

# *Understanding Supply Chain Finance*



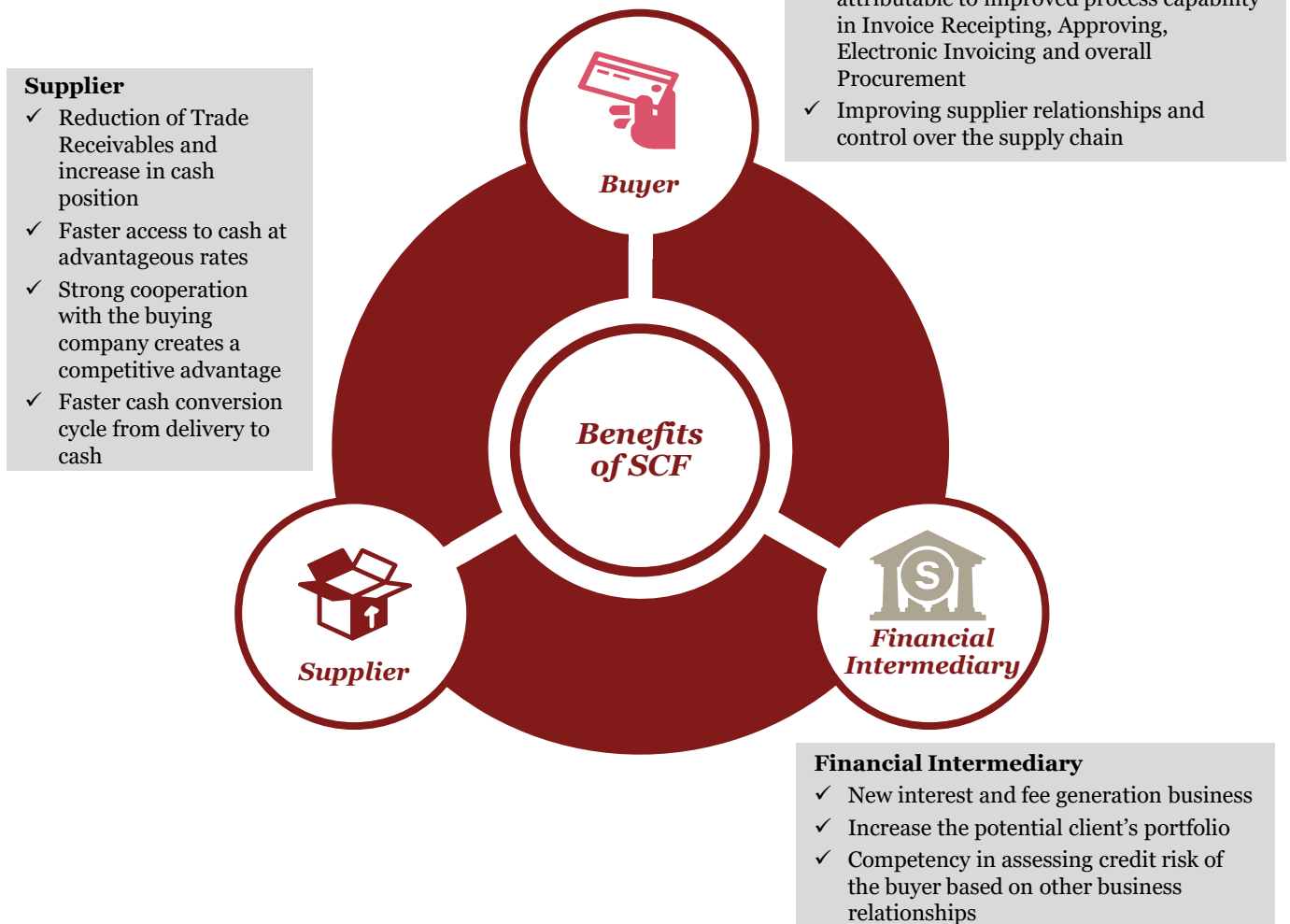
*Supply Chain Finance is an effective way for companies to improve their working capital position, drive EBITDA improvement and strengthen supplier relationships*

# Introduction

The current economic climate is compelling companies to manage liquidity better and strengthen their balance sheet. Supply chain finance (“SCF”) is an effective way for companies to improve their cash flow and working capital position. The SCF solution most commonly implemented is Reverse Factoring or Supplier Financing.

SCF provides a positive EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) impact for both Buyer and Seller, as SCF helps reduce costs.

The key concept behind SCF is to provide suppliers with access to advantageous financing facilities by leveraging the buyer’s stronger credit rating. It provides short-term credit, which can optimise cash flow by allowing buyers to lengthen their payment terms whilst providing suppliers with the option to receive payments earlier.

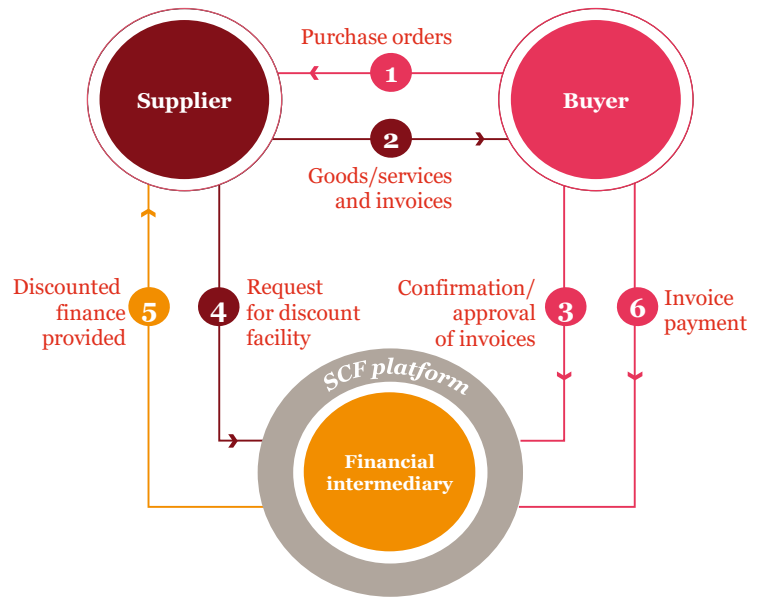
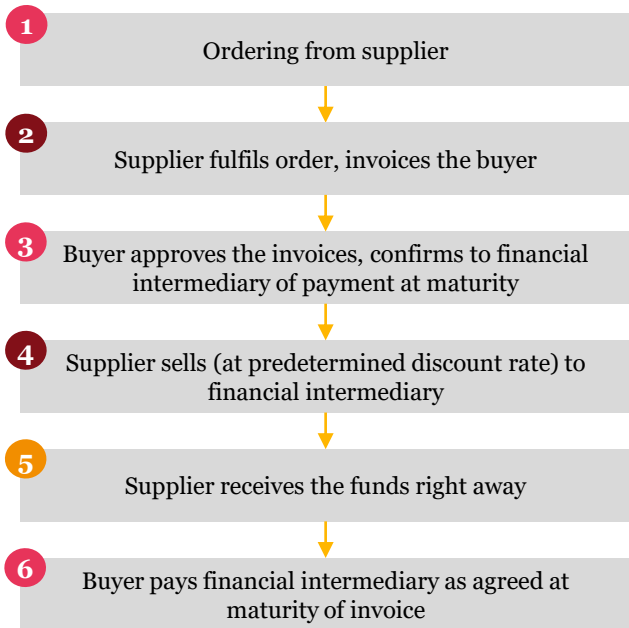


**Supply Chain Finance is a “win-win-win” solution as it benefits the Buyer, Supplier and Financial Intermediary**

# The mechanics of Supply Chain Finance

SCF requires the involvement of an SCF platform and an external finance provider, who pays supplier invoices in advance of the payment due date, for a financing cost that's lower than the suppliers' own source of funds. The benefit is then shared among the parties.

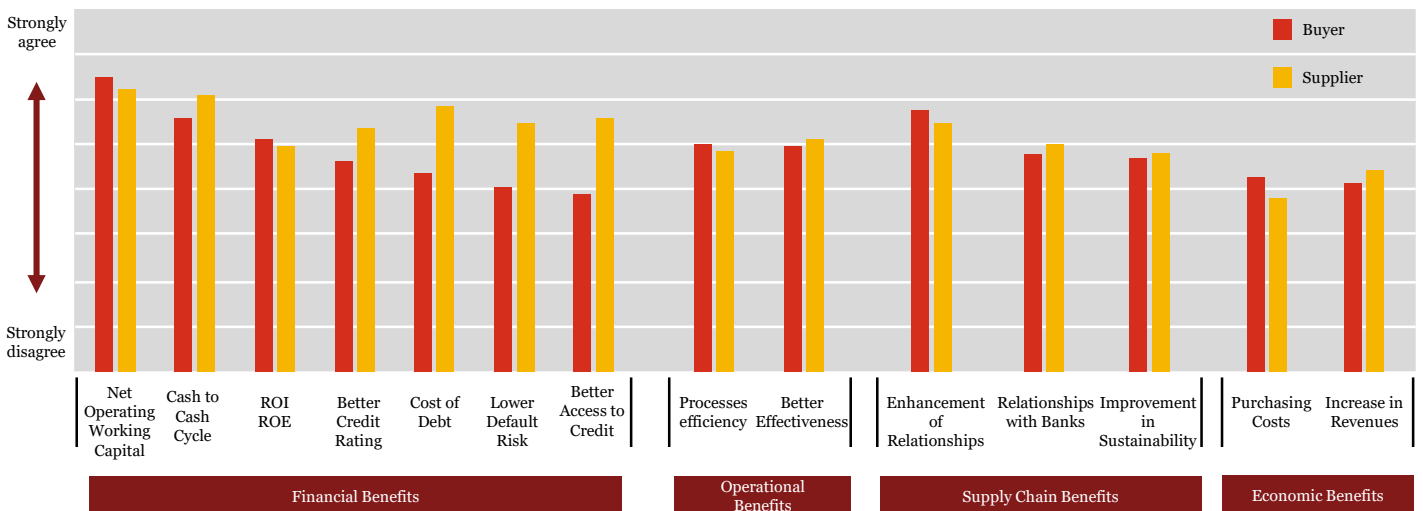
## The process flow



## Why do companies implement SCF?

Companies implement SCF for more than just cash release. Other benefits may include:

Benefits comparison- Buyer versus Supplier



Read our SCF Barometer 2018/2019 here

Source: PwC SCF Barometer 2018/19

# Key success drivers for SCF programmes

In order to maximise working capital potential, an SCF programme should be part of an integrated Procure to Pay (P2P) strategy. This applies to any industry with significant supplier spend. SCF programmes have been implemented successfully by major global MNCs, but remain relatively unexplored in South East Asia.



## Selection of the right Technology Platform and Financing Partner

- SCF has been around for decades, resulting in multiple technology approaches that offer different levels of flexibility and integration with your ERP system. Selecting the right one is key for long-term success
- Cutting-edge FinTech allows you to tap into global finance markets. The off-balance sheet nature of SCF allows you to add financing providers despite possible restrictions from debt covenants



## Cross-functional approach

- Despite the name containing “Finance”, SCF programmes cannot be successfully rolled out with the involvement of only the Treasury or Finance function. Procurement and Accounts Payable have equally important roles to play
- Successful SCF programmes bridge the functional gaps and align the organisation to a common Procure-to-Pay strategy



## Integration into a comprehensive Procure-to-Pay Initiative

- Minimise invoice approval times, maximise use of e-invoicing, self-billing and cooperation with suppliers
- Payment term and payment run enhancement; Differentiated terms strategy with aligned payment runs
- Supporting small business suppliers by incorporating SCF in vendor development programme

## Key steps for a successful Supply Chain Finance programme implementation



Implementing a new SCF programme is challenging. More so with the various needs of the parties involved.

If the implementation doesn't go well, immediate repercussions will be costly. In the longer term, it may affect the integrity and stability of your supply chain.

# Case Study 1

## Global Supply Chain Finance programme roll-out and implementation for Tier 1 Automotive Supplier

### Background

The client is a global automotive supplier to all major automotive OEMs.

The scope included

- 17 countries
- 8000 suppliers
- 58 legal entities
- >10Bn USD annual spend

### Approach

- Harmonised payment terms across suppliers and categories
- Developed a negotiation approach and strategy for the top 150 global suppliers
- Trained over 200 of the client's employees across 4 continents on the concept of Supply Chain Finance, next steps and roll out
- Linked client with a bank to ensure robust set-up in all countries, and that KYC and legal requirements were fulfilled
- Locally set up the interface between client (SAP) and bank (SCF Portal) and joint testing of functionality
- Developed and validated the Purchasing Framework on both local and group level, recommended target terms
- Recommended and developed Global Payment Terms for relevant suppliers, leveraging economies of scale and ensuring standardised approach on supplier level within local legal requirements

### Benefits

- >200Mn USD working capital improvement delivered in 6 months, with over 900Mn USD being targeted with >0.5% EBIT impact as well
- Shortened invoice approval timeline that facilitated higher SCF potential (~7 Days)
- Ease of tracking and transactions resulting in significant release of personnel bandwidth



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## Case Study 2

### Large scale Supply Chain Finance programme roll-out and implementation for a UK-based FMCG company

#### Background

The management from this organisation wanted to roll out a reverse factoring programme for a company within the Group's European operations, as part of a large scale transformation. The scope included:

- 83% coverage of the Company's annual spend
- Total spend amounting to more than €400Mn
- 2 different purchasing models
- 293 suppliers

#### Approach

- Completed gap analysis & impact assessment
- Designed and implemented supplier on-boarding plan for central suppliers
- Developed new ways of working and validated the outcomes of mentioned initiative
- Linked the client with a bank via active engagement in contract review and implementation alignment
- Conducted User Acceptance Test (UAT) coupled with buyer and accounts payable staff training
- Monitored the roll-out for supplier on-boarding and created an overall implementation status report
- Conducted monthly meetings with the bank and steering committee

#### Benefits

- Identified annual cash benefits amounting to 1%~ 3% of in-scope spend
- Improved supplier credit term from 90 days to 120 days for a significant supplier segment
- Consolidated 2 purchasing models into one centralised model, increasing visibility and facilitating better planning



# How we can help

PwC's dedicated Working Capital Management team combines global best practice experience with industry knowledge, providing you with expert advice and implementation assistance to maximise benefits.

## Supply Chain Finance Feasibility Review & Opportunity Estimation

- Quantitative analysis of spend data to estimate SCF opportunities (Cash & EBITDA)
- Supplier-industry specific terms benchmark
- Performance assessment in invoice processing and approval price
- Assessment of electronic invoicing penetration, non-PO spend

## Procure-to-Pay Opportunity Assessment

- Review of end-to-end process capability in Cash-Cost-Service performance
- Quantification of benefits from avoiding early/late payments, improved terms structures (end-of-month terms, settlement discounts), optimised payment channels (PCards, SCF, EFT, etc.)
- Opportunities of invoice scanning, EDI interfaces, robotics and AP automation
- Optimised use of ERP resources, better controlling & governance



## Our specialist capabilities

- Dedicated working capital expert team
- Industry experience
- Tailored best practice methodology
- Proven change management capabilities
- Hands-on mentality and collaborative mindset
- Focus on knowledge transfer

## Working Capital Project Management Office

- Establishment of global PMO to drive change through the organisation
- Performance Dashboards with drill-down capability
- Executive and operational KPIs and performance reporting
- Action plan development and monitoring of progress
- Build-up of a Working Capital Centre of Excellence for the client

## Total Working Capital Programmes

- Total Programme from Analysis over Implementation Sustainability activities
- Roadmap development, action planning and delivery of best practice processes, tools and IP
- Cooperative approach with client resources for upskilling and sustainability
- Measurable impact within 2-6 months

## Speak to us



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