

Tom Roberts



# One Bank or Many? Considerations for Sustainable Supply Chain Finance

The increasing complexity of today's supply chains—from breadth and number of suppliers to geographical coverage—has heightened demand for improved cash flow across the supply chain. In response, many companies are using supply chain finance as a tactic to optimize working capital.

Using this tactic, companies can extend supplier payment terms while simultaneously providing the option for qualified suppliers to get paid early by selling their invoices to financial institutions participating in the program. For many companies, this strategy is a no-brainer. Both the company and its suppliers can benefit from material improvements to cash flow. Harnessing working capital previously trapped in the cash conversion cycle allows companies to make improvements to infrastructure, fund new innovation initiatives or deploy new strategies to capture market share.

However, despite its win-win appeal, not all supply chain finance programs are created equally. One important factor to be considered when leveraging this tactic is whether a single financial institution or multiple funding sources will fund the program.

Most single-funder supply chain finance strategies are powered by closed, proprietary software created by the bank.

Some companies are drawn to a single-funder supply chain finance strategy—and, on the surface, this preference is understandable. Despite advancements in supply chain management technology, the vast and complicated nature of today's global supply chains has underscored profit-plaguing inefficiencies. The sheer number of suppliers across multiple currencies, jurisdictions and geo-political landscapes can be mind-boggling. Other factors, such as discrepancies in financial and regulatory compliance requirements as well as IT and business process integration woes have created an environment where simplification and streamlining has become a business mandate.

Successful supply chain finance program execution requires a complex orchestration between procurement, IT, funding and finance stakeholders—all of



which have their own set of business and departmental requirements. A single-funder strategy is attractive simply because it limits the number of players.

Familiarity is another reason why some companies choose a single-funder supply chain finance approach. A byproduct of the need to reduce complexity, companies continue to weigh the pros and cons of a best-of-breed versus a single-vendor approach to certain areas of their business, including fintech and supply chain IT. Financial institutions that provide supply chain finance offerings depend heavily on their existing enterprise client relationships and market heavily to this point of leverage.

Yet, while the promises of simplification are hard to ignore, companies need to understand the risks inherent in supply chain finance programs that involve a single source of funding. Ultimately, these risks can add to the complexity of supply chain and finance operations rather than detract from it.

## The Realities and Risks of a Single Source of Funding

Can a single-funder supply chain finance approach meet the financial requirements of a vastly global supply chain? Can it fund all currencies and jurisdictions? Is it a sustainable approach to supply chain finance? The answer on all fronts is no—not without introducing substantial risk to their suppliers' financial positioning.

Both global supply chains and multinational banks are highly susceptible to dynamics shaping the economic and geopolitical landscape. In 2014, Citigroup announced it would exit 11 countries where it was experiencing lower market returns amid a soft global

economy. In 2015, the Royal Bank of Scotland made a similar move to wind down its cash management and trade services in 25 of 38 countries.

In these examples, the consequences could be dire for a company that used either of these financial institutions to fund supply chain finance transactions with suppliers in the affected geographies. When suppliers are no longer able to participate in a supply chain finance program because funding is no longer available to them, the success of the overall program is greatly diminished—as are the health of relationships with some suppliers who need the cash. It's a risk that has become untenable as companies' suppliers become more geographically diverse.

Another reality of a single-funder strategy is that no one bank has the processes and tools in place to serve all currencies and jurisdictions. If a company wishes to include suppliers not covered by its primary funder, it must go out and find other funding sources. It's a resource-intensive process—not just for financial stakeholders, but also for the procurement team responsible for supplier communication.

It also presents several IT challenges. Most single-funder supply chain finance strategies are powered by closed, proprietary software created by the bank. Adding new funding sources to this platform may be impossible thereby necessitating redundant technologies and processes across the supply chain finance ecosystem.

### **Fact or Fiction: Bank Syndication Mitigates the Risk of Single-Funder Supply Chain Finance**

Contrary to popular perception, bank syndication does little to abate the risk of a single source of supply chain funding. In this situation, the lead bank in the supply chain finance program will syndicate liquidity requirements to other banks as a way to increase jurisdictional coverage or mitigate its own financial exposure risks. Syndicates typically adhere to the lead bank's transactional protocol—use the same tools, etc.

While this may look and feel like a multi-funder approach, it's far from it. A key benefit of a true multi-funder approach is pricing competition. If one bank can't offer a supplier competitive pricing and discounts, another bank can. In a syndication scenario, pricing is set by the lead bank and syndicates are forced to adhere accordingly. Because the lead bank may extract fees from the syndicated banks, the overall cost of funding may also go up.

### **Advantages of a Multi-Funder Supply Chain Finance Approach**

There's a reason why many of the world's largest companies choose a supply chain finance approach that leverages multiple funding sources—it's less risky and more sustainable. A multi-funder supply chain finance approach allows the company to execute a program that offers more diverse and more consistent coverage across varying jurisdictions and currencies. Companies are no longer held hostage to the risk tolerance of a single financial institution. It also fosters price

competition among funding sources in a way that benefits both the buying organization and its suppliers.

Many multi-funder strategies are powered by bank-agnostic technologies and tools that make it easy to connect multiple funding sources and suppliers. This reduces the IT resource requirements needed to execute a successful program.

## **A multi-funder supply chain finance approach offers more diverse and more consistent coverage across varying jurisdictions and currencies.**

Fewer players in the supply chain finance funding pool doesn't equal simplification—if anything, it makes it more complicated. The key to optimizing working capital through supply chain finance is to increase program participation while offering suppliers competitive pricing and discounts. A multi-funder strategy unlocks this potential. ■

*Tom Roberts, senior vice president of global marketing at PrimeRevenue, joined the firm in December 2015. He and his team worked to build digital demand generation capabilities. Prior to PrimeRevenue, Tom held sales and marketing executive leadership positions at other FinTech companies such as Fiserv, CashEdge and E\*TRADE Financial. He has been a senior leader on teams that have substantially grown several mid-sized technology companies. He holds an MBA in marketing from Columbia University.*

*\*This is reprinted from Business Credit magazine, a publication of the National Association of Credit Management. This article may not be forwarded electronically or reproduced in any way without written permission from the Editor of Business Credit magazine.*