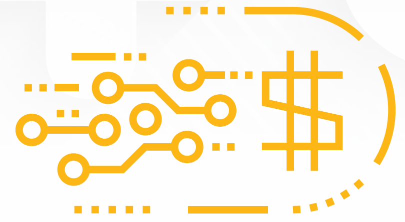
PrimeRevenue

Funding Strategic Growth Initiatives in Today's Business Climate

A Guide to Evaluating Potential Sources of Capital

Overview



High levels of disruption in the global marketplace are increasingly becoming the norm, driven by technology advances and intensified by the speed and scope of digital transformation. No corner of the commercial universe is immune from technological innovation or marketing reinvention.

For most companies, big and small, new and old, today's environment presents numerous opportunities for strategic and transformational growth. But the flipside is also true; the potential to be left behind by the competition is equally strong. More often than not, the pressures to grow and change in this business climate mean companies must tackle broad-scale (and often numerous) strategic initiatives such as advanced research and development, investing in new markets, growing product lines, launching new divisions or pursuing M&A. **As a result, companies are challenged to find the money to fund these initiatives.**

This white paper will review the main traditional sources of investment capital available to corporate management looking to fund strategic initiatives: debt, equity, programmatic changes and divestiture. This paper also evaluates another major potential source of capital, supply chain finance (SCF), and argues that SCF is one of the most flexible and cost-effective sources of capital available today and should be a part of any corporate plan to raise investment funds in order to facilitate business growth.

SOURCES OF INVESTMENT CAPITAL:

DEBT

EQUITY

SELL ASSETS

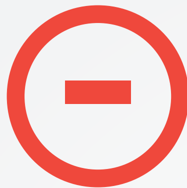
STAFF CUTS

SCF

A Look at the Risks vs. Rewards of Alternative Sources of Capital

Most companies have numerous financing options available. The challenge is finding best-fit options where the cost of funding is low. Many external funding sources, such as debt (borrowing or bonds) and equity (either public stocks or private venture capital), are easily accessible for most large companies – but can be expensive, dependent on investor sentiment, and otherwise a time-consuming way to raise capital.

Raising capital through debt is more expensive for smaller, mid-sized companies. This is because borrowing costs are higher, and equity investments, if available, can come with steep price tags. Other funding sources, such as reducing capital investment, reduction in labor force or selling assets, can free up significant amounts of capital. However, these require major organizational changes, likely causing major disruptions, thus are usually last resorts of capital.

		
-Requires repayment -Interest rate depends on credit rating -Refinancing risk -Imposes corporate covenants	 DEBT	-Long term financing -Raise large sums -Fixed, known terms
-Steep issuance fees -Regulatory requirements -Compliance costs	 EQUITY	-Raise large sums -No repayment schedule
-Revenue declines -Distracting to management -Time consuming -Requires investor relations time/expense	 SELL ASSETS	-Increased focus on core business -Recurring savings
-Takes time to implement -Potential risk to employee retention	 STAFF CUTS	-Relatively easy and controllable -Recurring savings -No cost to raise capital
-Capital limited by size of supply chain	 SCF	-Minimal time to implement -Complete internal control -Sustainable -Off-balance sheet

How does Supply Chain Finance fit in?

SCF allows a company to access cash trapped in its supply chain. Strictly speaking, it refers to financial instruments and technologies that allow corporate 'buyers' of goods and services to manage their liquidity and free up working capital by extending payment terms to their suppliers (for example, by moving payables from 45 to 120 days). It is now being used by leading-edge companies in every industry to address strategic opportunities.

It's important to note that the world of trade finance has become more complex and varied over the last decade, and that has led to confusion around what SCF is and what it's not.

SCF is not the same thing as dynamic discounting, p-cards, factoring or letters of credit. One of the primary differences between SCF and these other trade finance solutions is how it helps suppliers. While the idea of SCF is a no-brainer for the buyers of products or services, SCF programs also delivers tangible benefits to supplier participants.

Why is SCF attractive to suppliers?

The need for cash to finance the gap between production and payments by customers is a perennial challenge. Traditionally, suppliers could borrow funds themselves to cover the gap, or sell their receivables—unpaid invoices—at a discount to businesses known as 'factors.'

What makes SCF unique—and **enticing** for suppliers—is that it is structured to give them the utmost flexibility in managing their cash flow. Suppliers participating in an SCF program can choose to get paid whenever they want and need access to cash—literally as soon as the day after an invoice is approved by their customer (the 'buyer')—or they can simply wait and get paid on the date specified in the buyers' terms.

Even more compelling, the finance/processing fee they pay to an SCF funder when they opt for early payment is just a fraction of what they would pay for a traditional loan or factoring (often 1/10th or less the cost). This is because SCF allows suppliers to piggyback on the creditworthiness —and typically lower borrowing costs—of their larger corporate customers. For these, and other reasons, SCF programs when properly implemented can be a big win-win for both buyers and suppliers.

The objective of supply chain finance is to unlock working capital trapped in the supply chain – in a manner that benefits all parties involved.

Today, technology is making it feasible for more companies to unlock value using supply chain fiance.

Supply chain finance (SCF) has been around for many years, but the rise of cloud-based technology has impacted SCF programs in three major ways: making them more effective, more efficient and easier to launch. As a result, the benefits of SCF have become available to a far wider range of companies, big and small, than ever before.

1 SCF has become more effective:

Technology now enables more transparency between companies using SCF and their supplier participants. Because everyone is on the same network and has instant access to information like visibility into payment terms, and actual invoice payment timeframes, suppliers know exactly when cash is coming. In other words, buyers aren't the only party enjoying the benefits of better cash flow – suppliers are too. In some cases, suppliers are relying on their participation in SCF programs to fund their own strategic initiatives. As a result, relationships between buyers and suppliers are improved.

GLOBAL FOOD COMPANY

How do you find $1 billion in working capital to fund a turnaround? For one global food company, the answer is supply chain finance. After experiencing a 30 percent decline in sales in a critical category of their business, the company recognized the need to make large-scale changes to their business strategy.

The implementation of PrimeRevenue's supply chain finance solution allowed them to free up $1 billion in cash flow. Today, the company is using this capital to fund a $300+ million innovation initiative that will help the business diversify and thrive.

2 SCF is more efficient today:

Supply chain finance technology has come a long way since the days of error-prone spreadsheets and clunky desktop applications. Today, the technology employed by supply chain finance suppliers like PrimeRevenue enables companies to easily access and onboard a broader set of suppliers, and for those suppliers to easily trade and track their invoices within the system. This means better program participation, better ability to manage liquidity sources across the entire supply chain, and better access to greater sums of working capital.

CAFFEINATED BEVERAGE MANUFACTURER

Facing billions of dollars in debt, a global caffeinated beverage manufacturer turned to PrimeRevenue for SCF. The company generated $750MM in cash flow gain in under three months, which allowed them to pay back a substantial portion of debt and dramatically increase EBITDA. These improvements led to a return to top-line growth and multiple credit rating upgrades. Today, the company's SCF program is helping fund large-scale acquisitions that will cement the company's position as an industry leader.

3 It's now easier to launch SCF initiatives:

SCF providers are able to offer more value as a result of technological innovation. For example, instead of relying a single financial institution for funding, SCF providers can now help customers source multiple financing partners for more competitive financing and maximum jurisdictional and currency coverage. Providers are also able to more fully manage liquidity and facilitate the buying and selling of invoices as well as serving as a single system of record. For example, PrimeRevenue clients can now log in to a single portal to access their program's information and rely on 24-hour, multi-lingual support. This platform is built to integrate with most major accounts payables systems, including an SAP connector that was introduced in 2017.

WOODSTREAM

Mega-sized companies aren't the only ones to benefit from SCF. Woodstream, a U.S.-based pest control manufacturer, turned to SCF to help pay down debt and expand its global footprint. In order to quickly meet its cash flow goal, the company needed to get the program up and running quickly. It was also important that any payment term extension and program onboarding was done without hurting or disrupting suppliers' businesses. With PrimeRevenue's help, Woodstream was able to onboard suppliers in as little as two weeks and realize an $11.5M cash flow gain within 90 days. Today, supplier participation remains high as the program continues to grow.

© 2022 PrimeRevenue, Inc.

When evaluating potential SCF providers, what should companies be looking for?

There are many different types of providers offering supply chain finance programs from banks to fintech firms. Their offerings vary considerably according to the type of financing offered, the geographic footprint of countries served and the scope of the training and implementation programs they offer.

Three practical questions should be considered as part of every SCF provider evaluation as they will have a major impact on the success of any supply chain finance program:

Does the SCF provider provide multi-source financing?

Tying a supply chain finance program to just one bank limits competitive rates, whereas a multi-funder strategy, such as is offered by PrimeRevenue, provides buyers and suppliers with numerous sources of liquidity and makes the price of funding for suppliers more equitable.

Does the SCF firm have a global platform?

This is critical so that all key players in a global supply chain can participate in the supply chain finance program (including suppliers) using a single cost-effective, multi-lingual process regardless of geography. PrimeRevenue's platform is one of the largest in scope worldwide serving more than 400 buyer entities with 100+ funders participating in 80 countries. Furthermore, while some supply chain finance banking providers have exited jurisdictions or scaled down their coverage, PrimeRevenue has built its business on giving customers access to funder diversity to ensure program coverage regardless of jurisdiction or currency.

How much training does an SCF firm provide for onboarding suppliers?

This is a critical element because the success of any supply chain finance program depends on how successfully a company can court and gain the support and participation of suppliers. PrimeRevenue's dedicated support teams use a proven outreach and onboarding methodology that includes supplier messaging and communication protocols, hands-on training, individual orientations, webinars and much more.

Conclusion

Supply chain finance represents a clear win-win opportunity for both buyers and suppliers. For buyers, it enables them to free up large sums of capital trapped in the supply chain that they can then re-invest in strategic business initiatives. Supply chain finance also gives suppliers the ability to more effectively control their destinies by getting cash exactly when they need it and at very attractive (often more competitive) rates. In both scenarios, buyers and suppliers are able to tap into the liquidity needed to navigate today's business environment with agility.

About PrimeRevenue As a pioneer in global B2B payments, the PrimeRevenue SurePay Platform connects the entire supply chain by improving working capital and automating digital payments. Thousands of companies around the world leverage one streamlined platform to increase payment visibility, enhance control, and improve cash flow. PrimeRevenue is headquartered in Atlanta, with offices in London, Prague, Hong Kong, and Melbourne. For more information, visit **www.primerevenue.com**.

Follow us:

© 2022 PrimeRevenue, Inc.