Unlocking off-balance sheet benefits for buyers and suppliers / April 2018

Understanding Supply Chain Finance (SCF)

Why SCF ?

- Working Capital optimisation
- Supplier liquidity needs
- Supplier relationship improvement
- Supply chain stability improvement
- Others
  - Additional revenues, cost reductions, EBIT improvement
  - Cash surplus utilisation to fuel operation
  - Corporate finance optimization (incl. Asset financing)

https://www.pwc.com/vn
Understanding SCF

The current economic climate is forcing many companies to better manage liquidity. Supply chain finance can be an attractive way for companies to improve their working capital position whilst also having a positive impact on EBIT.

Key concept

SCF requires the involvement of a SCF platform and an external finance provider who settles supplier invoices in advance of the invoice maturity date, for a lower financing cost than the suppliers’ own source of funds. This benefit is then shared among the parties.

Process flow

1. Ordering from supplier
2. Supplier fulfils order, invoices the buyer
3. Buyer approves the invoices, confirms to financial institution of payment at maturity
4. Request for discount facility
5. Discounted finance provided
6. Invoice payment

Benefits

The key idea behind SCF is to provide suppliers with access to advantageous financing facilities by leveraging the buyer’s stronger credit rating.

<table>
<thead>
<tr>
<th>The Buyer</th>
<th>The Supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Longer supplier payment terms without having to ‘trade off’ against higher prices - 30-50% Trade Payables increase</td>
<td>✓ Lower Trade Receivables and increase in cash position</td>
</tr>
<tr>
<td>✓ Off-balance sheet financing and general improvement of the balance sheet</td>
<td>✓ Faster access to cash at advantageous rates</td>
</tr>
<tr>
<td>✓ Reap early settlement discounts which flow directly into profits while still paying at invoice maturity</td>
<td>✓ Stronger cooperation with the buying company creates a competitive advantage</td>
</tr>
<tr>
<td>✓ Improved process capability in Invoice Receipting, Approving, Electronic Invoicing and overall Procurement</td>
<td>✓ Quicker cash conversion cycle from delivery to cash</td>
</tr>
</tbody>
</table>
### Implementing SCF

Based on our experience, to maximise the working capital potential of an SCF programme, it should be part of an integrated Procure to Pay (P2P) strategy and approach. It is applicable to any industry having significant supplier spend and has been successfully implemented by many major global MNCs.

#### Embedding as part of P2P process

<table>
<thead>
<tr>
<th>Invoice</th>
<th>Posting</th>
<th>Approval</th>
<th>Invoice due</th>
<th>Targeted due</th>
<th>Payment due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Payment Term</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Impact Areas**

- Invoice Process optimisation (timing, confirmation, discrepancies)
- Payment term enhancement (category and supplier terms alignment, PTP cash strategy)
- Supplier payment cycles (Payment runs, alignment to terms, DPO Vs actual paid days, integrated system)

**Enabler Consideration**

- Funding provider – Local vs Regional
- Platform – In-House Vs 3rd Party Vs Banks
- Accounting considerations
- Prioritization and roll out strategy

**Organization, Policies, Metrics, Reporting and KPIs**

#### Main steps

1. Programme conceptualization
2. Selection of funding and tech partners
3. Develop a business case
4. Programme Implementation
5. Periodic Review

#### Key Success factors

- Supplier Liquidity and refinancing structure
- Internal stakeholder management
- Implementation Management
- Technology Partner Management
- Supplier receivable portfolio and relationship with buyer
- Key Success Factors

#### SCF activities on global scale

<table>
<thead>
<tr>
<th>Platform</th>
<th>Organization</th>
<th>Platform Provider / Product</th>
<th>Funding Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Platform</td>
<td>Nestle</td>
<td>Supplier Finance</td>
<td>Citi</td>
</tr>
<tr>
<td></td>
<td>Unilever</td>
<td>Confirming</td>
<td>Santander</td>
</tr>
<tr>
<td>Third Party Platform</td>
<td>Sainsbury’s Coop</td>
<td>Prime Revenue</td>
<td>RBS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Demica Citadel</td>
<td>Multiple</td>
</tr>
<tr>
<td>Custom developed platform</td>
<td>Carrefour</td>
<td>FINIFAC</td>
<td>Santander, BNP Paribas, Unibanco</td>
</tr>
<tr>
<td></td>
<td>Metro Group</td>
<td>MIAG Vendor Discounting (MVD)</td>
<td>Deutsche Bank</td>
</tr>
</tbody>
</table>
Our experiences in implementing Supplier Finance programme

We will share our insights from both sides of the aisle to ensure a successful implementation catering to various stakeholders across the Procure-to-Pay process within the organization.

Example of previous engagements in selected industries

A leading bank in the Kingdom of Saudi Arabia (KSA) boosted revenue by USD 10 mil without impacting asset quality, with >165% IRR, and 800 new suppliers expected to sign up in the first 5 years

- Created a full Supplier Financing (Reverse Factoring) product and credit program
- Planned additional processes to ensure a successful execution of the Supplier Finance program
- Trained RMs, product teams, & relevant stakeholders across KSA on selling and servicing the program

A UK based FMCG company identified 1-3% in scope spend of cash benefits, improved ~ 30 days supplier credit term, and facilitated better planning through centralised purchasing model

- Completed Gap analysis, design, and implement supplier on boarding plan for central suppliers
- Conducted User Acceptance Test (UAT) coupled with buyer and accounts payable staff training
- Monitored the roll out for supplier on boarding and create overall implementation status report

A tier 1 automotive supplier improved >USD 200 mil in working capital within 6 months, shortened 7 days invoice approval timeline, and released personnel bandwidth with ease of tracking and transactions

- Developed negotiation approach and strategy for the top 150 global suppliers with harmonized payment terms across suppliers, categories
- Locally set up the interface between client (SAP) and bank (Supplier Finance Portal) and joint testing of functionality
- Recommended and built Global Payment Terms for relevant suppliers, leveraging economies of scale and ensuring standardised approach on supplier level within local legal requirements
Detailed Approach and Team

PwC follow a holistic yet tailored approach based on client’s objectives and requirements to deliver both cash and cost benefits. Our team has delivered SCF implementation across all major markets globally and look forward to implementing the same in Vietnam.

Key Drivers of Success for SCF programme

Technology Platform & Financing Partner selections
• 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 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 only with the involvement of the Treasury or Finance function – Procurement and Accounts Payable are equally important
• 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; consideration of small business suppliers; be economic with corporates – nurture small businesses

How PwC assists in implementing SCF

SCF Feasibility Review & Opportunity Estimation
• Quantitative analysis of spend data to estimate SCF opportunities (Cash & EBIT)
• 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
• Quantification of benefits from avoiding early/late payments, and terms structures, optimised payment channels improvements
• Opportunities of invoice scanning, EDI interfaces, robotics and AP automation
• Optimised use of ERP resources, better controlling & governance

Working Capital Project Management Office
• Establishment of PMO to drive change through the organisation
• Performance Dashboards with drill-down capability, with 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

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