Embracing Dynamic Supplier Finance to Support Corporate Supply Chains

By **Colin Sharp**, Senior Vice President EMEA, C2FO

The Covid-19 pandemic highlighted the importance of offering financial support to corporate supply chains, but the Global Supply Chain Finance Forum has also noted how the availability and the cost of traditional payable finance programmes are still a challenge for many SMEs. Ethical and inclusive supply chain finance is the only way to sustainably help supply chains for the long-term good of all participants.

The pandemic has shone a spotlight on to the topic of supply chain finance (SCF). Demand for working capital has been at unprecedented levels for all companies, but this is particularly true for small and medium-sized businesses (SMEs), where access to capital can be challenging and expensive at the best of times.

The results from a recent C2FO worldwide survey to more than 8,000 SMEs, highlighted a rush to a wide range of funding options in 2020, including traditional banking, asset-backed loans, factoring and a steady uptake of SCF programmes. However, the cost of such short-term liquidity has been rising

due to high demand and uncertain economic conditions, access for SMEs is often challenging.

In addition, different sectors have experienced varying levels of impact. On the one hand, industries such as medical supplies, grocery retail, and white goods have seen spikes in demand and have welcomed the ability of SCF to support the increased working capital needs of their supply chain in order to support the increased business volumes. But on the other hand, suppliers in industries with significant downturns have been supported during tough times due to the available cash flows from SCF. Again, this is particularly true in the SME segment where average cash reserves tend to be less than 30 days.

Promoting ethical SCF

The concept of altering payment terms in return for access to lower-cost finance has been around for some time and, where it suits both parties, is an effective solution. However, when payment terms are pushed beyond industry norms by buyers, and particularly where SMEs are involved, it rightly attracts negative attention.

C2FO takes a strong, ethical stance on this topic. We very actively support corporates around the fact that SMEs need to be a primary target for SCF to deliver much needed liquidity and most bank-led SCF programmes struggle to effectively address this particular segment.

An ethical alternative lies in solutions such as Dynamic Supplier Finance (DSF), which can act as a force for good. In a nutshell, DSF is a flexible funding option that enables third parties to fund early payment from enterprises to their suppliers (enterprises can also use their own cash in combination with a third party to create maximum benefit for all). During the pandemic, immense value has been delivered to support companies in this way.

At C2FO alone, billions of dollars of vital liquidity organised through DSF helped all elements of the supply chain – but this was particularly well received by SMEs and other vulnerable yet vital segments. For example, ventilator production was able to ramp up because we delivered the necessary working capital for suppliers of medical device manufacturers. Participants in the auto industry were also able to reboot after the shutdown with liquidity via C2FO.

We also see that DSF will be a force for good to support the environmental, social and governance (ESG) initiatives of our customers. Inclusive finance can be used to correctly incentivise suppliers to adopt, and fund, change towards more sustainable practices, and reduce the carbon footprint in their operations. A supplier scorecard measuring carbon reduction, for example, can be linked to the price of funding via SCF, meaning that suppliers know that when they improve their performance against sustainability targets then they can access cheaper liquidity.

Customer financing

Appetite for solutions such as Dynamic Customer Financing (DCF) is also growing exponentially. Treasurers have the opportunity to lay down a foundation for more dynamic business terms using providers such as C2FO. As a result, they will be able to steer working capital, free cash flow, obtain margin improvement, and achieve better risk-free yields on short-term cash for their organisations. This can also enable a positive contribution to company-wide ESG goals, all while supporting their supply chain partners, customers and suppliers, with much needed liquidity and where everyone benefits.

Elsewhere in SCF, we see a trend towards bank-agnostic platforms. These enable treasurers to connect to the technology to be able to fund from multiple banks (and non-bank sources), avoiding credit capacity problems or changing platform when a banking partner changes. We also support the trend to allow cash for these programmes to come from a combination of a buyer’s own balance sheet and from banks or other financial institutions, with the ability to move flexibly and seamlessly between cash sources to support a variety of goals.

Smart treasurers – and thankfully we have many of them in our customer base – are starting to object to the extensive use of SCF to push out payment terms coercively, knowing that the credit may not always be available but the longer payment terms persist. A solution such as DCF solves this by enabling treasurers to offer dynamic payment terms to their customers. In turn, this empowers them to avoid a structural or wholesale payment terms extension, and instead provide their customers with what they need in terms of working capital. Consequently, this helps them to support sales teams to win more business, and to more effectively support their channel/distribution customers. ■

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