SCF Barometer 2018/2019

Entering a New Era of Maturity and Solutions

pwc

Supply Chain Finance Community
Bridging physical and financial supply chains

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Board member – SCF Community

Foreword

First of all, the Supply Chain Finance Community and PwC, would like to thank the contributors to the 3rd annual survey, their feedback is incredibly important and without their contribution there would not be a 2018/2019 barometer.

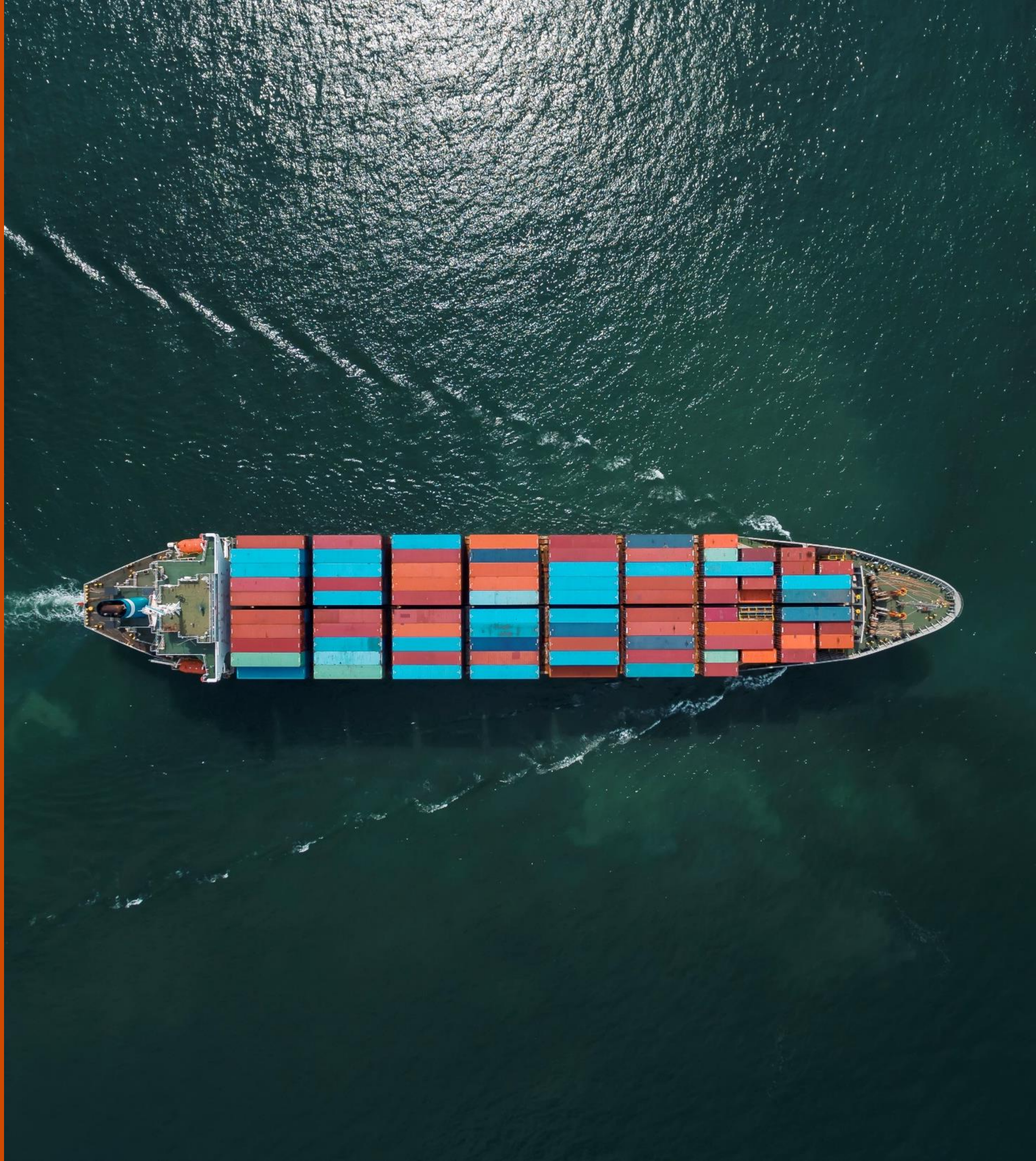
The barometer provides an extremely useful ‘snapshot’ based on those actually planning or operating SCF programmes enabling us to reflect where the Supply Chain Finance industry has come from, its current reality and highlights the factors, which will influence and shape the industry’s future direction.

Michiel Steeman in his forward to the 2017/2018 barometer emphasised that the Supply Chain Finance industry is “going through a growth phase and change phase”, this still remains the case. Working capital optimisation is seen as an essential driver for the adoption of Supply Chain Finance. Reverse factoring is the most common solution currently and will continue to expand. The findings from the study also highlight that dynamic discounting is a “favourite for future implementation”.

Looking forward, the barometer highlights a number of challenges and opportunities facing the industry. Emerging technology such as the block chain and artificial intelligence are going to have an increasing impact on every aspect of our business and personal lives. Therefore, the Supply Chain Finance industry needs to innovate, developing new solutions that will satisfy the future expectations of the marketplace.

The barometer findings suggest that SCF landscape is also changing with the arrival of new entrants including platform providers, suppliers and logistics service providers. The survey’s feedback also highlighted the continue need to invest in training, building and enhancing relationships between buyers and suppliers and increased functional involvement in the adoption of supply chain finance initiatives.

From my perspective, Supply Chain Finance industry will have an increasing and significant role in enabling the development of financially sustainable supply chains and networks.



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Supply Chain Finance (SCF) Barometer

Introduction

Goal of the survey

- Understand the current status and key developments
- Present (perceived) successes and challenges
- Identify major costs and benefits
- Share key market insights

Type of questions

- Implementation features
- Solution and supplier selection
- Drivers and barriers for the adoption of SCF
- Key stakeholders involved
- Future plans and developments

Respondents profiles

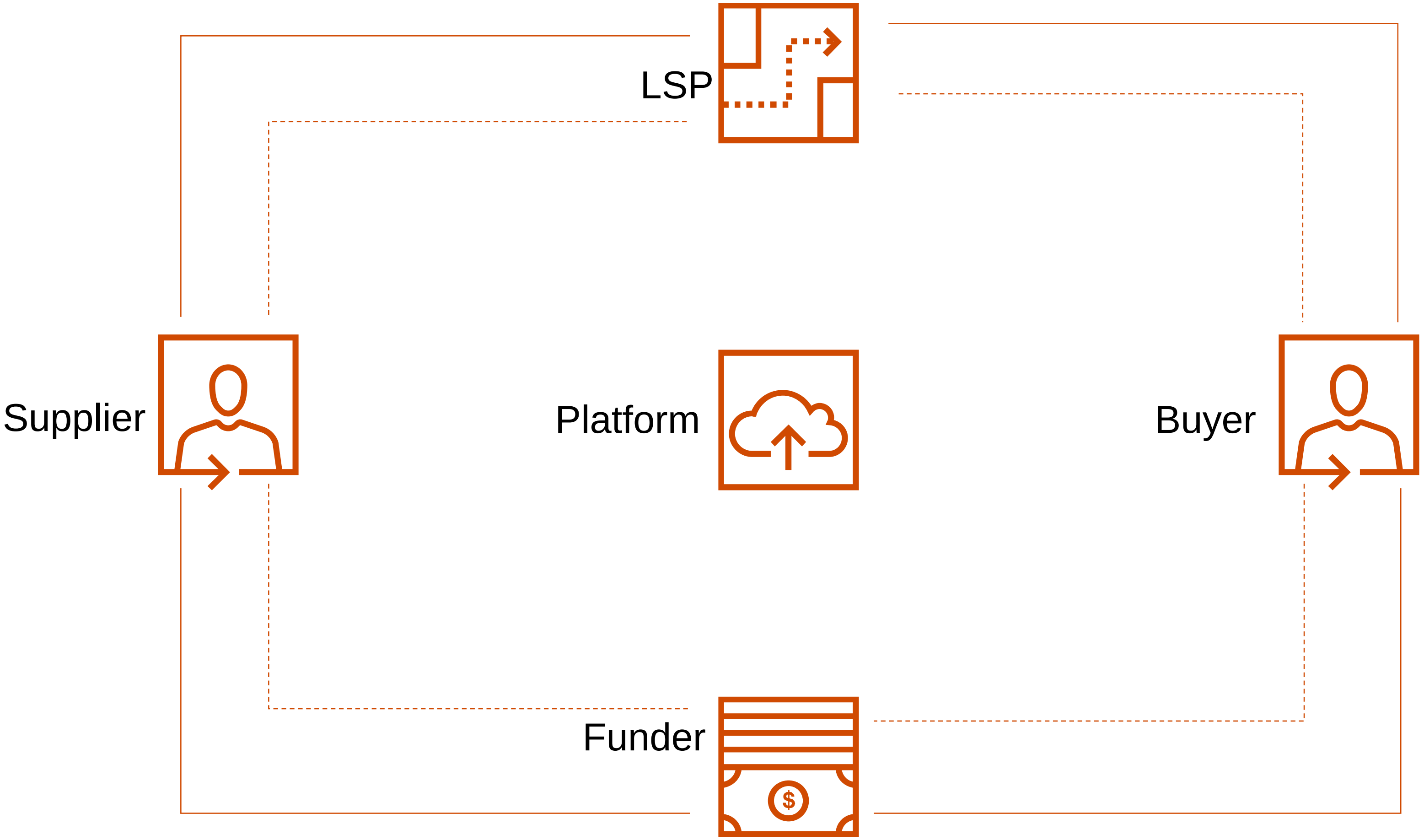
- >80 responses of which c. 50% are running a SCF programme
- Diverse range of functions
- Variety of industries and size
- Global footprint
- Different levels of maturity

Supply chain finance

Supply Chain Finance (SCF) improves working capital management by looking at the entire supply chain to identify and address company-wide issues and can be used as a tool to optimise financial structures, working capital and payment flows in company networks.

The aim of SCF solutions is to create added value between suppliers, purchasing companies, and external financial and logistics service providers by adopting a holistic approach to financial processes.

Note: see appendix for overview of different SCF solutions



SCF Barometer

Key findings

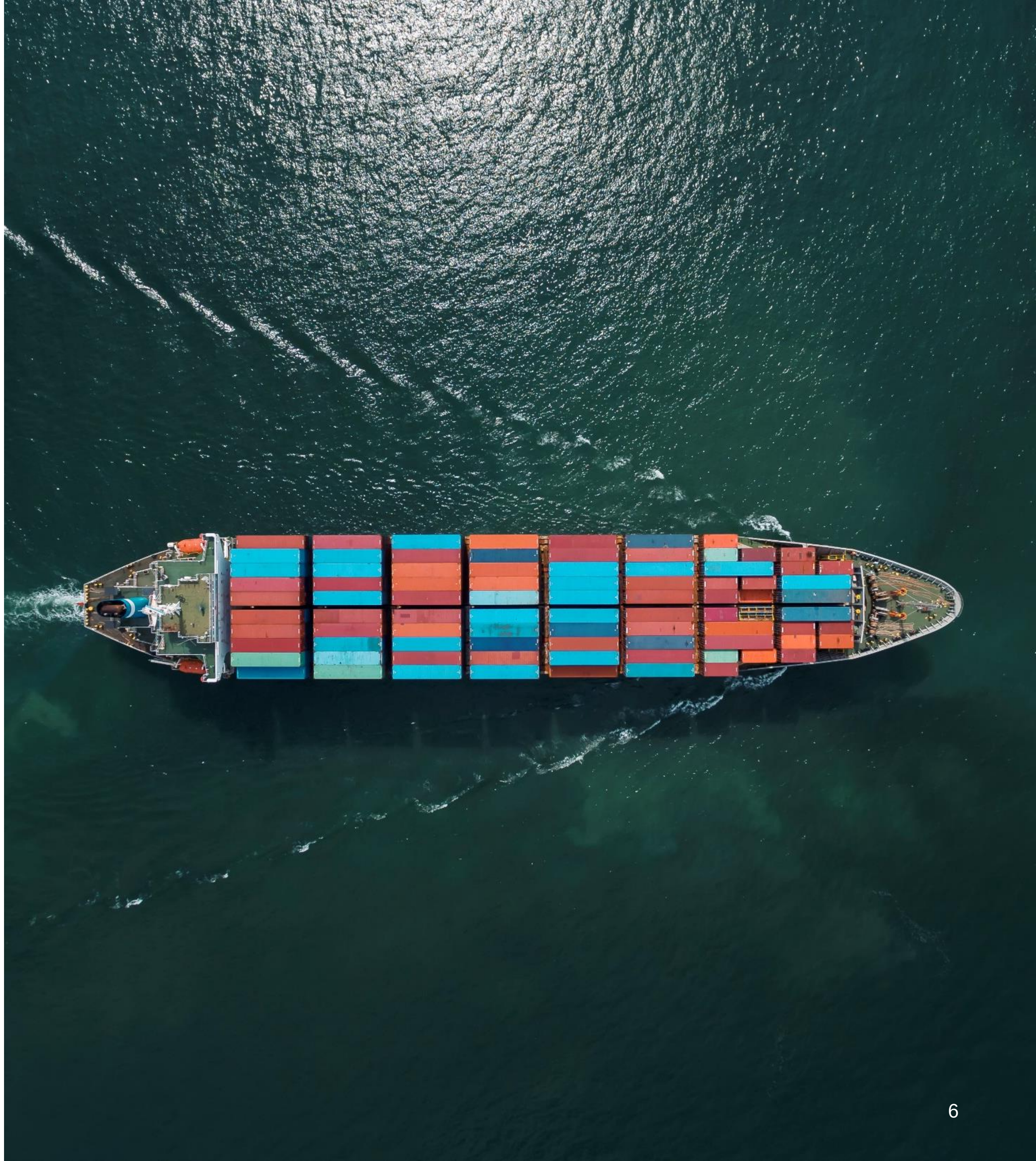
Most common SCF solutions:

- reverse factoring
- bank funded
- collaborative, high volume suppliers

Working capital optimisation key common driver

Growing interest in (innovative) SCF, mainly at SME's

Overall SCF perceived as successful



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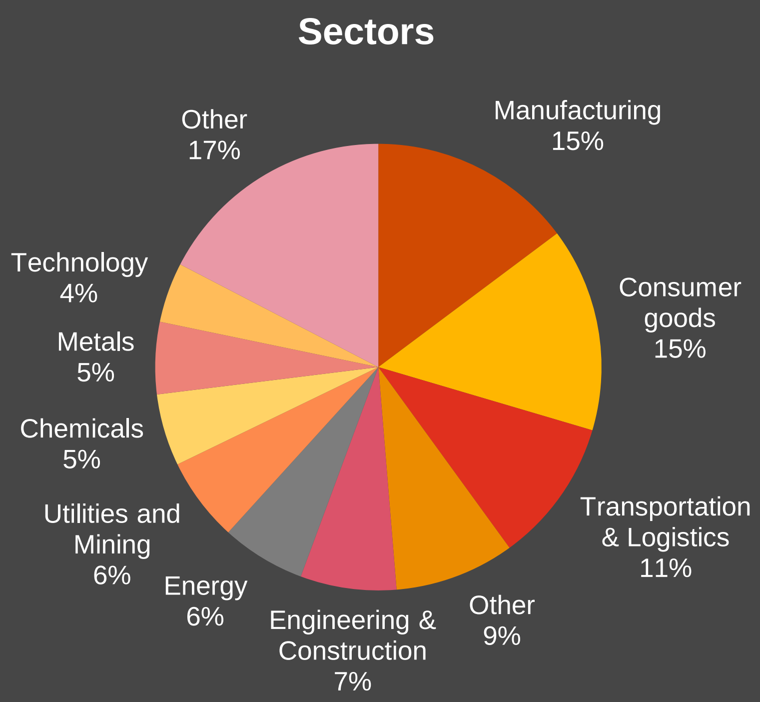
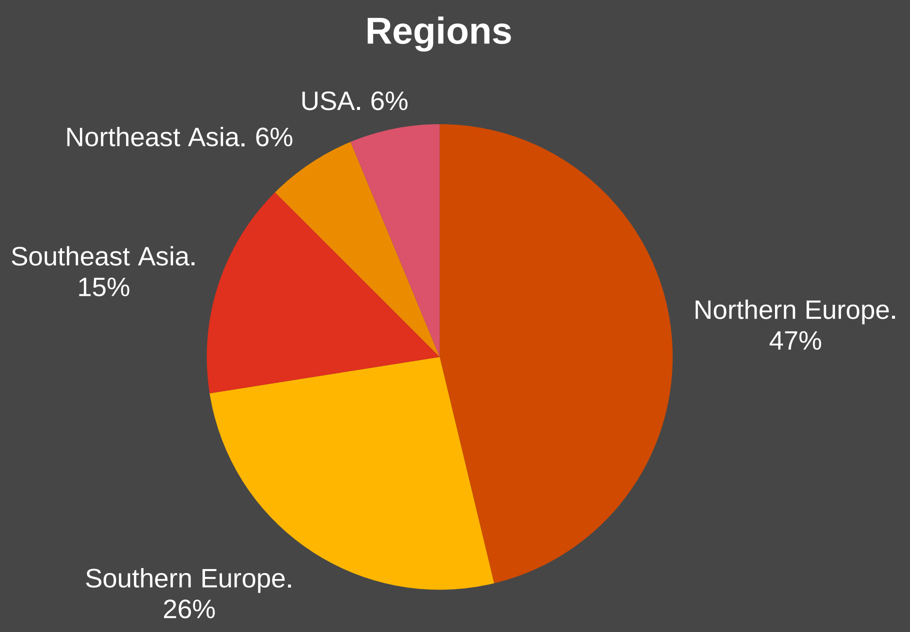
General status

Profile
Awareness
Solutions
Adoption

Survey findings represent a diverse, global view

Participants are from a variety of sectors and regions



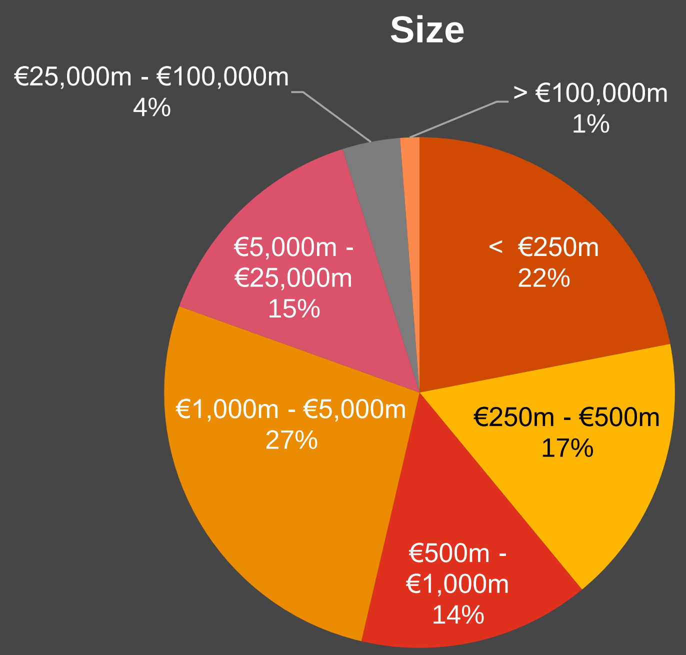


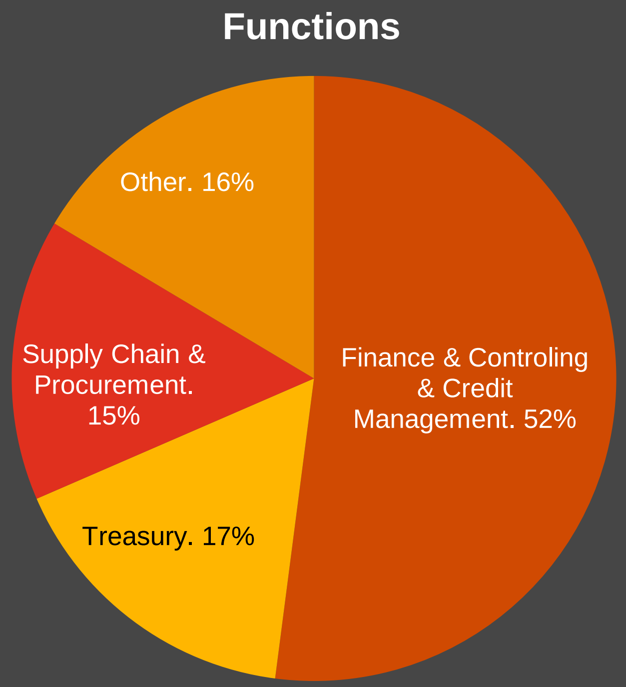
Sectors which typically have relatively high levels of SCF adoption are well represented in the survey; **Consumer Goods, Transportation & Manufacturing.**

Survey participants remain largely in **Northern European**, followed by respondents from **Southern Europe and Asia.**

Survey participants differ in size

The finance function remains top functional respondent





Size still matters

>50% of respondents have an annual revenue size of >1 billion Euro.

Survey respondents have diverse roles ranging from CEO to Supply Chain Manager.

Like in previous years of our SCF Barometer study the Finance department represents the top functional respondent category.

Most respondents have or are considering SCF

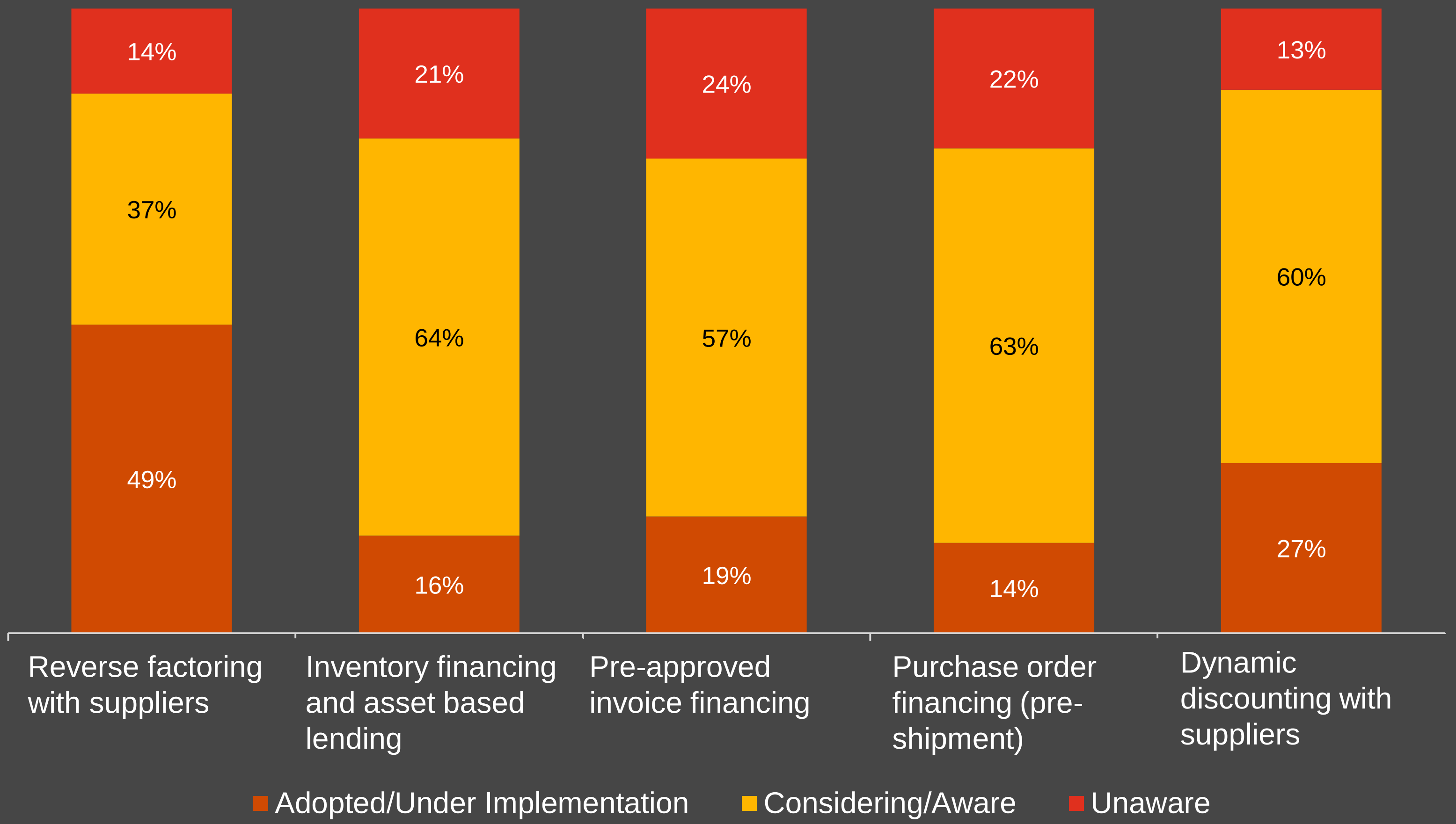
Reverse factoring is by far the most implemented solution

55% of respondents are running a SCF programme.

23% of respondents are running more than one SCF programme.

41% of respondents who are not running a SCF programme are considering or implementing a SCF programme.

SCF Solutions and awareness



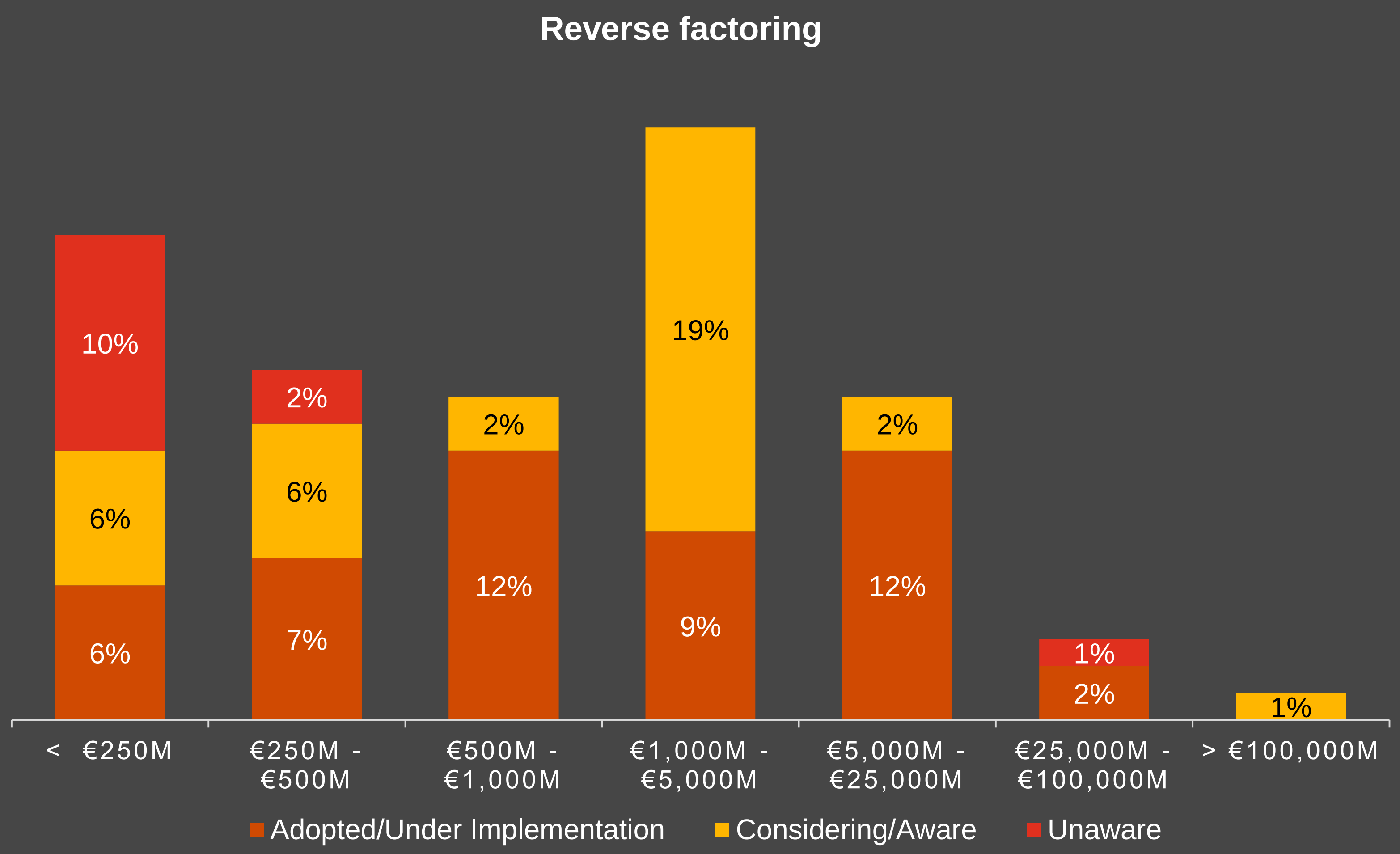
Note: see appendix for explanation of different SCF solutions

RF is by far the most implemented SCF solution

Some smaller sized companies are still unaware of this solution

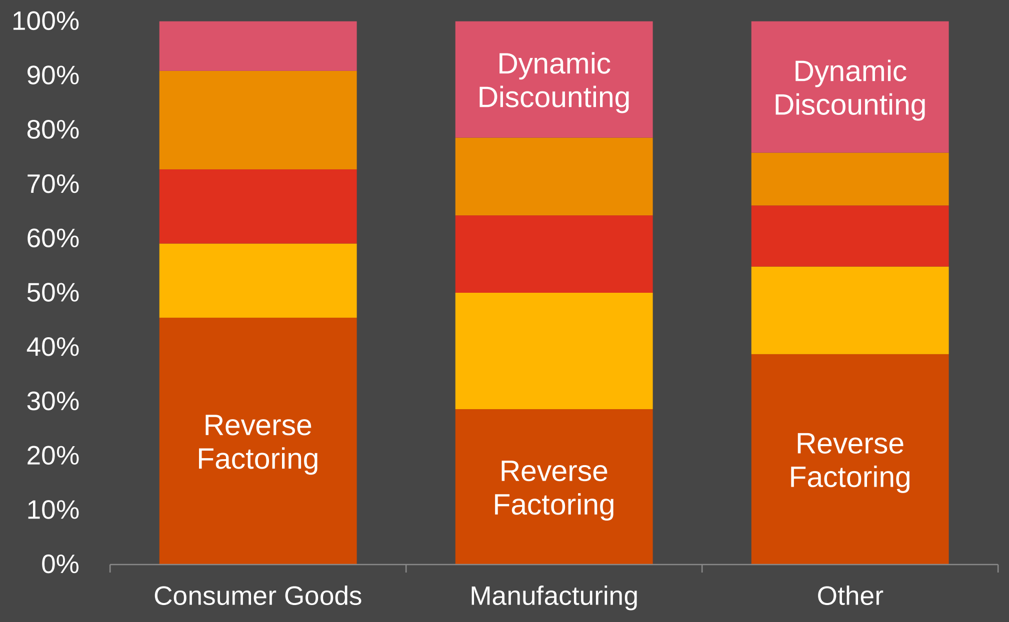
Respondents show different levels of SCF maturity.

Larger companies are more likely to be running Reverse Factoring (RF), but mid-market is growing.

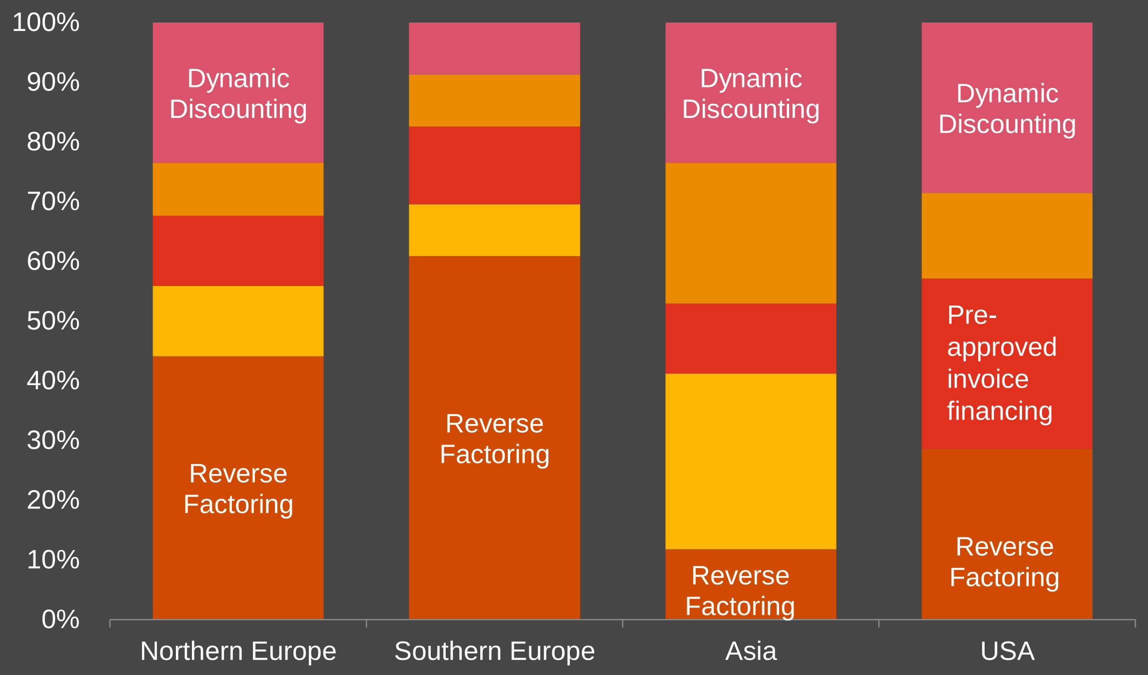


Reverse Factoring is the preference SCF solution followed by Dynamic Discounting

Industry and common prevalent SCF solution



Region and most common prevalent SCF solution



Reverse Factoring
Inventory financing and asset based lending
Pre-approved invoice financing
Purchase order financing (pre-shipment)
Dynamic Discounting

2

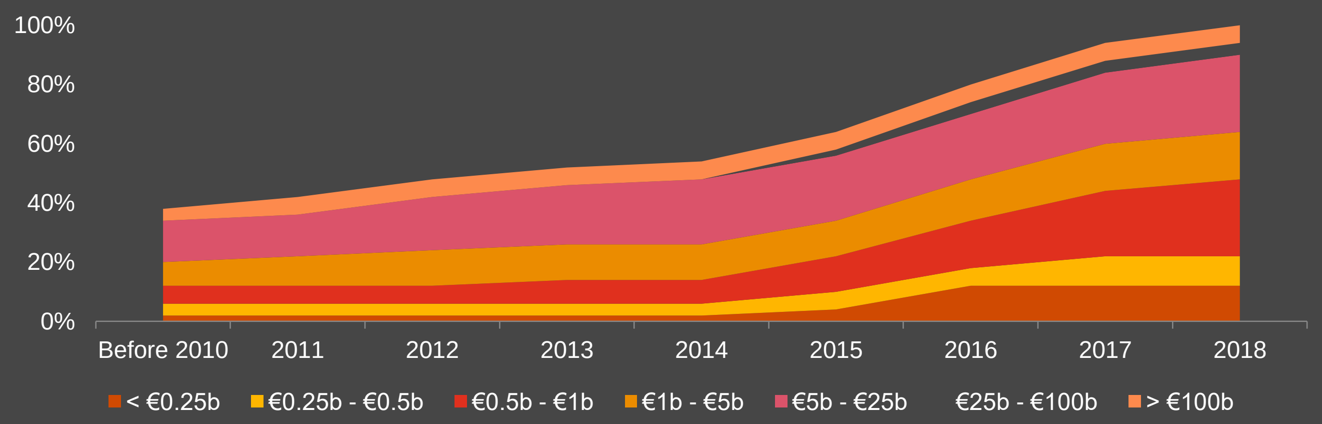
Supply Chain Finance adoption

Actors
Relationships
Size
Functions

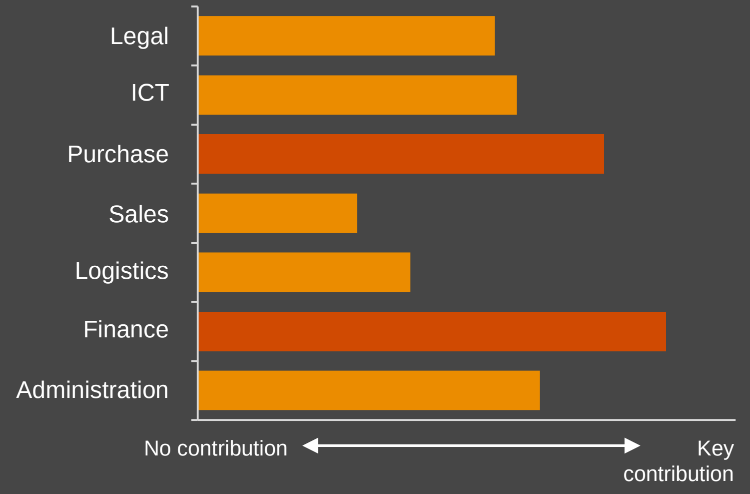
The trend for SCF roll-outs continues to grow often driven by the finance function

Smaller companies are beginning to introduce Supply Chain Finance. Prior to 2012, SCF programmes were predominantly implemented in companies with revenues >€1bn.

Year of implementation



Involvement per function in SCF initiation



Finance and Procurement are the departments most involved in the adoption of SCF solutions.

Logistics and Sales, not surprisingly, had most limited contribution.

SCF: still a game for the big players?

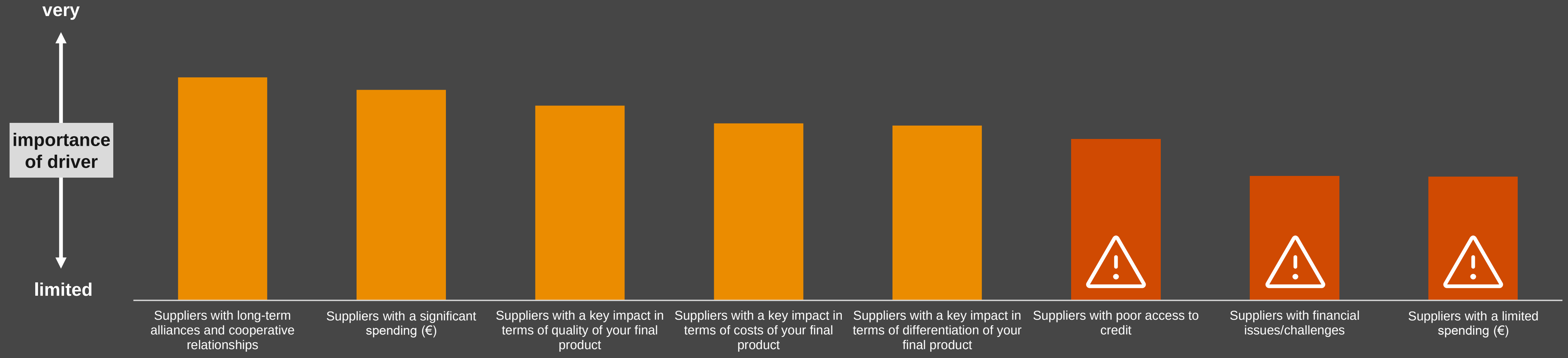
Size of spend and strategic relationships are key drivers for supplier selection

SCF solutions are often still not available to suppliers with limited spending, financial issues and/or poor access to credit; i.e. those probably most interested in SCF.

15% of these suppliers are eligible for SCF solutions.

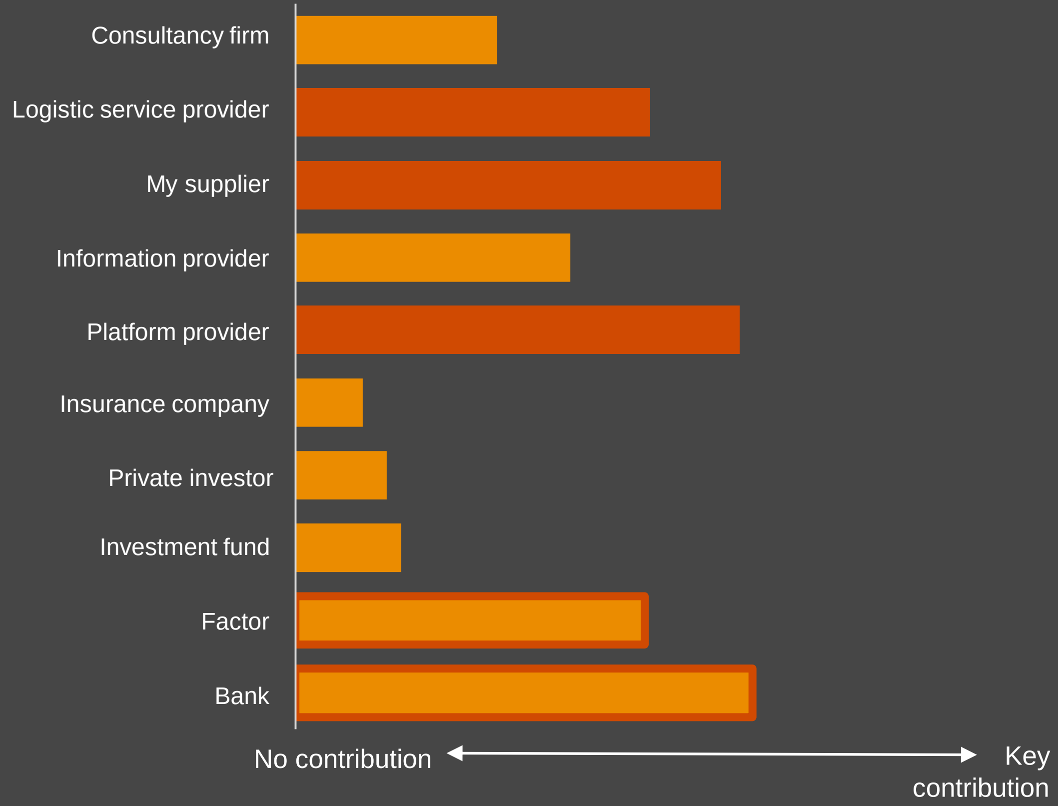
26% of the spend is covered by a SCF solution.

Suppliers involvement in SCF adoption



Is the SCF landscape increasing? Moving from traditional providers to an integrated ecosystem of influencers

Influencers involved and their contribution level to the adoption of the SCF solution(s)



Banks and Factors remain important financial actors involved in the adoption process of a SCF solution.

However, also strong involvement of 'non traditional providers':

1. Significant presence of platform providers
2. Suppliers, and
3. Logistics Service Providers

who seem to play an important role in the SCF adoption.

3

Costs and benefits

Selection
Implementation
Financial
Economical

Costs of SCF

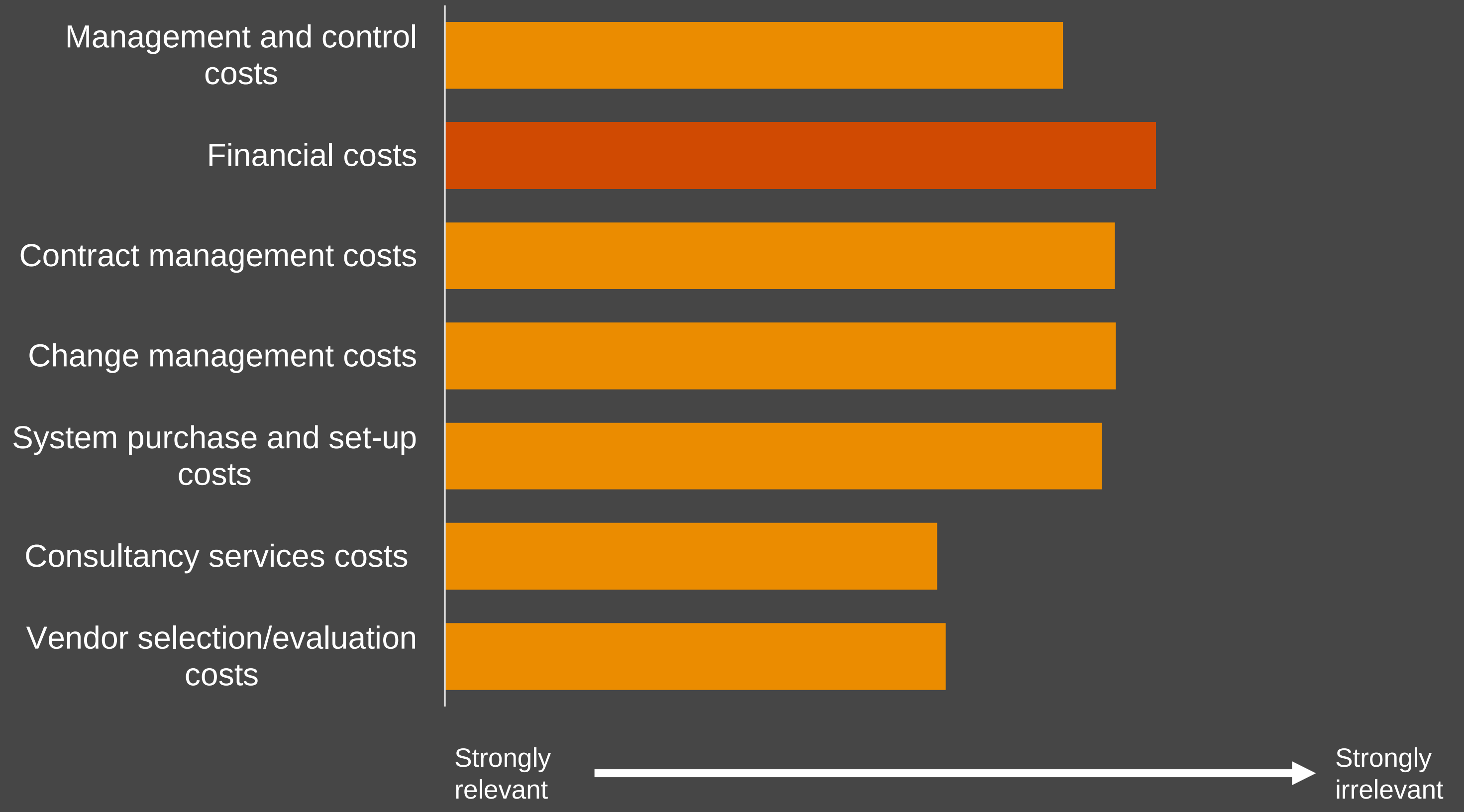
Implementation and use above all else

The costs for implementing and running SCF solutions are more relevant than the costs to assess and select the solution.

Among specific costs drivers, the most relevant is the financial cost of using SCF, followed by contract management and change management costs.

Consultancy and vendor selection are the least relevant costs.

Relevance of costs



Working capital optimisation is the most important benefit of implementing a SCF programme

Both Buyer and Supplier improve their working capital, but also their mutual relationship.
The supplier has a higher benefit in reduced cost of debt and default risk, and better access to credit.
Economic benefits are less important.

Benefits comparison – Buyer versus supplier

4

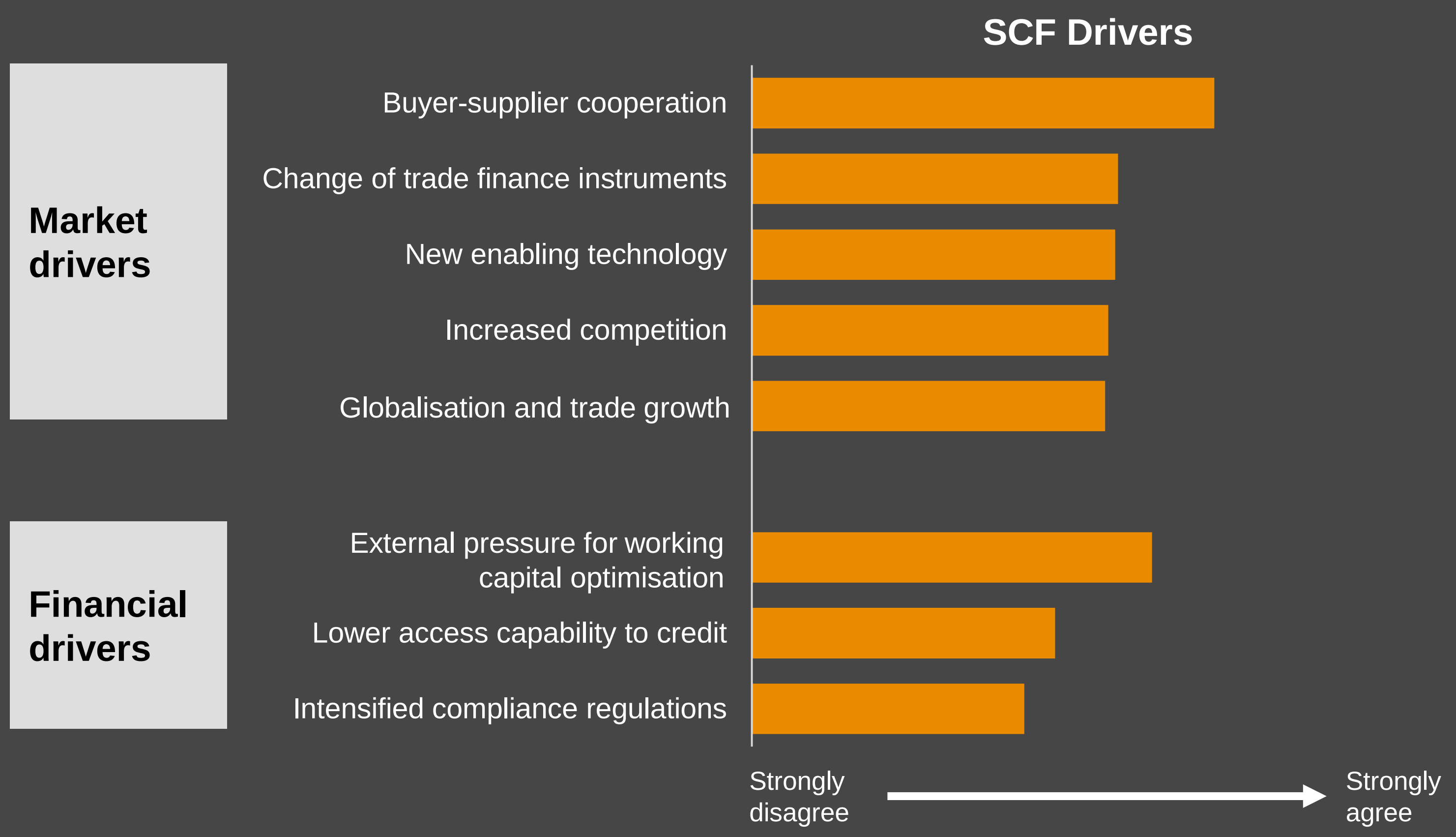
Drivers and barriers

Resources
Stakeholders
Technology
Process

Key drivers for a successful SCF solution adoption …

SCF programme key success factors:

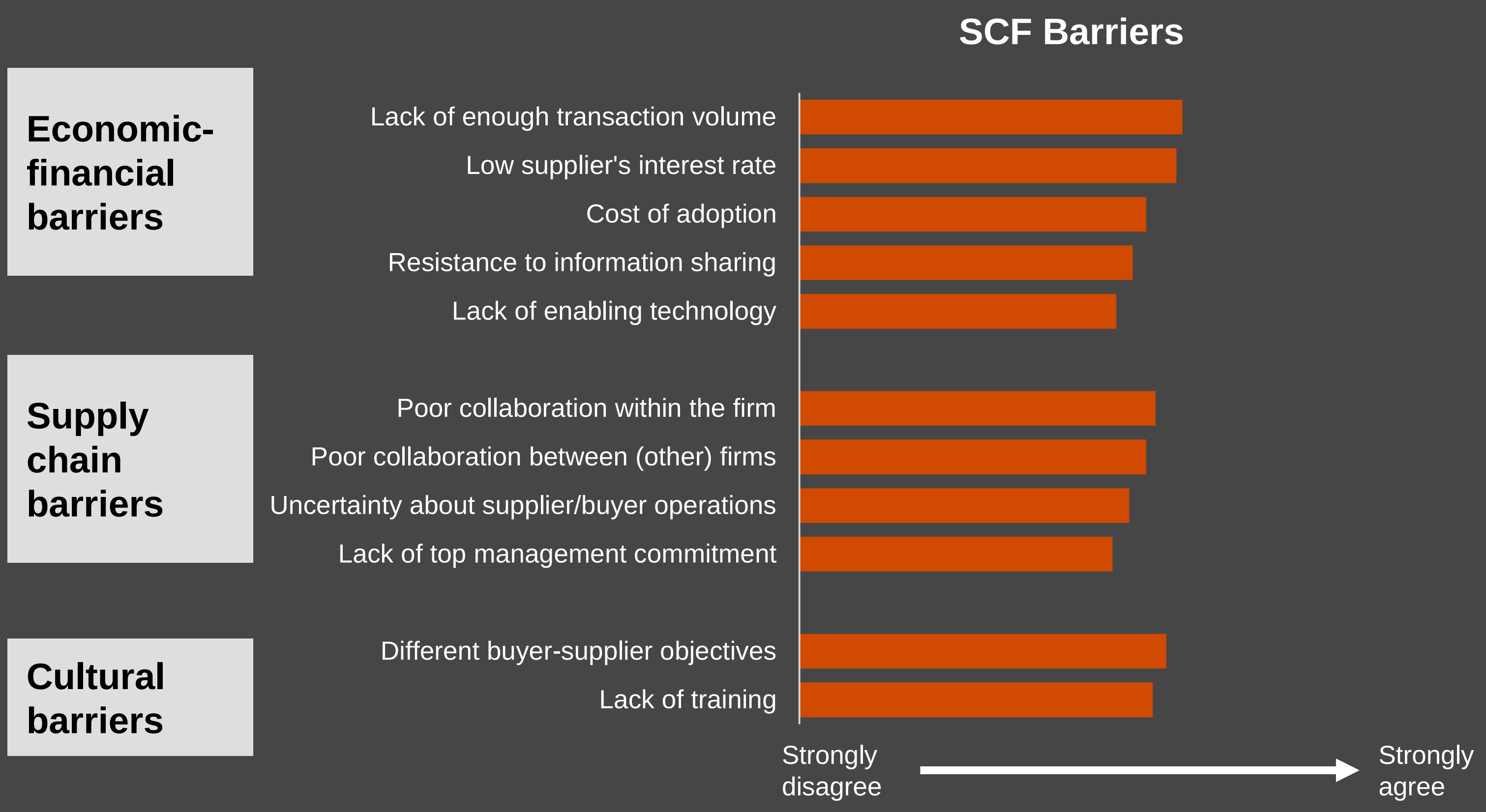
- Close cooperation Buyer – Supplier
- External pressure for working capital optimisation.



… factors that hamper adoption of a SCF solution

Top 3 potential obstacles to manage well as part of a successful SCF programme:

- Supplier interest rate
- Sufficient transaction volume
- Alignment of buyer and supplier objectives.



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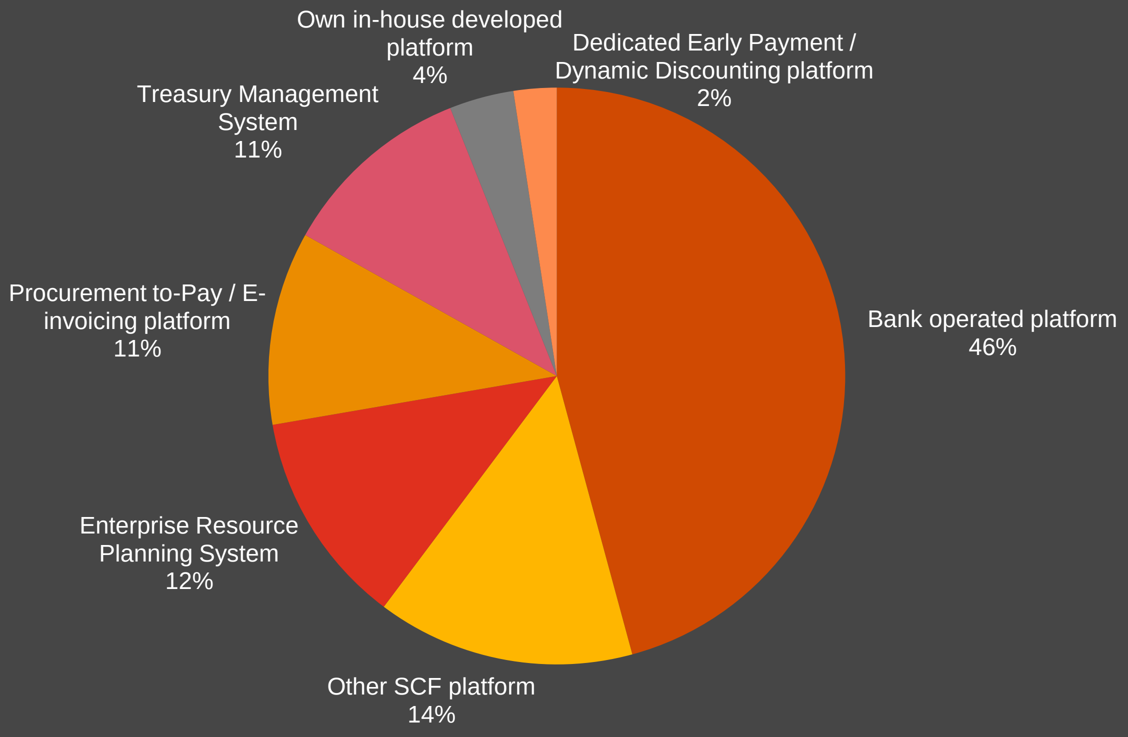
Technology and funding

ERP
Fintech
Banks
E-invoicing

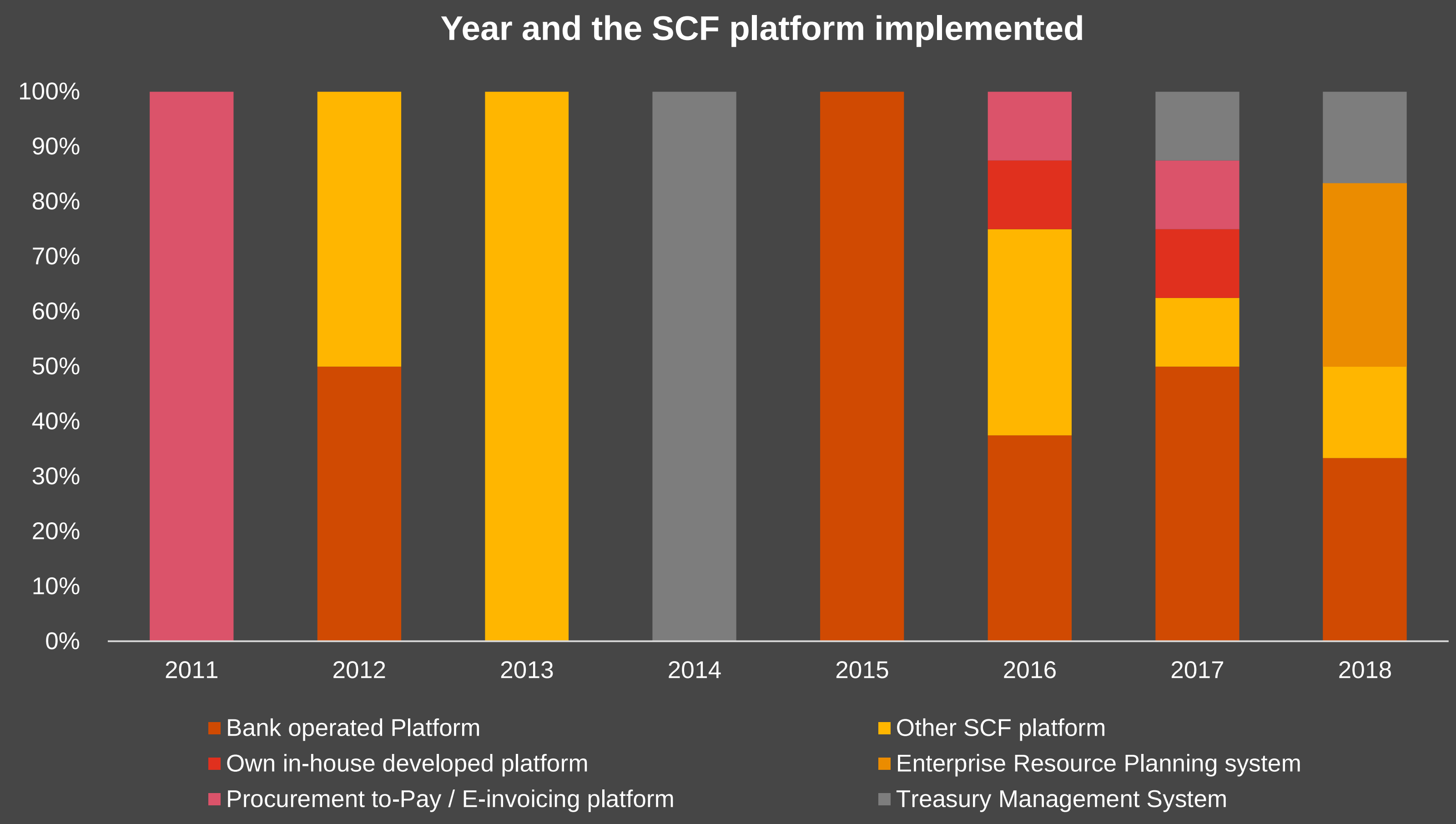
A bank operated platform remains by far the most widely used SCF option

SCF solution	Most used SCF platform (in % of total per SCF solution)
Reverse Factoring	Bank operated (52%)
Inventory Financing/ Asset Based Lending	Bank operated (83%)
Pre-approved Invoice Financing	Bank operated (40%)
Purchase Order Financing	Bank operated (24%)
Dynamic Discounting	Bank operated platform/Dedicated Early Payment/Dynamic Discounting platform (40%)

Platform adopted for SCF implementation

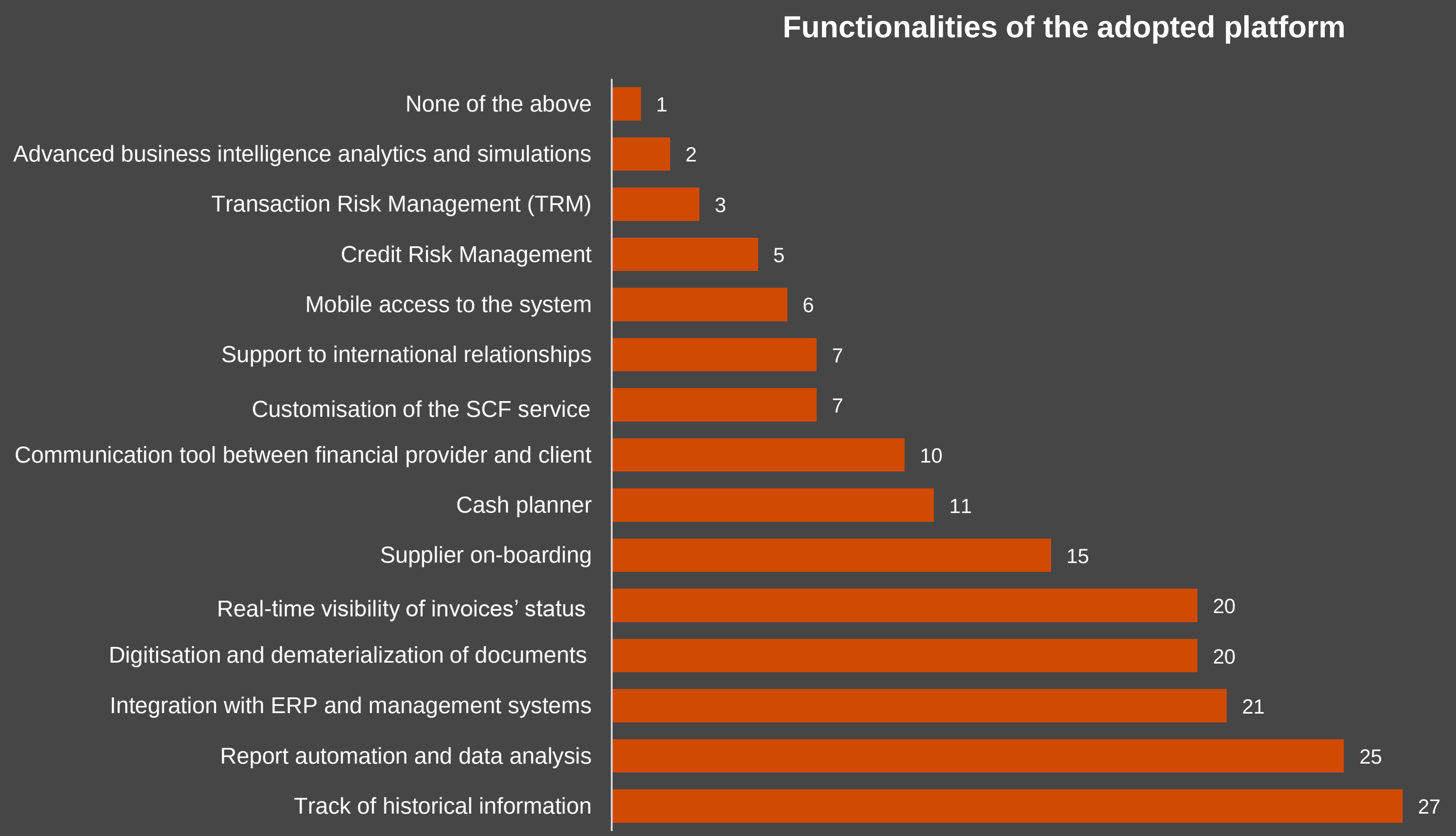


Due to significant developments in recent years more platform solutions are becoming mainstream and driving more diverse adoption



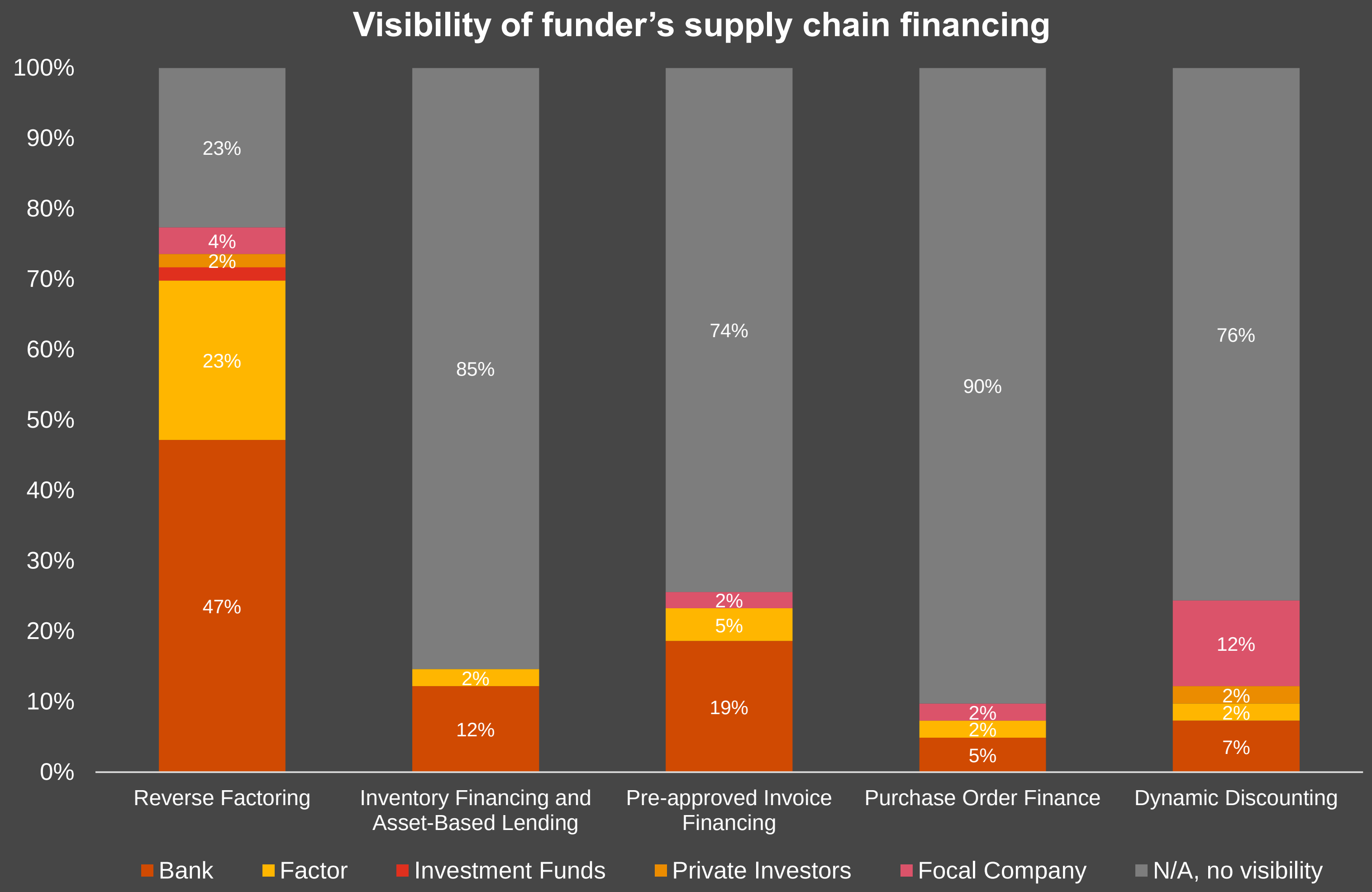
Since 2016 there is an increased usage of multiple platform solutions driven by a wider range of SCF solutions becoming more mainstay.

Most SCF platforms offer a wide range of functionalities



The vast majority of the adopted SCF platforms however, is still rather limited in the use of more advanced functionalities like business/artificial intelligence, mobile access and customisation.

Funding for SCF solutions is still predominantly provided from banks



'Banks' and 'Factors' are the most important financers for 'Reverse Factoring' solutions.

For other SCF solutions the vast majority of respondents have no visibility of its (potential) financers.

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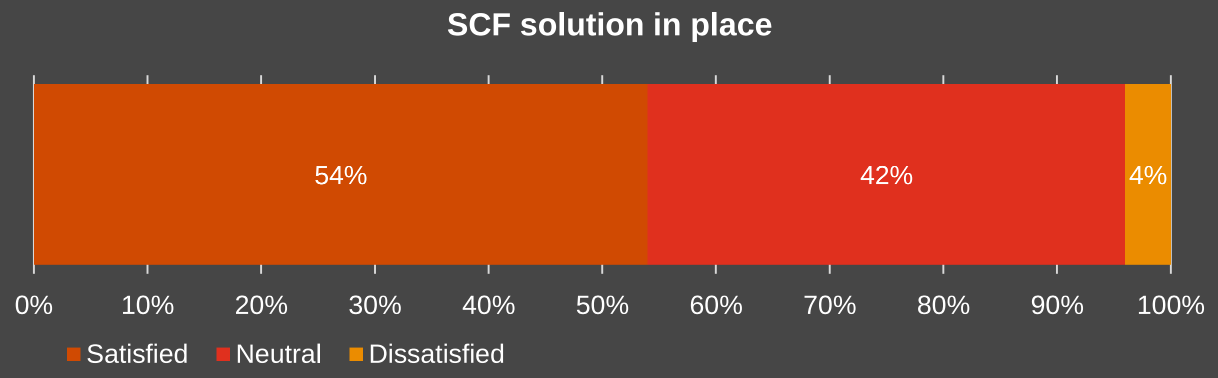
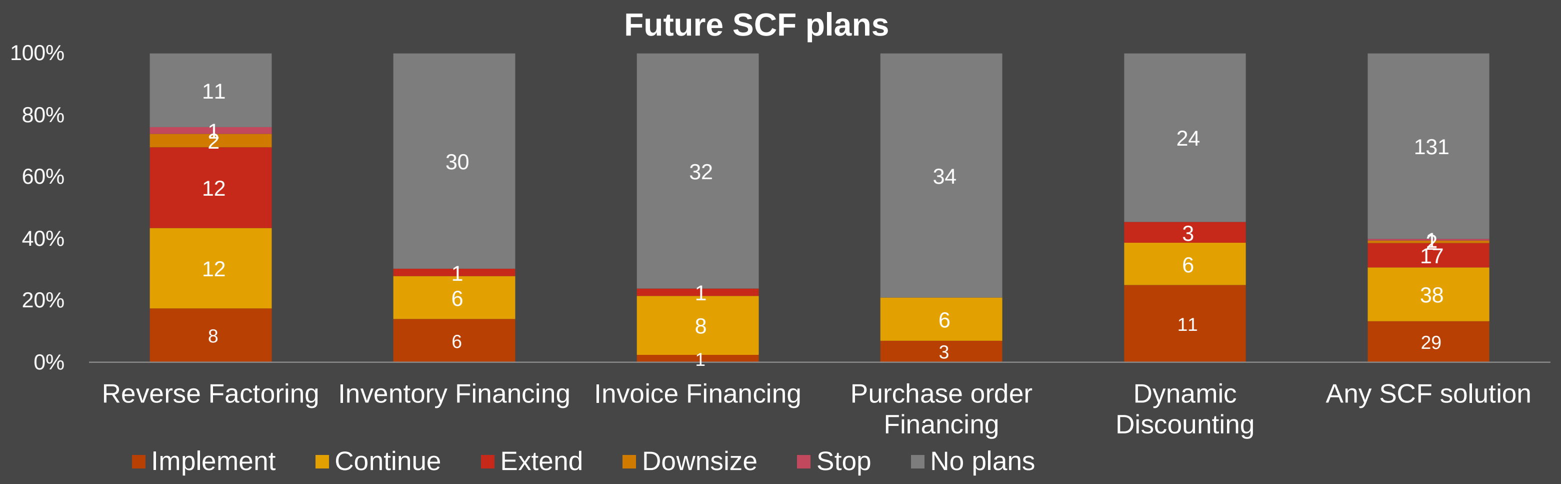
Future plans and ambitions

FinTech
Technology
Growth
Operational

SCF programmes are generally viewed as a success with Dynamic Discounting favourite for future implementation

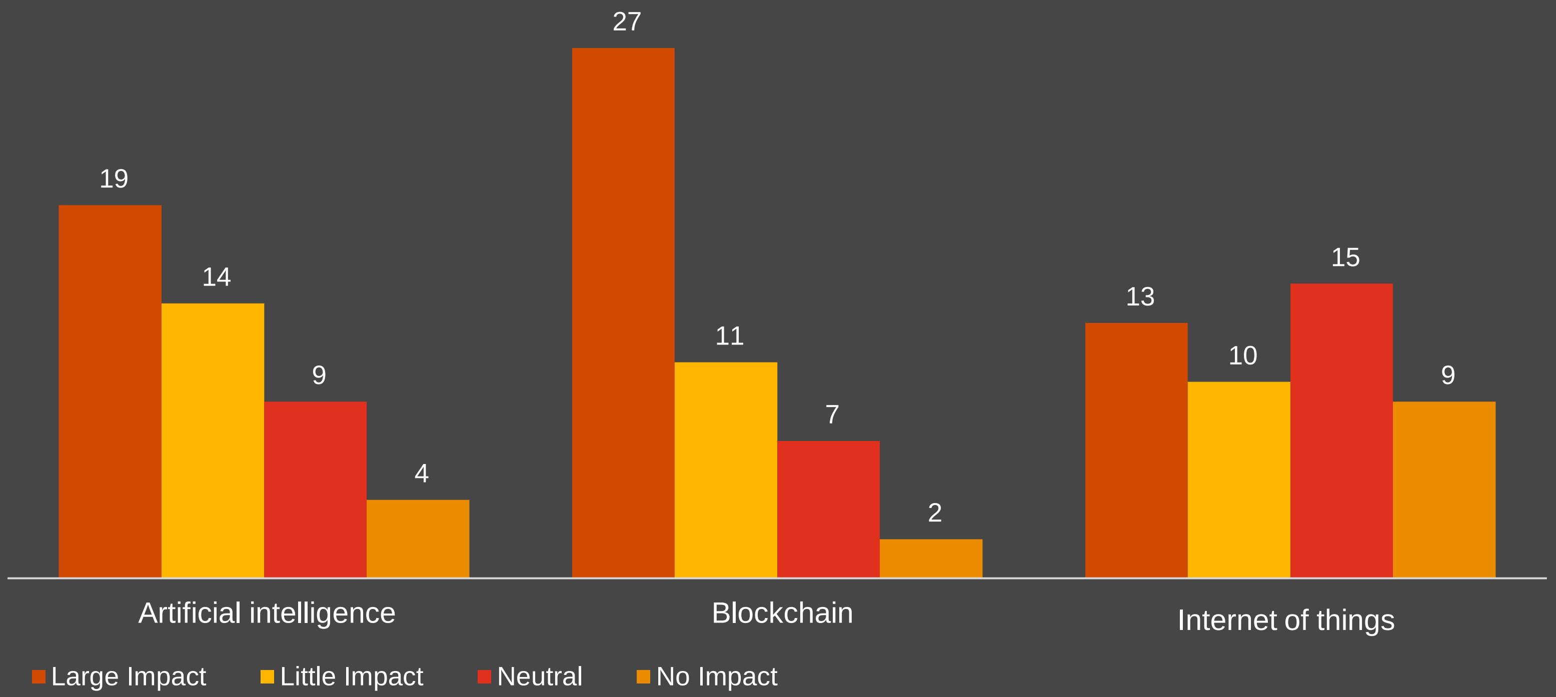
- 54% of the respondents are satisfied with the SCF solution in place, 42% are “neutral”. Just 4% are dissatisfied with their SCF solution.
- Most respondents are looking forward to expand or continue their Reverse Factoring programme.
- Dynamic Discounting is favorite for additional future implementation.





Unsurprisingly, satisfaction is key for expansion, with most respondents stating that they will continue, expand current solutions or implement new ones. SCF engagement drops with lower levels of satisfaction from their current SCF programme.

New emerging technologies are expected to significantly impact SCF in the near future



In terms of new emerging technologies ‘artificial intelligence’ and in particular ‘blockchain’ are expected to have the most impact on SCF in the near future.

Stages in the development of SCF solutions:

1 **Liquidity-oriented SCF solutions** (e.g., Letters of Credit and Factoring)

2 **Technology and networking capability driven SCF solutions** (e.g., Reverse Factoring)

3 **Physical and financial integration of SCF solutions** (e.g., Block Chain, AI)

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PwC is a network of member firms. PwC's Working Capital Management Network consists of a global network of experienced working capital and supply chain finance specialist dedicated to delivering sustainable working capital and cash flow improvement across operations.

The Supply Chain Finance Community is a not-for-profit association of all those involved in supply chains. Its founder members are 23 business schools across Europe supported by corporations, banks, consultancies and technology vendors.

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Supply Chain Finance Community

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- The Supply Chain Finance Community is an independent global community consisting of knowledge institutions, corporations, and supply chain finance professionals who share best practice and new research in an open, collaborative environment.
- The aim of the SCF Community is to promote and accelerate the understanding, development and implementation of supply chain finance models.
- Its founder members are leading business schools supported by corporations, banks, consultancies and technology vendors.
- In 2013 the SCF Community held its first conference at Nyenrode Business University in The Netherlands. Since then, the SCF Community Forum has evolved into an annual event that brings together more than 200 participants from corporates, business schools, banks, technology firms and governments. At the same time, the Community itself has expanded to include more than 1,500 SCF practitioners in every continent.
- Today the SCF Community supports research projects conducted by institutions connected to the Community and endorses several SCF initiatives such as the Global Student Challenge and the SCF Academy. From 2016 the SCF Community's activities are expanding to include a global awards scheme, enhanced digital resources and events in both Europe and Asia.
- The SCF Community is a not-for-profit institution managed by an executive board consisting of leading professionals and scientists in the field of supply chain finance.

SCF Barometer 2018/2019

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Supply Chain Finance Community
Bridging physical and financial supply chains

Key terms and explanations

- **C2C:** Cash conversion cycle between outgoing and incoming payments.
- **Dynamic Discounting (DD):** dynamic settlement of invoices where for every day of advanced payment with respect to a pre-defined baseline, the supplier grants to the buyer a discount on the invoice nominal value.
- **Inventory financing and asset based lending:** lender (usually a bank) loans money to a firm with the maximum amount of the loan linked to the firm's assets in the form of cash, inventory, and accounts receivable.
- **LSP:** Logistics Service Provider.
- **NOWC:** Net Operating Working Capital; i.e. working capital required for business operations minus current liabilities (often equated with liabilities from suppliers and services.
- **Pre-approved invoice financing:** factors purchase accounts receivables from suppliers upon buyer receiving invoice and based on data driven likelihood of buyer ultimately meeting payment obligation.
- **Purchase order financing (pre-shipment):** lender (usually a bank) loans money to a supplier for the sourcing, manufacture or conversion of raw materials or semi-finished goods into finished goods which are shipped to a buyer, having as guarantee purchase orders.
- **Reverse factoring (RF):** provides a supplier with the option of receiving the discounted value of an invoice prior to its actual due date or of an account payable due to be paid by a buyer to the supplier at a future date.
- **ROE/ROI:** Return on Equity/Return on Investments.
- **SCF:** Supply Chain Finance.