Collaborative Financing: the Wave of the Future

Andrew Betts  
Global Supply Chain Executive  
J.P. Morgan Treasury Services

The supply chain finance industry is rapidly changing shape, expanding more broadly into a suite of receivables and payable finance solutions that support domestic, regional and global supply chains.

With broadened mandates, these financing options -- especially those that do not negatively impact a corporation's leverage ratios -- are now a key weapon in every Treasurer's arsenal. Going forward, expect them to play an even more important role in the working capital optimization strategies of corporates, as supply chains expand both vertically and horizontally.

Economic recovery has brought increased demand by international corporates for a wide range of supply chain financing solutions. With traditional credit flows remaining relatively weak, supplier finance, receivables finance (both on- and off-balance sheet), and pre/post export solutions are proving vital to the current pickup in cross-border trade across all regions.

As output demand increases, small and medium size suppliers who have had challenges in sourcing their funding through the usual channels are eagerly seeking out supplier finance programs. Now, even larger well-rated suppliers are showing interest in the working capital benefits these programs provide through accelerated cash flow.

On the reverse side, medium and larger suppliers looking to reduce Days Sales Outstanding (DSO) via off-balance sheet solutions are often interested in monetizing their balance sheets via the sale of receivables against a range of their customers.

Collaborative Financing

Corporate supply chain finance programs with larger credit needs and global supplier bases increasingly require collaboration between financial institutions. As large programs continue to bring concentrated corporate risk and often exceed the appetite of a single funding party, there is a trend towards collaboration that more effectively distributes risk. Since clients are reluctant to integrate with multiple Supplier Finance platforms, the evolving market will eventually come to resemble syndicated lending, with seamless capability to bring additional funding partners into a program.

New financial and legal structures are now being developed to support larger supply chain programs. Current market practice is to manage risk through distribution with funded/unfunded participations, allowing the solution provider to take on large programs within internal credit thresholds. Participants have visibility to transactions and opportunities to select programs that align with overall credit capacity.

The market's largest programs will eventually begin to access funding via capital markets structures such as Special Purpose Vehicles (SPVs) and/or conduits to issue notes sold over the counter to banks and institutions with appetite for such asset classes. With time, these assets and notes could receive external ratings and attract a much wider investor base.
We also anticipate funds emerging to participate in various programs and, similar to the Commercial Paper market, buying assets and notes issued on the back of receivables from investment grade buyers and sellers.

**Redefining Supply Chain Solutions**

Increased demand for supply chain solutions has pushed buyers, suppliers and banks to join forces to provide more integrated solutions. The change reflects a trend in working capital management that ties their finance and transaction activities together, leveraging the information exchanged by a bank and a buyer when open account trade transactions are processed.

There is customer demand for banks to become more involved in processing cross-border transactions. For example, banks receive purchase orders electronically from the customer’s ERP and pass the data to suppliers through their technology platforms. Using the same technology, suppliers can create and present export documents to the client for acceptance. The documents are validated by the bank’s in-house experts and made available to the client for electronic approval.

This trend has developed as the market generally acknowledges that banks are well positioned to manage such interactions: they have the expertise, scalability and low cost operations (often based in Asia hubs) needed to process these transactions for both the buyer and supplier communities.

On one hand, outsourcing processing from the buyers’ side allows expert review of supplier documents. On the other, suppliers can use the technology solutions offered by banks to prepare compliant documents by re-using the information already available from purchase orders. Streamlining this information allows suppliers to access funding earlier in the cycle via receivables-based financing structures. This accelerates presentation time, speeds invoice approval and reduces DSO. It also reduces the overall cost of the transaction to the buyer and the supplier by minimizing discrepancies.

Having full visibility to the underlying transactions and acceptances from buyers gives banks the opportunity to purchase these receivables from the suppliers. At the same time, the electronic exchange of information on documents has reduced the overall approval time and allowed funding parties to offer financing at an earlier date.

**Enhancing Program Operations**

As supplier finance programs have grown bigger and more complex to meet changing needs, key components of existing solutions have been revamped accordingly.

Electronic documentation and automated supplier onboarding are increasingly used to enable faster and more efficient on-boarding of suppliers. While local laws in some jurisdictions still present some barriers to pure electronic communication, market practice is moving inexorably in this direction.

Additionally, multi-currency and multi-jurisdiction compliant supply chain programs are being deployed through single global platforms. These platforms are being tailored to seamlessly interface with multiple ERPs and account payables systems within buyer and supplier organizations.
Typically, suppliers wait for up to 40 days before their invoices are approved and available for discount, as paper invoices cross many doors, trays and inboxes before eventually being approved by the Accounts Payable department. Technology enhancements available from the new supply chain programs will allow faster processing, making funds available on Day 10 rather than Day 40. This ability, tied to dynamic discount offers or buyer-led financing programs, will provide the compelling rationale for continuing supplier participation.

**Buyer-Supplier Collaboration**

Effective Buyer-Supplier collaboration relies on the interaction of interested parties outside the company to gain full visibility and “trackability” of supply chains. Collaborative platforms provide visibility to counterparties as soon as a Purchase Order or an invoice is created via an in-house system/ERP -- and, in effect, allow these parties to extend their ERPs to suppliers and speed the flow of information. This enables more efficient processing; it also provides buyers with the ability to review their supply base holistically, with a focus on each segment’s behavior and discipline.

Intelligent dashboards on top of these platforms will allow treasurers to monitor their cash flow movements and predict cash flow for better planning. Various scenarios can be built to review the resiliency of the supplier base and make changes in terms of discounts or DPO. Later on, these solutions will develop critical mass and drive a major shift in the approach to supply chain programs. Multi-client, multi-bank solutions will prevent buyers and their suppliers from becoming reliant on just one provider.

When the full potential of these programs has been reached, the next level of consolidation for treasurers will be to move their customers onto the same platform, benefiting from the solution now as a supplier of goods. This will allow for true end-to-end management of working capital.

The next generation of supply chain solutions will show a transition from “vanilla” products to broader, much more sophisticated corporate level programs. These enterprise-level solutions will deliver end-to-end management of the working capital cycle -- from purchase order through payment on one side, to sales and collection on the other.

**About the Author**

Andrew Betts, Global Supply Chain Executive as J.P. Morgan, leads a team responsible for delivering global modular and integrated solutions to address clients' financing and broader needs across the supply chain. Andrew has considerable experience in international trade, supply chain financing and trade logistics services. He has previously held senior management positions at Deutsche Post/DHL, ABN AMRO and RBS.