

# Cloud Networks Create Big Opportunities for Finance Providers

## For Finance Providers, Supply Chains are an Untapped Goldmine

Supply chains have come into the business spotlight recently, thanks to factors like globalization and sustainability. Companies today are devoting more attention to their supply chains and looking for innovations: supply chain visibility has become a concept very familiar to logistics professionals; supply chain transparency issues make mainstream news. Such an environment is ripe for business transformation. Supply chain finance providers can be at the center of that transformation.

Until now, finance providers, buyers, and suppliers haven't realized the true value inherent in supply chain finance. Most existing finance programs involve just one area: approved invoices. This is where a buyer (for example, an apparel company) approves the invoice of its supplier (e.g. a clothing manufacturer in Bangladesh) and then a finance provider comes in to pay the supplier. This occurs basically at the end of the transaction lifecycle (see Fig. 1, pg. 2).

For the finance provider, the approved invoice is certainly a useful place to be involved. It is low-risk and offers decent returns. But many competing finance providers offer post-invoice-approval services, and therefore they are not a strategic differentiator. On the other hand, there are many points earlier in the transaction lifecycle where suppliers desperately need capital—at order, during production, while shipping, etc. If finance providers could offer services at these earlier points, they could become actual strategic partners in the supply chain, which would guarantee growth and generate long-term value. So what's stopping them?

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*Fig. 1: Transaction Lifecycle*
*There are many opportunities for financing prior to the invoice approval stage.*

Financing at earlier points in the transaction cycle has been difficult until fairly recently. For finance providers to release capital say, when a purchase order gets issued, or when production begins, or when a supplier ships goods, it requires knowing precisely when each of those events happen. Traditionally, buyers and suppliers interacted through poorly recorded means of communication like spreadsheets, emails, and phone calls. Because these communication methods were limited and point-to-point, often even the direct parties involved—the buyers and suppliers—couldn't say if, let alone when, a crucial supply chain milestone had taken place. Finance providers didn't even have direct access—they relied on buyers and suppliers to provide them with information.

Thankfully, things have changed. Cloud-based supply chain networks have become a popular way to connect buyers, suppliers, and third parties together. In a supply chain network, all transactions take place on a single, shared platform. Supply chain networks accomplish four crucial prerequisites to expand supply chain finance beyond approved invoices:

- They create a 'single version of the truth'. Since there is only one route of communication, and one set of forms and confirmations that everyone works from, there is no chance of having conflicting reports about whether or not, for instance, a supplier has received a purchase order.
- They make communication between buyers, suppliers, and third parties instantaneous because network platforms provide updates in real-time.
- They make events pertaining to the physical and financial flow of goods completely visible and verifiable. The moment production begins, for example, a supplier updates the network, and the buyer, the finance provider, and any other stakeholders instantly know.
- They enable users to become party to the transaction, instead of sitting on the sidelines. By being connected to real-time supply chain events, finance providers can finally be strategic players in the transaction lifecycle.

By essentially serving as independent, reliable systems of record among many different organizations, supply chain networks give finance providers a path to lucrative financing opportunities earlier in the transaction lifecycle.

Once finance providers connect to these cloud-based supply chain networks, they can create innovative financing programs that buyers and suppliers can rely on to free up working capital, cut costs, and improve operations.


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## A Promising Prospect, Long Unfulfilled

For several years now, finance providers have regarded supply chains as an attractive market due to the sheer number of transactions that take place between buyers, suppliers, and other third parties. Capital can change hands as frequently as physical goods in the supply chain. To the extent that finance providers have gotten involved, it's primarily been after invoice approval, typically to extend payables for buyers and help suppliers get paid early.

In a sense, this is a prototypical example of supply chain finance. It showcases the value that comes when all parties collaborate together. Buyers free up working capital. Suppliers get paid early. Financial institutions play an active role in the transactions. Everybody wins.

Yet, at the same time, helping buyers extend payment terms and suppliers get paid early is just the start of what's possible.

End-to-end "precision" supply chain finance can unlock even more value to buyers, suppliers, and finance providers by injecting capital at earlier, critical parts of the transaction lifecycle.

**Precision Supply Chain Finance in 4 flavors**

- PO Financing: suppliers obtain access to capital to accept and begin work on an order. This removes strain and risk from supplier and buyer.
- Performance-based Financing: suppliers are rewarded with better rates based on performance scores, such as transactional performance, social-responsibility metrics
- Inventory Financing: working capital is freed up by financing inventory or by removing inventory from the books
- Data-Driven Financing: financing is made available to qualifying suppliers based on insights (performance histories, compliance) indicated by the network data

Supply chain networks can enable precision financing by lowering the risk to finance providers.


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## Mitigating Risk with Networks and Big Data

When finance providers received documents through faxes, emails, phone calls, couriers, and EDI, information was document-based, not data-based. So in order to evaluate buyers and suppliers and their transactions, finance providers had to collect information manually. Credit history thus became the main metric for offering supply chain finance, because it was traditionally the best way to assess risk.

Before supply chain networks, information about when exactly a buyer issued a PO, when a supplier received it, when production began, when it finished, when products shipped, when carriers took possession – was fragmented. So finance providers steered toward less-risky options: use credit history as the primary metric for financing, and engage with the supply chain only at its safest moment, when an invoice was already approved.

Supply chain networks have completely changed that. Their information model is simple but powerful: create business networks that securely connect many organizations together and enable seamless collaboration on physical and financial transactions. Crucial to this is the idea of a network containing a 'single version of the truth.'

Since all engagement between organizations (documents, notifications, communications) occurs through a common platform, there's a single clear record of what happened, when, to whom. That end-to-end visibility obviates the need for finance providers to rely on traditional methods like credit history and post-invoice-approval to become engaged in supply chain finance.

Visibility enables all parties to make financing decisions sooner, with lower risk. It can help finance providers work with buyers and suppliers – including smaller players and "long-tail" suppliers – to design innovative programs that inject cash earlier in the transaction lifecycle, using metrics that are far more powerful and relevant than credit history to meet the latent demand for capital.


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## Moving From the Sidelines to the Center of the Transaction Lifecycle

Supplier financing has always been a complicated issue, especially in the context of globalization. There are thousands of factories around the world that have long track records of reliability, yet their size, location, or credit history prevents them from accessing capital.

Suppliers having capital is vital for their operations. But it is also vital for larger strategic supply chain goals like the assurance of supply, ethical production, and sustainability. Successfully delivering quality products—on-time, responsibly—is a huge competitive advantage in the marketplace. Buyers know this. But buyers often don't help their suppliers because they face their own conflicting mandate – cut costs or extend payment terms.

This has led to behavior like paying suppliers late, or sourcing from the lowest-cost vendor regardless of quality, or using size advantage to "bully" suppliers into unfavorable contracts. These aren't good long-term situations for either the supplier or the buyer. And it's precisely in these circumstances where finance providers can come to the rescue.

Finance providers can plug the gap between buyers and suppliers, and become the center of supply chain transactions. They can fund suppliers at earlier moments in the transaction cycle—to meet those strategic supply chain goals of assuring supply and achieving ethical production. By doing so, they simultaneously free up working capital for buyers. Everybody wins.

But in order to achieve this, finance providers need to:

- Get connected into a supply chain network.
- Embrace new methods of determining creditworthiness.

**Underserved Suppliers**

There is a "long tail" of neglected suppliers whose needs have been underserved by current financing programs. These suppliers are a huge market opportunity for finance providers, but servicing them requires:

- Detailed performance data
- Easily scalable models
- Services to onboard and support the suppliers

With a pre-established supply chain network, meeting these requirements becomes easy. A supplier might already be connected to a platform for other financial functions. This makes them easy to onboard for financing. The entire network serves as a single place to access up-to-date information and take action.

It's easy for finance providers to join a supply chain network. Considering that many large buyers and suppliers already use supply chain networks for functions like procure-to-pay and supply chain visibility, finance providers don't need to worry about point-to-point integrations. Once they are part of a network, finance providers can offer services to just about anyone on that network, including the smaller factories that have long been under-served.


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Underserved suppliers are an enticing market, but capturing that market requires letting go of credit history as the primary metric for setting financing terms.

The issue with credit rating is that many factors go into it, and not all are relevant when it comes to setting financing terms. For a finance provider to determine how reliable a supplier is, it primarily needs to know how well the supplier has performed in the past. Because ultimately, what counts in lending to suppliers is how consistently they produce and deliver, on-time, on-budget, with quality, according to specifications. And what counts in lending to buyers is how well they can prove payment, on-time, according to terms.

Supply chain networks have detailed information about all of that payment history. As transactions take place on the network, the platform builds up a precise, data-driven record of suppliers, buyers, logistics providers, and their relationships to one another. Finance providers who are connected to the network gain direct access to this valuable information, and can use it as a more granular and reliable benchmark for assessing risk than credit rating alone. This allows them to safely tap into new markets, like underserved suppliers, while also offering innovative new programs to existing markets.

**Data-Driven Financing**

A leading sporting goods company with credit issues needed to add more suppliers to support its production. Seeing the strong payment and transaction record of the company on a supply chain network platform, financial providers continued to offer financing at favorable rates to the company's new suppliers, allowing the sporting goods company to grow and expand, despite its credit history.

## Innovation, Value to All, and Strategic Growth

Finance providers today have a golden opportunity to become indispensable strategic partners that provide value to the entire supply chain. They can help buyers assure supply and free up working capital. They can remove uncertainty and help create strong, financially healthy suppliers. They can create situations where buyers and suppliers can get the lowest cost of capital – holistically.

**A Win-Win-Win**

If finance providers can become integral parts of the supply chain network, they have an opportunity to create value for everyone involved.

**Suppliers gain:**

- Faster access to capital
- Better rates on capital
- Access to capital earlier and at more stages in the transaction lifecycle

**Buyers gain:**

- Improved supplier relationships
- Reduced supply chain cost
- Assured supply

**Finance Providers gain:**

- Visibility into real-time and historical transactions to reduce risk
- Streamlined processes for gathering performance data
- Reduced paper documentation
- Greater revenue opportunities to finance the supply chain


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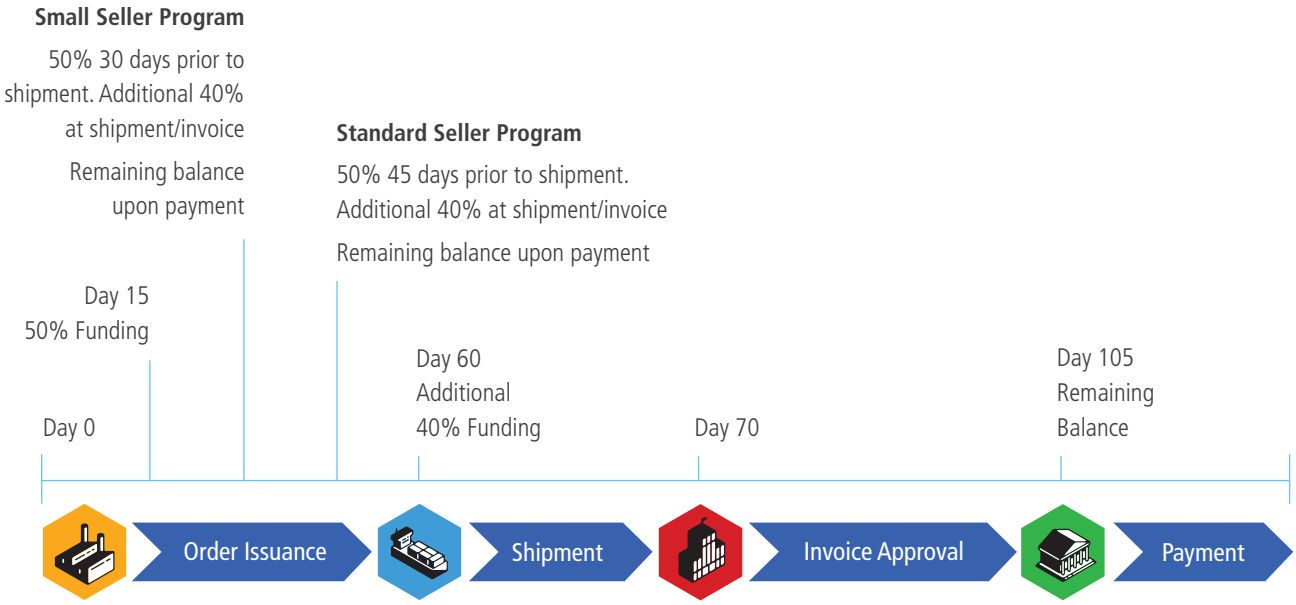



*Fig. 2: The Oppurtunity for Innovation*
*By being connected to a network, finance providers can offer capital at different stages of the transaction cycle, and create programs which reward the completion of specific supply chain events.*

The opportunity for innovation, once finance providers are connected to a supply chain network, is tremendous (see Fig. 2).

For example, finance providers can provide initial funding to suppliers to purchase materials, more funding when production is started, more when a certain percentage is completed, and then when it comes time to transport inventory, they can take ownership of it, freeing up everyone else's working capital, before remitting final payment to suppliers after the approved invoice.

Finance providers can invent creative financing programs that can be quite lucrative. The more programs they can offer, the more streams of revenue they can wield, and the greater their potential growth.

By having access to real-time information, finance providers can become active leaders in the entire transaction lifecycle, instead of merely investing from afar. In the process, they can benefit the entire community. It's a win-win-win for everyone involved, and an opportunity to finally tap into that long unfulfilled potential of financing the supply chain.


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