PrimeRevenue **Perspective**

Outperforming the Competition with Supply Chain Finance

What earns competitive advantage in today's hyper-competitive and disruption-filled business climate? It's a tough question to answer as several of the characteristics that have historically defined market leaders (e.g. quality, innovation, price) have now become table stakes. As a result, many companies are seeking new ways to outperform their competition.

One such approach is supply chain finance. By unlocking liquidity trapped in the supply chain, companies can dramatically improve cash flow and tap into working capital that can fund competitive-oriented initiatives. Historical examples of these initiatives include M&A transactions to expand offering portfolios and market reach as well as accelerated R&D to increase differentiation. But new examples have emerged as companies recognize the role supply chain agility plays in surviving widespread disruption.

But the power of supply chain finance doesn't stop there. Supply chain finance helps companies earn competitive advantage in numerous other areas, including:

Flexibility In Changing Economic And Trade Policy Climate Without Sacrificing Strategic Initiative

Economic indicators point to a slowdown in corporate growth in the near term – unsurprising given the fatigue caused by widespread supply chain disruptions, shortages, rising labor and logistics costs, and inflationary pressures. To counter this volatility, more and more companies are turning to supply chain finance.

By materially improving free cash flow with supply chain finance, companies can more easily navigate economic volatility without aggressively holding onto cash.

These improvements can be used to fund competitive and growth initiatives that would otherwise go unfunded in periods of sustained volatility – thus allowing the business to innovate and grow when competitors are not.

PrimeRevenue's multi-funder approach to supply chain finance provides added protections as it covers all currencies and geographies. This is particularly important as companies consider the need to switch suppliers as a response to trade policy and supplier diversification-related changes.

Stronger Supplier Health And Relationships

Supply chain finance enables suppliers to get paid early – often within a few days of when an invoice is submitted and approved. This is particularly beneficial to suppliers who are under pressure to grow and respond to the widespread transformations happening across many industries. Keeping pace with these changes requires capital that's not always readily (or affordably) available to some suppliers. By accelerating cash flow, suppliers can tap into debt-free liquidity previously trapped within the cash conversion cycle.

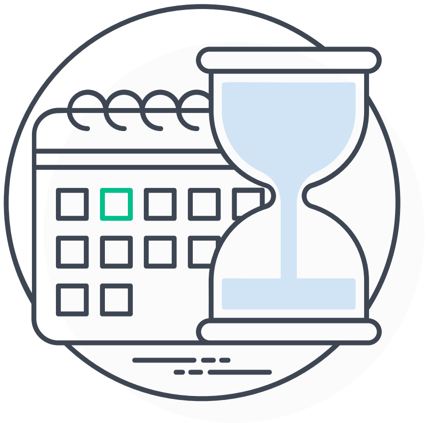
Strong suppliers translate to competitive advantage for buyers – particularly right now. Companies need their suppliers to be innovative, financially sound, and able to navigate disruption. Anything less can weaken the supply chain, impede productivity and cede competitive positioning.

By leveraging supply chain finance as a way to strengthen financial health, buyers can fortify their supply chain and strengthen supplier relationships to ensure suppliers have the capital needed to weather disruption and invest in innovation.

Risk Reduction Across the Supply Chain

The pandemic revealed the fragility of many supply chains – and the lessons learned have been profound. For companies that rely on highly specialized suppliers, or lack regional diversification, any disruption within a supplier's business can negatively impact the entire supply chain. This underscores the need for suppliers to be financially stable and able to invest in the innovation required by buyers' product roadmaps.

Another point of risk within the supply chain – one that can either gain or surrender competitive advantage depending on approach – are supplier payment terms. Thanks to mounting economic pressures, many companies are being forced to reexamine their payment terms with suppliers and extend them to align with industry benchmarks. Without a way to mitigate the negative impact, many suppliers are pushing back. This has the potential to wreak havoc on supplier relationships as well as weaken the financial health of both buyers and suppliers.



Fortunately, supply chain finance can help companies solve both issues.

Giving suppliers a way to get paid early and for the full amount of the invoice due makes it easier for suppliers to accept longer payment terms that will improve the buyer's cash flow.

Improvement Across Key Financial Metrics

Extending supplier payment terms can materially impact key financial metrics like cash flow, DPO, corporate debt, interest expense, leverage ratios, EBITDA and enterprise value.

By having more working capital available to navigate disruption with agility and invest in strategic growth initiatives, companies can increase their competitive strength.

Although it should be noted that not every company is interested in drastically extending supplier payment terms, even modest extensions (which there still seems to be an appetite for) can deliver significant financial health benefits.

Supply chain finance can play a star role in successfully executing a supplier payment term extension through providing suppliers access to early payment – typically weeks earlier than specified in pre-extension terms.

Moving forward

Economic uncertainty and supply chain risk are driving many executives to rethink competitive strategy and tactics for the months ahead. Despite a more cautious spending climate, companies can't afford to spend less on growth and innovation initiatives or introduce added risk into their supply chains.

Supply chain finance presents a clear path to gaining competitive advantage in any economic climate – particularly during periods of uncertainty when companies are most likely to pull back on spending. By unlocking millions (or billions) of debt-free capital trapped in the supply chain, companies can strengthen financial health, fortify supplier relationships and accomplish strategic initiatives at a time when their competitors aren't.

Supply chain finance presents a clear path to gaining competitive advantage in any economic climate.