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Supply Chain Finance Solutions

Relevance—Propositions—Market Value

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Management Summary

With widespread coverage in the media, at conferences and in numerous articles in finance magazines, Supply Chain Finance (SCF) has become one of the hottest topics in business administration. SCF is not a recent concept. It has long been known as a significant part at the intersection of Supply Chain Management (SCM) and trade finance. What has changed during recent years is the decision of numerous companies to convert the approach and its opportunities into deliverable benefits.

The rules of the game in trade finance have changed. With the latest credit crisis, companies see their supply chains threatened by a lack of liquidity. This cash dry-up makes corporates look to more tangible sources of financing their businesses. Financial institutions are increasingly responding to corporate demands to increase efficiency in their financial supply chains. With competition no longer among individual companies but among entire supply chains, every area of end-to-end cost reduction is being explored. Therefore, SCF solutions could help leading companies make their whole supply chain more competitive.

Recent research seems to confirm that the credit crunch is driving the adoption of SCF. Both banks and corporates are keener than ever to make their scarce capital stretch as far as possible. The global economic crisis has resulted in reactions that are fueling the widespread adoption of SCF. The credit crunch is making buyers and suppliers deplete their cash positions. Whereas suppliers are trying to encourage their customers to pay earlier, buyers are increasing their payment terms. In an attempt to cope with these problems and fully utilize the value creation potential of a company's supply chain, SCF promises rewards. By taking a more holistic view of flows of trade, this approach focuses on collaboration between trading partners as well as the increased transparency, automation and dematerialization of the entire supply chain, thereby reducing overall costs and risks for all affiliated parties. SCF promises to enhance enterprise value because it decreases tied-up working capital and enables higher capital efficiency.

Because of the novelty of SCF, there are still many research gaps. On the one hand, the lack of research leads to hesitation about the implementation of SCF solutions within companies because there is little quantified evidence about

achievable cost savings and other potential benefits. On the other hand, there is very little information about the market potential for SCF solutions.

This study aims at providing orientation within this new topic by investigating the need and nature as well as characteristics and enablers of SCF. Based on an exemplary SCF model, the worldwide market size for such solutions and potential cost savings to companies engaging in this area are analyzed and calculated. These underline the generally stated attractiveness of SCF solutions by creating win-win situations; for the affiliated actors in the end-to-end supply chain as well as for external service providers.

Preface

This book is written for both academicians and practitioners who are interested in Supply Chain Finance. It can also be used as a textbook for seniors and MBA students or for those preparing for examinations at the intersection of supply chain management and trade finance.

Supply Chain Finance has become more and more important during the last years. The effect of globalization of supply chains makes it more challenging than ever for companies to keep their competitive edge. More recently the economic crisis in 2008/2009 resulted in reactions that are fueling the widespread adoption of trade finance due to the scares liquidity and unsound working capital situation of trade partners in the global market place.

This publication provides background on the growing importance of Supply Chain Finance, delving into the key elements and available options from which these solutions are crafted and implemented. While the market for Supply Chain Finance is still in the early stages of development, innovative companies already have made use of it and others will soon follow.

Because of the novelty of this subject, most publications so far have only covered certain parts of Supply Chain Finance and have left many research gaps. This might also explain why some companies still hesitate to use Supply Chain Finance solutions and to reap its benefits.

Our contribution explores the different aspects of Supply Chain Finance and solutions available in the market. It attempts to develop an understanding of how developments in international trade and other drivers have impacted supply chain management and have increased the interest of major corporations to adopt new practices in trade finance and working capital management. In our publication the reader will learn about the different challenges and benefits and the potential market size of Supply Chain Finance solutions as well as get some indications where these practice can be applied in attempts to improve working capital and company value.

It is hoped that readers will appreciate the new insight in Supply Chain Finance in general and the calculated global market potential and market size of the solution in particular.

The valuable comments and support of our colleagues, especially at the Chair of Logistics Management, University of St. Gallen (Switzerland), has been most welcome. At the end, we wish to acknowledge the generous support of Nathalie and Andrea for the publication of the book.

St. Gallen and London, February 2011

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Oliver Belin

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List of Abbreviations

A/P	Accounts payable
A/R	Accounts receivable
C2C	Cash-to-cash
CRM	Credit risk management
ERP	Enterprise resource planning
LIBOR	London interbank offered rate
DPO	Days payables outstanding
DSO	Days sales outstanding
L/C	Letter of credit
OECD	Organization for economic co-operation and development
O/A	Open account
PO	Purchase order
SCF	Supply chain finance
SCM	Supply chain management
SITC	Standard international trade classification
SWIFT	Society for worldwide interbank financial telecommunication
WACC	Weighted average cost of capital
WIP	Work in progress
WCM	Working capital management
SOX	Sarbanes–Oxley