

Reinventing Supply Chain Finance

*Unlocking Strategic Value for Procurement,
Supply Chain, and Finance Professionals*

Part 2: Core Capabilities and Benefits



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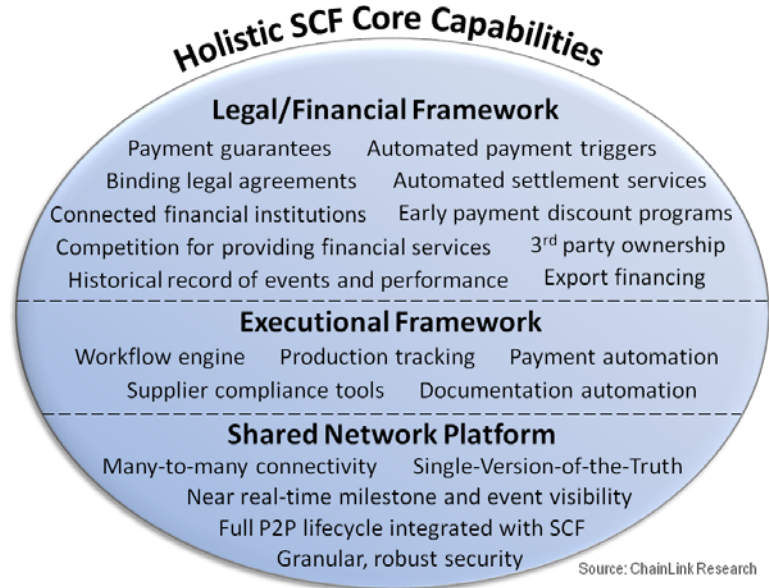
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The Foundation—Core Capabilities Required

To realize a holistic approach to supply chain finance, as described in Part 1 of this paper, requires certain capabilities to be available to buyers, sellers, and other participating parties. These capabilities include:

- Shared network platform—many-to-many connectivity with shared database, visibility, integrated into the P2P lifecycle.
- Executional framework—workflow engine, document and payment automation, and supplier compliance tools.
- Shared legal framework—binding legal agreements, automated guaranteed payments, connected financial institutions, competition for providing financial services.



Shared Network Platform

Participants need to be connected to each other electronically on a shared network platform. The old paper-based systems will not cut it. To realize the full value of holistic SCF, the network platform must have certain characteristics:

- Many-to-many connectivity—A point-to-point approach quickly becomes overwhelming and economically infeasible with more than a small handful of trading partners. A single network that connects all parties is required, as illustrated in Part 1, Figure 2, *Unifying Network of Participating Parties*.
- Granular, robust security—With everyone on the same network, including competitors, security is paramount. The network must allow private networks to coexist on it, connecting each business to its specific trading partners and service providers (carriers, banks, etc.), with fine-grained control over who is allowed to see what. All messages and stored data should be strongly encrypted and sensitive transactions should require 2-factor authentication.
- Full P2P lifecycle integrated with SCF—The platform should support the full purchase-to-pay lifecycle, from capturing the purchase order all the way through to settling the payment. Supply chain finance should be tightly integrated into the P2P process to reduce to nearly zero the friction and effort required to obtain financing.
- Single-Version-of-the-Truth (SVoT)—Once data is entered into the system, it should never have to be re-keyed.¹ The data from the P.O. should automatically flow into creating shipping documents, which are in turn automatically used in creating the invoice. At any point in time, all participants see exactly

¹ The exception is to correct errors in the original data.

the same data about what was requested, planned, and actually executed, dramatically reducing disputes about what actually happened.

- Near real-time milestone and event visibility—Mechanisms are in place to record events and milestones in near real-time. These milestones can include raw materials ordered, production milestones, shipments made, goods received, and so forth. Authorized users (with appropriate security rights) can subscribe to see whichever events are relevant to them. When events occur, including exceptions like damage to goods, or items failing inspection, the same data is visible to all who have the authority to view it.

Legal/Financial Framework

- Binding legal agreements—A shared legal framework should also be in place, providing a set of consistent, legally binding agreements between all parties specifying when payments will occur and funds transferred, when title is transferred, what triggers payment and title transfer, and other pertinent details. This is conceptually similar to credit card networks, where cardholders, merchants, and banks all have a consistent set of agreements with the network provider, thereby reducing uncertainty and risk for all involved.
- Connected financial institutions—The network needs a critical mass and variety² of lenders already connected. In particular, providing good global coverage for pre-shipment financing requires having enough financial institutions able and willing to serve suppliers in each of the markets where the suppliers reside. Lenders should only have to set up and connect once, rather than requiring them to connect one-by-one with prospective borrowers.
- Competition for providing financial services—Mechanisms should be in place to allow open competition and bidding for lending money and providing other financial services (e.g. payment guarantees). This competition is key to driving down interest rates and service costs.
- Historical record of events and performance—Authorized parties with a need to know should be able to view performance of suppliers, payment history of buyers, and other data pertinent to gauging and reducing risk for lenders.
- Automated Payment Triggers—The system should be capable of triggering title transfer and payments based on any data-verifiable conditions specified in the PO, validated by documents such as cargo receipt, warehouse receipt, inspection certificates, and so forth.
- Automated Settlement Services—The network platform should support automated transfer of funds between buyers, sellers, and financial institutions at the precise date as driven by the agreed terms and actual performance/events that trigger payment. This should include the ability to support complex payment scenarios, such as when a lender provides financing for only partial value of a shipment. In that case, the system should automatically keep track of and make the correct payment amount to the lender and to the supplier, as well as automatically paying out all the various fees, service charges, chargebacks, and deductions.
- Early payment discount programs—The platform should provide mechanisms for both buyer-funded and lender-funded early payment programs, including dynamic discounting. Buyers and suppliers should be able to define rules to automate their participation in these programs.

² Variety would include having lenders from different geographies, offering various services, and serving various sectors.

- *Export Financing*—The platform should make it easy for suppliers to issue requests for pre-export and post-export funding to lenders. It should also give lenders full visibility into suppliers' past performance and visibility into the specific current relevant events as they occur (e.g. firm order received from buyer, production milestones achieved by supplier, order shipped, etc.), thus creating confidence for the lender to provide lower cost financing based on the buyer's credit risk.
- *Payment Guarantees*—Mechanisms for payment protection should be made available at competitive rates for performing suppliers. These protect the supplier—if they perform as stated in the PO and the buyer doesn't pay (e.g. for bankruptcy or any other reason), then the supplier can collect their payment from the guarantor. This replaces the need for costly Letters of Credit or Credit Insurance and is a valuable service for suppliers that have bank covenants that limit the supplier's per country and per buyer exposure.
- *Third Party Ownership*—The network should provide mechanism for title to temporarily pass from the supplier to a third party before the goods are ultimately owned by the buyer. This is required in different scenarios, such as when a trading company takes title to the goods and then flips the order. It is also useful for letting third parties offer to take ownership of inventory in-transit or VMI/consigned inventory sitting in a VMI hub or retail store.

Executorial Framework

- *Workflow engine*—To drive timely execution and completion of milestones throughout the P2P and financing process, a rules-based workflow engine is needed that automates the steps and provides escalation when activities and events are not completed on time.
- *Production Tracking*—Tools to automatically track progress on suppliers' production lines, including alerts to manage by exception; sending alerts the moment potential schedule issues arise. It is critical that these tools (and other supplier tools listed below) are as easy as possible for suppliers to implement and use, since many suppliers are not technologically sophisticated.
- *Documentation Automation*—To the maximum extent possible, documentation is generated and validated automatically, such as first sale documentation, automatic creation of the ASN, invoice generation, and so forth.
- *Supplier compliance tools*—Beyond documentation automations, the platform should provide suppliers with tools to increase compliance, such as compliant ticket and label printing and application, scan-based (i.e. using barcode or RFID) picking and packing compliance, tools for tendering loads that comply with the buyer's routing guides, customs compliance tools, and so forth. All data flows from the original P.O. and ship data to create the labels and auto-populate the ASN, pack manifest, and commercial invoice, ensuring compliance. These help streamline supply chain performance, reduce chargebacks, and reduce delays in customs clearing. From a pre-shipment financing perspective, these reduce supplier non-performance risk as well.
- *Payment Automation*—Automated rules-based 'N-way' matching³ comparing orders, invoices, packing lists, proof of delivery, inspection certificates, and goods receipts to ensure date-certain payment to suppliers and lenders without manual intervention required.

³ i.e. 3-way match, 4-way match, or customized matching algorithms based on whichever documents are important to the buyer to approve payment

Operational and Strategic Benefits

Once these foundational capabilities for holistic supply chain finance have been put in place, they yield a variety of operational and strategic benefits, beyond the benefits discussed earlier.⁴ These additional operational benefits include reduction in errors and chargebacks, supplier connectivity, streamlined process efficiencies, and improvements in supplier performance.

Reduction in Errors, Chargebacks, and Non-Value-Add Communications

Having a network platform with the foundational characteristics described above dramatically reduces data entry errors (people are not constantly re-keying the same data), improves supplier performance and compliance, and hence reduces chargebacks. Because everyone can view the same SVoT (Single Version of the Truth), there are fewer back and forth manual phone calls about status or resolving disputes caused by discrepancies between different trading partners' systems having different data on what actually happened. Furthermore, there is a big increase in the percentage of invoices that match error-free the first time and are approved and processed straight through, without any human interaction. These reductions in errors and non-value-add dispute resolution activities (which can consume a lot of wasted time) further reduce operating costs (note: these savings are in addition to the cost reductions realized from suppliers' lower cost of capital mentioned earlier).



Simpler Connectivity for Suppliers

Having the single network to connect to also lowers the burden for suppliers. In a world of one-to-one connections, suppliers have to deal with a different portal and/or integration effort for every customer. That adds up to a lot of unique integrations, user interfaces, and dealing with many different customer IT organizations. With the networked platform approach, the supplier integrates just once to the network, and has a consistent technology interface and user interface for all its transactions across all its customers that are on the network. This reduces training and errors, simplifies and reduces overall integration and infrastructure management costs, and provides a single place for the supplier to manage all customer transactions.⁵ Further, it reduces the supplier's time-to-connect, go live, and start earning revenue with a new customer on the network.

Streamlining the Processes—Taking Delay and Sloppiness Out of the System

A key part of the foundational capabilities described is *pervasive automation*, from the moment a PO is created on the platform, through to financial settlement. Rules-based engines remove unnecessary human involvement

⁴ The benefits discussed earlier were COGS reduction/margin improvement, continuity of supply assurance, and time-to-market compression.

⁵ For those of their customers who are connected to the network.

at every step in the process. This has the effect of substantially reducing end-to-end cycle times. This is above and beyond the time-to-market compression described earlier, which was about giving suppliers access to capital much earlier, so they can order raw materials. Here we are taking time and errors out of every process step in the P2P lifecycle, on the buyer's side, supplier's side, and with the service providers (transportation carriers, financial institutions, inspectors, etc.) The beauty of the network platform is that it helps automate all participants, not just one company.

Further, this level of automation frees up human capital and expertise, including sourcing and procurement, supply chain, and financial professionals. Instead of spending their time chasing down information and non-value-add activities (like dispute resolution), they can manage by exception, be alerted when something needs attention and spend more time on high-value activities that actually leverage their expertise. This can lead to higher job satisfaction for those individuals as well.

In addition, the granular data about exactly what happened is now available for analysis to see patterns of recurring problems. This can be used to drive continuous improvement programs such as further reducing supplier errors and chargebacks, looking at dwell times and other cycle time compression opportunities, improving carrier performance, and more.

Additional Strategic Supplier Relationships / Improving Supplier Performance

Progressive companies practice strategic sourcing, building long-term strategic relationships with a handful of key suppliers. This enables them to continually improve performance by working collaboratively with those suppliers. With traditional methods, they can only do this with a fairly small number of suppliers, because of all the effort required to monitor, integrate with, and do continuous improvement with the supplier. The networked platform capabilities make it *much* easier to integrate with suppliers (many suppliers are pre-integrated with the platform, and for those who are not they have a well-defined proven integration path). It also has inherent monitoring of supplier performance built in and immediate notification/feedback to all parties involved – i.e. inherently integrated supplier performance management. This all reduces the time and effort for buyers who thereby can engage more deeply and collaboratively with a larger number of their most important suppliers, thus broadening their strategic supplier base. This can have dramatic improvements to overall supplier performance and cost reduction.

Unleashing Professionals' Strategic Value-Add Potential

Holistic supply chain finance holds the potential to help finance, supply chain, and procurement professionals to provide more strategic value. Finance professionals can use SCF to obtain much higher returns for cash and reduce COGS. Supply chain managers can compress cycle times and reduce costs. Procurement professionals can use the SCF network platform to improve supplier performance and assure continuity of supply. And all of them can take advantage of the automation to free up their time, relieving them of much of the non-value-add 'grunt work' so they can focus on the more creative parts of their job that require the expertise they have worked so hard for and spent so many years acquiring. In short, intelligent use of holistic supply chain finance capabilities can elevate the value and contributions of these important talented individuals, enabling the company to be more successful and competitive.



About ChainLink Research

ChainLink Research, Inc. is a Supply Chain research organization dedicated to helping executives improve business performance and competitiveness through an understanding of real-world implications, obstacles and results for supply-chain policies, practices, processes, and technologies. The ChainLink 3Pe Model is the basis for our research; a unique, multidimensional framework for managing and improving the links between supply chain partners.

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