

## Chapter 2

# Background I—What Is Buyer-Led Supply Chain Finance?

### 2.1 Defining Buyer-Led Supply Chain Finance

SCF is at the evolutionary frontier of financial services that are closely related to the supply chain cycle (Templar et al. 2016). These services, mainly offered by financial institutions, leverage the use of documents, orders and contracts traded between companies, granting them to access to better payment terms and thus to a cheaper form of financing that generates liquidity and improves their working capital.<sup>1</sup> The Global Supply Chain Finance Forum proposes the following summarised definition of SCF

SCF is the use of financing and risk mitigation practices and techniques to optimise the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements usually enabled by a technology platform (GSCFF 2015, p. 11).

To better define SCF, we now discuss the three key elements of the definition: (a) working capital management; (b) open account (O/A) trade; (c) technology platforms.

#### *Working capital management*

In an increasingly competitive and globalised landscape, working capital control has become a key metric for chief executive officers focusing on profitable growth (Aite Group 2014, p. 6). Corporate clients can optimise working capital by

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<sup>1</sup>Working capital (WC) represents the amount of day-by-day operating liquidity available to a business and is calculated as:  $WC = (AR) + (Inv.) + (Cash) - (AP)$ , where (AP) stands for accounts receivable, (Inv.) is the inventory value (raw material + Work in Progress (WIP) + finished goods), (AP) is accounts payables and (Cash) is self-explanatory.

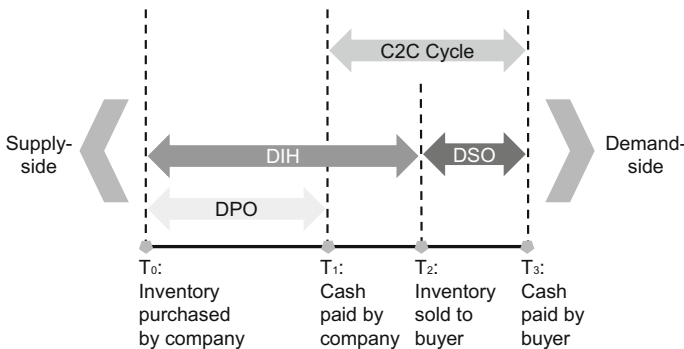
managing to shorten its cash-to-cash (C2C) cycle, which allows companies to release originally locked up and idle capital to increase free cash flow (FCF), improve the internal funding ability and increase the enterprise value (Hofmann and Belin 2011, p. 7). The C2C cycle time is calculated as follows:

$$\text{C2C cycle} = \text{DSO period} + \text{DIH period} - \text{DPO period}.$$

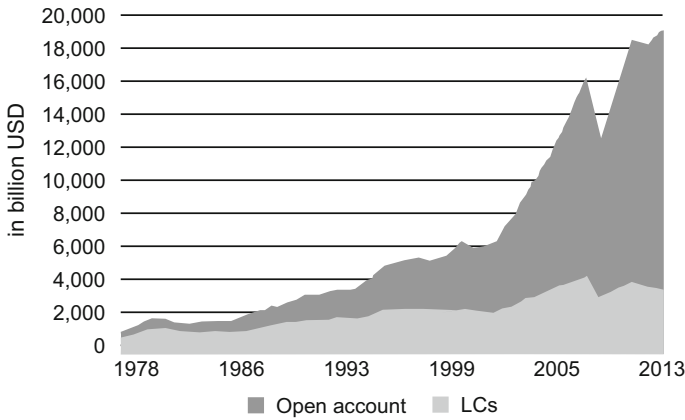
The equation shows a clear conflicting situation between the trading parties: to shorten the C2C cycle, suppliers have to shorten their DSO (days sales outstanding) or DIH (days inventory held), while buyers have to lengthen their DPO (days payables outstanding). This means that by shortening the DSO or extending the DPO, the capital is tied for shorter periods, and additional liquidity is unlocked (Fig. 2.1). Due to the specular relationship that binds the trading parties, without the intervention of a third party, these two objectives are impossible to reach at the same time. SCF programmes release this tension, offering suppliers the possibility to be paid earlier by an external third party (e.g. banks or other investors), while the buyer has the possibility to pay at a later date. This approach allows both parties to improve the working capital and creates a win-win situation (Hofmann and Zumsteg 2016).

#### *Open account (O/A) trade*

Because of the intense competition for export markets, buyers often press exporters for open account (O/A) terms. For this reason, the world trade volumes have seen a dramatic increase in O/A transactions over recent years in front of traditional trade finance (Fig. 2.2). O/A transactions mean that the goods are shipped and delivered before payment is due (usually in 30–90 days). Open account trade entails lower fees and more flexibility than traditional forms of trade finance, such as letter of credit (L/C), bank payment obligation (BPO) or other bank intermediation products,



**Fig. 2.1** The cash-to-cash cycle (Hofmann and Belin 2011, p. 7)



**Fig. 2.2** Development of open account versus letter of credit volumes, from 1978 to 2013 (GSCFF 2015, p. 18)

but it leaves firms bearing more risk and a potentially greater need for working capital. SCF solutions are a direct response to this evolving situation (GSCFF 2015, p. 18), and such solutions offer the corporate clients involved in such trade flows an option for mitigating this problem.

### *Technology platforms*

As underlined in its definition, SCF is usually enabled by technology platforms. One of the most important factors of successful SCF programmes is the improvement of software and technology solutions that allow businesses to come together in partnership and speed up cash flows throughout the supply chain as a result of the automation of processes (Camerinelli and Bryant 2014). While services have traditionally been provided by banks through their own channels and products, the market has been recently entered by fin-tech companies,<sup>2</sup> who are specialist financial technology firms that provide platforms and software-based services to support SCF operations (McKinsey & Co 2015, p. 1). These technology providers offer platforms that connect all parties together in order to facilitate the process of reconciliation, facilitate the exchange of purchase orders (POs), invoices, credit notes, payments and related information and facilitate the integration of this information between the different supply chain constituents (Hofmann and Belin 2011, p. 33). The importance of technology platforms was already emphasised in a study of Oliver Wyman (2008), which underlined that the typical client of a large SCF programme requires seamless integration in the client's enterprise resource planning system (ERP) and accounting package, while for middle market firms, the

<sup>2</sup>A McKinsey study (2015) estimated that 10–15% of the SCF market now involves fin-techs, and their growth is likely to accelerate.

bank's Internet-based trade platform is sufficient to successfully handle the financing programme (p. 19). The study also underlined that there are links between technology platform companies and banks in order to provide clients with the expected level of IT integration that they expect. Bank proprietary platforms that allow the information flow of the events that trigger the financing processes are often white label solutions of specialised SCF platform providers (p. 20). This is because many mid-sized and even some large banks have found it more efficient to collaborate with an experienced third-party technology platform provider than to try and develop an in-house solution (Leonard 2013, p. 63).

Table 2.1 gives an overview of common SCF platform providers (data: based on self-declaration).

### *SCF portfolio*

All kind of documents, contracts and orders traded between members of a supply chain can be used to initiate a financing solution. Figure 2.3 illustrates the opportunities triggered by supply chain events starting from a good being warehoused and the respective issuance of a warehouse receipt until the invoice approval. The techniques can be classified as PO-based or invoice-based depending on the documents used as collateral.

In the case of inventory finance, the financing is usually confined to finished goods where a buyer has already been identified and for which a PO has already been issued. In this case, the financing party provides funds against the inventory (as collateral) or by way of a sale and repurchase agreement for the duration of the transaction. Similarly, with pre-shipment financing, the PO represents the evidence of repayment before production or shipping for the financing provider. The funds usually cover the working capital needed for the order's execution, such as raw materials, wages or packaging costs. Similarly, for these financing instruments, the intrinsic risk is higher than for invoice-based financing techniques due to the financing party being engaged in the very early stages of the transaction.

To date, invoice-based financing techniques represent the largest share, with an estimated 80–90% market share, whereas the remaining market share is held by inventory and pre-shipment finance instruments that are more specialised and not as widely practiced outside of certain industries. Depending on whether the programme is initiated by the buyer or the supplier, with invoice-based finance techniques, it is possible to distinguish between supplier-led and buyer-led financing instruments.

In a supplier-led architecture, the financing programme is initiated by the supplier and is set up to finance the receivables of the (any) vendor company. For invoice discounting instruments, the collection of the receivables remains under the control of the supplier, and the counterparty (i.e. the buyer) is usually not informed of the sale of the invoice (i.e. undisclosed assignment). The classical factoring or forfeiting instruments also fall under the supplier-led category, but the buyer is usually informed of the transfer of the title, and the collection is managed by the financing party (receivables purchase in Fig. 2.3).

In a buyer-led programme—approved payables financing—the liquidity is instead provided by the initiative of the buying party (i.e. 'reverse' factoring).

**Table 2.1** Overview and characteristics of supply chain finance technology platforms (based on self-declaration)<sup>a</sup>. Source TFX Trade and Treasury, [www.txfinews.com](http://www.txfinews.com)

Feature	CRX markets <a href="http://www.crxmarkets.com">www.crxmarkets.com</a>	Kyriba <a href="http://www.kyriba.com">www.kyriba.com</a>	Orbian <a href="http://www.orbian.com">www.orbian.com</a>	Prime revenue <a href="http://www.primerevenue.com">www.primerevenue.com</a>	Propell <a href="http://www.propell.co.za">www.propell.co.za</a>	Taulia <a href="http://www.taulia.com">www.taulia.com</a>	Tower trade <a href="http://www.towertradegroup.com">www.towertradegroup.com</a>	Tungsten <a href="http://www.tungsten-network.com">www.tungsten-network.com</a>
Geographical scope	Worldwide	Worldwide	Worldwide	Worldwide	Multi-bank supply chain finance provider to buyers in Africa—and also service suppliers globally	Worldwide	Buyers based primarily in African sub-continent, Europe and North America. Suppliers are spread globally	47 compliant countries
Dynamic discounting	Yes—with discount fees determined either by the buyer or the supplier at a marginal financing cost	Yes—a flexible model responsive to the payment cycle of client	Yes—the supplier can elect to sell approved receivables automatically or on a manual, ongoing basis	Yes—managed with minimal administration through the Sci Supplier platform	Yes—and suppliers can either elect to trade manually (full optionality) or on an autotraded basis	Yes—with suppliers either choosing manually from available payment dates or choosing to auto-accelerate all of their invoices	Not offered	Offer Tungsten Early Payment on an invoice-by-invoice basis, which allows suppliers to select which invoice they want paid and when. Platform allows users to visualise invoices and time them to match outgoing payments
Supplier onboarding	Onboarding is supported by electronic workflow on portal. Either CRX or the buyer liaises with the supplier	Provides the technology and send clients the user-guide. Buyer manages outreach to suppliers	Dedicated supplier onboarding team handles all aspects of supplier enrolment, including education and	Facilitated through Sci Enable platform, a link to which is sent by buyers to suppliers. Includes video tutorials,	Facilitated through an online, cloud-based solution	Varies depending on supplier sizes, from largest suppliers benefiting from face-to-face approach to automated email	This is carried out by the buyer's procurement team	Dedicated enrolment teams help buyer get suppliers on board and transacting

(continued)

Table 2.1 (continued)

Feature	CRX markets <a href="http://www.crxmarkets.com">www.crxmarkets.com</a>	Kyriba <a href="http://www.kyriba.com">www.kyriba.com</a>	Orbian <a href="http://www.orbian.com">www.orbian.com</a>	Prime revenue <a href="http://www.primerevenue.com">www.primerevenue.com</a>	Propell <a href="http://www.propell.co.za">www.propell.co.za</a>	Taulia <a href="http://www.taulia.com">www.taulia.com</a>	Tower trade <a href="http://www.towertradegroup.com">www.towertradegroup.com</a>	Tungsten <a href="http://www.tungsten-network.com">www.tungsten-network.com</a>
Languages	English, German, French and Spanish primarily	11 languages, including English, Japanese and Mandarin	onboarding phase—working hand-in-hand with the buyer's team Most European languages, plus Mandarin, Cantonese, Japanese and Malay. Additional languages available on request	messages from CFOs and interactive calculator English, Italian, Spanish, French, Dutch, German and Chinese	English, French, Spanish, German and Dutch	approach for smaller players All European languages and most widely used languages, including Chinese and Japanese	All European languages	English, Portuguese, Polish, German, French, Italian, Spanish and Bulgarian
Local currency financing	All currencies	Multi-currency	All tradeable currencies with observable Libor (or equivalent) interest rate curve	20, including GBP, USD, EUR and RMB	28, including USD, EUR, GBP, JPY, CHF, MXN and CNY	All currencies	USD, GBP, EUR, ZAR and CHF	All
Self-funding	Yes—either by early payment via Dynamic Discounting or by purchasing securitized notes	Yes—and often used by buyers in conjunction with Dynamic Discounting	Yes—through purchasing notes issued by Orbian after the purchase of the receivables	Yes—through a process in which the buyer is included as an investor	Yes	Yes—with a flexible model that allows them to self-fund when they have excess liquidity and allows the market to fund when they have alternative plans for that liquidity	Yes	Not currently available

(continued)

Table 2.1 (continued)

Feature	CRX markets <a href="http://www.crxmarkets.com">www.crxmarkets.com</a>	Kyriba <a href="http://www.kyriba.com">www.kyriba.com</a>	Orbian <a href="http://www.orbian.com">www.orbian.com</a>	Prime revenue <a href="http://www.primerevenue.com">www.primerevenue.com</a>	Propell <a href="http://www.propell.co.za">www.propell.co.za</a>	Taulia <a href="http://www.taulia.com">www.taulia.com</a>	Tower trade <a href="http://www.towertradegroup.com">www.towertradegroup.com</a>	Tungsten <a href="http://www.tungsten-network.com">www.tungsten-network.com</a>
Funding sources	Yes. Dynamic Discounting, multi-bank and securitized notes. Funding can occur via a single source or multiple sources	A multi-bank platform, usually leveraging the corporate's relationship banks	All funding done via issuance of notes to bank and non-bank investors including buyer's own liquidity	52 funding sources, primarily major banks, but also capital markets investors and alternative financiers	Funding from multiple funders, local banks, trusts, capital markets and on-balance sheet funding from buyers	Partnered exclusively with Greensill Capital, which has an investment vehicle that allows multiple funding sources to invest in that vehicle—from buyer's house banks to hedge funds	Structured funds, retail and non-retail	Tungsten Bank, the invoice financing arm of Tungsten Corporation
Messaging	Messages are automatically broadcast to suppliers (e.g. rate changes) and to investors (e.g. auction announcements)	Not currently available	Automated messaging to buyers and supplier of all activity on account. Includes historic activity and alerts of pending activity	Directly facilitated on platform	Direct messaging in SciEnable, their supplier onboarding and messaging site	Integrated into the Taulia Supplier Portal. There are also message board for individual suppliers or globally	Yes, carried out through an internal electronic platform	Nor currently available
Financing rates	Two fee models: (a), fixed financing rates agreed either individually per	Use market rates drawn from multiple sources. Rates set either on individual	Set by agreement with buyer and supplier. They can be straightforwardly	Different financing rates by supplier, based on analysis of whole spend	Multiple pricing profiles can be setup for different buyers, supplier and currency	Set in conjunction with the buyer, using master-data to put suppliers in different interest	Charges levied vary dependent on the buyer	There is a one-off charge calculated according to the value of the invoice and the number of days until it is due

(continued)

Table 2.1 (continued)

Feature	CRX markets <a href="http://www.crxmarkets.com">www.crxmarkets.com</a>	Kyriba <a href="http://www.kyriba.com">www.kyriba.com</a>	Orbian <a href="http://www.orbian.com">www.orbian.com</a>	Prime revenue <a href="http://www.primerevenue.com">www.primerevenue.com</a>	Propell <a href="http://www.propell.co.za">www.propell.co.za</a>	Taulia <a href="http://www.taulia.com">www.taulia.com</a>	Tower trade <a href="http://www.towertradegroup.com">www.towertradegroup.com</a>	Tungsten <a href="http://www.tungsten-network.com">www.tungsten-network.com</a>
	supplier or by supplier cluster; (b), based on an auction process	supplier level or for a group of suppliers (e.g., based on location or industry)	tiered for different suppliers		combinations. Financing rate for each pricing profile can either be Libor-linked (yield curve), linked to fixed reference rate or fixed (flat)	rates to each segment based on range of factors, including credit worthiness, ratings and own information we have about suppliers		(the charge decreases as you get closer to the due date)
Compliance checks	Yes. It provides a full-scale KYC support to purchasers where required	Carried out by banks	Yes—all compliance, regulatory and reporting requirements for each jurisdiction are fully supported and complied with	Collect and check information during registration—whole package for each supplier then given to the funder for own checking and approval	Yes. KYC, AML and regional compliance checks on behalf of all funders	Solution covers compliance required for the end-user	Carried out on buyers only. The checks on the suppliers are the duty of the buyer and/or the relationship bank	There is an internal KYC department that carries out stringent checks on all suppliers that are enrolled onto programmes
Analytics and reporting	Comprehensive reports are available either online on the portal and via xml or xls	Detailed reporting, tailored to buyer's requirements. Reports	Full suite of historic, and forward-looking tools for reporting and economic analysis	Issue reports that track and measure the success of a programme. Provide	In-depth spending analysis, term benchmarking, industry benchmarking	Taulia Analytics allows buyer to see suppliers who are on a programme, days they are	An analytics and reporting tool	Tungsten Analytics allows clients to access data and saving opportunities in real-time. Buyers

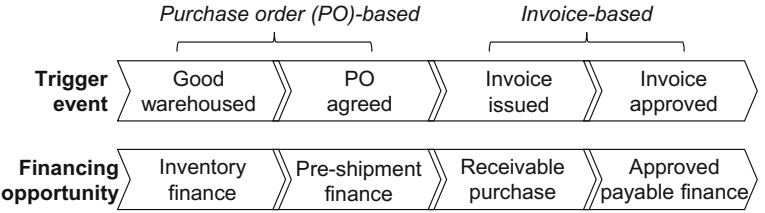
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Feature	CRX markets <a href="http://www.crxmarkets.com">www.crxmarkets.com</a>	Kyriba <a href="http://www.kyriba.com">www.kyriba.com</a>	Orbian <a href="http://www.orbian.com">www.orbian.com</a>	Prime revenue <a href="http://www.primerevenue.com">www.primerevenue.com</a>	Propell <a href="http://www.propell.co.za">www.propell.co.za</a>	Taulia <a href="http://www.taulia.com">www.taulia.com</a>	Tower trade <a href="http://www.towertradegroup.com">www.towertradegroup.com</a>	Tungsten <a href="http://www.tungsten-network.com">www.tungsten-network.com</a>
		generated available online and for download		granular analysis	and supplier financial analysis	accelerating payments by, value of discounts they are achieving and so on		can quickly identify incidents of price variance for individual products and services across procurement activities, improving organisation's performance

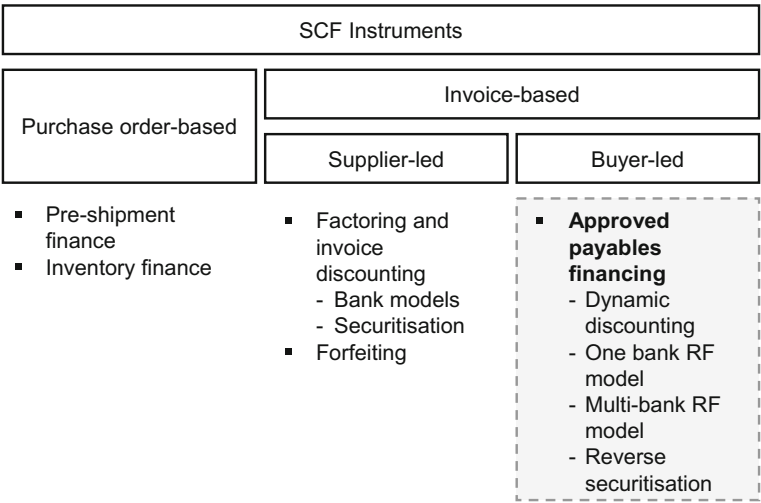
<sup>a</sup>The information about the SCF technology provider is based on a questionnaire that was sent and filled out



**Fig. 2.3** Supply chain financing opportunities (adapted from Camerinelli and Bryant 2014, p. 136)

Although in both cases, the financial intermediary provides the funds by purchasing the receivables (i.e. the invoice with the embedded rights). Seifert and Seifert (2009) identified three important differences between these two categories: (a) Due to risk and volume issues, the focal company in a buyer-centric programme is normally a strong buyer. Thus, factors carry less risk and they can charge lower fees; (b) The bank has to evaluate only the buyer and finances the receivables of any supplier that the buyer cooperates with without worrying how creditworthy they are; (c) As the buyer participates actively, the banks obtain better information and can release funds earlier.

According to Camerinelli and Bryant (2014), payables financing instruments only account for approximately 20% of the SCF invoice-based market but have strong growth potential (p. 30). Figure 2.4 illustrates the SCF instruments portfolio.



**Fig. 2.4** The SCF instruments portfolio

## 2.2 Overview of Approved Payables Financing Instruments

As illustrated, buyers have the option to choose between different solutions to finance their supply chain and thereby their suppliers. In order to discuss possible blockchain applications, it is important to first understand which parties are involved and which role they play. This subsection describes the different approved payables financing instruments derived, as well as fundamental key drivers.

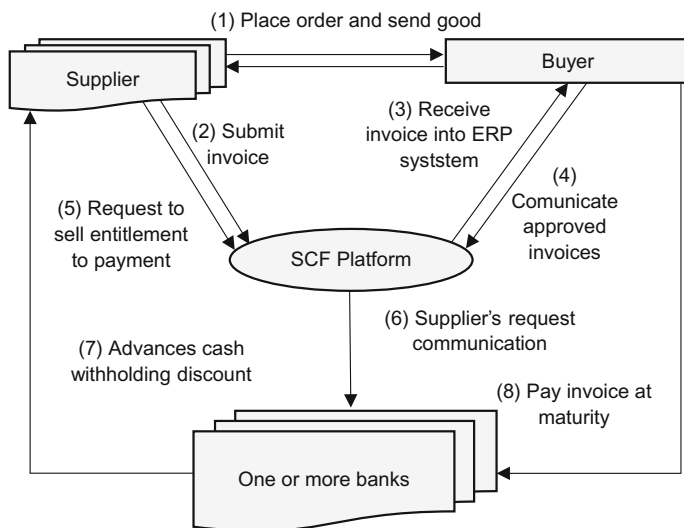
### 2.2.1 *Dynamic Discounting*

Dynamic discounting is a short-term financing instrument initiated by the buyer, and it offers to the buyer the opportunity to invest directly in its own suppliers, while suppliers have the possibility to benefit from an early payment of their accounts receivables (A/R) at a variable discount rate. Funds are typically provided directly by the buyer from its own liquidity resources. Dynamic discounting abolishes the formerly rigid interest calculations of an early payment (e.g. 2/10, net 30) and offers the possibility of a flexible discounting rate over the entire life cycle of the invoice. This solution enables suppliers to access cost-effective financing, which can be modified based on the current needs, while buyers can strengthen their supply chain and optimise their profits by collecting discount incomes, thus generating a win-win situation. Typically, dynamic discounting is most attractive for cash-rich buyers that do not have to focus on working capital as by paying the payables earlier to the suppliers the buyer's DPOs become reduced.

### 2.2.2 *Reverse Factoring*

Within a reverse factoring model, the approved payables can be bought on a platform by one or more banks (or legal entities that are permitted to purchase receivables), consequently offering a wider range of solutions to provide the early payment of the invoice. Corporate clients' reasons for choosing a multi-bank solution are to not be dependent on one single financial institution (Zakai 2015, p. 2) or to access to a broader range of financing opportunities that would be otherwise limited by the single bank commercial condition, geographical scope, product features or programme credit lines limit. A multi-bank programme permits the overhauling of the maximal programme limit of a single bank-driven SCF programme—corporate clients can then be served by another bank when the credit lines of an existing one have been exceeded, reaching a greater funding supply in a single programme.

Figure 2.5 illustrates a reverse factoring model with one or more banks acting as investors who finance the early payments. The starting point is the underlying



**Fig. 2.5** Successive actions in a reverse factoring financing bank model

transaction between the buyer and the supplier (1). The invoice for the transaction is therefore submitted from the supplier to the buyer via the platform or any other form accepted by the buyer (2), enabling the buyer to receive it into its ERP system (3). As soon as the buyer has approved the payable,<sup>3</sup> the approval is communicated via the SCF platform (of the bank or other service providers) (4), allowing the supplier to see it. The supplier can therefore either choose to wait until the payment term expires and the buyer pays the invoice or decide to request the early payment from the bank (5). If the supplier decides to request the financing, the bank accepts the early payment request via the platform (6) and pays the invoice, withholding the discount (7). At invoice maturity, the buyer makes the payment to the bank for invoices that have been financed (8).

To protect the global financial system from being used for illegal activities by money launderers, criminals or terrorists, banks have to perform ‘know your customer’ (KYC) policies for every new customer (i.e. the suppliers) in order to undertake financial business with them. Identifying the customers and collecting the relevant information is a time-consuming and costly task, particularly for multinational corporations’ programmes that have suppliers from all over the world. Given that a single KYC costs for a bank somewhere between 500 and 2,000 Euros in a normal case, if a bank wants to take part in a programme with 50 to 100 suppliers, the costs could therefore represent an important barrier. A survey from McKinsey & Co (2015) showed how the key to a successful SCF relies on the ease

<sup>3</sup>It is important to note that only eligible payables can be financed, submitted to a series of decisional constraints. For example, payables must be free from any liens or security interests and not have been previously pledged or sold (Alite Group 2014, p. 10).

of onboarding suppliers (p. 13). Also, a survey from ICC Global Trade Finance (2014) also points out how the principal reason for rejecting trade financing proposals relies on the burden of KYC procedures, particularly when dealing with foreign suppliers (APEC 2015, p. 35). Compliance requirements could thus be identified as one of the principal barriers in delivering SCF.

Barrier # 1 KYC requirements

### 2.2.3 Reverse Securitisation

This SCF instrument uses a securitisation technique in order to provide funds for early invoice financing. According to Katz (2011), given that receivables are typically the largest single asset category on companies' balance sheets, they are a natural choice for monetization through securitisation processes (p. 26). The pricing, transparency and structuring discipline of the capital markets should result in the best possible funding option for companies. It is expected that securitising the obligations out to the capital markets reduces the capital exposure for the involved parties, lowers risks and creates more efficient prices with benefits for the entire trade community involved in the SCF programme (Miller 2007). This provides smaller and non-rated suppliers with increased positive financing arbitrage and allows them to win bigger suppliers that have low marginal finance costs (CRX 2015). Securitisation programmes can also be carried out under a buyer-led architecture, and they are discussed in detail in Chap. 3.

## 2.3 Key Drivers of Approved Payables Financing Instruments

Beside the optimization of working capital for buyers and suppliers and the global shift to O/A, the motivations for the supply chain community and banks to enter in an approved payables financing programme are shaped by certain contingency factors. We now aim to identify the most important ones.

For small and medium enterprise (SME) *suppliers* particularly, liquidity represents one of the most dominant objectives for financing needs (Lussi 2009, p. 22). As identified by Altman and Sabato (2007), liquidity is one of the key financial ratios for measuring the riskiness of SMEs (i.e. the probability of default) (p. 5). A recent analysis of these indicators shows that they are falling sharply since the last crisis years, and by consequence, the creditworthiness of SMEs has been negatively hit (EBA 2015, p. 25). Even profitable businesses can suffer from liquidity problems, making them unable to invest in growth and development. SCF

solutions offer the possibility for suppliers to deal with this problem and leverage the higher credit rating of the buyer in order to obtain lower financing costs.

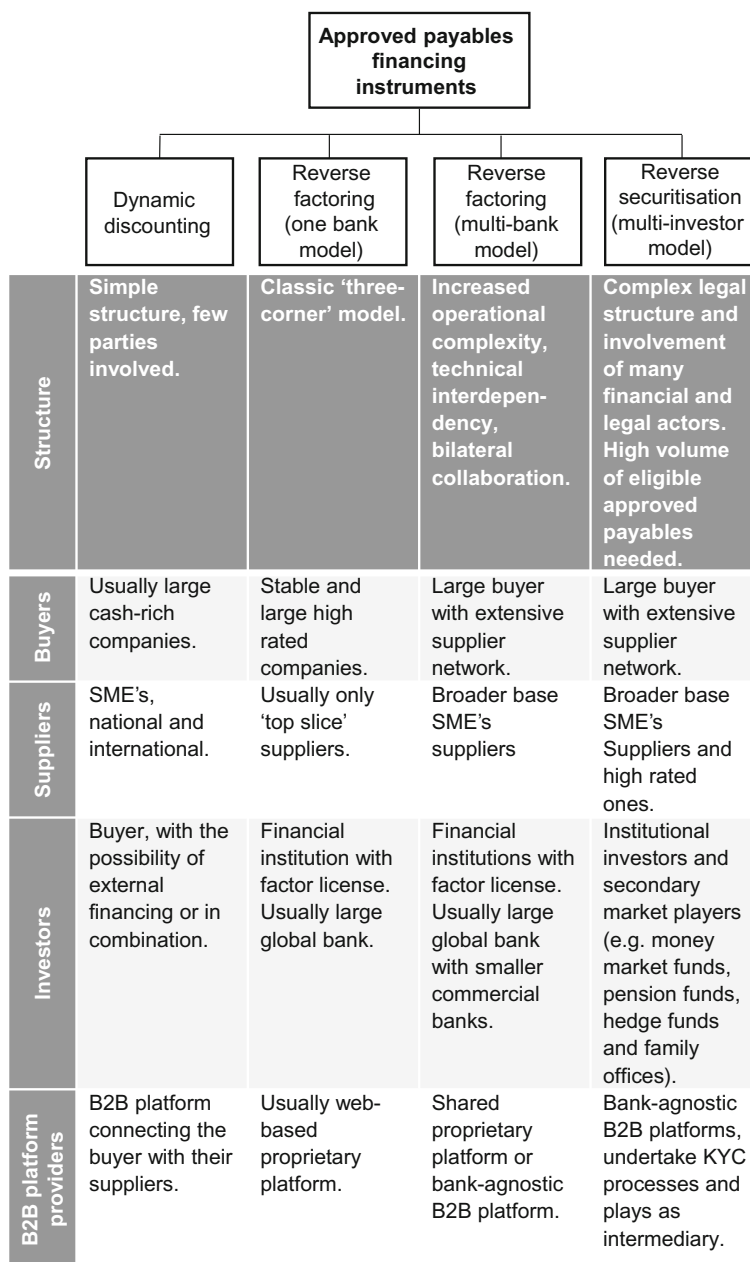
For *buyers*, the increased risk of supplier's default has pushed them to adopt solutions to preserve the health of their supply chain while at the same time maintaining pressure for economies and efficiencies (Kerle 2009). Another key advantage for the buyer is that normally trade payables are not treated as debt for balance sheet purposes, which could bring a lower rate of financing over time due to unchanged debt-ratios. As reverse factoring reduces costs across the supply chain, some of the resulting value is captured by the suppliers, some by the buyer and some by the financial intermediary and service providers (Aite Group 2014, p. 15). Accounting treatment could, however, become a particular issue if the buyer wants to capture some of this value by sharing returns with the financing bank, which is also one of the main drivers for large buyers to initiate a programme. This operation can result in the reclassification of trade payables to bank debt and impact buyer's loan covenants, their leverage and their access to additional credit (Gustin 2014). Thus, a barrier in providing SCF is represented by the accounting treatment issue, which will be discussed in relation to possible solutions offered by blockchain applications in Chap. 5.

#### Barrier # 2 Accounting treatments

For *banks*, SCF represents an opportunity to deal with Basel III regulatory framework. Initially seen as a threat for trade and SCF solutions (APEC 2015, p. 39), the low risk profile and the inherent liquidity of trade credit solutions has made them an attractive asset class for dealing with the restricted capital ratio calculation directives imposed by regulators (Camerinelli and Bryant 2014, p. 87). As underlined by Leventi-Perez (2014), buyer-led SCF solutions are even more attractive because as counterparty risk shifts from suppliers to larger buyers with a better risk profile, banks can increase profitability as a result of lower capital requirements compared to other trade finance solutions. Another important motivation for banks to enter in a SCF programme is the lead generation created once the supplier has been submitted to regulatory compliance. Banks, then, have the opportunity to deal with a potential new commercial customer for any other product or business relation.

As seen, the rigid structure of invoice discounting can be eliminated using technology platforms that provide flexible solutions for exploiting the entire life cycle of the invoice, such as dynamic discounting. Usually, this option is adopted by cash-rich companies that can finance the programme without involving third-party investors (PwC 2014).

In the classical SCF model (i.e. bank-models), the funding is provided by a financial institution—usually the buyer's commercial bank—which sets the programme and finances the early payments at the supplier's request. Bank-created network approaches are likely to grow and find themselves as a preferred model.



**Fig. 2.6** Spectrum of approved payables financing instruments

Two or more banks—or a pool of banks—allow greater flexibility and offer new possibilities for not only the trade community but also for the financial institutions. Banks can leverage potential for risk distribution with other financing partners or reach higher scalability by using specialised technology platforms. Clients and suppliers would then benefit from the price efficiency arising from the enhanced competition between market players.

Additionally, the payables securitisation technique allows the parties involved in a SCF programme to reach the higher degree of competitiveness, transparency and flexibility provided by the capital markets. The demand for lower capital cost is in fact seen as the most common characteristic of securitisation (Pfaue 2003, p. 169; Katz 2011; Leonard 2015). These premises create a spectrum of possibilities, which are illustrated in Fig. 2.6.

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