

## Developing a supplier finance strategy

*A growing number of corporations are putting in place supplier finance strategies that go well beyond extending payment terms – but there is still a way to go in recognising what can be achieved, according to a new poll by the Working Capital Forum.*

Supply chain finance has been used by large corporations to optimise working capital for decades. At its most basic, the corporation extends its payment terms to suppliers while working with a bank or other provider to offer them easy access to credit based on the value of their approved invoices.

Getting these programmes started has often been more complex than their early adopters anticipated. Supplier onboarding, internal ‘buy-in’ and accounting hurdles have all had to be overcome but, today, many of these programmes are delivering results that are well ahead of their original, limited objectives.

Spurred by those early successes, corporations which started with the aim of improving liquidity are setting their sights higher and looking at the entire financial supply chain with as much rigour as they do their physical supply chains.

### Benefits beyond ‘days payable outstanding’

The benefits to the business can be much wider than simply extending payment terms: objectives may include reducing the cost of goods sold by offering early payment in return for a discount; reinvesting surplus cash into the supply chain to generate higher returns; or reducing risk by securing the financial stability of key suppliers.

Deciding which of these benefits matters most is part of developing a strategy that brings together all parts of the business in managing the financial supply chain from a strategic, rather than a tactical, perspective.

Matthew Stammers, VP Marketing at Taulia, puts it this way: “We are seeing corporations move away from the ‘sticking plaster’ solutions that address short-term needs and towards a strategic approach to the entire supply chain”.

Stammers points to the emergence of longer-term objectives in the



planning stages of supplier finance programmes.

Where once these might have been the sole concern of treasury, companies are now bringing together multi-disciplinary teams, often under the leadership of a specialist head of supplier finance or working capital, to develop and execute strategies that reach beyond short-term benefits.

This brief report examines where today's corporations are on the path towards developing such a financial supply chain strategy. It is based on a poll, carried out by the Working Capital Forum and sponsored by Taulia, which asked 26 corporations in the EMEA region with annual revenues above \$1bn about their supplier finance strategy.

### **Supplier finance strategies add value**

The first finding is that the trend seen anecdotally is borne out by feedback from real corporations. Just over a third (38%) of the companies polled said they already had a formal supplier finance strategy in place, while just under half (46%) of respondents said that the health of the financial supply chain was already reflected in their own KPIs.

When respondents were asked if a well-executed financial supply chain strategy could add value to a company's bottom line, the answer was overwhelmingly positive, with an average score of 7.3 on a scale where 10 is 'strongly agree'.

The indications are, then, that companies are already seeing the importance of a supplier finance strategy. But what goals do companies have in mind when they consider developing a supplier finance strategy? They are, overwhelmingly, still concentrated on improving the liquidity of the buyer.

### **Working Capital still the driver**

The most popular goal, cited by 62% of respondents, was 'to support our wider working capital strategy', followed by 'To extend our accounts payable terms', cited by 46%, with 'to reduce risk in our supply chain' cited by the same percentage.

Goals focussed on the financial health of suppliers were further down the list of priorities, but still significant, such as 'to strengthen our relationships with sellers' (38%) and 'to enhance our suppliers access to lower-cost capital (23%).

Finally, we asked our panel what they saw as the most important elements of a successful supplier finance strategy. The top answer by a large margin, cited by 77% of respondents, was 'Close co-operation between treasury, AP and procurement'.

Other popular factors, such as board level support, or internal and external communication of the strategy, were mentioned by fewer than 50% of respondents.

This snap poll does not claim to offer a deep understanding of the progress towards establishing the supplier finance strategy as a corporate imperative, but it does offer a snapshot of the thinking behind the strategies that are already in place. As global supply chains become ever more complex, the importance of ensuring they are well funded as well as well engineered will only grow.

### **About the poll**

The survey was conducted through an online poll of EMEA members of the Working Capital Forum between 1<sup>st</sup> May and 1<sup>st</sup> June 2017. A total of 26 responses were received, of which 54% were in treasury roles, 31% in procurement and 15% in other financial roles.

For more information contact Mike Hewitt [mikeh@adaugeomedia.com](mailto:mikeh@adaugeomedia.com)