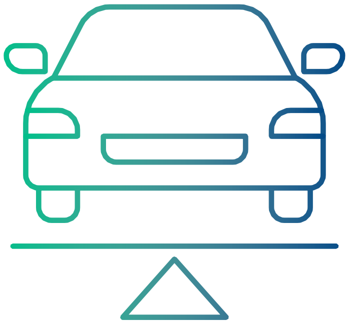
6 Ways Automotive Companies are Using Supply Chain Finance to Fund the Future

As transformation and persistent disruption reshape the automotive industry, its business leaders face a critical obstacle – liquidity. The scale and pace of change is forcing automotive manufacturers, OEMs and suppliers to make massive and costly changes to their businesses. Some of these changes are a direct response to supply chain disruptions, fluctuations in demand, and volatile macroeconomic conditions. Others are squarely centered around booming demand for electric vehicles and autonomous driving as well as nontraditional revenue pools such as shared vehicle unit sales and on-demand mobility and data-driven services.

"How will we fund X strategic business initiative in today's global economic climate?" is a question that weighs heavily on even the largest, most profitable automotive companies and especially on suppliers that lack access to investment-grade funding.

For many businesses across the automotive supply chain, the answer is supply chain finance.



Shoring up liquidity often requires adding debt to the balance sheet – a move many businesses in the industry can't afford or are unwilling to make given current market conditions. **Supply chain finance provides an affordable, debt-free alternative that benefits both buyers and suppliers.** Buyers are able to unlock working capital trapped in the supply chain while suppliers are able to receive payment early. For buyers, the cash flow gains delivered are substantial enough to fund the kind of large-scale strategic business initiatives that often require billions of dollars in working capital.

Fueling Tomorrow's Success with Supply Chain Finance

From luxury car brands to niche suppliers, an increasing number of automotive companies are using supply chain finance to fund the changes and transformations that will power their future – even amid economic headwinds. These initiatives include:

Innovation investment. Autonomous driving, embedded digital services and EVs are three areas driving significant investment across the automotive supply chain. Historically, companies have used their own balance sheet to pay for these large-scale innovation programs – whether by increasing debt, austere cost cutting and/or restructuring, or the sale of assets. Supply chain finance provides an attractive, off-balance sheet alternative to these measures.

Take one of the world's largest truck manufacturers, for example. The manufacturer's current growth strategy includes the introduction of new EV fleets across numerous markets as well as significant R&D into self-driving capabilities. To efficiently execute this growth strategy, the manufacturer realized it needed to better manage the amount of working capital tied up in its inventory. Through a supply chain finance program facilitated by PrimeRevenue, the company has accomplished just that – achieving total cash flow gains in excess of $700 million.

Fund M&A success and growth in nontraditional partnerships. PwC reports increased geopolitical tensions, inflation, increased interest rates and record oil prices have resulted in a contraction in M&A activity. Many companies have hit the pause button on large-scale strategic acquisitions to strengthen their balance sheets amid economic volatility. However, pressure to innovate faster and further is expected to drive strong deal activity in 2023.

Meanwhile, companies up and down the automotive value chain are seeking nontraditional partnership deals that allow them to gain an advantage on the innovation front. Deloitte reports that analysis of more than 240 transactions between 2018 and 2022 shows alternative deals have outpaced traditional M&A by nearly 3x.

Mann + Hummel, a maker of automotive filtration products, is an example of one company that's using supply chain finance as a way to help fund strategic acquisitions. Its rapidly growing supply chain finance program (powered by PrimeRevenue) has generated cash flow gains in excess of $110 million that have helped the company execute numerous acquisitions to expand its production capabilities and product portfolio.

Build out new infrastructure to support evolving production demands. The transformations happening across the automotive industry are making sweeping changes to production requirements for both OEMs and suppliers. Furthermore, the cost of producing vehicles is at an all-time high – as much as 20 percent higher than the previous generation. Whether through building out new production capabilities or acquiring them outright, like Mann + Hummel in the previous example, companies are using supply chain finance as a funding mechanism to meet changing production requirements.

ZM Silesia, a supplier to Michelin and a participant in Michelin's supply chain finance program, claims early payment on invoices has generated enough cash to grow and reinvest in new machinery, plants and equipment.

Invest in education to overcome labor shortage. In a recent survey, the National Association of Manufacturers reports respondents cite a lack of skilled employees as one of their top five challenges. In response, many automotive OEMs are taking matters into their own hands. PrimeRevenue customer Michelin North America, located in the upstate South Carolina corridor, has partnered with local technical colleges to offer the Michelin Technical Scholars Program. This program provides opportunities for select students to develop hands-on work experience with competitive pay while earning their degree in Mechatronics, Mechanical Engineering Technology (or Electronics Engineering Technology).

These programs require substantial economic investment that, in the absence of off-balance sheet funding options, could negatively impact profits. Improved control over cash flow has enabled Michelin (and many others in the industry) to unlock large sums of working capital that can be used to solve complex business challenges, such as this one.

Increase financial agility. The current state of the automotive industry has underscored the need for greater agility. The digitization of the industry has exposed new vulnerabilities. Transformation breeds innovation and opportunity, but it also creates chaos and instability. Having the financial agility to navigate those threats is vital. This is especially true for sub-investment grade suppliers and/or suppliers that want to access liquidity at lower funding costs.

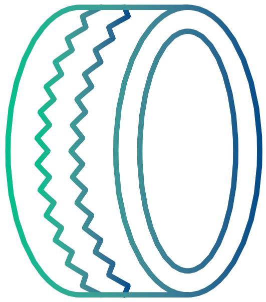
Belgium-based ALRO Group is an example of the latter. The company provides surface treatment of plastic and metal automotive parts for many leading luxury car brands. During the global financial crisis, the company sought a cost-effective way to improve its cash position and turned to the supply chain finance program of one of its largest customers. By participating in the program, the company was able to receive near-immediate payment for invoices rather than wait 75+ days. Fast-forward to today (and the industry challenges that define today's business landscape), and ALRO Group continues to benefit from the cash flow improvements delivered by supply chain finance. Within the first five years, the company traded over $110 million in invoices and received payment 104 days early on average.

Increasing enterprise value. Amid the changes happening across the industry – as well as global economic volatility – a more scrutinous eye is being applied to companies' profitability and value-creating potential. "How can we increase return on capital?" is one question financial executives must answer in the face of higher capital spending, and supply chain finance is one way for them to turn up the dial.

One global supplier's five-year growth plan included very specific goals in this area – including delivering $1B+ in additional cash flow and achieving a minimum of 15 percent return on capital. Within months of implementing a supply chain finance program with PrimeRevenue, the company had unlocked more than $100 million in cash flow.

Liquidity and Agility Through Supply Chain Finance

The price of transformation continues to be high for automotive companies, and it's one reason why industry leaders are embracing supply chain finance. By materially improving cash flow, supply chain finance can unlock large sums of working capital that can be used to fund mission-critical business initiatives.



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