PrimeRevenue **Perspective**

# HOW TO FINANCE SUPPLY CHAIN SUSTAINABILITY

**In any climate, sustainability is vital to a healthy supply chain.**
But the uncertainty in today's economic environment emphasizes the need to prioritize sustainability. Companies today must navigate two conflicting pressures – one is economic volatility and the second is corporate social responsibility (in its many forms) – both of which have the potential to disrupt business.

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## TOP 4 DRIVERS TO BUILD SUSTAINABILITY INTO SUPPLY CHAINS

**87%**

**1** Maintaining proper licenses to operate, including social licenses to operate (SLO).

**54%**

**2** Opportunities of cost reduction, enhanced efficiency or development of sustainable product.

**33%**

**3** The need to meet and comply with growing regulatory requirements.

**22%**

**4** Maintaining supply chain security.

In its report on The State of Sustainable Supply Chains, Ernst & Young surveyed 70 companies to identify the primary drivers for supply chain sustainability initiatives. The overwhelming majority of respondents (87%) cited maintaining a license to operate as a top driver. Others include efficiency and opportunities for innovation (54%), compliance and regulatory risk (33%), and business continuity (22%).

The report also highlights sustainability's progression from a "should have" to a "must have" function integral to strong business performance. Companies face increased demand from consumers (Millennials in particular) to manufacture goods using fair labor practices, sustainable materials and supplier-friendly business protocols. The backlash for those companies that fail to meet this demand can be severe. Another factor is more scrutiny from regulators. From environmental impact to how quickly suppliers get paid, regulators are paying closer attention to nearly every aspect of the business.

It's not enough for companies to pay lip service to sustainability or to view it only in the context of their organization. They have to prove their commitment is executed deep within the supply chain, and demonstrate the mechanisms in place to ensure transparency and accountability.

# Sustainability Redefined

What does sustainability mean in the context of today's increasingly global and complex supply chains? It's a broad term encompassing various nuances and deserves fresh inspection since its evolution from backroom discussion to boardroom agenda.


**4.5x ↑**

**COMPANIES WHO DISCLOSE THEIR ESG INFORMATION**

**Case in point: in 2011, only 20 percent of S&P 500 companies chose to disclose their environmental, social and governance information. Today, that number is closer to 90 percent according to the Governance and Accountability Institute.**

At PrimeRevenue, we view sustainability as a system held up by three distinct pillars – equally important and each vital to a healthy, sustainable supply chain:

- **Economic sustainability:** How a company ensures long-term profitability and strong financial health
- **Social sustainability:** How a company supports its employees, stakeholders, suppliers and community
- **Environmental sustainability:** How a company lessens and/or mitigates negative environmental impact in addition to encouraging positive environmental change

We find this holistic view of sustainability to be more pragmatic in scope and more in line with how sustainability is currently playing out in the corporate trenches. The reality is corporate sustainability initiatives have to meet multiple, often opposing, criteria. They must deliver positive environmental and social change while enlisting and supporting (rather than alienating) external stakeholders like suppliers and investors – all within the constraints of fiscal responsibility.

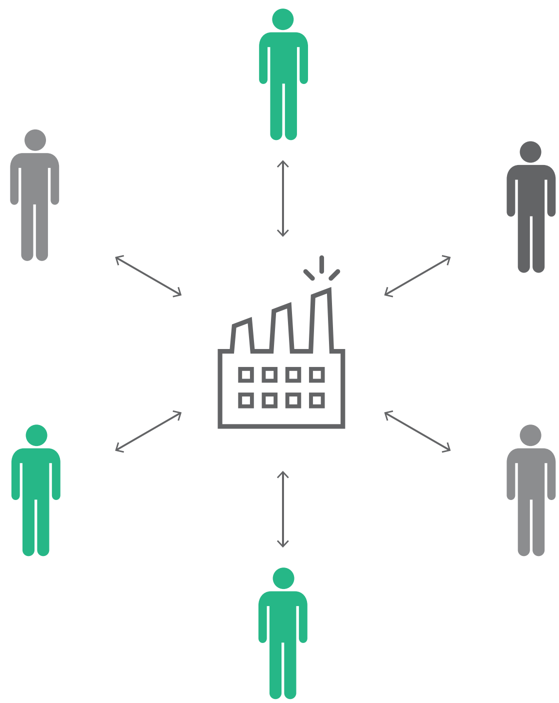
## The Intersection of Sustainability and Supply Chain Finance

As companies think about sustainability more holistically, it's reframing how they think about supplier finance. Historically, supplier finance focused on extending days payable outstanding (DPO), or the average number of days it takes a company to pay its outstanding supplier invoices, as a way to improve cash flow. While this may benefit the buyer and free up capital to fund corporate sustainability initiatives, longer payment terms left unabated can harm suppliers.

This is causing many companies to consider new supplier finance alternatives that go beyond extending DPO. How can they help suppliers navigate economic and geopolitical activity? How can they encourage and support suppliers to adopt socially and environmentally friendly business practices? Companies need to be able to invest in sustainability in a way that benefits and strengthens the entire supply chain – from the largest supplier to the smallest.

One approach is supplier-focused supply chain finance, which prioritizes the supplier experience. These solutions enable buyers to achieve their cash flow and sustainability objectives, while also providing the same benefits upstream to suppliers – including those that historically haven't had access to supply chain finance due to their size or credit rating. By giving suppliers an option to advance payment, suppliers can accelerate cash flow and access working capital that will allow them to invest in their own economic, social and environmental sustainability issues.

A prerequisite of supplier-focused supply chain finance is funding via multiple financial institutions rather than a single bank. This is crucial in today's economic and geopolitical climate. The collapse or failure of bank-led supply chain finance programs that rely on a single funder continues to be widespread amid changing trade policies and banks' decisions to pull out of certain jurisdictions. In these situations, suppliers that rely on supply chain finance as a way to improve their own cash flow can easily be disenfranchised. Having access to multiple sources of funding allows companies to mitigate this risk.



## Supplier-focused Supply Chain Finance: A Clear Path to Funding Today's Ambitious Sustainability Initiatives

The writing is on the wall. Companies that don't firmly commit to sustainability will increase their risk and liability exposure in the coming years.

Companies are steadily turning towards supplier-focused supply chain finance to fund their sustainability initiatives. This is redefining supply chain finance partner requirements.

**Unlike traditional approaches that focus solely on benefits for the buyer, supplier-focused supply chain finance programs equally benefit a broad spectrum of participants.**

And, in line with a pragmatic view of sustainability, they are designed for efficacy, longevity and resiliency.

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# PrimeRevenue in Action

Nearly 20 years of experience and a global network of 100+ funders enable PrimeRevenue to deliver scalable supply chain finance programs that help both buyers and suppliers accelerate cash flow and access large sums of working capital that may have otherwise been trapped in their supply chain. This money can be used to fund strategic initiatives that fall under the three pillars of sustainability.

## CASE STUDY: ICA GRUPPEN

One of Sweden's largest retailers, ICA Gruppen turned to supply chain finance to achieve its supply chain sustainability objectives – namely to increase spend volume with local suppliers and empower suppliers to grow. As a direct result of early payment through ICA's supply chain finance program, one local supplier was able to invest in a new production line and increase capacity. This allowed ICA to increase the volume of its business with a local business, which in effect reduced its carbon footprint. The supplier is now on track to double its revenues in turn strengthening the local economy and community.

**INVESTED IN A NEW PRODUCTION LINE**

**2X**
**REVENUE FOR STRATEGIC SUPPLIER**

## CASE STUDY: VOLVO CARS

For Volvo, supporting supplier health is equally as important as its own working capital improvements. The company launched its SCF program in 2015, but when the global pandemic hit in 2020, the program became even more critical to supporting suppliers. The ethics-driven program fortified the supply chain by providing suppliers an additional liquidity option to survive abrupt, long-term disruption. Today, suppliers representing 12 countries are advancing 92% of available invoices for early payment.

**92%**
**OF INVOICES ADVANCED FOR EARLY PAYMENT**

**12+**
**COUNTRIES**

**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**.

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