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Optimizing Working Capital for the Financial Supply Chain

New approach appears poised to solve traditional challenges, greatly reducing friction and benefitting both buyers and suppliers

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Supply Chain Financing Plus

As the business landscape evolves and operating costs rise, the ability to improve free cash flow, reduce costs and strengthen supply chain relationships is becoming profoundly important. Clearly, most suppliers need access to affordable financing – and just as clearly, organizations must take a strategic approach to optimizing their cash to create a stronger, healthier and far more efficient supply chain.

Fortunately, leading organizations have found a way to bypass the traditional restraints of Supply Chain Finance programs by leveraging technology and flexible cash sources to enable successes never before thought possible.

Never has scrutiny been so intense

With large corporations holding record amounts of cash, credit availability for large companies is plentiful - yet supply chains face tighter credit restrictions. Thus the opportunity for a mutually beneficial financing option is more powerful than ever.

The urgency for an improved solution is underscored by new pressures from investors and financial analysts, who are increasingly treating working capital management as a proxy for management competency. In addition:

– Companies are under increasing pressure to improve margins.

– Suppliers feel squeezed because payment times are being pushed out and 47% are paid late according to a recent supplier survey by Taulia, a leader in supply chain solutions.

– Banks are focusing their increasingly constrained balance sheets on large investment-grade companies, requiring small and medium-size suppliers to rely on more expensive sources of financing such as factoring and P-cards.

Until now, no single supply chain finance solution was able to truly satisfy suppliers and buyers alike

Traditional solutions often excluded medium-size and smaller suppliers from joining or made onboarding suppliers unattractive for financial institutions. Additional challenges include:

– Excessive costs and paperwork

– Onerous receivable lien requirements

– No true P2P platform integration with ERP, including requiring specific types of files to be manually uploaded into the supplier-facing platform

– Lack of scalable platforms that would enable fast onboarding for all suppliers

The above, of course, assumes a SCF solution is in place, which isn't often the case. According to KPMG research, more than 70% of organizations surveyed do not have a supply chain financing program in place.

Forward to a more prosperous future for all parties

The power of a three-pronged approach founded on technology

The limited scope of current solutions, whether P-cards, discounting, factoring or the use of banks, is yielding to a new solution - an integrated, one-stop model that includes a global funding partner with access to multiple sources of capital, a cloud-based technology platform and the high-level perspective and guidance of a trusted business and technology advisor.

A closer look: What the three essential elements bring to the table

The **technology platform** must be proven, easy to deploy and manage, free for suppliers to use, and available to all suppliers, not just the largest. It must also be:

– Highly reliable and secure

– Able to link seamlessly to ERP invoicing data with minimal IT integration so as to facilitate the rapid presentation and processing of early payment offerings

– Fully prepared to give buyers the option of supplier financing using their own funds, third-party funds or a combination

– Able to offer suppliers click-through acceptance of early payment offers with no legal/loan documentation required

– Capable of accelerating invoice approval cycles to maximize early payment benefits with P2P automation via eInvoicing

While many tools in the space can do some of these things, the key to success is deploying a complete, integrated solution that can quickly onboard a large quantity of suppliers of all sizes, smoothly offer access to multiple sources of cash and provide a technology platform that offers security and automation. Given the right solution, buyers can begin transacting with their suppliers from the first day they enable the solution.

The **global funding partner** must offer attractive rates, based on accessing capital globally from the full spectrum of funding sources including banks, pension funds, the broader capital markets and other entities – thus reducing single-source risk while ensuring sufficient liquidity over the long term. It must also:

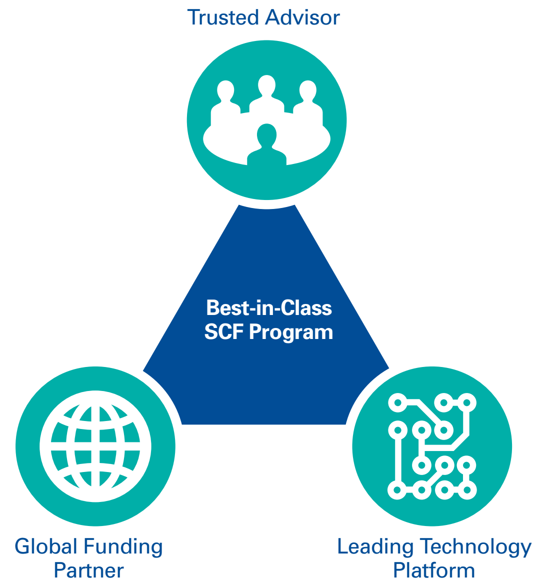
– Offer tight integration with all partners, including the technology platform, providing transparent, secure and auditable early payments to suppliers and settlement of trade payables transactions

– Be so seamless that suppliers don't know whether an invoice is self-funded by the buyer or by another entity

– Support investment grade and non-investment grade buyers and small, medium and large suppliers

– Be willing to commit resources to help with supplier onboarding

The **trusted advisor** should be a team that knows your business and sector and is able to provide change management capabilities to align IT, Treasury, Finance, and Procurement – thus enabling a smooth and fast transition to a SCF+ program that performs strongly for the long term. In addition, it must possess experience and understanding of leading invoice-to-pay processes to effectively define and manage global supplier onboarding and value enablement programs (from business case development and tracking to supplier analysis and segmentation, to communications and enrollment).



A true win-win

Supply Chain Finance Plus is scalable and combines all the benefits of traditional supply chain financing with flexibility, control and powerful, measurable results. Best of all, SCF+ is a true win-win: suppliers can access fast, uninterrupted and inexpensive financing while buyers strengthen trading relationships and add millions to the bottom line.

Buyer benefits

Treasury managers and CFOs can use their company's cash or easily tap into third party cash while improving working capital, margins and balance sheet metrics. This opens a path to:

- Increasing returns on cash available for short-term investments
- Extending Days Payable Outstanding (DPO) to best-in-class industry norms or beyond
- Aligning more closely to peer benchmarks for working capital management and related metrics
- Bulk onboarding of all suppliers, not just the largest suppliers
- Reducing the risk of supply chain disruptions caused by supplier financial difficulties
- Transformation of Accounts Payable and Shared Services into profit centers
- Strengthening of Corporate Social Responsibility initiatives and adherence to government initiatives around small business lending, including minority-owned businesses
- The peace of mind that comes with knowing that suppliers can weather financial shocks by being able to access capital from a large universe of funders

Supplier benefits

No SCF Program can work without suppliers coming on board, which means it has to be attractive to suppliers. Successful programs that address the mid-to long-tail require scale (thousands of suppliers enrolled and accelerating payments) and time (typically six to 10 months to ramp up a program) to achieve meaningful benefits. The growing alternative, SCF+, offers:

- Onboarding that can begin in seconds, thanks to an intuitive, easy-to-use platform
- Faster payments and less bureaucracy, allowing suppliers to sell their receivables at a small discount
- Benefits to all suppliers, regardless of size, which helps immensely with scale and onboarding
- Stronger relationships between buyers and suppliers
- Multiple sources of competitively priced working capital, reducing risk and costs for suppliers
- Zero cost to use the platform, and a variety of benefits beyond financing, including a self-service receivables platform and free electronic invoicing
- Technical/business guidance from a trusted advisor
- The availability of cash for expansion or large orders
- Zero supplier lien requirements

The SCF landscape:

Disjointed, inefficient and incomplete solutions

Traditional supply chain finance

– Typically targets only the largest 10-50 suppliers due to complicated onboarding and prohibitive costs

– Singular focus on working capital benefits to CFOs and Treasurers while ignoring other key stakeholders such as Procurement, Accounts Payable or IT - leading to increased operational cost and program implementation complication

– Requires the deployment of a difficult-to-use single use bank platform

– Limited capital if via a single bank

Dynamic discounting

– Shortens Days Payable Outstanding (DPO) which may be contrary to working capital goals

– Removes cash from the balance sheet so the quantum of funds devoted to the program by Treasury may be limited

– Often introduced at APRs in excess of 15 percent to ensure Treasury obtains a sufficient return on committed capital, thus limiting supplier adoption

Factoring

– Expensive for suppliers, often 24-36% APR

– High level of operational impact as the Factor takes over all collections for that supplier

– 70% of the fees cover operational costs, not financing costs

– Often prevents the supplier from participating in other forms of more favorable financing

– Lower advance rates, averaging 60-80% due to dilution risks

P-cards

– High supplier-facing rates, as much as 2.65% flat discount plus merchant acquiring fees for 30 days of financing or less

– Inflexible supplier-facing rates due to Visa, MasterCard and Amex interchange rules

– 0.31% flat friction cost to the "cards rails"

– Unable to provide adequate supplier financing terms for buyers with longer payment terms of 60-180 days

The three companies that created SCF+

Supply Chain Financing+ is composed of a technology platform provided by Taulia, the global funding expertise of Greensill Capital and the trusted advice of KPMG.

Taulia

An innovator in supply chain solutions, Taulia turns every invoice into a revenue opportunity, enabling organizations to strengthen supplier relationships while adding millions to the bottom line. Brands that rely on Taulia include Coca-Cola Bottling, Pfizer, Hallmark, John Deere, and many other Fortune 500 companies from various industries. Headquartered in San Francisco, California, Taulia has locations across the United States and offices in London, England; Dusseldorf, Germany; and Sofia, Bulgaria. For more information, visit http://taulia.com/en/.

Greensill Capital

Greensill Capital is an independent financial services firm and principal investor group specializing in structured supply chain finance, working capital optimization, specialty financing and contract monetization. Founded in 2011 by a seasoned team of supply chain finance specialists, it provides innovative and alternative structured solutions for corporations and financial institutions globally. It is also majority owner and bank holding company of Greensill Bank AG, a regulated German private bank. For more information, visit http://www.greensill.com/.

KPMG

KPMG LLP, the audit, tax and advisory firm (www.kpmg.com/us) with demonstrable expertise in supply chain transformation, is the U.S. member firm of KPMG International Cooperative ("KPMG International"). KPMG International's member firms have 174,000 professionals, including more than 9,000 partners in 155 countries. For more information visit www.kpmg.com/us.

Next Steps

A checklist for buyers

Companies that benefit most from SCF Plus include those with:

- $1B or more in cost of goods sold
- A desire to extend payment terms beyond net 30 days, or incentivize acceleration of supplier payments by 30 days or more replacing legacy discount payment terms (example: 2% 10, net 30) with dynamic offers
- An in-house enterprise resource planning system with invoice management capabilities
- A willingness to offer sliding scale discounts to suppliers at attractive APRs, using balance sheet cash or third-party cash

The following questions will help:

- Is improving working capital a priority?
- Do you need cash for growth initiatives, M&A, share repurchases and/or dividend payouts?
- Is reducing supplier churn one of your priorities?
- Would you like to generate AP operational and COGS savings?
- Would you like to strengthen your supply chain, making it resilient, while also supporting SMB suppliers?
- Where do your working capital metrics rank vs. your peers?

Conclusion

As companies become more familiar and comfortable with the advantages offered by next-generation supply chain financing programs, more will move in that direction. This will provide them with distinct competitive advantages in terms of cash flow, margins, working capital improvement and the ability to successfully manage supplier relationships and keep them healthy.

For more information on SCF+, please visit http://taulia.com/en/supply-chain-finance.

Contact us:

Stuart Laidlaw
Taulia, Inc.
Senior Director, Global Alliances
stuart.laidlaw@taulia.com
415-699-9646

Charles Brough
Greensill Capital
Director
charles.brough@greensill.com
312-874-6936

Brian Murphy
KPMG
Director, Procurement Operations
brianpmurphy@kpmg.com
504-275-6533

www.kpmg.com/us

kpmg.com/socialmedia