WHY SUPPLIERS CHOOSE SUPPLY CHAIN FINANCE

What's the best option for my business?

Cash flow optimization is a strategic imperative for many companies. Unfortunately, it often happens on the backs of suppliers. Take longer payment terms, for example. While longer payment terms benefit the buying organization's cash flow cycle, they have the opposite effect on suppliers.

In fact, depending on the size and the financial health of the supplier, longer time-to-payment can derail growth and stifle competitiveness. It's no wonder that most suppliers view longer payment terms through a negative lens. Except when supply chain finance is involved. Here's why.

What is Supply Chain Finance?

Supply chain finance is a way to optimize working capital and reduce supply chain risk. Supply chain finance allows businesses to increase supplier payment terms while providing the option for their large and SME suppliers to get paid early. The buyer provides a way for suppliers to mitigate the negative impact of longer payment terms and to accelerate their own cash flow by pairing suppliers with funders who are willing to provide early payment for receivables.

The supplier can choose which receivables to submit for early payment, depending on their financial position and funding requirements. To complete the process, the buyer then pays the funder for the receivable based on the extended payment terms. It's a win-win situation for all parties – especially for suppliers. By participating in a supply chain finance program, they can receive near-immediate payment for receivables at only a nominal transaction fee.

“What’s in it for our business?”

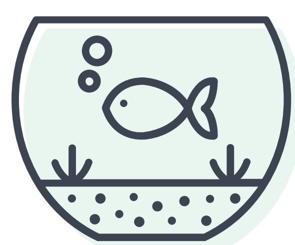
It’s the first question suppliers ask when they receive an invitation to participate in a customer-led supply chain finance program. The obvious answer is the improvement in cash flow generated from early payment of receivables. But that’s only part of the story.

SIX REASONS WHY SUPPLIERS CHOOSE SUPPLY CHAIN FINANCE

1 Supply chain finance funds growth and innovation.

Growth and innovation are cornerstones of supplier success, but they come at a cost. Suppliers need to have the working capital available to respond to increased demand for their offerings and to invest in innovative initiatives that will give them a competitive advantage.

Just ask **EVOlution Pet Supplies**, a small provider of pet products in Australia. Retailers’ stringent minimum inventory requirements require EVOlution to have 4+ months of inventory on hand. In the past, the company relied on lending or credit cards to finance inventory – both of which had high interest rates. Since onboarding onto their customer’s early payment program, EVOlution can easily meet stock minimum requirements. The cost of doing business with larger companies can be a barrier for small suppliers. With PrimeRevenue, I’m able to access the liquidity I need to make sure we can meet our customer’s requirements at a cost far lower than other traditional financing and supply chain finance options.
- Vera Lee, Managing Director, EVOlution Pet Supplies



2 Early payment helps to weather economic turbulence.

In today's business climate, economic conditions can turn on a dime depending on any number of factors – ranging from industry-specific business challenges to larger, global economic forces. In many cases, suppliers are the first and last to feel a pinch in their business as the velocity of customer payments slows. Supply chain finance provides a defensive layer to help suppliers weather this economic turbulence. Rather than waiting on large customers to pay invoices (often overdue in these circumstances), the supplier can submit invoices to funders for early payment. In turn, this provides immediate access to liquidity that can help the supplier keep business operation as normal in any business climate.

This benefit of supply chain finance has been a lifesaver for suppliers and buyers.

Supplier Snapshot: Electrical Components International (ECI) – a major supplier to the world's leading home appliance manufacturers. At the height of a global recession in 2008, late customer payments began to threaten the health of the business. Supply chain finance proved to be a lifeline for ECI, which accelerated $25 million in cash flow and helped the company more accurately forecast revenue performance and obstacles. "In a time of financial catastrophe for many companies, supply chain finance provided us the cash flow we needed to weather recessionary times," said the CFO at the time.

Buyer Snapshot: A more recent example is **Genuine Parts Company (GCP)**. When the global pandemic hit, the company needed to make broadscale working capital improvements that would give operations maximum financial flexibility. In partnership with PrimeRevenue, GCP's DPO improved from 39 days to 135 days and its cash conversion cycle improved by 92 percent (from 133 days to 11 days), with even further substantial improvement occurring since the start of the global pandemic.

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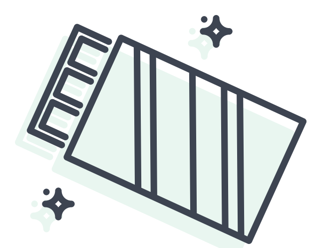
3 Funding at a much lower cost.

One advantage of using supply chain finance to improve cash flow is that the cost of funding is far lower than a direct loan. The interest rate a supplier will pay for a loan will most likely be much higher (often 10x or more) than the discount/processing fee paid using a supply chain finance program. That's because supply chain finance funding is based on the customer's credit rating rather than the supplier's (which tends to be higher given the financial health of most large, multinational buyers). Furthermore, while a loan can negatively impact the supplier's debt-to-equity ratio, supply chain finance is a true sale of receivables and has no effect on the supplier's balance sheet.

The low cost of funds accessible through supply chain finance is a significant advantage for smaller suppliers that don't have a strong credit rating to secure favorable interest rates.

One such example is **Barry Callebaut**, the world's largest manufacturer of chocolate and cocoa and a $6 billion supplier to companies like Kellogg's, General Mills and Nestle. By participating in their customers' supply chain finance programs, they are able to get paid early and optimize working capital for a nominal transaction fee. From Barry Callebaut's head of European treasury operations: "Besides adding a lot of value to the business relationship with our customer, it also enables us to accelerate cash flow at a low cost leveraging the customer's strong credit rating. And since it is a true sale of receivables, there is no additional financial debt on our balance sheet."



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4 Optimizes cash flow with less burden.

Compared to traditional borrowing options, supply chain finance optimizes cash flow with less administrative burden and cost. One indirect cost associated with traditional financing options (such as commercial lending) is the administrative burden. Today's corporations are subjected to dozens of financial reporting requirements. This is in addition to the regulatory burden applied to financial institutions during the lending process that ultimately spills over onto suppliers as they seek financing.

With supply chain finance, the administrative burden of increasing cash flow is low – thereby providing indirect (although material) savings to the supplier.

UK-based **S.T.A. Transport** is a small business that subcontracts with DFDS, an international shipping and logistics company. Starting a small business is tough, especially in an industry that requires large amounts of capital up front. S.T.A. Transport leveraged the supply chain finance program to accelerate payment on their invoices and invest in growth. Since joining the program, the company has significantly expanded its fleet (which started with only one truck) and continues to grow and thrive.

"When you're running a vehicle and it's using anything from £1200 to £1500 a week in diesel alone before your other outgoing costs, it's very difficult when you're initially starting off... [now with] PrimeRevenue... I'm working a week and then the following week, my money is in the bank"
- Steve Archer, Managing Director, S.T.A. Transport

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5 It provides ultimate transparency into payment timing and amounts.

As many suppliers will attest, it's difficult to track invoices once they've been submitted to a customer. When was it received? When will it be paid? Will the amount remitted be correct? Supply chain finance neutralizes this opacity with complete visibility into the invoice processing and payment process. Using a centralized platform, suppliers have the ability to see when an invoice has been approved, when it's been submitted for payment and for what amount.

The long tail impact of this level transparency can be especially beneficial for suppliers like Red River Commodities – a large agricultural supplier that's subject to seasonal demand, weather conditions and numerous other variables. Greater visibility means greater control over cash flow and forecasting. It also allows them to spot inaccuracies in invoice processing, thereby minimizing disputes and potential disruptions to cash flow.

S.T.A Transport also has experience with this benefit.

"The platform gives us visibility into invoice status with our customer so there are no more guessing games as to whether an invoice has been approved or when we are expected to receive payment," said Steve Archer, Managing Director, S.T.A. Transport. "We also have enhanced flexibility to advance payment when we need it and take control of our cash flow. That is key to a growing a new company, and PrimeRevenue has been the right supply chain finance partner to truly change the trajectory of our business."

6 It doesn't depend on a single source of funding.

Economic uncertainty is a fact of life for any business, but especially as inflation and health crises continue across the globe. Multinational corporations that are forced to navigate different economic and geopolitical environments feel the brunt of this uncertainty and this has been the case for many years among companies doing business in areas such as Central and Eastern Europe that are plagued by recurring banking crises. In these areas, many financial institutions have exited (or have plans to exit) the market – and that's made it difficult for many suppliers to improve cash flow. To mitigate the negative impact on their business, many companies are turning to multi-funder supply chain finance programs. By providing suppliers with access to multiple sources of funding, they no longer need to worry what will happen if a single source of funding exits the market.

This was the case with brewer **SABMiller**, which was previously participating in a well-known bank's single-funder supply chain finance program. When the bank decided to exit the Central and East European regions where SABMiller had the majority of its suppliers, SABMiller was forced to move their entire supply chain finance program. They chose PrimeRevenue for a number of reasons, chief among them being their multi-funder structure. With access to more than 100 funders on PrimeRevenue's SurePay platform, SABMiller's suppliers were able to mitigate the risk of any single bank putting their cash flow in jeopardy.

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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