Supplier Financing in Turnaround Situations
Supply Chain Finance
Introduction

The last few years have seen a sharp rise in the use of supplier financing platforms and more innovative financing structures

This is relevant to turnaround situations:

- To mitigate a necessary extension in payment terms
- To reduce liquidity pressure in the supply chain
- To improve profitability for the buyer

This could be an extremely valuable source of financing in a turnaround situation although there are some important considerations:

- Implementation time and resource requirement
- Impact on availability of other credit and potential intercreditor issues
- Ability of suppliers to access the platforms
- Level of understanding of these structures among some elements of the supply chain
- Viability of the financing sources
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Who am I?

Tim Armstrong:

- Director at KPMG in *Digital and Analytics* team
- Solve client problems using **digital technology**
- Previously:
  - Deloitte Debt Advisory
  - 18 month **secondment to Department for Business**
  - Corporate Finance Adviser
    - **Project Merlin**
    - **Breedon Review** / Credit Easing
    - **Business Finance Partnership**
    - **British Business Bank**
  - Morgan Stanley - Structured Credit Products
  - British Army – Captain in Royal Engineers
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Why do we care?

- Small businesses (SMEs) are the backbone of the economy:
  - 1.7 million in the UK
  - 53.8% of the workforce
  - 50.3% of GDP
  - **BUT:**
    - **93% of their finance comes from banks**

- National Institute of Economic and Social Research:
  - Credit conditions tighter for SMEs after the credit crunch than before
    - and margins are higher

- The Breedon Review:
  - Bank Funding Gap: £26bn - £59bn for smaller businesses

**SMEs are important and struggling to access finance ...**

**.... Supply Chain Finance can help plug that gap**
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The Working Capital Landscape

Working Capital Options for Suppliers:

- **Overdraft** from a bank?

![Diagram showing Working Capital Market with Buyer-led and Supplier-led options.]

**Working Capital Market**

**Buyer-led**

- Reverse factoring / Supply Chain Finance
  - Purchasing card (P-Card)
- Early Payment Platforms:
  - Dynamic Discounting
  - 3rd Party Funded
  - Early payment Marketplace

**Supplier-led**

- Factoring
  - Invoice discounting
  - Inventory financing
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What corporates are saying

• BAE Systems:
  • “... We have a **strong interest in supporting the vibrant SME sector** and promoting innovation through investment, which supports the **Government’s objective of ensuring a healthy, agile and vibrant supply chain**.”

• Rolls Royce:
  • “**In recognition of the difficulties in the supply chain** due to the banking crisis in 2009 Rolls-Royce launched a **Supplier Finance Programme**.”

• Balfour Beatty:
  • “**The economic downturn has had a significant impact** …[on] our supply chain.
  • As we emerge from recession, our supply chain will be at increased risk of failure, with **lack of cashflow being the major contributing factor**.”

• David Cameron heralds ‘Win-Win’ finance scheme for business:
  • David Cameron is championing a new scheme called “**supply chain finance**”, which could slash the interest rates on working capital for small business.
  • “**Big business must help their struggling suppliers** get access to billions of pounds in funding.“
  • The Telegraph 23 Oct 2012

... So it’s Important ...
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Why do we care?

Trade Receivables Market:

- International Trade = £30 Trillion
  - And is 25% of domestic trade
- Global domestic trade = £120 Trillion
- Total trade = £150 Trillion
  - Average payment terms = 30 days

Global Accounts Payable = £12.5 Trillion

... The Opportunity is Huge ...
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Reverse Factoring

BUYER

Goods / Services

e.g. £100 / 30 days payment terms

SUPPLIER

£100 in 30 days

Tech Platform

£95 today

Bank
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Reverse Factoring

• Why buyers put these in place:
  • To provide working capital to its suppliers
  • Because the PM has told them too
  • As ancillary business for their banks

• The challenges posed by Reverse Factoring:
  • The banks only interested in Investment Grade buyers
    • And only their largest suppliers
  • They’re complex to implement
  • IT systems are clunky – designed in a non-competitive environment
  • They’re a single-source of finance
  • Suppliers just unaware of their availability

This leads to few platforms being implemented...

... and low penetration when they are
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Tech enabled non-bank financed

[Diagram showing relationships between BUYER, SUPPLIER, Tech Platform, FUNDER(S), with arrows indicating Goods / Services, Info, and monetary transactions (££).]

Separate two elements
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3rd party funded solutions

Three approaches in the market:

• Urica
  • Finance provided by a fund
  • Currently RSA & The British Business Bank have invested
• Invoice Discounters
  • Suppliers sell invoices through “ebay-like” platform
  • Crowd fund finance
  • Backing into supply chain
  • Market Invoice & Platform Black key players
    • Business Bank has provided funds to Market Invoice
• Dynamic Discounters / Early Payment Marketplaces
  • Buyers uses own cash to accelerate payment on invoices
  • Common in US
  • Taulia & C2FO
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3rd party funded solutions

Challenges:

- Scale – depth of liquidity
  - PlatformBlack: £68m
  - Market Invoice: £195m
  - Urica: £20m
- Cost of finance for suppliers
  - Mid-teens
- Awareness amongst UK Buyers and Suppliers
  - Low for any non-bank finance still
  - Stigma associated with invoice discounting
- Reluctance to be a first mover / early adopter
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A KPMG: C2FO Alliance

KPMG has formed an alliance with C2FO

- C2FO is a market for working capital:
  - Buyers and their suppliers use the market to accelerate cash between themselves.
  - In the US, 1 million suppliers are signed up to C2FO and working capital flows now exceed $1bn per month
- It's easy to implement and easy to use:
  - as little as 4 weeks to implement for the buyer and only 3 clicks to cash for the supplier

Buyers Pays Invoices Early
- Buyer makes Approved Invoices available for early payment in C2FO
- Utilizes own cash for early payment and sets target return

Suppliers Offer Discounts
- Suppliers submit discounts to C2FO platform on Approved Invoices in exchange for early payment
- Provides Suppliers Access to funding at lower cost alternative
Key benefits:

• It’s easy to implement and easy to use:
  • Walgreens took 42 manhours over 4 weeks / now spend 15 mins per week
  • Amazon took 13 weeks
  • Suppliers log-in via secure link

• Cost of finance is at the option of the supplier:
  • The discount is not baked back into the price
  • Can change as supplier’s need for cash changes

• Increases gross margins
  • Buyer’s Cost of Sales is reduced

• Leverages cash on balance sheet
  • Allows the buyer to deploy excess cash at high APRs

• Corporate Social Responsibility
  • The technology enables the smallest suppliers to use it
C2FO captures a supplier’s changing dynamic cost of working capital over peaks and valleys throughout their fiscal year. Each color represents a unique supplier.
Buyer has flexibility to determine how much cash to accelerate and the desired target rate of return.

Sample Client Data with Aggregate APR = 7.5%
C2FO provides Costco with a working capital solution to invest surplus cash while providing cash flow to Costco’s extended supply chain:

- $1M+ per month of cost of goods reduction/new income
- $2B+ in accelerated Cash flow to Costco Suppliers

Is this the Time to Buy Costco

“Costco’s partnership with C2FO will allow the retailer to improve its margins in the coming quarters. On the whole, Costco appears to be a good investment choice at this point in time.”

“C2FO provides working capital funding to suppliers at competitive rates to improve their cash flow and cash management.”

“C2FO has an overall supplier recommendation rate of 91% and Net Promoter Score of 60 (an NPS of more than 50 is thought to be world-class). “

“The deal means more suppliers will now be working with Costco, which will eventually help in reducing the company’s cost of goods sold.”
## Supply Chain Finance

**Selected Companies using C2FO**

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Recap

• These structures are going to become more prevalent in UK Plc
• They can potentially play an important role in turnarounds:
  • either as the customer providing the platform or
  • as a supplier participating in them
• It doesn’t replace good working capital management but can play an important role in Treasury and liquidity management
• It can be a liquidity tool or profit generating stream as the business goes back into growth mode and have available liquidity