Summary Report

2019 Supply Chain Finance SURVEY REPORT

SCF SOLUTION LANDSCAPE • CORPORATE SCF DRIVERS
BUYER PERSPECTIVES • SUPPLIER PERSPECTIVES

Sponsored by

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Written & Produced by

STRATEGIC TREASURER
Consultants in Treasury

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Survey Contacts

BOB STARK
VP of Strategy
bstark@kyriba.com

CRAIG JEFFERY, CCM, FLMI
Founder & Managing Partner
craig@strategictreasurer.com

BRIAN COCHRUM
Director of Marketing
brian@strategictreasurer.com

ISAAC ZAUBI, CTP
Publications Manager
isaac.zaubi@strategictreasurer.com

Executive Summary

The supply chain finance (SCF) industry is in the midst of a major growth and development stage. Although SCF has been around for decades and is not altogether new, the platforms and services through which it is offered continue to evolve. This is especially true as fintech providers increasingly penetrate a landscape traditionally dominated by banks and disrupt the industry through the provision of flexible financing options, streamlined onboarding, and expanded functionality. At the same time, shifting requirements for corporates regarding their working capital are resulting in heightened interest in SCF as liquidity needs grow more pronounced and internal initiatives to improve cash management carry forward.

As each of these factors continue to drive change across the SCF landscape, this 2nd iteration of Strategic Treasurer's Supply Chain Finance Survey, developed in partnership with Kyriba, sought to pinpoint the unique perspectives and strategies of organizations that comprise the space, both from a provider and user standpoint. Specifically, what is the spread or market share of bank and fintech solutions in SCF, and how is this mix changing over time? Also, how do corporates view the benefits and challenges associated with SCF, what drivers are pushing them to adopt or participate in programs, and how do these perspectives vary across buyer and supplier operations?

In 2019, Strategic Treasurer is proud to partner with Kyriba in presenting the findings from the 2019 Supply Chain Finance Survey. Over 150 practitioners completed the survey, which ran for eight weeks during late 2018 and early 2019. As the SCF market matures and evolves, we look forward to continuing our research in this arena for the purpose of educating both ourselves and the industry at large as to how SCF is impacting treasury and finance professionals. We hope you enjoy this report and find it useful. Thank you for reading.

Craig Jeffery, FLMI, CCM
Founder & Managing Partner
Strategic Treasurer

Although SCF has been around for decades, the platforms and services through which it is offered continue to evolve. This is especially true as fintech providers increasingly penetrate a landscape traditionally dominated by banks.

About the Survey

SURVEY FACTS & FIGURES

~150 respondents

2nd year of research

50+ questions

~8 week survey runtime

KEY AREAS OF FOCUS

- *SCF Solution Landscape*
- *Corporate SCF Drivers*
- *Buyer Perspectives*
- *Supplier Perspectives*

QUICK STATS

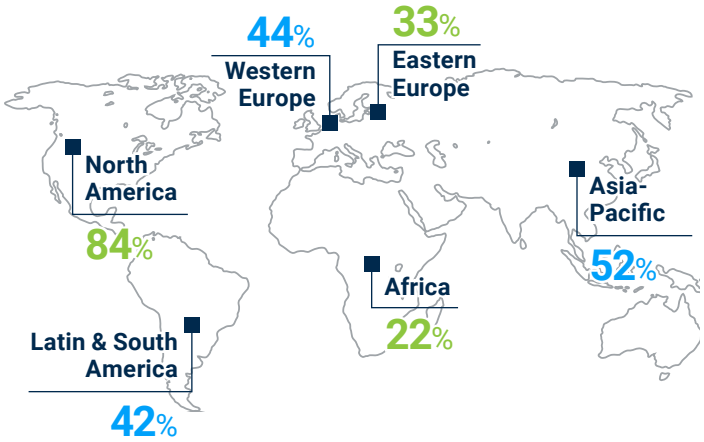
35% of organizations have found themselves in greater need of liquidity over the past year.

52% of organizations indicate they are often or always in an excess cash position.

33% of buying firms have been short of critical supplies due to a supplier incapacity in the past 2 years.

51% of organizations list supplier participation as the most important element impacting the success of a SCF program.

RESPONDENT REGIONS OF OPERATION



TOP CORPORATE RESPONDENT ROLES

19%	*Treasury/Cash Manager*
14%	*Treasury Analyst*
14%	*Treasurer*
14%	*Assistant Treasurer/Director*

Key Findings

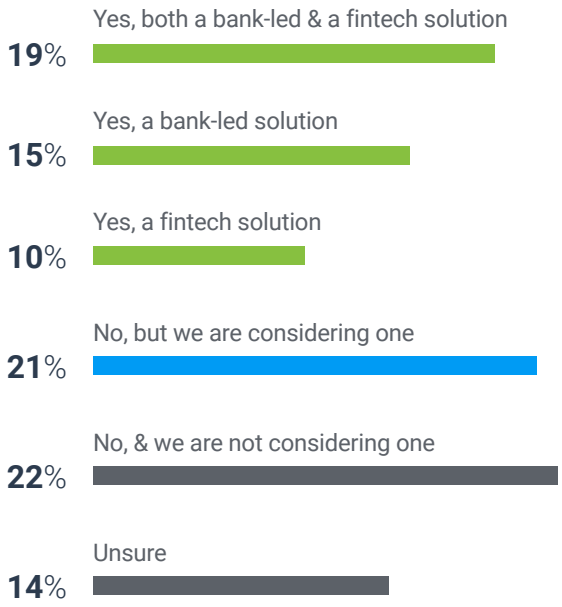
Fintechs are Profoundly Disrupting the Bank-Led SCF Marketplace

Going back towards the turn of the century, SCF was almost exclusively offered by banks in the form of reverse factoring. These bank-led products were generally reserved for large corporates and a select number of their top suppliers. However, as the SCF market matures, a growing number of fintech providers are entering the space and causing massive disruption as they introduce new service offerings that target organizations of all sizes and tiers. Whether it's by offering new financing options such as dynamic discounting or providing add-on functionality like e-invoicing and e-purchasing, fintech providers are revolutionizing SCF workflows and seeing significant traction as a result. Today, data shows fintechs only slightly lag banks in terms of SCF market share (34% of corporates used a bank SCF solution, 29% used a Fintech solution).

As fintechs increasingly disrupt the SCF market, banks are clearly recognizing the shifting landscape and responding by simultaneously partnering with fintechs and pumping money into their own products to boost development.

While banks do not want to lose more ground to fintechs, they also understand that partnerships provide an effective avenue for expanding the size and scope of their own networks. As indicated in the survey, roughly half of banks are leveraging fintech SCF platforms to service clients. At the same time, partnering with fintechs has been labeled as the top focus for banks regarding their annual spend in SCF. However, this is not to say that banks aren't threatened by the rise of fintechs. In fact, maintaining a competitive edge against fintechs was a top challenge for 50% of banks in the SCF space. As fintechs continue to drive change, banks are working to match the pace of innovation by offering additional financing options and covering a greater portion of the cash conversion cycle through their functionality set. Although banks will undoubtedly remain essential players in the SCF industry, there is no denying that the innovation brought about by fintechs is resulting in massive industry shifts as new financing options, service offerings, and functionalities replace legacy products.

Corporates: Do you use a SCF solution?



Bank Perspectives on Fintech SCF Disruption

50% **STRATEGIC PARTNERSHIPS DRIVE GROWTH:**
Regarding annual spend in SCF, 50% of banks listed partnering with or acquiring other SCF providers as a top focus.

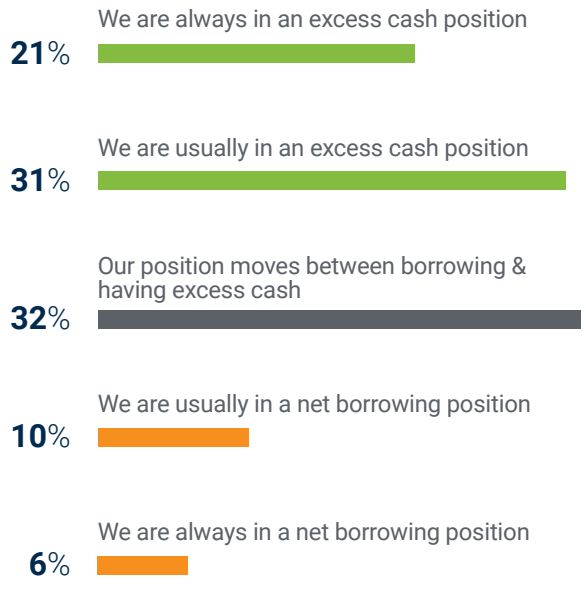
50% **FINTECH INNOVATION THREATENS MARKET SHARE:**
Regarding primary SCF challenges, 50% of banks indicated that maintaining a competitive edge against fintech offerings was a top concern.

Working Capital Positions Heavily Impact SCF Preferences

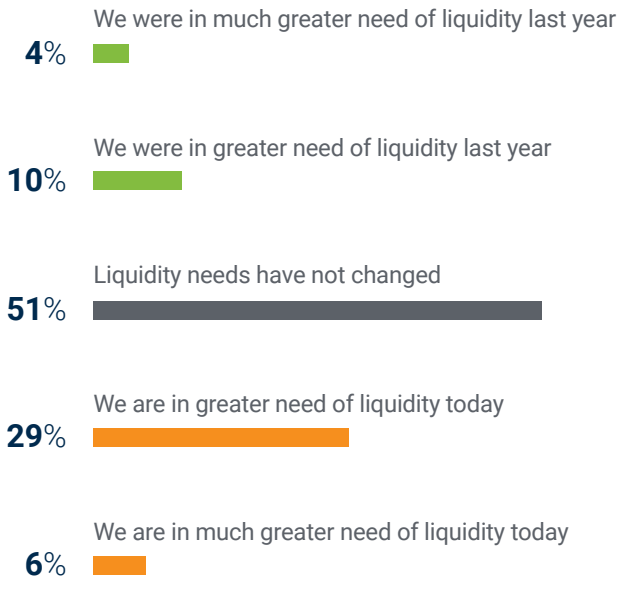
From a corporate perspective, one of the elements that most significantly impacts participation and preferences for supply chain finance is the working capital position of the firm. The impact of working capital is two-fold. On one hand, depending on whether a firm finds themselves in a cash deficit or surplus, the methods through which their supply chain is financed will vary. While companies in a cash deficit will need to borrow 3rd party funds to support their program, organizations with excess cash may choose to self-fund some or all of their program as they are able. In today's environment, 52% of corporates find themselves often or always in an excess cash position, and 32% indicate their position fluctuates between excess cash and a cash deficit. For firms in a net positive liquidity position, the ability to leverage dynamic discounting or other "self-funded" SCF options is a major advantage. Although borrowing funds from banks or other parties to support the supply chain is still the most common financing technique, data shows that nearly 40% of corporates are now using in-house capital to fund their supply chains. Given this reality, vendors that offer multiple financing techniques through their platforms are well-positioned to garner significant market interest and traction moving forward.

Another important element to note regarding the impact of working capital is that the liquidity needs for many organizations continue to increase. Since the 2008 financial crisis, corporates have heavily prioritized the optimization of their working capital, but have found it increasingly difficult to manage. As of 2019, 35% of firms have found themselves in greater need of liquidity over the past year, and 23% have found it more difficult to obtain affordable financing from banks. With the cost of borrowing much higher today than in recent years, organizations are showing a willingness to explore alternative financing options outside of traditional bank lending or credit to meet their liquidity needs. Looking ahead, 21% of corporates indicate they are not currently using SCF but are interested in adopting a program or solution, which highlights the extent to which SCF products are gaining traction.

Corporates: Which of the following best describes your balance sheet for working capital requirements?



Corporate Buyers: Regarding your payables, which is preferable?



SCF Success is Driven by Supplier Participation

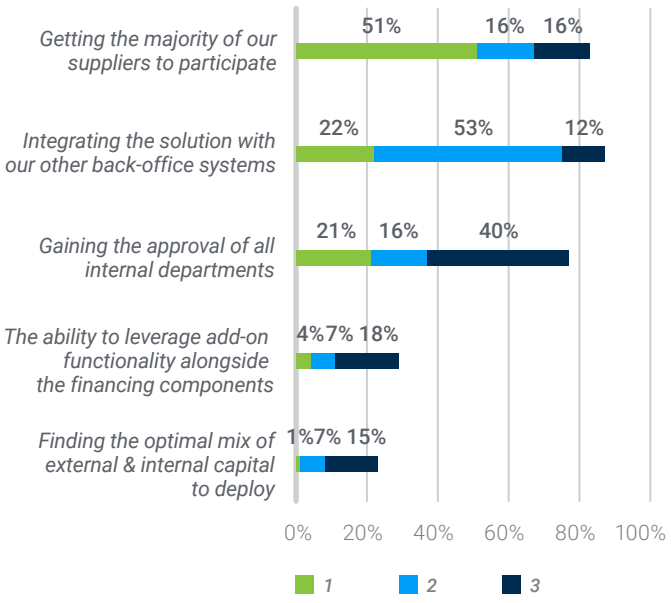
When evaluating the elements of SCF that must be addressed in order to maximize ROI, it should come as no surprise for practitioners to find supplier participation to be of critical importance. For organizations looking to use SCF as a vehicle for reducing supplier risk and optimizing liquidity, a lack of traction among the supplier base severely limits any opportunity for success along these fronts. For this reason, corporates ranked supplier participation as the most important element related to the success of an SCF program. However, engaging suppliers and boosting participation across one's vendor network is easier said than done. In fact, banks list supplier onboarding as the top challenge their clients are confronted with in the SCF arena.

So, what makes this task so challenging? For one, suppliers may be wary of larger buyers trying to renegotiate payment terms in an unfavorable manner. Suppliers are also wary of any excess costs associated with a new program or solution, and don't want to deal with the headaches associated with an implementation or ongoing support.

Suppliers may also struggle to understand exactly how the SCF program will benefit them, which necessitates the provision of training and customer service resources. The facilitation of these materials for suppliers goes a long way in boosting engagement, to the extent that most vendors have begun offering supplier engagement services as an extension of their SCF product. According to suppliers, the cost of the solution, the ability to gain greater cash visibility, and the chance to enhance relationships with their vendors are all significant factors influencing their decision to be onboarded. However, time consuming documentation processes, a lack of training, and unanticipated financial costs represent top concerns. Given this information, corporates and SCF providers must clearly communicate with suppliers about the costs, timeframes, and documentation requirements associated with the onboarding process and look for opportunities to ease the burden on suppliers wherever possible. Accomplishing these steps will ultimately maximize the ROI achieved through the program as supplier engagement increases.

Corporate Buyers: Rank these factors from 1-5 according to how they impact the success of SCF.

Only rankings 1-3 shown here



Corporate Suppliers: Top 4 Factors Impacting SCF Participation

Overall financial cost of using the solution

Greater visibility into & predictability of payments/cash flows

Enhanced relationships with buyers/ partners

Offering of functionality to automate & streamline the CCC

SCF Mitigates Supplier Risk & Strengthens Vendor Relationships

One clear reality that is regularly highlighted in SCF-related studies is that a significant portion of suppliers struggle to obtain capital due to late payments from buyers. As part of this survey, 37% of suppliers indicated they have challenges with obtaining capital due to late payments, and 25% have had late payments significantly impact their business. At the same time, 33% of corporate buyers have been short of critical supplies due to a supplier's bankruptcy or incapacity in the past two years. Often, these issues arise due to a lack of visibility and predictability as it relates to the timing of cash flows. Buyers aren't always effective at communicating the exact timing of their payments to suppliers, and suppliers may not be open with buyers regarding the extent to which they are depending on such payments for capital. If these issues go unresolved, it can have a severe impact as buyers struggle to receive supplies, and suppliers struggle to stay afloat. However, SCF offers a way to circumvent these obstacles. According to respondents, the top SCF benefit achieved by organizations with a program in place was the ability to receive greater visibility into payment terms and cash flows across their vendor network (50%). 41% of organizations also saw the ability to easily negotiate or adjust payment terms with vendors as a primary benefit.

Given that SCF allows firms to gain crucial insight to the cash flows and payment statuses of their vendor network, it makes sense that many organizations view SCF as a significant opportunity to mitigate supplier risk. In total, 32% of those with a SCF solution listed the risk of suppliers going bankrupt as a driver behind their decision to implement a program, and 38% listed better relationships with their vendors as a key benefit. While the advantages associated with optimizing working capital and streamlining the cash conversion cycle will always be top of mind for treasury, the opportunity to reduce supplier risk also presents a significant benefit for organizations that currently possess little or no visibility into their suppliers' operations.

Buyer & Supplier Relationship Challenges

SUPPLIERS STRUGGLE TO OBTAIN CAPITAL FROM BUYERS

37% 37% of suppliers have challenges with obtaining capital due to late payments from buyers.

BUYERS ARE SHORT OF CRITICAL SUPPLIES

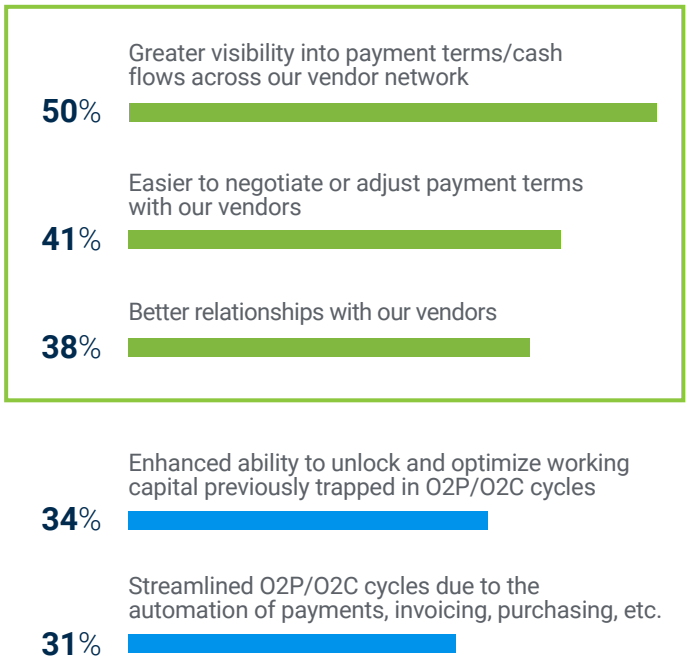
33% 33% of buyers have been short of critical supplies due to a supplier's bankruptcy or inability to meet production demands.

SUPPLIERS ARE SIGNIFICANTLY IMPACTED BY DELAYED PAYMENTS

25% 25% of suppliers indicate that their operations have been significantly impacted by late payments, which has often resulted in staff layoffs and restricted growth.

Corporates Using SCF: What are the primary benefits you feel you've gained through the adoption of your SCF program(s)? *(Select all that apply)*

Only top 5 choices shown



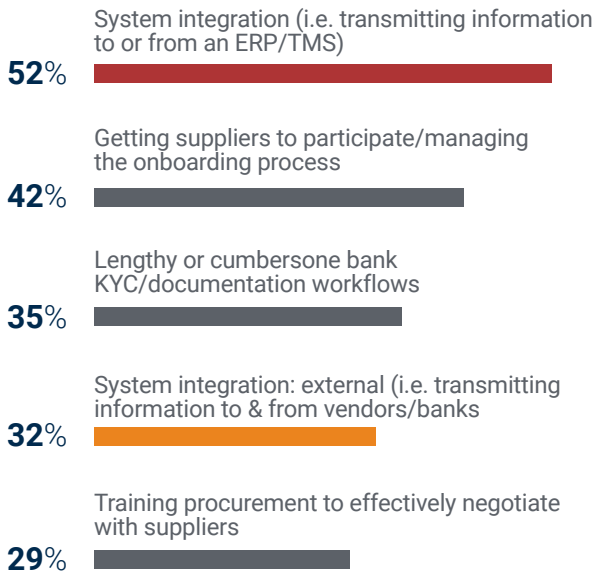
System Integration is a Top SCF Requirement & Challenge

As a supply chain finance solution is implemented, it is rarely intended to function as a siloed unit. Instead, any information captured through the portal will need to be transmitted to other departments such as accounting and treasury for further analysis and upkeep. AP and AR departments also typically require SCF information to be transmitted from the portal into their own respective solutions. In the current environment, 45% of corporates that use a SCF solution integrate it with their AP system and ERP system. Other solutions such as a TMS were integrated by 26%. However, system integration is not an easy task, and remains one of the primary obstacles for firms during an SCF implementation. Through this study, integrating a SCF solution with other internal systems was listed as THE top challenge by organizations with a program in place.

Because there are such a wide range of departments that need access to SCF information and because these departments commonly have their own back-office systems, the extent to which these internal technology workflows can be streamlined or automated will have a massive impact on how effectively an organization can leverage the data and insights derived through SCF. If information from the SCF platform must be manually pulled or scrubbed and then sent via email or spreadsheets to other departments, the entire organization will waste valuable time simply aggregating and standardizing information. But if these systems are set-up to transmit information in the proper format and down the appropriate channel without manual intervention, each department can receive the information they need without expending significant effort or time. Given the importance of properly configuring these back-office workflows, organizations looking to optimize their use of a SCF solution must allocate appropriate time to accomplishing this configuration and properly testing the connections. Failing to do so opens the door for major inefficiencies.

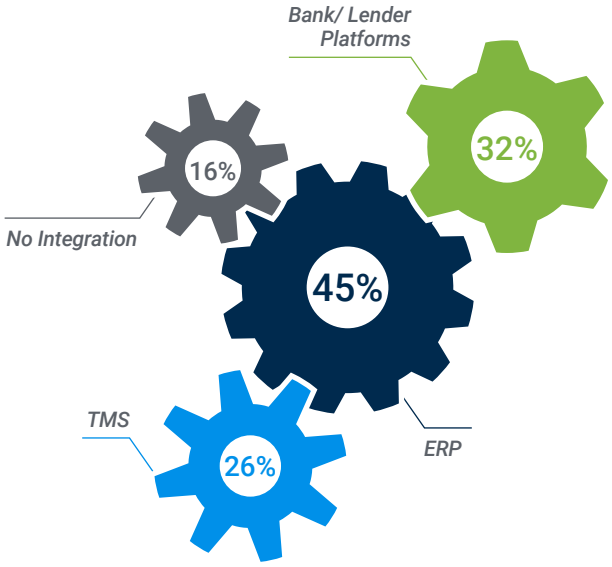
Corporates Using SCF: What are the primary difficulties associated with the use of your SCF program(s)? *(Select all that apply)*

Only top 5 options shown



Corporates: What does your SCF solution integrate with?

Not all answer choices shown



SCF Requires Excellent Interdepartmental Coordination

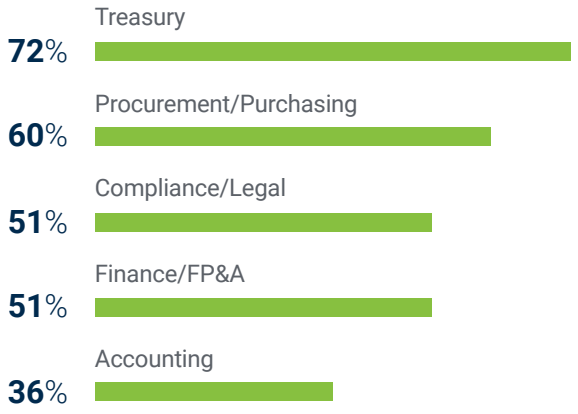
As just mentioned in the previous section, there are multiple internal parties with a stake in SCF. There may be one set of departments with authority over approving a solution, while an entirely different set of departments will be tasked with actually using the solution on a daily basis. Today, it is most commonly treasury (72%), procurement (60%), and compliance/legal (51%) that have the authority to approve the implementation of SCF. On the operational side, however, AP/AR departments (61%) are those that actually end up using the solution most regularly.

Even after a solution is approved, the individual objectives, goals, and requirements of each department as it relates to SCF can vary widely. For treasury, the ability to optimize working capital, gain critical cash flow insights for cash forecasting, and mitigate supplier risk are all top of mind. Alternatively, departments like accounting will be most concerned with how SCF will impact financial reporting, procurement will be interested in learning how SCF will effect payment terms, and AP/AR will be primarily focused on how SCF will influence the timing of their payments. Even a department like sales could be impacted by SCF if the establishment of certain payment terms restricts what they can offer to clients as part of pricing negotiations or promotions. Given the large spread of departments that are impacted by SCF and the diverse requirements of each group, it is essential that organizations develop clear internal communication channels as a SCF program is being considered.

To foster an optimal level of communication internally, one leading practice is to create a working capital council. A working capital council brings together representatives from each department with a stake in SCF and serves to foster internal collaboration on developing standard KPIs and objectives for the program. The council can also be used as a platform for explaining how the solution should be used, and answering any questions or concerns various business units may have regarding its impact. By providing a channel through which all departments can share information and express their opinions regarding SCF initiatives, it will become easier to manage changes to the program and communicate certain requirements or workflows to the entire group, rather than dealing with individual business units on an ad-hoc basis.

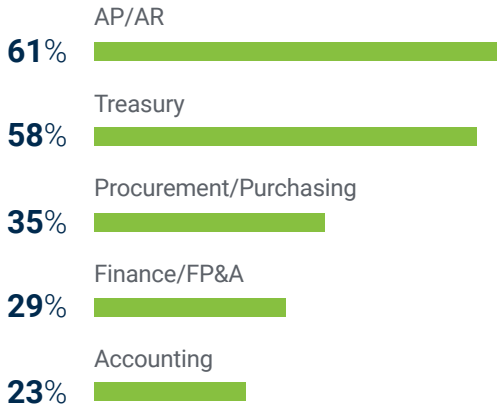
Corporates: Which departments would need to sign off on or approve the use of an SCF program before it was adopted? *(Select all that apply)*

Only top 5 choices shown



Corporates Using SCF: Which internal departments use the SCF solution or portal regularly? *(Select all that apply)*

Only top 5 choices shown



About the Firms

Kyriba Corp.

Kyriba empowers financial leaders and their teams with award-winning solutions for cash and risk management, payments and working capital optimization. Kyriba delivers a highly secure, 100 percent SaaS enterprise platform, superior bank connectivity and a seamlessly integrated solution set for tackling today's most complex financial challenges. Thousands of companies, including many of the world's largest organizations, rely on Kyriba to streamline key processes, protect against loss from fraud and financial risk, and accelerate growth opportunities through improved decision support. Kyriba is headquartered in San Diego, with offices in New York, Paris, London, Tokyo, Dubai, and other major locations. For more information, visit *www.kyriba.com.*

+1 858.210.3560
kyriba.com
treasury@kyriba.com

Strategic Treasurer

Strategic Treasurer was founded in 2004 by Craig Jeffery, a financial expert and trusted advisor to executive treasury teams since the early 1990s. Partners and associates of Strategic Treasurer span the US, the UK, and continental Europe.

This team of experienced treasury specialists are widely recognized and respected leaders in treasury. Known for their expertise in treasury technology, risk management, and working capital as well as other cash management and banking operations, they efficiently identify issues, creatively explore ideas and options, and provide effective solutions and implementations for their valued clients. For more information visit *www.strategictreasurer.com.*

+1 678.466.2220
strategictreasurer.com
info@strategictreasurer.com

kyriba®

+1 858.210.3560
kyriba.com
treasury@kyriba.com

STRATEGIC TREASURER
Consultants in Treasury

+1 678.466.2220
strategictreasurer.com
info@strategictreasurer.com