

FLUID-WIN Platform and collaboration of SMEs

KRISTÍNA VINCOVÁ

Technická univerzita v Košiciach, Ekonomická fakulta

Němcovej 32, 040 01 Košice

Slovenská republika

kristina.vincova@tuke.sk

Abstract

Development of the society is in close connection with development of particular regions. That is the reason why the considerable effort and huge amount of finance is spent to the research supporting the cooperation among regions in the European Union. In this contribution we will give a short overview on a European IST project „FLUID-WIN”. The FLUID-WIN project is implementing an innovative, interdisciplinary and dynamic business model. This model will enable the European manufacturing companies to keep their ability of quick response, achieving competitive prices by integrating the suppliers from different regions of Europe.

Key words: financial services; trust; security; web based platforms; regional development and cooperation.

1 Introduction

The ability of companies to on-time demand satisfaction had become a key success factor in the world market. In the last decade the manufacturing companies follow the strategy of outsourcing a major part of their non-core manufacturing activities. Especially companies of modest size have been forced to design and assembly companies with complex supply networks of strategic suppliers. The management of such networks causes significant effort and cost.

The world wide outsourcing activities drove a huge number of research activities in the fields of SCM (Supply Chain Management) and SCE (Supply Chain Execution), and a lot of IT initiatives and resulted in a lot of new software products and services. Most of these activities involved geographically close suppliers, only, rarely crossing country borders and mostly even keeping within one small region of a country. Keeping the suppliers in the region, the cooperative business can be performed more simply. On the other hand, the product price has gained a determining importance and in consequence thousands of European manufacturing companies have started strong product cost containment projects. By many enterprises, a fast and efficient solution was expected from following the large enterprises in purchasing components from countries with low labour cost, especially from the Far East and especially from China.

“The European IST project FLUID-WIN is oriented to business-to-business (B2B) manufacturing networks and their interactions with the logistics and financial service providers. The main aim of the project is to develop a platform, which can seamlessly integrate and transfer data among all the various partners in order to enhance the competitiveness of the whole business sector in Europe and to make the business processes as efficient as possible. The platform will enable the European manufacturing companies to keep their ability of quick response, achieving competitive prices by integrating the suppliers from other parts of the world. This platform will be supported through easy-to-adopt e-commerce applications and will integrate the commonly used logistics and financial services without installing thousands of peer-to-peer relationships (see: www.fluid-win.de)”. [2]

The two major FLUID-WIN objectives are the development of an innovative model and a prototype of the related e-commerce application (see Figure 1). Today, efficient models for the supply chain management in terms of orders are available as B2B operation and others are under development.

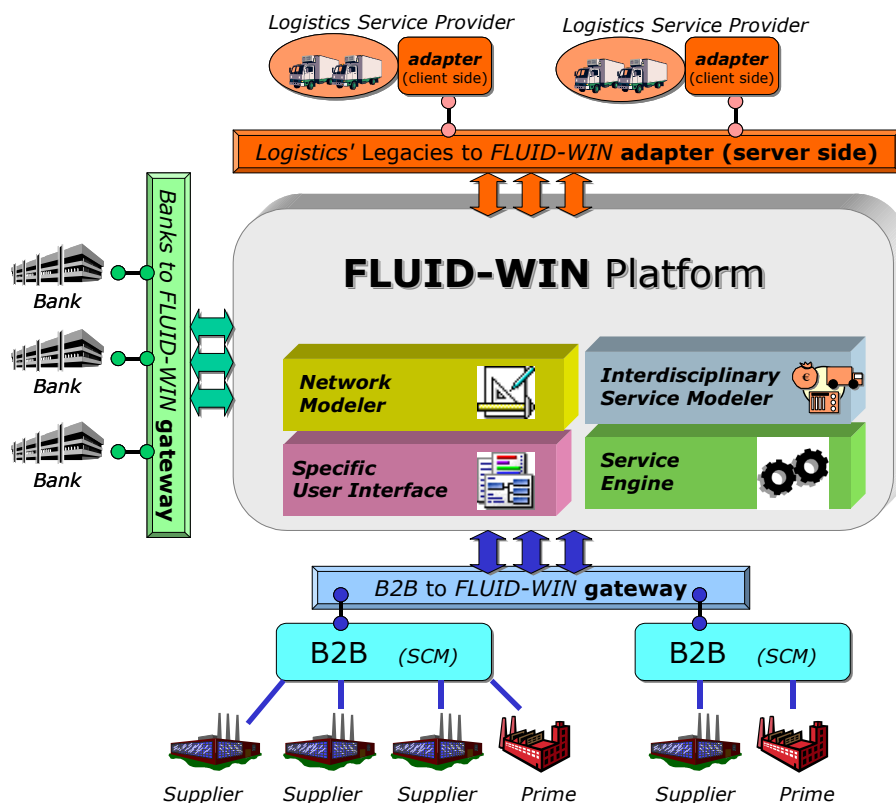


Figure 1. The FLUID-WIN platform

Source: FLUID-WIN Proposal, 2005

2 Small and medium sized enterprises in Slovakia

European Union defines small and medium sized enterprises (SMEs) as micro companies (0-9 employees), small companies (10-49 employees) and medium sized companies (50-249 employees), which constitute the backbone of any economy. One of the most typical characteristics of advanced countries is the importance of this sector in their economy. On average SMEs represent more than 95 % of all enterprises in the OECD countries, employing between 60 and 70 % of the working population. [3]

In the early 1990s, when Slovakia began to transition from a centrally planned economy to a market economy, there was almost no SME sector. Just 16 years later quantitative parameters

of the Slovak SME sector are already comparable to those of the most developed countries: the SMEs represent about two thirds of the Slovak economy. [3]

One of the most persuasive facts that illustrate SMEs growing importance is its increasing share on total employment. The share of SMEs on total employment is growing steadily and today equals almost 70 % of total employment in the economy (Figure2).

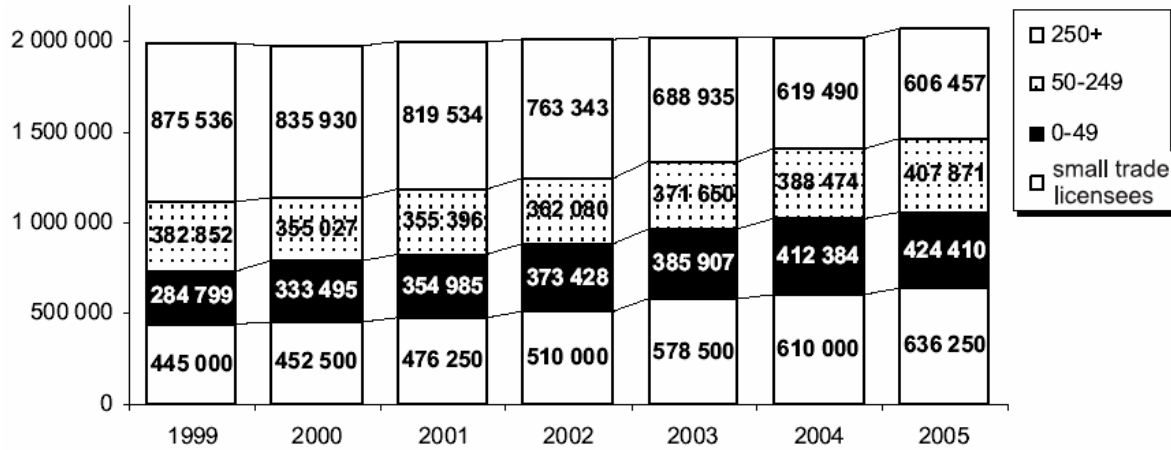


Figure 2. Shares of SMEs on total employment

Source: State of small and medium enterprises in the Slovak Republic, 2006

The share of SMEs on gross production illustrates its importance, too. According to the preliminary data gross domestic product in a volume of 1.471.131 million SKK was generated in 2005. Compared to 2004, this means an increase by 8,5% in current prices year-on-year.

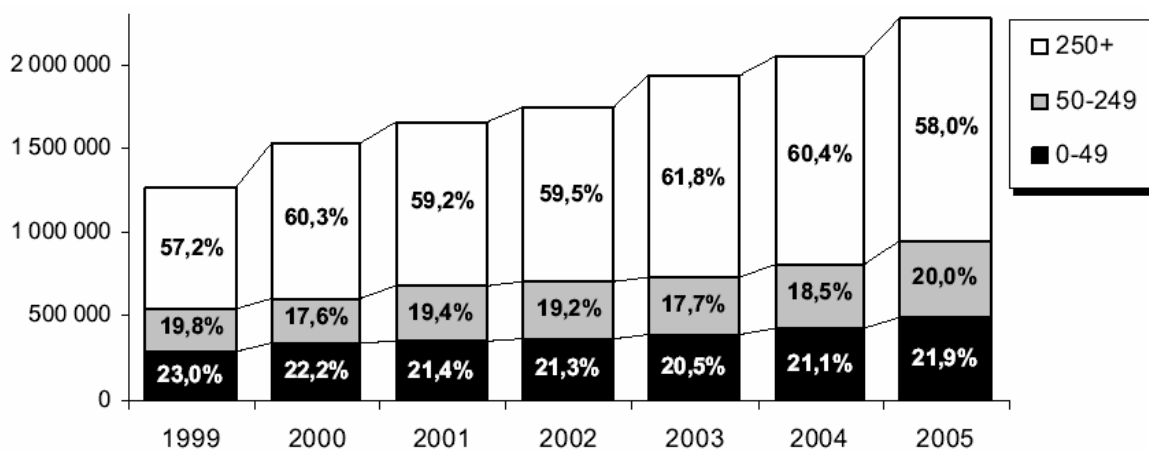


Figure 3. Shares of SMEs on gross production (in million SKK)

Source: State of small and medium enterprises in the Slovak Republic, 2006

The contributions by small and medium enterprises to the principal economic parameters did not change pronouncedly (Figure 3). The share of SMEs on gross production is mostly on the same level, where the share of SMEs is around 42 % of total gross production. The greatest share on gross production has large companies. The integration of SMEs into manufacturing networks, as FLUID-WIN, can substantially improve their productivity and efficiencies.

3 Financial service providers in Slovakia

The financial service providers (FSP), which will be contacted by FLUID-WIN, are of different types. There are banks (traditional and commercial), factoring houses, credit guarantee institutions (maybe within banks) as well as insurance and re-insurers. All these

companies help their clients to do their business both locally as well as internationally in a secure and reliable manner. Furthermore, different financial services providers usually provide similar services but with a completely different way of processing. One of the roles of financial services providers is to assure flow of payments and compatibility of settlement systems. The other role is help in area of business activities external financing, mainly in SME sector. [1]

A mixture of different payment systems has evolved to service the growing requirements of both trade-related and non-trade-related commerce. In the majority of cases, these systems operate as closed proprietary networks, creating incompatibilities between the different systems. There is a particularly sharp division between the payment and settlements systems, which are used for large value transfers, and those, which are available to settle smaller payments, particularly on a cross-border basis. This has led to an inverse relationship between the volume and the number of transactions. It has also further accentuated the division between large multi-national corporations and smaller enterprises wishing to utilise electronic systems for making payments.

In the area of external financing, there exist two main ways in the condition of Slovak republic. The main external financial resources for SMEs are bank loans. With the development of Slovak economy the necessity of financing by this way increases. In Slovak financial market, there operate 17 banks with domicile in Slovakia and 8 banks, which are branches of foreign banks. For example we can analyse the development of bank loans in the segment of self-employed persons. We will monitor, which way of external financing were used by this segment. In the Figure 4 we can see, that the volume of bank loans in 2006 increases.

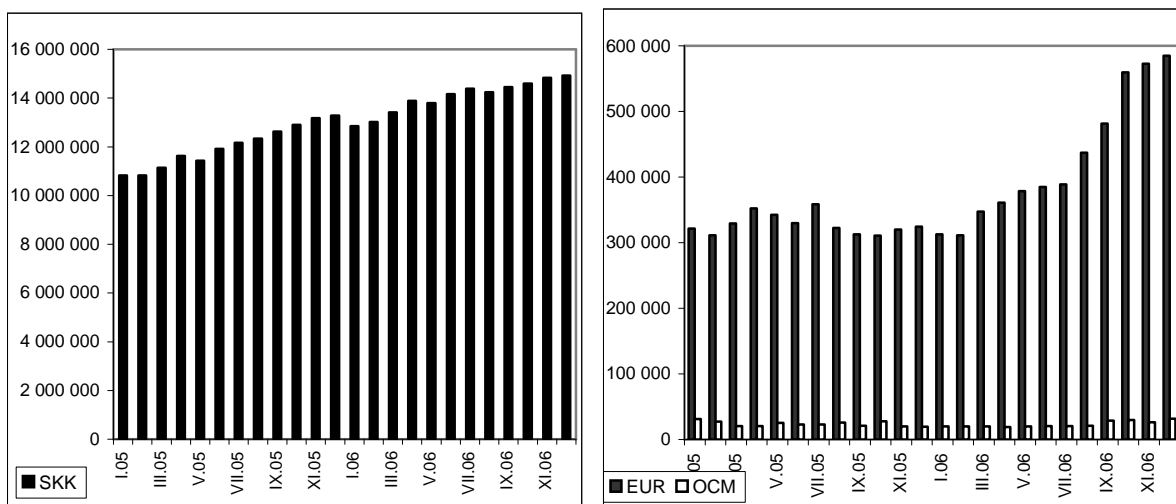


Figure 4. The volume of bank loans in SKK and foreign currencies (data in 000 SKK)

Source: www.nbs.sk [4]

The self-employed persons draw down loans in: Slovak currency (SKK), EUR, and other foreign currencies (OCM). In the Figure 4 we can see, that the bank loans in SKK have the highest share on the total volume of bank loans. The volume of draw down loans has increasing tendency. In the last months we can see higher movement in the volume of bank loans in EUR. [6]

The alternative form of external financing is factoring. The factoring becomes more and more popular in the recent years. The development in this area is noticed on the Figure 5.

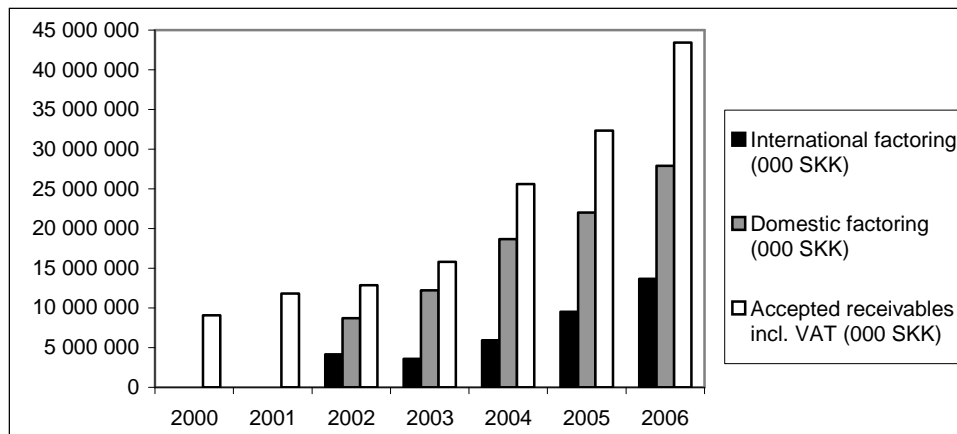


Figure 5. The volume of financed receivables

Source: author's calculation

On this Figure 5 we can see, that the volume of financed receivables increases throughout whole observed period. In 2006 the volume of financed receivables increases near to 45 billions SKK, which means increase by 44 % against preceding year. The factoring in Slovak republic finances mainly the domestic business. The volume of receivables financed in domestic factoring achieves approximately double volume of receivables financed through international factoring. The factoring services are offered mainly with bank institutions in Slovakia. Factoring is regarded as the supplementary product to other bank services. There were situated 7 factoring companies in the Slovak market in 2006, whereby 5 of them are Subsidiary Corporation of Slovak banks. [5]

All financial service providers help companies and commercial endeavours situated in different countries to be able to trade with each other in a secure and reliable manner and also to actually transfer money between the various parties of the transaction.

Basically, the more accurate, detailed and real-time information provided by FLUID-WIN Platform to financial institutions, can lead to reduction of the risk factors in delivering their financial services to companies that want to trade across borders.

However, the financial domain also offers potential internal improvements to various firms for easier processing of documents in the financial area. It is apparent that bureaucracy is still the name of the game when it comes to collate documents for trade financial instruments, and each bank has its own subset and version of how it requires these documents to be provided. The aim of FLUID-WIN Platform is to streamline such documents, to make them easier to understand and, where possible, to automate their creation. This would provide an additional help to SMEs.

Last but not least aim of FLUID-WIN is try to make easier for countries all over Europe to start being aware of the possibility of using cross-border financial services in the hope of better and cheaper access to finance.

4 Conclusion

The participation of Slovak SMEs in the project like FLUID-WIN leads to entrepreneurship electronization in the specific regions and in the Slovak republic too. The contribution of the participation is higher competitiveness of closed companies. The higher competitiveness can be obtained by offering companies products and services by B2B FLUID-WIN gateway. The FLUID-WIN platform will enable the manufacturing companies connected to platform to keep their ability of quick response, achieving competitive prices by integrating the suppliers

from other parts of the world. Because the SMEs represent more than two thirds of all enterprises in Slovakia, the higher competitiveness of SMEs leads to higher competitiveness of specific regions and Slovak republic too. Therefore the participation of SMEs in this project is very important.

The financial service providers (FSP) can be divided into banks, factoring houses, credit guarantee institutions as well as insurance and re-insurers. The participation of financial service providers in the project like mention here allows and forces to offer new products and services for SMEs. This leads to progress in the area of offered products and services quality. The higher quality of bank services means higher satisfaction of bank's clients and simplification of performed business activities. FSPs help their clients to do their business both locally as well as internationally in a secure and reliable manner.

The important factor of participation in the mention projects is the trust in electronic systems. This can be obtained trough putting the most up to date technologies in the area of trust and through obtaining personal experiences at work with theses systems. Therefore one of the FLUID-WIN project's aims is to build a trust in electronic systems.

References

- [1] FLUID-WIN. Deliverable D07. Company Networks Requirements and Potentials. 2006
- [2] FLUID-WIN Proposal. 2005
- [3] National Agency for Development of Small and Medium Enterprises. 2006. *State of small and medium enterprises in the Slovak Republic*, Bratislava, 2006, ISBN: 80-88957-42-7
- [4] National Bank of Slovakia: *Mesačný výkaz o úplnom čerpaní úverov*, 2005, 2006, Available on <<http://www.nbs.sk>>
- [5] Toptrend in Finance, Trend 24/2006
- [6] VINCOVÁ, K. 2007. [online]. *Financing of small and medium enterprises in Slovak republic*, IN: ERENET Profile, ISSUE Vol. II, No. 2, 2007, Available on WWW: <<http://www.erenet.org/publications/profile6.pdf>>