internal need that I see. We need to, what's that word? We need to jazz up our internal processes, right? Especially when you think of invoice financing, or reverse factoring or supply chain financing. It really, or it works best when you have a very efficient I2P process, right? The question of how and when do you receive those invoices? How do you route them through the business to the right businessperson to the approver, or to the person in the warehouse who actually needs to push a button? Or, maybe you can even automate the approval workflow, maybe you don't need somebody to push the button, right? Two-way match, three-way match, maybe even a four-way match. So technology and to be honest, this is something where we still have a few miles to walk. We are currently in the process of implementing the completely new company-wide procurement system. And as part of that, we will have new e solutions to exchange trade flow information, both invoices and purchase orders with our suppliers. So that's something that obviously will give us a lot of benefits on a day-to-day basis. But also in light of supply chain financing, or even PO financing, right, having the information quicker, being able to sort out any discrepancy with a supplier more easily rather than emails or phone calls, right? So technology in a very good I2P process is really an enabler for these programs to really flourish. If it takes four weeks to get an invoice, you know, you don't really need to talk about early payment anymore.

**Igor:**

And that's a very, very interesting point, and is going to who is going to effectively lead the process because you're drawing the picture when companies need to improve a lot of important supply chain finance, in supply chain, sorry, supply chain management, and finance is just one component. So you really need to have a lot of integration with your suppliers. And you can build this element. And there is a different view of the world, that it's something that needs to be driven by banks and financial institution, and that need to capture information needed for financing. So were you implying the fact that there was two worlds merging so that we will need to have something when people improve efficiency, their supply chain management and finance is an integral part of it? I think it is a great view.

**Jens:**

Couldn't agree more. Right? And the financing piece right is? Yeah, there are certain key milestones throughout the supply chain financing process, if they haven't been met, you can't even start the financing process, right? Like I said, invoice receipt, invoice recording invoice approval, and probably the same applies to purchase orders, right? So the quicker this process is, the more integrated it is, the better the financial benefit that we can offer essentially, right? because the whole process can kick in earlier.

**Igor:**

Okay, thank you, Jens, for the very interesting and we are all looking forward to hearing you on a panel on Consortia 21.