Supply Chain Finance

A survey of decision makers on liquidity in times of crisis and sustainability in supply chains

F.A.Z. BUSINESS MEDIA research

traxpay

DerTreasurer
NACHRICHTEN FÜR DIE FINANZABTEILUNG

Contents

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Preface

We are very pleased to present our joint study, “Supply Chain Finance”. As the subtitle of the study, “A survey of decision makers on liquidity in times of crisis and sustainability in supply chains”, implies, we surveyed CFOs, treasurers and heads of finance about the challenges presented by the coronavirus pandemic as well as about how they are dealing with the megatrend of sustainability.

For many companies, times of economic crisis cause liquidity squeezes. This is the case in the current coronavirus crisis. Classic factoring – meaning the transfer of accounts receivable to a financial services institution before maturity – is a time-honored method of increasing a company’s liquidity.

However, in the wake of digitalization, further options are emerging for companies. Thus, the financial structures and financial flows in a supply chain can be optimized across companies with the aid of technology-based supply chain finance. The only question is whether this topic has already reached the treasury departments of German companies, and which opportunities and obstacles the finance departments see in it. The following study provides some answers to this question.

The “Supply Chain Finance” study

This study is based on an online survey of 125 treasurers and other financial decision makers. Its content is dedicated to the challenges of ensuring liquidity during the coronavirus pandemic. It also takes an in-depth look at supply chain finance and at opportunities for financially incentivizing sustainability in this area.

Using sustainable supply chain finance gives a company the opportunity to financially incentivize suppliers’ sustainability as well. Before the planned German Supply Chain Act comes into effect, many companies are currently investigating how they can achieve and prove further-reaching sustainability in their supply chains. The question here is how financial decision makers evaluate the topic of sustainability, whether they have looked into the topic of sustainable supply chain finance already and how well this solution is suited to their company. The answers are promising in this area too.

We wish you insightful reading!

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Digitalization helps treasury departments in times of crisis

The vast majority of respondents reported liquidity squeezes as a result of the coronavirus crisis. Supply chain finance can help their optimization efforts. In addition, using sustainable supply chain finance enables companies to improve the sustainability and stability of their supply chains. This is uncharted territory for many companies, but the interest is there.

1. Liquidity problems because of the coronavirus pandemic

More than three quarters of respondents stated that they had experienced liquidity problems because of the coronavirus pandemic. Among large companies with annual turnover of EUR 1 billion or more, this share was significantly higher.

The toolkit with which the respondent companies were addressing their liquidity squeezes was highly diverse. While smaller companies with annual turnover of up to EUR 100 million were more likely to utilize state aid than secure new bank or capital market financing, it was exactly the opposite in the case of high-revenue companies. More than half of all respondents optimized cash flow transparency and forecasting to minimize liquidity risks.

2. The demise of suppliers in times of crisis should be avoided

Loss of suppliers can cause considerable economic damage to companies. For this reason, companies are generally mindful that their suppliers also come through crises well.

To address impending liquidity squeezes, one quarter of the companies surveyed had extended the payment periods to their suppliers. The high-revenue companies especially put their suppliers under pressure regarding their payment periods in times of crisis. However, extended payment periods can quickly threaten the livelihoods of small and medium-sized companies in particular, because they frequently cannot avail themselves of trade financing funds to an adequate extent. Thus, one third of respondents were confronted in recent times with requests for early payment of invoices from their suppliers. Among the high-revenue companies in the survey, this share rose to almost every second company.

3. SCF secures supply chain financing

Around half of the financial decision makers surveyed stated that the coronavirus pandemic had highlighted their vulnerabilities in supply chain financing.

With the help of supply chain finance (SCF), all cash, financial transaction, and information flows across the entire classical supply chain – procurement, production, distribution – are coordinated. Almost half of the highest revenue respondent companies are already using SCF, whereas this share is significantly lower among smaller companies. Currently, numerous respondents are looking into the topic, since they consider it to be relevant.

Those respondents who have already implemented SCF were for the most part very pleased with it, or at least stated that it has fulfilled their expectations. For these companies, the primary aim of implementing SCF was to improve their own cash flow and secure supply chains.

4. Challenges to implementing SCF are considerable

Implementing SCF requires time – irrespective of whether a company chooses to do it with a bank or via a fintech platform. In the latter case, it is vital to ensure that the level of digitalization at a company permits a collaboration of this type at all. Furthermore, there is the added fact that there should already be a certain degree of cooperation between the various business divisions, because according to the current SCF users, implementing an SCF solution affects not only a company's treasury department, but also the procurement and accounting divisions, as well as IT.

5. Financially incentivize sustainability: Sustainable supply chain finance (SSCF)

Of the respondent companies, 93 percent have incorporated the topic of sustainability into at least one area of the company. Generally the focus is on the production, procurement and supplier management areas, but more than one third of respondents stated that sustainability is taken into account in their companies in the area of financing too.

By using SSCF, companies can grant preferential conditions to all suppliers who fulfil certain ecological and social standards. This enables them to improve not only the stability of their supply chain, but also their own environmental footprint and social impact assessment. At the moment, incentivizing sustainability through supply chain finance is still uncharted territory for most treasurers and financial decision makers. However, for almost half of respondents, a solution of this type is at least conceivable. The greatest challenge in this respect is the lack of a uniform definition of sustainability. This also makes it difficult to determine key figures for measuring sustainability. <

Methodology

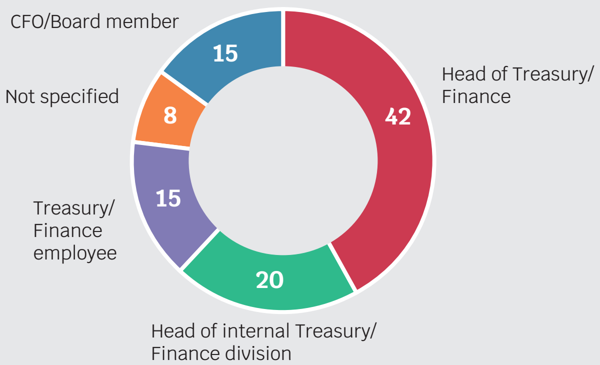
Online survey

To conduct the Supply Chain Finance study, we surveyed 125 treasurers and heads of finance departments from German corporations and larger medium-sized companies. The survey was carried out by F.A.Z. Business Media | research using the Computer Assisted Web Interviewing (CAWI) method. The field phase took place in the period from August 4 to September 18, 2020.

42 percent of respondents are heads of treasury or finance at their company, 15 percent are CFOs or other management board members, and a further 35 percent are employees or heads of division in the treasury or finance department.

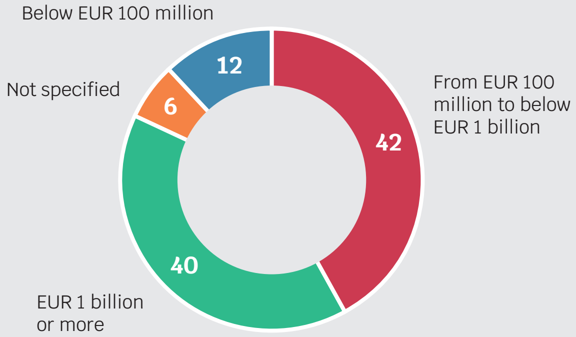
40 percent of respondents work in large companies with annual turnover of EUR 1 billion or more. A similar share of respondents, 42 percent to be precise, are employed at companies whose turnover is over EUR 100 million but below EUR 1 billion. 12 percent of respondents came from companies with turnover below EUR 100 million.

Function within the company
in percentage of respondents (n = 125)



Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

Company size
in percentage of respondents (n = 125)



Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

Focus shifting to working capital management

More than three quarters of the respondent companies must contend with liquidity squeezes because of the coronavirus pandemic. However, classical measures like extending payment periods can herald the death knell for smaller suppliers. This does not help anyone. That is why supply chain finance is an attractive option for many companies, because it can provide relief in this area.

Treasury departments have also been faced with huge unforeseen challenges since March 2020, and the coronavirus lockdown and the rapid switch to remote working it required were not the only stress tests involved. The term "liquidity management" has taken on a new meaning too.

Liquidity squeezes due to COVID-19

The results of the online survey show that liquidity management during the coronavirus pandemic has presented an immense challenge to companies' finance departments: 78 percent of respondents stated that they had liquidity problems because of the coronavirus pandemic. Among companies with turnover of EUR 1 billion or more, this share rises to 84 percent. As a result of the coronavirus pandemic, 54 percent of respondents identified a need for optimization in their liquidity management.

The toolkit with which the respondent companies are reacting to this challenge is highly diverse. Companies with turnover below EUR 1 billion are predominantly optimizing transparency

A precise analysis of liquidity requirements is vital

Response to the question: "What measures are you taking to lower the risk of liquidity squeezes in your company as a result of the coronavirus pandemic?"; in percentage of respondents (by company size)[1] n = 125

1) Multiple responses permitted

Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

and their cash flow forecasting. For companies with more than EUR 1 billion in turnover, drawing up worst-case scenarios to determine cash requirements takes priority.

One third of companies with turnover of at least EUR 100 million have also taken out new bank or capital market financing, whereas this was seldom an option (7 percent) for companies with turnover below EUR 100 million. In contrast to the larger respondent companies, they also drew on existing bank loans markedly less frequently.

Instead, the smaller respondent companies used state aid to a much greater extent than larger organizations, whereby the share of companies which availed themselves of state support is highest among the middle group, with turnover between EUR 100 million to below EUR 1 billion, at almost one third.

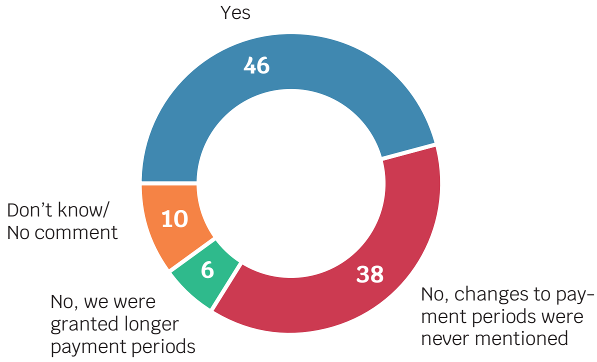
Companies are extending payment periods

Overall, one quarter of respondents extended their payment periods to suppliers during the coronavirus pandemic. The larger the company, the more frequently this was used to react to impending liquidity squeezes. Extending payment periods is a tried and trusted method in times of crisis, however suppliers draw the short straw in this situation. Particularly among small and medium-sized companies (SMEs), extending payment periods can very quickly threaten their livelihoods, for in contrast to large companies, which can avail themselves of various trade financing options to survive economic turbulence, SMEs frequently have no access to these instruments.

In total, one third of respondents have conversely been approached by their suppliers with requests for early payment of invoices. In fact, among the large respondent companies, almost every second business had to deal with such requests (46 percent). In situations of extreme crisis, like the current coronavirus pandemic, it is evident that the loss of suppliers can pose a very real challenge for companies, which results in enormous economic damage. It is therefore in the interest of the customers to ensure that their suppliers come through the coronavirus pandemic well.

One third of suppliers are requesting early payment

Response to the question: "In the past months of the coronavirus pandemic, have you received requests for early payment of invoices from your suppliers?"; in percentage of respondents with annual turnover of EUR 1 billion or more n = 50



Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

SCF boosts supply chain financing

More than half of the respondents who were treasurers and financial decision makers at companies with annual turnover of less than EUR 100 million stated that the current coronavirus pandemic was clearly showing up the vulnerabilities in their supply chain financing. Even among large companies with annual turnover of more than EUR 1 billion, this share was nonetheless 48 percent.

»The implementation of SCF exceeded our expectations. The digitalization of our processes, faster cash-in and user-friendliness won us over.«

A respondent

This is where supply chain finance (SCF) can help. With the help of SCF, all cash, financial transaction, and information flows across the entire classical supply chain – procurement, production, distribution – are additionally coordinated on the process side. The focus here is on coordinating financial transactions and the necessary shared information systems which reflect the flow of services between the trading partners along the supply chain.

Currently, a good quarter of respondent companies already use SCF; among large companies, closer to half (46 percent). For a further 35 percent of respondents, the implementation of SCF in their company is of interest. Among the smaller companies, which have rarely worked with

SCF up to now (7 percent), this in fact applies to almost half of them.

34 of the respondent companies which already use SCF were predominantly very satisfied with it. Of these, 59 percent state that SCF fulfilled their expectations. For these companies, improving their own cash flow and supporting and securing the supply chain were the top priorities.

27 percent stated that introducing SCF only partly fulfilled their expectations. Above all, they criticized the time-consuming onboarding process and reported that the implementation took longer than they had initially expected. 9 percent were disappointed by the implementation, particularly because their suppliers did not work with them in the process and their own procurement departments did not yet recognize the benefits of SCF.

The process of reverse factoring is a key component of SCF. In "conventional" factoring, a company acting in the role of supplier sells its receivables due from a customer to a factoring company. In contrast to this, in reverse factoring, a company acting in the role of customer organizes factoring for selected suppliers. Most respondents who were treasurers and financial decision makers were familiar with reverse factoring. Half of them had already looked into the topic in great detail, a further third at least knew more or less what it involved.

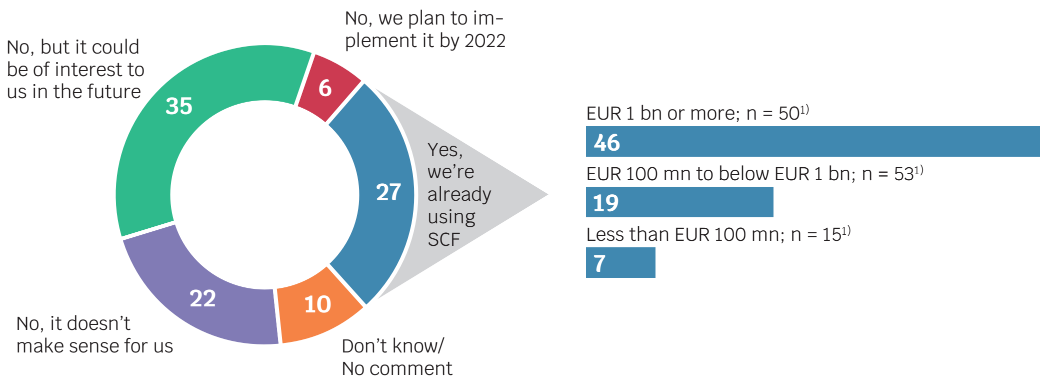
In actual fact, reverse factoring has been used predominantly in large companies up to now. 22 percent of respondents from companies with annual turnover of EUR 1 billion or more stated that their own company was already using this supply chain finance solution. A further 15 percent indicated that there were already firm plans to introduce it.

Dynamic discounting is another new supply chain finance solution. In contrast to reverse factoring, the customer companies use their own liquidity to pay their suppliers earlier. The suppliers have the flexibility to decide when and which invoices should be paid earlier. The earlier payment is requested, the higher the discount. Thus, the suppliers profit from immediate access to the liquidity they need and additionally reduce their financing costs. However, the respondents were less familiar with using this relatively new instrument. Only one quarter has looked into dynamic discounting in any detail up to now. 38 percent stated they had no idea what it means at all.

DEFINITION: Supply chain finance
Supply chain finance, also known by the acronym SCF, is the cross-company technology-based optimization of financial structures and financial flows to maximize the profitability of one or several companies in a supply chain. Thus, supply chain finance complements supply chain management (SCM), which primarily deals with the optimization of logistics processes in the supply chain.

Supply chain finance has arrived in large companies

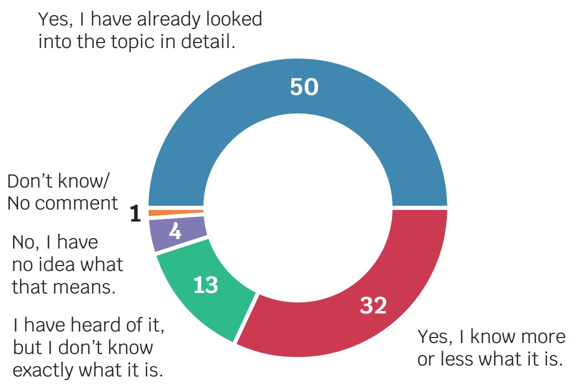
Response to the question: "Have you already implemented SCF in your company or do you plan to do so?"; in percentage of respondents (by company size) n = 125



1) Remainder to make up 125: No comment

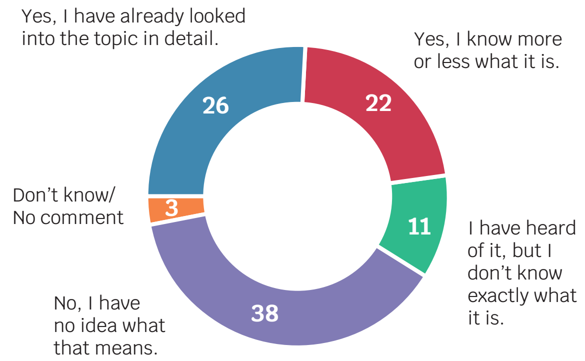
Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

Many people know reverse factoring ...
Response to the question: "Do you know reverse factoring?"; in percentage of respondents n = 125



Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

... but far fewer are familiar with dynamic discounting
Response to the question: "Do you know dynamic discounting?"; in percentage of respondents n = 125



Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

DEFINITION: Dynamic discounting
Is a new approach to supply chain finance in which companies uses their own liquidity to pay suppliers earlier. In return, they receive a discount from the suppliers on the invoice amount. The suppliers have the flexibility to decide when and which invoices should be paid in advance. The earlier payment is requested, the higher the discount is.

Thus, it is accordingly rare that the respondent companies are currently opting for this solution. Only 9 percent of respondents from large companies are already using dynamic discounting. Nonetheless, 22 percent are planning to implement it.

DEFINITION: Reverse factoring
is an instrument of supply chain finance. In this case, an interim financier takes over the early payment of invoices to a company's suppliers. The suppliers profit from the generally better creditworthiness of their customer.
The customer has the benefit that they can extend their payment periods and don't have to pay their interim financier until a later date.

Many reasons militate in favor of supply chain finance

From the respondents' viewpoint, the reasons for implementing supply chain finance are manifold. Working-capital optimization and extended payment periods are the top priorities. While the smaller and medium-sized companies see securing liquidity as the second most important reason, for the large companies in the survey, securing the supply chain is more critical. Large companies frequently find it difficult to switch to new suppliers at short notice, because suppliers must be selected carefully to maintain product standards and observe compliance guidelines. Time-consuming and detailed invitations to tender, competitions and submissions precede every new cooperation agreement.

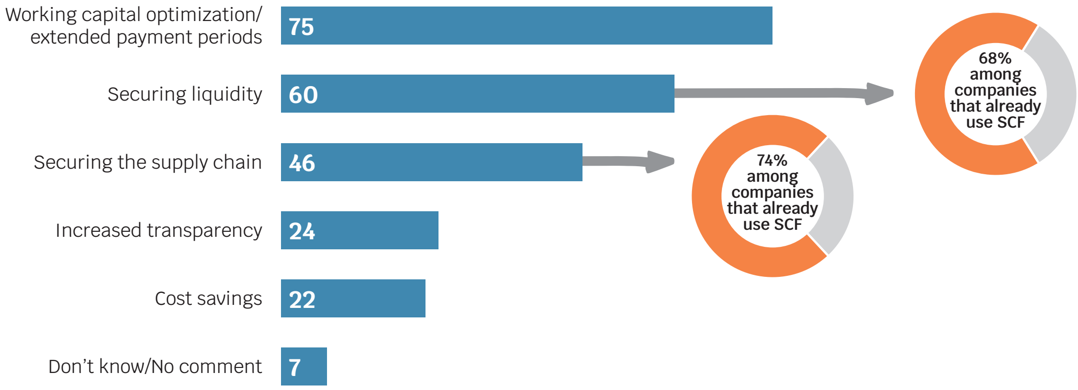
> »Our processes for the sale of receivables have run automatically since we introduced SCF.«
>
> A respondent

For a good quarter of respondents, increasing transparency in supplier relationships is a further major opportunity which arises through using SCF. Through the automation and digitalization of processes, many companies are receiving a simple overview of all invoices and financing conditions for the first time.

Automating processes in supply chain finance is of great importance to treasurers and financial decision makers. When asked about the factors that were particularly important to them when selecting an SCF solution, integration into their ERP system and the automation of processes were top of the list (80 percent). User-friendliness and low costs in business operations were also particularly important. Nonetheless, half of respondents wanted to use SCF to reduce their dependence on banks.

Extended payment periods and securing liquidity are the top priorities when using SCF

Response to the question: "What do you think, what opportunities generally arise from SCF?"; in percentage of respondents[1] n = 125



1) Multiple responses permitted

Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

Degree of digitalization is decisive

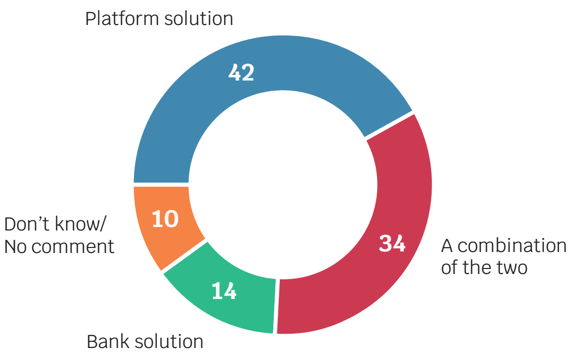
However, the implementation of supply chain finance cannot be completed overnight – whether this is a bilateral agreement with a bank or whether it is with a fintech platform. For the latter, one vital prerequisite is that the degree of digitalization in a company makes a cooperation agreement feasible at all. That is the case among fewer than half of the companies with annual turnover of below EUR 100 million. The respondents from these companies stated that SCF would be of interest to them, but that the degree of digitalization in the company was yet not sufficient. Among companies with annual turnover of between EUR 100 million and EUR 1 billion, this only applied to 36 percent of respondents, whereas the company's own level of digitalization only militated against implementing SCF in 14 percent of the respondent companies in the highest turnover bracket.

The implementation of an SCF solution does not only concern the treasury department in a company. The respondent users of SCF stated that procurement and accounting functions are faced with particular challenges in an undertaking of this type, and that IT has to be involved as well.

SCF solutions are marketed both by classical banks as well as by new platform providers. The respondent treasurers and financial decision makers show a clear preference in this area for platform solutions. 42 percent would favor a platform solution alone, while 34 percent favored a hybrid solution. Only 14 percent would opt for a bank-based solution alone. <

Platform solutions are preferred

Response to the question: "Imagine that you are currently planning to implement SCF. Which procedure would you prefer, from today's perspective?"; in percentage of respondents
n = 125



Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

Sustainability in the supply chain

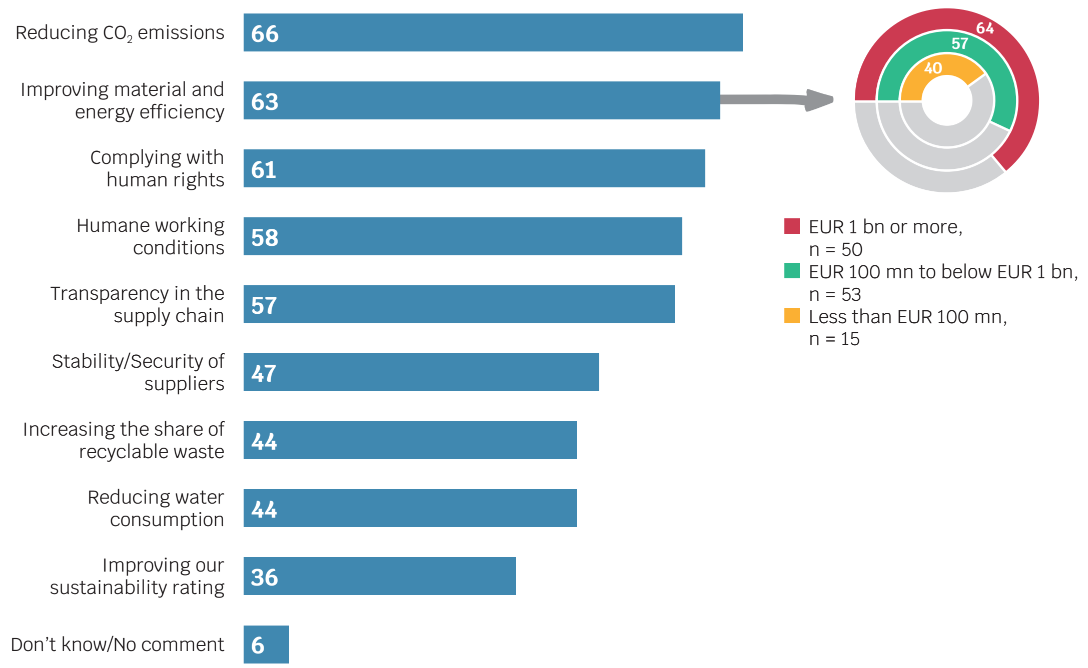
Companies can improve the sustainability of their supply chain by financially incentivizing sustainability aspects among their suppliers within the scope of supply chain finance. While this is still a long way off for many today, the first companies are already implementing this. However, the lack of standardization in sustainability criteria poses a major challenge.

Besides liquidity management and securing supply chains during the coronavirus pandemic, more and more companies are engaging with the topic of sustainability. At the moment, sustainability most frequently plays a role in the respondent companies' production (56 percent) and procurement (53 percent) departments. More than one third of respondents stated that sustainability is also taken into consideration in the area of financing too, while this share is actually 43 percent in supplier management. Only 7 percent of respondent companies do not handle the topic of sustainability in any area of the organization.

Great diversity in sustainability goals

Classical sustainability goals like reducing CO_2 emissions and improving material and energy efficiency are most important to respondents with regard to their supply chains. For companies with a turnover of below EUR 1 billion, more efficient material and energy consumption is the most important sustainability goal in the supply chain going forward. Complying with human rights and ensuring humane working conditions also play a major role.

Large companies attach great importance to transparency in the supply chain
Response to the question: "Which sustainability goals for your supply chains are important to you personally for the future?"; in percentage of respondents[1)] n = 125

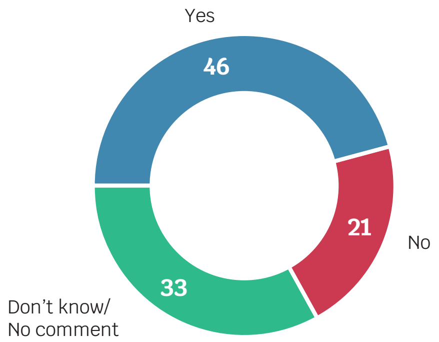


1) Multiple responses permitted

Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

For half of respondents, incentivizing sustainability through SSCF is conceivable

Response to the question: "Can you imagine incentivizing sustainability aspects of the supply chain through sustainable supply chain finance?"; in percentage of respondents; n = 125



Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

The larger the respondents' companies, the more important they considered transparency to be as a future sustainability goal for supply chains. Supplier stability was another key sustainability factor.

At the moment, sustainability ratings apparently do not yet play a major role at the respondent companies: However, one third of respondents stated that improving their sustainability rating would be a key sustainability goal for supply chains in the future.

DEFINITION:
Sustainable supply chain finance (SSCF)
Is a special form of supply chain finance in which the financing conditions are linked to the supplier's sustainability, for example to their ESG rating.

Sustainable supply chain finance will be an issue going forward

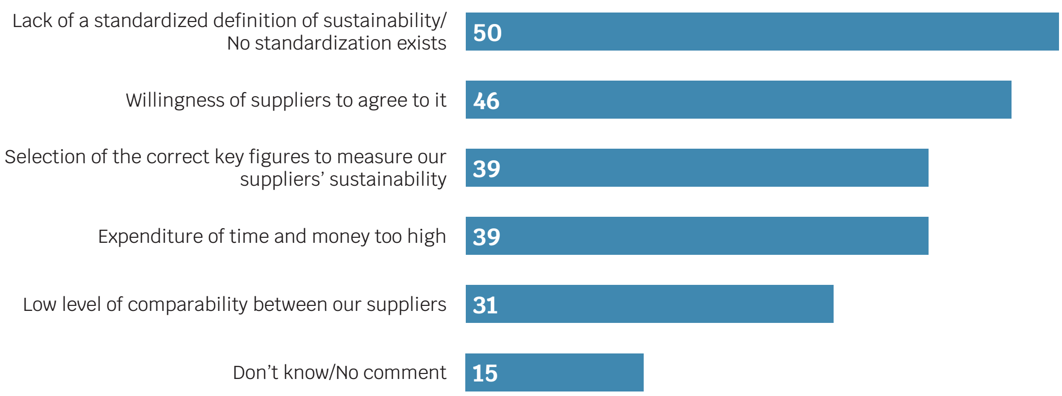
Using sustainable supply chain finance (SSCF), companies can grant preferential conditions to suppliers which fulfill ecological and social standards. In doing so, they not only secure the stability of their supply chain, they also improve their own environmental footprint and social impact assessment. In this way, they can additionally comply with the planned German Supply Chain Act.

Up to now, the incentivization of sustainability through supply chain finance was still uncharted territory for treasurers and financial decision makers. Only 6 percent of respondents stated that their level of awareness about this topic was very high. Fewer than a third spoke of at least a high level of awareness.

However, the topic is not completely unfamiliar: Only 19 percent admitted to not having any knowledge at all about the possibilities of improving sustainability performance in their own supply chain using supply chain finance (SCF).

Suppliers must be convinced

Response to the question: "In your view, what are the greatest challenges to the implementation of a sustainable supply chain finance program?"; in percentage of respondents[1] n = 125



1) Multiple responses permitted

Sources: DerTreasurer/F.A.Z. Business Media | research, Traxpay

Although respondents from large companies with annual turnover of more than EUR 1 billion already work more frequently with SCF, their level of awareness of SSCF is no higher than that of financial decision makers from smaller companies.

Because the level of awareness is generally low, it is no surprise that one third of respondents made no comment about whether they would incentivize sustainability aspects in the supply chain through SSCF.

Nonetheless, almost half of respondents can conceive of using SSCF for this purpose. The companies of 4 percent of these respondents have already incorporated sustainability criteria into their SCF, a further 26 percent plan to do so. Among respondent large companies with annual turnover of EUR 1 billion or more, one third are already in the starting blocks. Although SSCF is still in its infancy, a growing number of companies are using it to ensure sustainability in their supply chain.

Standardization of sustainability criteria has yet to come

By financially incentivizing sustainability through SCF, more than half of respondents expect a marked improvement in sustainability in their supply chain. However, incorporating sustainability criteria into their SCF is still posing several challenges to companies at the moment. Half of all respondents – the differences between the individual respondent groups are very small in this respect – lack a standardized definition of sustainability. This also makes it difficult to define the correct key figures to measure sustainability. This currently remains a fundamental problem. In order that ecological and social concerns can stand on an equal footing with economic factors in company management, sustainability must also gain a foothold beyond the CSR departments. Today, sustainability reports are not unusual for large companies, nor even for SMEs. However, the quality of the reports varies considerably, since there are still no standardized guidelines for them.

In addition, almost four out of every ten respondents see an immense challenge in the willingness of suppliers to agree to such incentivization of sustainability. There is obviously a great need for information campaigns in this area.

Supply chain finance and sustainable supply chain finance are issues for the future in the treasury department

The survey shows that during the coronavirus pandemic, companies are availing of the opportunities for managing liquidity and securing suppliers through SCF. However, it is also clear that only companies with a certain level of digitalization can tap the benefits of SCF. For this reason, SCF solutions have been found predominantly in large companies up to now.

However, many companies are not even aware of the opportunities that SSCF offers for improving sustainability in the supply chain. Yet if the planned German Supply Chain Act is passed, it will oblige companies to find new, measurable approaches to improving sustainability in their supply chains. Nevertheless, SSCF is one solution that is already seeing growing interest among companies in this context. <

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