Supply Chain Finance:

The Right Fit for Your Business?

When it comes to supply chain finance programs, one size does not fit all. Companies compare variations in technology, funders and plan features to find the perfect partner. The return on investment of launching a supply chain finance program is worth the time. If your business could use a financial boost, time to start asking questions.

For every $1 billion in sales, the working capital improvement opportunity averages $70 million in the US.

What is supply chain finance?

Supply chain finance aligns the monetary interests of companies and their suppliers.

Also known as supplier finance or reverse factoring, the practice unlocks working capital to improve cash flow across the supply chain. Buying businesses benefit from extended pay terms while providing suppliers early payment options for a small fee. The buyer and supplier both gain from assets timed to meet current financial obligations and support future growth.

Finance programs help companies focus more on revenue-generating core business activities to improve the bottom line

Is my company ready for supply chain finance?

Time and resources often favor operational metrics to improve financial performance. Yet a focus on accounting and financing activities can generate significant business benefits. As you begin considering a supply chain finance program, ask these questions to assess internal working capital efficiencies:

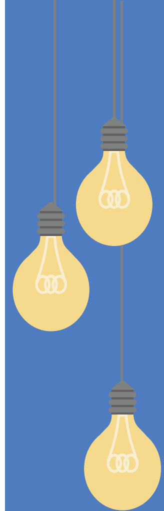
- Are we meeting our financial obligations easily and on time?
- How well do our asset and liability cycles align?
- Can we adjust obligation timing to improve working capital?
- Are working capital metrics important at designated points in time (e.g. month-end, quarter-end) or daily?
- Is our current working capital flexible enough to enable business growth?
- Are we leveraging working capital data to improve our business processes?
- Do the importance of working capital metrics resonate with staff beyond the finance team to drive operational activities?
- What are our business objectives? How does capital management align with those objectives?
- What are our goals for working capital improvements?

How is the program **funded**?

Funding varies between supply chain finance programs, but typical options include:

- Buyer self-funding
- Short-term credit
- Bank lines
- Partner capital

Examine differences between program characteristics like interest rates charged, level of control, speed of funding, government regulation, and financial backing. Find the program that best fits how your company prefers to operate.



What's most important to your business – cost, oversight, ease of use?

How much in supplier payments can the program **support**?

Calculate the amount of your supplier payments occurring within one average pay term. Does the finance partner have enough capital to cover all payments, including accelerated receivables? Can the partner flex up as needed to cover peak seasons and business growth?

Who carries the **risk**?

Companies ultimately own responsibility for supplier payments, so understanding how finances are managed in a supply chain finance program is important. Ask questions about co-mingling or floating funds. These practices carry a higher risk of funds dissolving before reaching payees, leaving both your company and suppliers out money. Other supply chain finance providers offer accelerated payments to suppliers using their own capital. This model offsets business risk and passes it on to the third party.

What **fees** are associated?

Assess the cost of the program to ensure it drives both cost and labor savings. Examine associated charges, which can include transaction fees, monthly service fees, user fees, annual fees, implementation fees, and user license subscriptions. Know what the fees cover, who pays them, and if the contract includes rate increases.

Some financing models also include contingencies based on accelerated payment adoption. For example, programs may charge a company if suppliers fail to achieve a contracted quick pay percentage adoption. Other programs build a flat rate only assessed by suppliers to keep financing free for buying companies.

Look for programs that offer low, transparent rates in a clear, concise contract

What **flexibility** does the program provide buyers and suppliers?

Standardization provides efficiency and economies of scale, but if your business is multidimensional, your financing program should be too.

Good questions to assess flexibility include:

- Are varying contracted pay terms among suppliers supported?
- Do buying companies have flexible payment methods (e.g. ACH debit, ACH credit, check) aligning with corporate controls?
- Can suppliers select among multiple accelerated pay terms and fees?
- Can suppliers select among multiple payment receipt methods (e.g. ACH deposits, checks, wires, international deposits)?
- Can participants customize data reports through the program?

Does the model require **debt reclassification**?

Quality supply chain finance models should never change the economic substance of a trade payable. They always should offer a degree of separation between companies and their suppliers in pay term negotiations. Any program not clearly guaranteeing these items could result in a negative impact to your balance sheet through debt reclassifications.

Learn more about accounting standards for supply chain finance: freightrover.com/scf-guide

How will the supply chain finance program impact **current business processes**?

All impacts should be an improvement — like the program was created with your business in mind.

Good supply chain finance partners integrate with minimal disruption to current processes and controls. Technology should integrate with existing management systems without significant additional IT resources. Implementation, including staff training, needs to be efficient. New models must easily comply with or improve a company's accounting controls. Suppliers should benefit from a straightforward enrollment and easily accessible receivables information.

How **transparent** is the data?

Best-in-class providers offer easily accessible information to both buying companies and their suppliers. Know how the provider's technology or staff resources manage:

- Reporting
- Invoices and supporting documentation
- Payment statuses
- Remittance data
- Due dates

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