1. Supply Chain Financing program

- Supply chain financing are financial programs offered by the customer (usually procurement), which provides suppliers the option to receive early payments at an inexpensive financing cost, earlier then the payment terms which the customer has defined
- Supply chain financing program allows suppliers to leverage the customer's BBB+ investment grade credit rating to get paid at a competitively low cost
- Supply chain financing allows suppliers to improve their working capital at a low cost, without assuming debt on their balance sheet (i.e. loans)
- Suppliers also can benefit from the Supply chain financing programs as they get visibility of approved receivables through the Supply chain financing portals and typically does not require and IT investments/enhancements by the suppliers (depending on the SCF solution providers)
- Historically, Supply chain financing used to be focused on larger suppliers with higher spend, however with the evolution of supply chain financing tools and programs, offerings can cover the full supplier base regardless of size and supplier risk
- Supply chain financing enables early payment for suppliers at much lower cost than Dynamic Discounting and while allowing buyers to maintain the extended payment terms (win-win for both supplier/customers)
- In short, Supply chain financing programs gives suppliers the option to get paid earlier, at a competitively low cost, without assuming debt on the balance sheet

Pros:

- Suppliers can improve their working capital at a low cost, without assuming debt on their balance sheet
- Suppliers leverage the customer's BBB+ credit rating for financing rate
- Suppliers can get better visibility of invoice statuses (invoice lifecycle and payment statuses) via SCF portal
- Program fee tends to be substantially lower cost than other forms of borrowing, factoring or Dynamic Discounting
- Benefits both customer and supplier – both customer and supplier can improve working capital (buyers to maintain the extended payment terms)

Cons:

- Some customers may only offer financing programs for larger spend suppliers or there is an annual spend minimum required
- This program does not address bad invoices issues – suppliers need to ensure they are submitting good invoices (per customer policy) to ensure they are receiving the early payment benefits
- Depending on the supplier, onboarding process can take time to enable and onboard

Next steps: How can I get more information?

- Ask your buyer for more information on supplier financing programs – typically called Supply Chain Financing or small supplier financing programs
- Ensure you are submitting invoices in accordance to your customer's invoice policy – this will allow you to get payments in accordance of the SCF terms (invoices that in "dispute" will not be paid earlier, only approved invoices will get the benefit of SCF)

2. Factoring receivables

- Factoring is a financial transaction in which a company sells its receivables to a financial company (called a factor)
- Suppliers can improve their cash flow by selling their **accounts receivable** or **invoices** to a factoring company
- When factoring receivables, suppliers will typically receive an initial advance of payment (of the receivables or invoices) at the time the receivables are sold. Once the invoice payment is collected by the factoring company, suppliers will be paid the remaining outstanding balance of the receivables, less the fee to the suppliers
    - i.e. Supplier gets paid 80% of the invoice amount at the point of purchase; Once invoice is collected, supplier will get paid the remaining 20%, less the fees
- Factors that play into the rate charged by factoring companies: Industry of supplier, volume of receivables to be factored, credit worthiness of supplier's customers and days outstanding in receivables

Pros:

- Improve cash flow immediately by getting paid for a portion of the AR that is being sold – through factoring advance
- Suppliers can obtain factoring benefits more quickly than your traditional financial loans
- Loan providers can be more likely to cut off additional credit during financial downturn while factoring companies can continue to buy receivables because they also factor in the creditworthiness of a client's customers, and not just on the strength of the client itself
- Can sell all AR or portions of AR/invoices
- Potential to outsource AR/collections

Cons:

- Typically costs more than conventional financing options
- Not good option for long term AR solution
- Suppliers typically will need to go under contract, which may be lengthy at times
- Suppliers are still responsible for unpaid invoices
- Factoring company will look at your (supplier) customers' payment history to calculate the risk of taking on your invoices. If your customers have a habit of not paying you on time, the factoring company will assume they won't be paid on time either and will be less likely to take on your invoices
- Lack of control – factoring company complete control of your invoice

Next steps: How can I get more information?

- Research available factoring companies
- Run the numbers – ensure that your business is able to cover the higher cost of factoring