WMG
THE UNIVERSITY OF WARWICK

Supply Chain Finance

INCREASING COMPETITIVE ADVANTAGE AND
FINANCIAL CERTAINTY THROUGHOUT THE SUPPLY CHAIN

Supply Chain Finance increases financial certainty

Supply Chain Finance (SCF) is emerging as a core initiative to unlock the trapped financial resources within supply chains and mitigate the concentration of financial risks. Effectively implemented, it provides competitive advantage and financial certainty to the involved supply chain members. The innovative financial instruments offered under the SCF umbrella manage and steer the financial flows while keeping them aligned with the material and information flows in the supply chain. These instruments result in a win-win situation for the involved members by improving their Net Working Capital (NWC) and liquidity, strengthening their relationships with the supply chain members and reducing the probability of their bankruptcy.

The guide primarily explores the prospects for businesses to tap into the field of SCF. Due to the numerous variations in SCF instruments and related programmes, this guide intends to create a consistent taxonomy of the SCF archetypes that practitioners can use to adopt a particular type of SCF instrument. In order to facilitate the adoption of SCF by businesses, each categorised instrument in the archetype is analysed to provide a detailed view of the underlying mechanisms and characteristics. Practitioners can use the knowledge attained from this guide to adopt SCF either by getting on-board on an SCF programme offered by members of the supply chain, or by offering SCF instruments to other supply chain members. The practitioners will be able to draw a parallel between SCF offerings and their individual financial benefits and requirements, leading to informed decisions related to the offering and acceptance of SCF. Lastly, based on the provided analysis, practitioners can further explore and analyse SCF instruments based on their individual strengths, requirements and skill set.

This guide starts with the context and background of SCF, followed by defining the SCF archetypes. The SCF archetypes section is followed by a detailed analysis of SCF instruments in a particular archetype. Finally, SCF instruments are analysed by presenting their deployment mechanism and characteristics.

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Bridging physical and financial supply chains

How does Supply Chain Finance work?

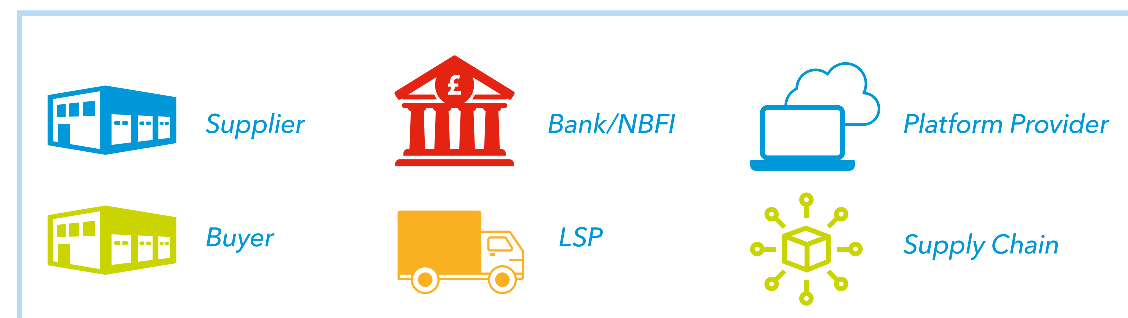
Things to know

SCF lies at the intersection of Operations and Supply Chain Management (O&SCM) and finance, and it aims at planning, steering and controlling the financial flows along the supply chain. A key premise for the implementation of SCF processes is the integration between customers, suppliers and service providers.

The key SCF actors are both primary and supporting supply chain members. Primary members include focal companies, buyers and suppliers, while supportive members include logistics service providers (LSPs), banks, non-bank financial institutions (NBFIs) and platform providers. SCF actors (supply chain members involved in SCF services) coordinate and control the financial flows through a set of SCF instruments. Different instruments use different mechanisms and involve different actors. The nature and characteristics of mechanisms and involved actors that characterise a specific instrument allow the classification of the instrument into various archetypes.

A set of enabling and inhibiting factors influence the successful adoption of SCF instruments. Examples of enabling factors are financial risk (involves reduction in the concentration of financial risk by distributing risk along the supply chain), intra- and inter-firm collaborations (collaborations within and outside the company for new service/product development and sustainability), a higher level of digitalisation (removes the manual processes and eases information sharing) and reduction in transaction costs (costs related to information exchange, monitoring costs, finance searches, fees for renegotiating credit contracts, and payments). The inhibitors delimit the adoption of SCF services, with consequent inefficiencies in financial flow and poor visibility along supply chains. Examples of inhibiting factors are lack of expertise, information asymmetry, intra- and inter-silos, cross-border transactions, government laws and regulations (including legal jurisdictions), and standard terminology in SCF, which are all core challenges faced in the adoption of SCF.

In the current SCF landscape, due the increasing requirement of supply chain visibility, the role of SCF actors is becoming more demanding. This has led to the extension of services offered by supply chain members (especially supporting members). For example, banks' inability to monitor all the material and information flows has led LSPs to become competent in providing SCF by exploiting their control over the material flows. The logistics service provider can take advantage of this competency by working independently (offering limited SCF on their own), creating a financial subsidiary (working independently but creating a company to offer SCF), developing contractual cooperation (managing information and/or material flow and sharing the information/status with other companies such as banks) and creating joint ventures (following a strategic network strategy and with a 3rd party creating a company to offer SCF).

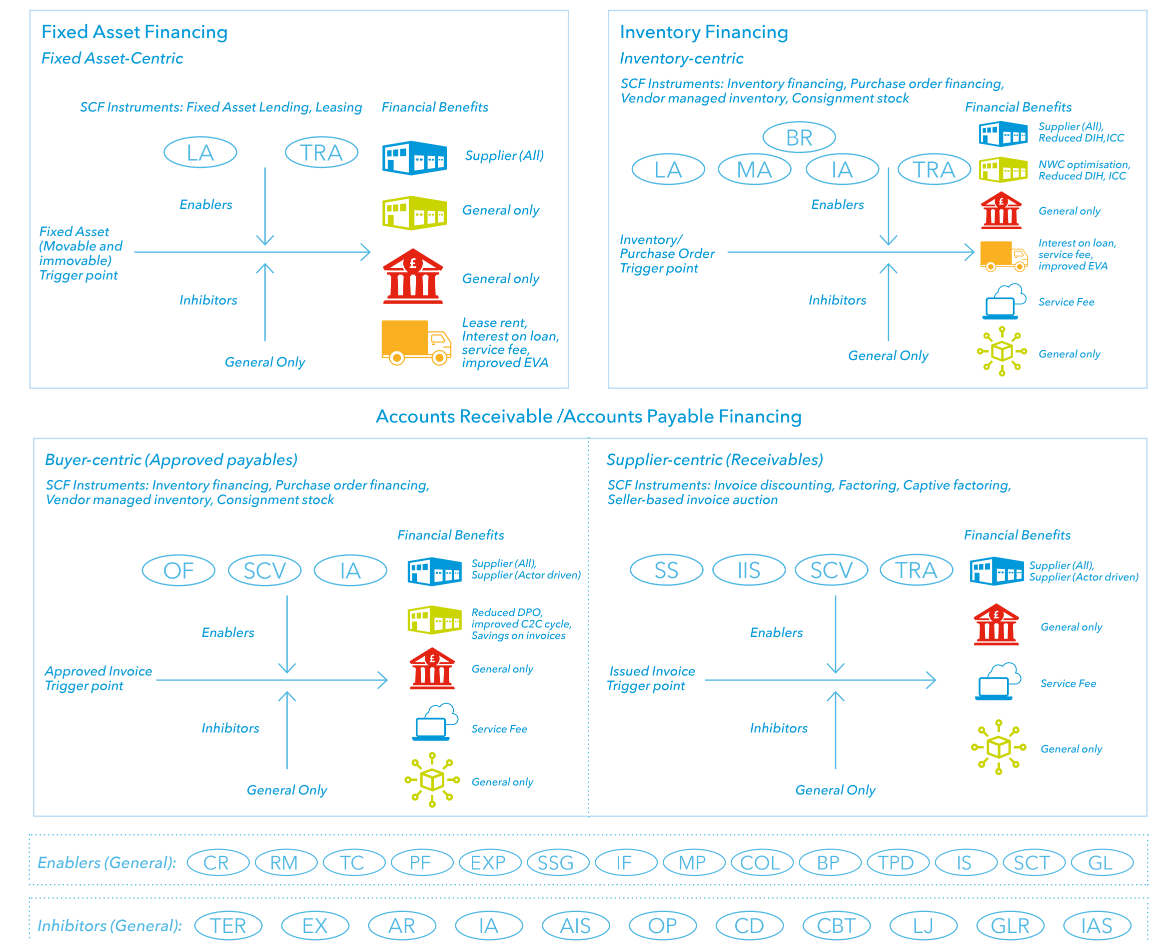


Supply chain finance archetypes: The relationship between actors, instruments and mechanisms

SCF instruments are mostly categorised into 'pre-shipment, in-transit, and post-shipment' or 'buyer-centric and supplier-centric' financial services. All categorisations neglect the interrelationship between the SCF instruments and underlying mechanisms, which is crucial for the businesses. The SCF archetypes presented here provide an exemplary look into the relationship between mechanisms, actors and instruments in SCF. The archetypes characterise the SCF instruments that different supply chain members (primary and supportive) can implement to improve the financial, informational and material flows in a supply chain. Furthermore, the archetypes provide necessary information related to the SCF adoption (trigger, required collateral, enablers, inhibitors and financial benefits of each participating member). Figure 1 presents the SCF archetypes along with the interrelationships and underlying mechanisms.

Figure 1 Supply chain finance archetypes[1]

[1]Chakuu, Sumeer, Masi, Donato and Godsell, Janet (2019) Exploring the relationship between mechanisms, actors and instruments in supply chain finance : a systematic literature review. International Journal of Production Economics, 216 . pp. 35-53



Financial benefits (General):
Suppliers (All): NWC optimisation; *Supplier (Actor driven)*: Reduced C2C, Reduced EVA, Reduced DSO; Traditional Bank/ Non-Bank financial institution: Interest on loan; *Buyers:* Improved EVA, NWC optimisation; *Supply Chain*: Transaction cost savings, Improved cash collaborative cycle.

AIS - Accounting/invoicing standards; AR - Agency risks/ costs; BP - Bargaining power; BR - Bank regulatory environment; C2C - Cash to Cash cycle; CBT - Cross-border transactions (multiple currencies, different languages and multiple legal jurisdictions); CD - Cultural difference; COL - Intra- and inter-firm collaborations; CR - Credit rationing; DIH - Days inventory held; DPO - Days payable outstanding; DSO - Days sales outstanding; EVA - Economic Value added; EX - Expertise; EXP - Exposure (global and local); GL - Globalisation; GLR - Government laws and regulations; IA - Information acquisition; IAS - Information asymmetry; ICC - Inventory carrying cost; IF - Innovativeness of firms; IIS - Investment intensity of supplier; INT - Introduction timing; IS - Information sharing; LA - Liquidation advantage/policy; LJ - Legal and Judicial (commercial, formal contracts); MA - Monitoring advantage; MP - Market Power; NWC - Net working capital; OF - Operating flexibility; OP - Organisational policies; PF - Payment flexibility; RM - Financial risk management; SCT - Social capital and trust; SCV - Supply chain receivables volume; SS - Seasonality of sales; SSG - Supplier! s sales growth; TC - Transaction costs; TER – Supply chain finance terminology; TPD - Trade process digitalisation; TRA - Tax rate advantage.

As illustrated in Figure 1, based on the type of collateral, SCF archetypes are broadly categorised into: Fixed asset financing, inventory financing, accounts receivable/accounts payable financing. Each archetype illustrates the underlying mechanism of a set of SCF instruments, involved SCF actors, corresponding triggers and associated collateral, enablers, inhibitors, and financial benefits for each of the participating actors. The mechanisms present the underlying transactions that take place in a supply chain to set up a particular SCF instrument. The trigger for financing triggers the application of a particular type of SCF instrument along the supply chain. Each trigger is directly associated with a particular type of collateral (if applicable), such as inventory, invoices, movable assets and immovable assets. The trigger also defines the point of interaction between the financial and physical supply chains. The enablers and inhibitors are the factors that drive or limit the adoption of SCF. Finally, SCF actors are categorised as the profiteer, facilitator and coordinator, based on their role within SCF. The profiteers are the supply chain members achieving the core profits from SCF deployment, facilitators are the supply chain members facilitating the deployment of SCF instruments, while coordinators are the members coordinating the deployment and successful functioning of SCF instruments. It should be noted that the financial benefits attained by SCF adoption are not limited to an individual SCF actor but extend to the supply chain.

Among the four archetypes, each can be either actor or asset driven. The supplier-centric (receivables) and buyer-centric (payables) archetypes are actor driven (triggers associated with invoices), whereas inventory-centric and fixed asset-centric are asset driven (triggers associated with inventory, purchase orders, fixed assets (movable and immovable)). Taking into account the enablers, inhibitors and financial benefits associated with a particular archetype, the group is divided into general (applicable to all archetypes) and specific (applicable to a specific archetype). It is interesting to note that as the involved SCF actors change in archetype, the associated benefits change as well. The SCF instruments categorised under different archetypes are as follows:

Archetype 1: Fixed Asset Financing (FAF)

Fixed-asset financing is fixed asset-centric. It takes into account the instruments using fixed-assets (movable and immovable) as a trigger.
The instruments categorised under this archetype are:

- Fixed-asset lending (FAF1)
- Leasing (FAF2)

Archetype 2: Inventory Financing (IF)

Inventory financing is mainly inventory-centric. It takes into account the instruments using inventory, and purchase orders as a triggers.
The instruments categorised under this archetype are:

- Inventory financing (IF1)
  - Traditional (IF1a)
  - LSP as a mediator (IF1b)
  - LSP takes the ownership (IF1c)
- Purchase order financing (IF2)
- Vendor managed inventory (IF3)
- Consignment stock (IF4)

Archetype 3: Accounts Receivable/Accounts Payable Financing (ARF/APF)

The accounts receivable/accounts payable financing is buyer-centric and supplier-centric. The trigger for buyer-centric instruments is approved payables and for supplier-centric instruments is receivables. The instruments categorised under buyer-centric are:

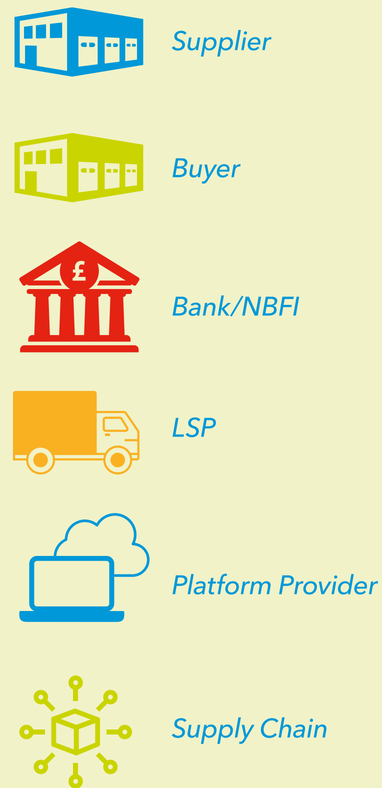
- Reverse factoring (APF1)
  - Without platform(APF1a)
  - With platform (APF1b)
- Dynamic discounting
  - Without platform (APF2a)
  - With platform (APF2b)

Instruments categorised under supplier-centric are:

- Invoice discounting (ARF1)
- Factoring (ARF2)
- Captive factoring (ARF3)
- Seller-based invoice auctions (ARF4)

The subsequent subsections focus on each of the archetypes and present the instruments along with the mechanism, corresponding trigger and collateral, involved supply chain members, enablers, inhibitors and financial benefits.

Archetype 1:
Fixed Asset Financing (FAF)



The collateral in the FAF archetype is the fixed-asset (movable and immovable). Figure 2 illustrates the instruments, trigger, enablers, inhibitors and financial benefits for the FAF archetype. The instruments included in this archetype are:

- FAF1 - Fixed asset lending
- FAF2 - Leasing

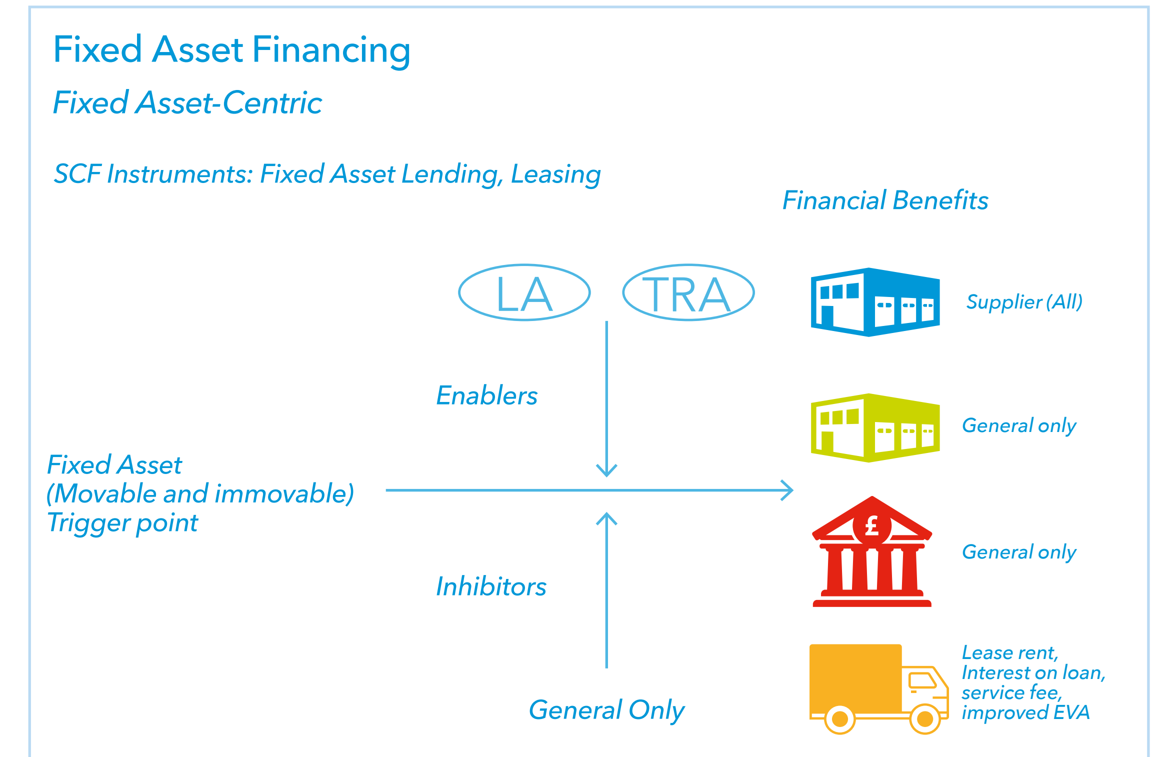


Figure 2 Fixed Asset financing archetype

FAF1: Fixed asset lending

Fixed asset lending includes pledging of movable and immovable fixed assets. Figure 3 presents the underlying mechanism for fixed asset lending.

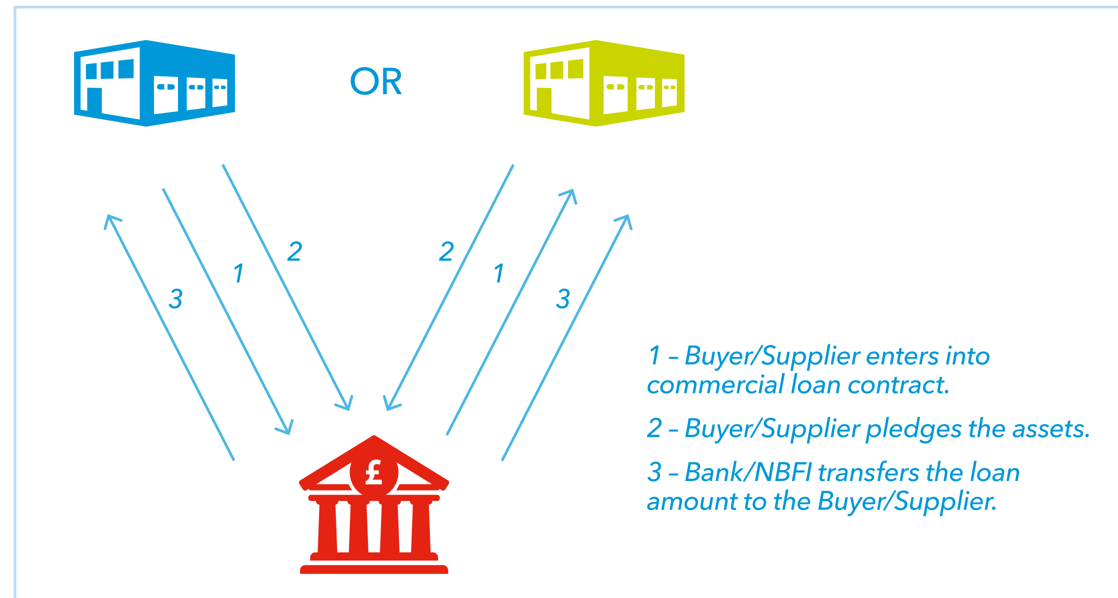


Figure 3 Fixed asset lending – mechanism

As illustrated in Figure 3, the Buyer/Supplier enters into the commercial loan contract with the bank or non-bank financial institution (Bank/NBFI). Before entering into the contract, the Bank/NBFI undertakes the credit assessment of the buyer/supplier. The amount of the loan (credit limit) is set by the Bank/NBFI based on the current and future value of fixed assets. Once a credit limit is finalised, the asset is pledged and the Bank/NBFI transfers the loan amount to the Buyer/Supplier.

Figure 4 presents the SCF actors (profiteer, facilitator and coordinator), trigger and associated collateral, enablers and inhibitors for the adoption of a fixed asset lending instrument and associated financial benefits.

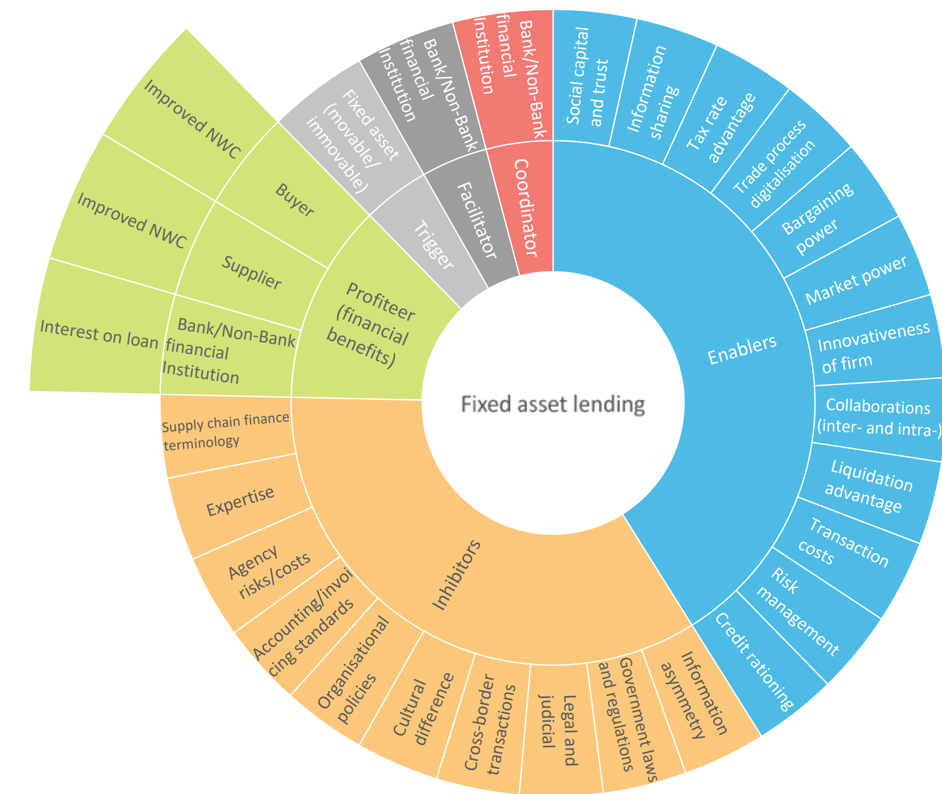


Figure 4 Fixed asset lending – characteristics

As presented in Figure 4, the Bank/NBFI coordinates and facilitates the fixed-asset lending instrument. The profiteers in this instrument are Buyer/Supplier and Bank/NBFI. The fixed asset (movable/immovable) acts as the collateral. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the buyer/supplier improves their NWC and Bank/NBFI earns the interest acquired on the provided loan.

Using this archetype

This archetype is mostly used by start-ups and fast-growing firms. The firms use this instrument in case their operational decisions are severely constrained due to financials and there is no other alternative available. This type of instrument is especially well-suited to firms with seasonal needs and industry cycles hampering their cash flow.

Key insights for adoption

- This instrument requires up-to-date and accurate information related to the movable and immovable fixed assets so that the lender can monitor the assets on which the loan is based.
- The nature of the instrument makes it immensely important for the asset-based lender to understand the potential risks and benefits, and choose the parameters of the loan to maximise its return.

FAF2: Leasing

Leasing is a type of asset financing. Leasing can provide a flexible way of obtaining capital goods for enterprises. A finance lease is a way of providing finance – effectively a leasing company (the lessor or owner) buys the asset for the user (usually called the hirer or lessee) and rents it to them for an agreed period. Substantially all of the risks and rewards of ownership of the asset remain with the lessee. The liability of risk and ownership of the asset is the major difference between fixed asset lending and leasing. Figure 5 presents the underlying mechanism for leasing.

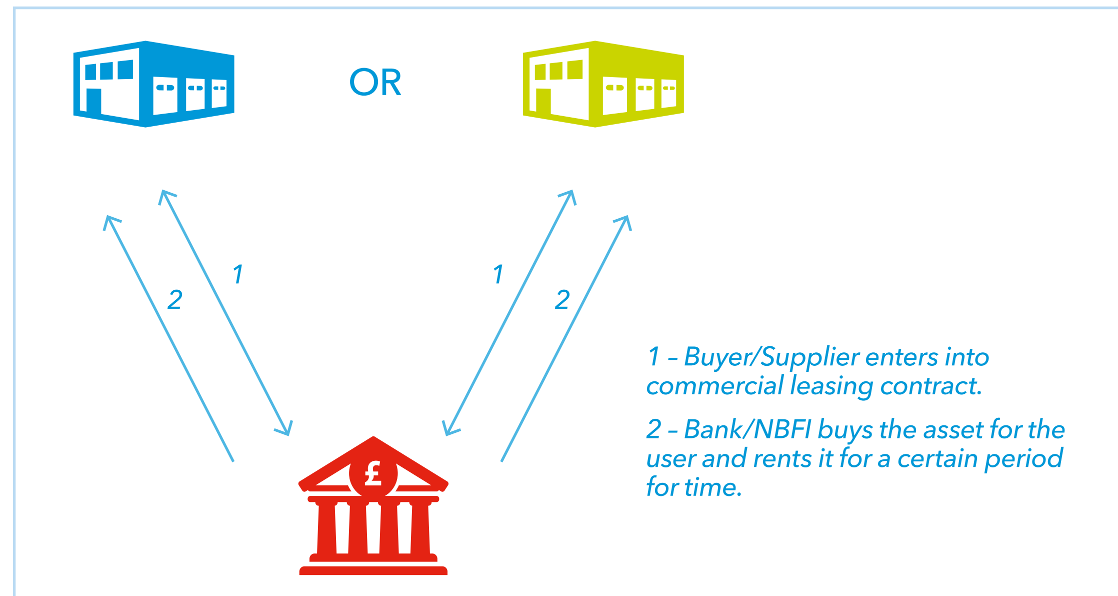


Figure 5 Leasing – mechanism

As illustrated in Figure 5, the buyer/supplier enters into the commercial lease contract with the Bank/NBFI. Before entering into the contract, the Bank/NBFI undertakes the credit assessment of the Buyer/Supplier. The lease and lease rent are based on the credit limit determined by the Bank/NBFI based on the finalised credit assessment. Once the credit limit is finalised, the lease is agreed upon by Buyer/Supplier and the Bank/NBFI.

Figure 6 presents the SCF actors (profiteer, facilitator and coordinator), trigger and associated collateral, enablers and inhibitors for the adoption of a leasing instrument and the associated financial benefits.

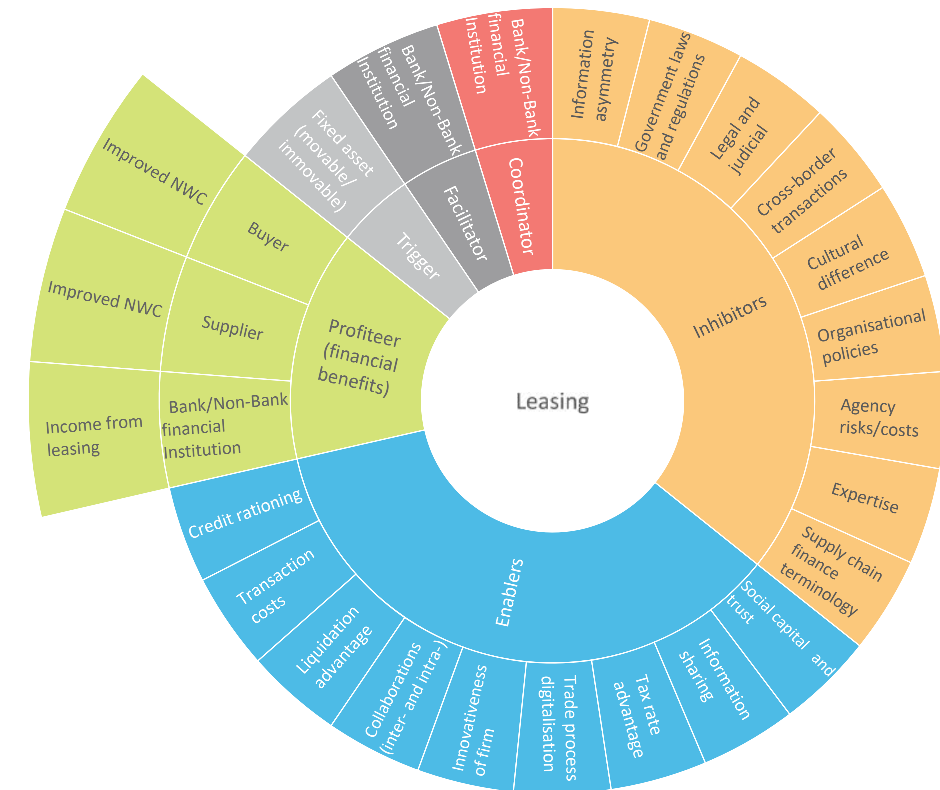


Figure 6 Leasing – characteristics

As presented in Figure 6, the Bank/NBFI coordinates and facilitates the leasing instrument. The profiteers in this instrument are the Buyer/Supplier and Bank/NBFI. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the Buyer/Supplier improves their NWC and the Bank/NBFI profits from the lease rent.

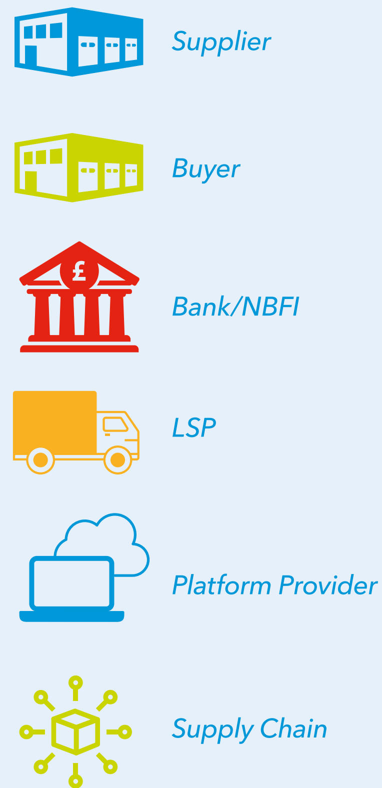
Using this archetype

This archetype is mostly used by firms that do not wish to pay the full cost of the asset up front. Leasing just costs a first lease payment and a small fee to obtain an asset that is required by the business. Firms also use this instrument in case the required asset will become obsolete within a few years as the issue related to disposing of the asset and replacing the asset lies in the control of the lessor. Furthermore, in many best cases, the tax savings related to leasing instead of owning will be equal to the lease payments.

Key insights for adoption

- One of the most important aspects of this instrument is the negotiability and flexibility in the lease contract before the lease is signed. As it is less flexible afterwards, knowing the structure of the firm and flow of its business operations is of utmost importance.
- In order to make sure that the total expenses associated with the lease are well defined, the adoption of this instrument requires a crucial understanding of the terms and conditions associated with the lease.

Archetype 2: Inventory Financing (IF)



The collateral in the IF archetype is the inventory. Figure 7 illustrates the instruments, trigger, enablers, inhibitors and financial benefits for the IF archetype. The instruments included in this archetype are:

- IF1: Inventory financing
  - IF1a: Traditional
  - IF1b: LSP as a mediator
  - IF1c: LSP takes ownership
- IF2: Purchase order financing
- IF3: Vendor managed inventory
- IF4: Consignment stock

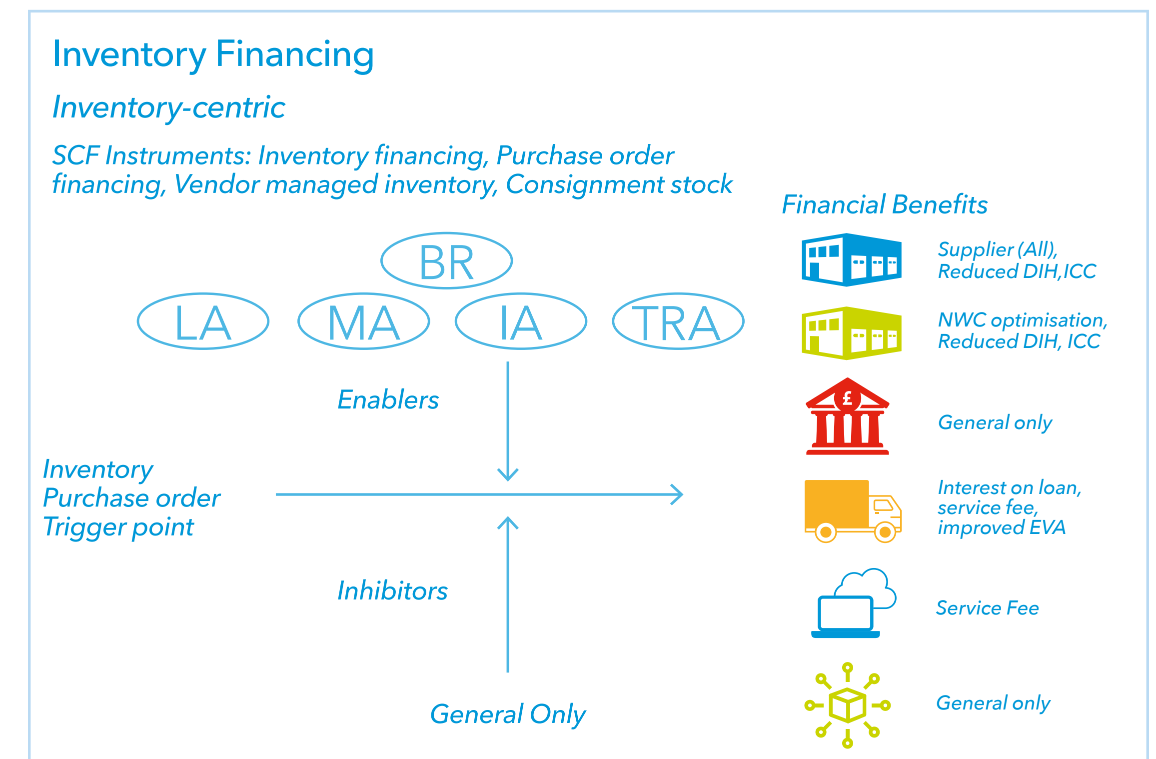
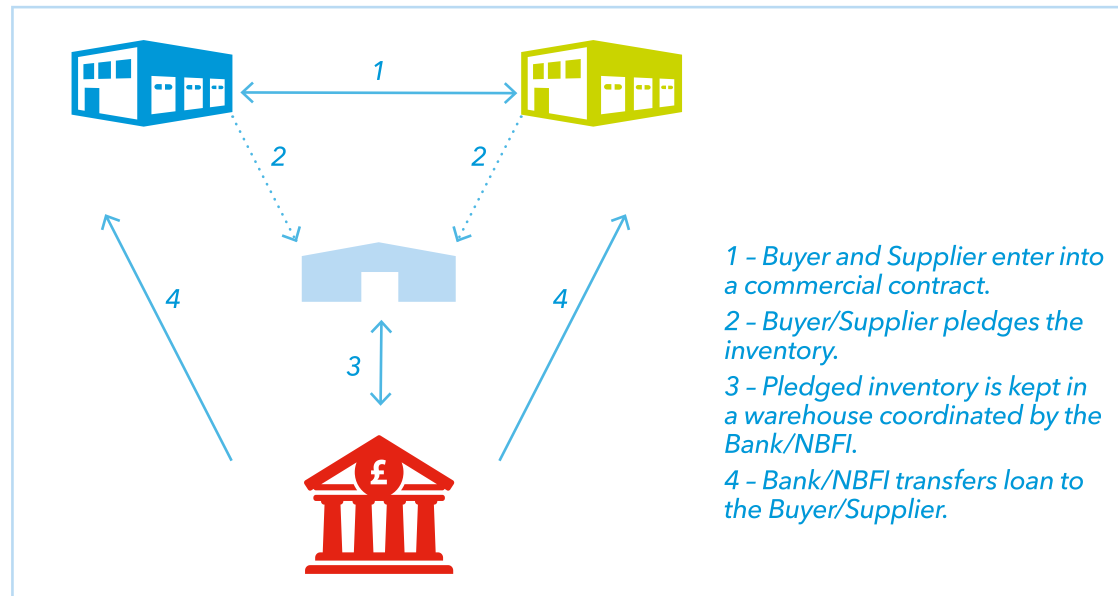


Figure 7 Inventory financing archetype

IF1a: Inventory Financing (Traditional)



Traditional IF is a short-term loan from a Bank/NBFI against inventory (raw materials, work in progress, finished) in stock or transit. It can be used by both Buyer and Supplier. The Buyer/Supplier can use the loan for buying additional inventory or improving cash flow. Figure 8 presents the underlying mechanism for traditional IF.

Figure 8 Traditional inventory financing instrument – mechanism

As illustrated in Figure 8, buyer and supplier enter into a commercial agreement. Following this, the buyer/supplier enters into a commercial loan contract with the Bank/NBFI to obtain finance against their inventory. Before entering into the contract, the Bank/NBFI undertakes a credit assessment of the Buyer/Supplier. The amount of the loan (credit limit) is set by the Bank/NBFI based on the value of inventory. Typically, the credit limit set is 50-60% of the current value of the inventory. The set credit limit is also affected by the type of inventory, its condition (whether it is pre-processed, work in progress, or finished) and its ability to be resold. Once the credit limit is finalised, the inventory is pledged and transferred into the warehouse, coordinated by the Bank/NBFI. After following this procedure, the Bank/NBFI transfers the loan amount to the buyer/supplier.

Figure 9 presents the SCF actors (profiteer, facilitator and coordinator), trigger and associated collateral, enablers and inhibitors for the adoption of the traditional IF instrument and associated financial benefits.

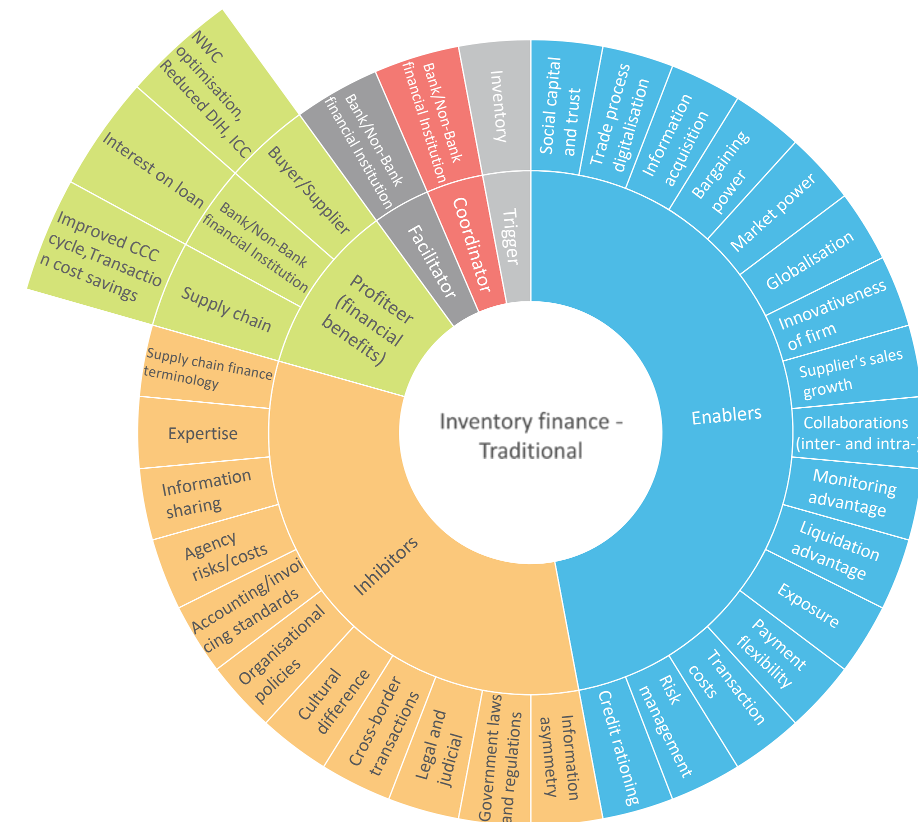


Figure 9 Traditional inventory financing instrument – characteristics

As presented in Figure 9, the Bank/NBFI coordinates and facilitates the traditional Inventory finance instrument. The profiteers in this instrument are the Buyer/Supplier, Bank/NBFI and supply chain. The collateral in this instrument is the inventory (raw materials, work in progress, finished). The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the Buyer/Supplier can optimise their NWC, reduce days inventory held (DIH) and inventory carrying costs (ICC), the Bank/NBFI profits from the interest on loan and the overall supply chain benefits from the improved cash collaborative cycle (CCC) and savings in transaction costs.

Using this archetype

This archetype leverages the use of inventory to obtain financing, hence providing an additional line of credit for the firms. It is very useful in cases where firms are credit rationed due to weak credit rating. This instrument is also suitable for firms looking for favourable terms of financing, as compared to those of unsecured loans. It also improves the credit rating of the firms using it.

Key insights for adoption

- One of the most important aspects for adopting this instrument is the synchronisation between manufacturing and delivery cycles along a supply chain.
- Thorough quality inspections of inventory need to be carried out.
- Location of the inventory is a crucial factor.
- The double-pledging of inventory should be taken care of.

IF1b: Inventory Financing (LSP as a mediator)

Inventory financing (LSP as a mediator) is a short-term loan from a Bank/NBFI in coordination with an LSP against inventory (raw materials, work in progress, finished) in stock or transit. The main difference between traditional IF and this instrument is the involvement of an LSP. This instrument is also modelled as an Integrated Logistics Financial Service (ILFS). It can be used by both buyer and supplier. The buyer/supplier can use the loan for buying additional inventory or improving cash flow. Figure 10 presents the underlying mechanism for IF (LSP as a mediator).

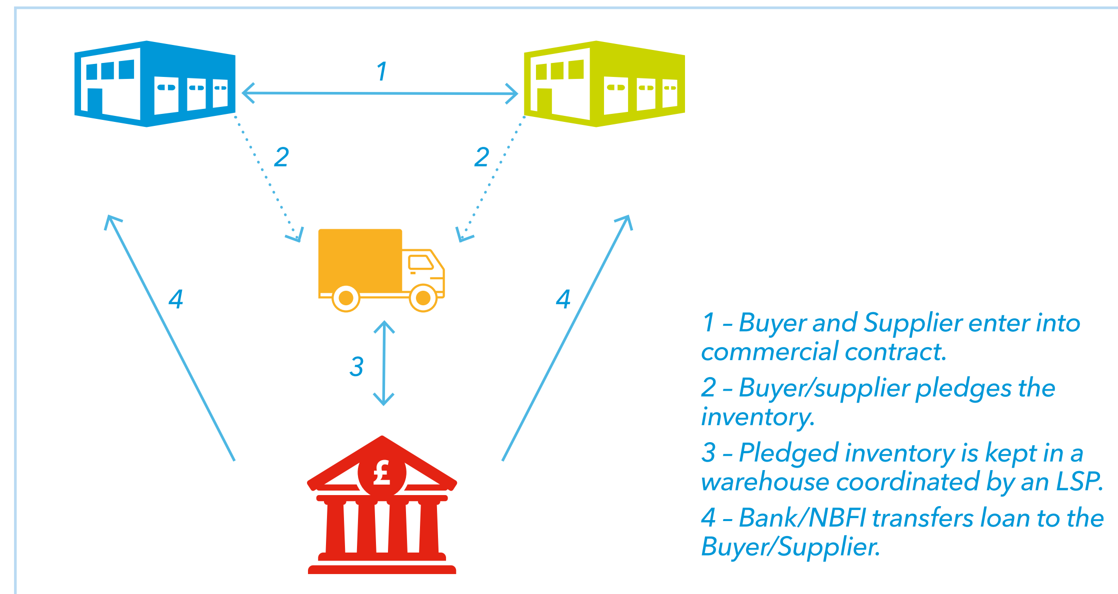


Figure 10 Inventory financing (LSP as a mediator) instrument – mechanism

As illustrated in Figure 10, buyer and supplier enter into a commercial agreement. Following this, the Buyer/Supplier enters into a commercial loan contract with the Bank/NBFI to obtain finance against their inventory. Before entering into the contract, the Bank/NBFI undertakes a credit assessment of the Buyer/Supplier. The amount of the loan (credit limit) is set by the Bank/NBFI based on the value of inventory. Typically, the credit limit set is 50-60% of the current value of inventory. The set credit limit is also affected by the type of inventory, its condition (whether it is pre-processed, work in progress or finished) and its ability to be resold. Once the credit limit is finalised, inventory is pledged and transferred into the warehouse coordinated by an LSP. After following this procedure, the Bank/NBFI transfers the loan amount to the buyer/supplier. The LSP not only coordinates the inventory but also maintains its quality, checks for counterfeit items and, if needs arises, liquidates the inventory on behalf of the Bank/NBFI.

Figure 11 presents the SCF actors (profiteer, facilitator and coordinator), trigger and associated collateral, enablers and inhibitors for the adoption of the IF (LSP as a mediator) instrument, and associated financial benefits.

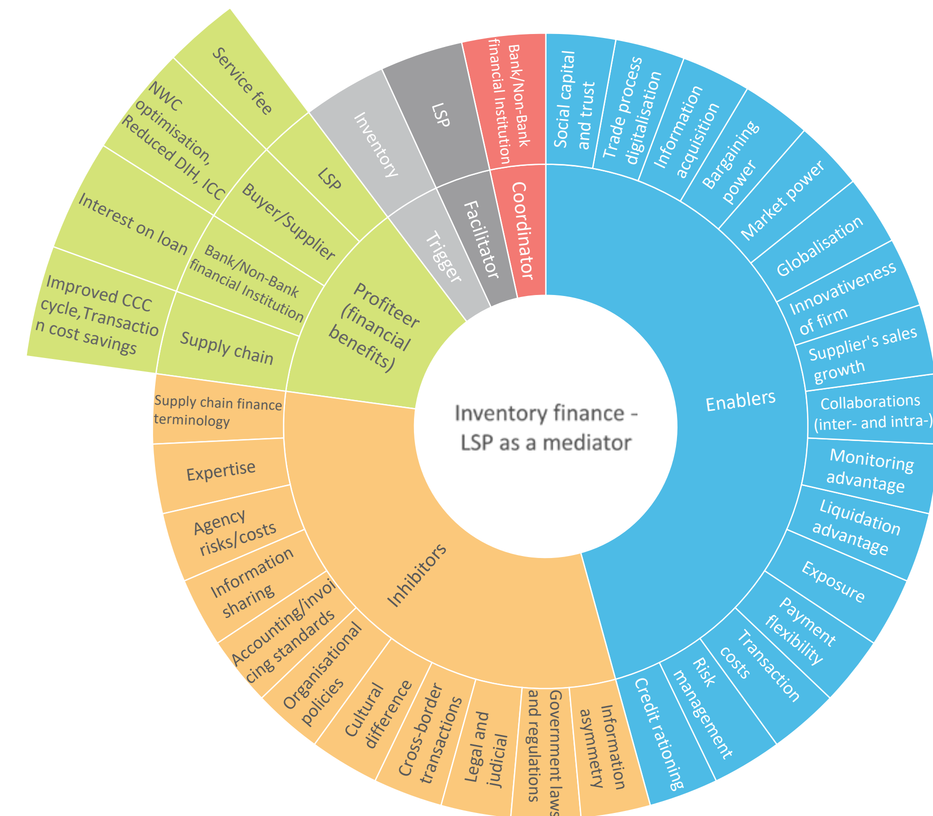


Figure 11 Inventory finance (LSP as a mediator) instrument – characteristics

As presented in Figure 11, the Bank/NBFI coordinates the inventory finance (LSP as mediator) instrument. LSPs are the facilitators in this case. LSPs play a vital role by coordinating and controlling the inventory under collateral. The profiteers in this instrument are the Buyer/Supplier, Bank/NBFI, LSP and supply chain. The collateral in this instrument is the inventory (raw materials, work in progress, finished). The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the Buyer/Supplier can optimise their NWC, reduce DIH and ICC, the Bank/NBFI profits from the interest on loan, the LSP receives a service fee (in most cases this extends the customer base) and overall the supply chain benefits from the improved CCC and savings in transaction costs.

Using this archetype

Similarly to the traditional IF instrument, this archetype leverages the use of inventory and provides an additional line of credit for firms. It is very useful in cases where firms are credit rationed due to a weak credit rating. This instrument is suitable for firms looking for favourable terms of financing, as compared to those of unsecured loans.

Key insights for adoption

- One of the most important aspects for adopting this instrument is the synchronisation between manufacturing and delivery cycles along a supply chain.
- Thorough quality inspections of inventory need to be carried out by LSPs.
- The double-pledging of inventory should be taken care of in this instrument.

IF1c: Inventory Financing (LSP takes the ownership)

Inventory financing (LSP takes the ownership) is a short-term loan from an LSP against inventory (raw materials, work in progress, finished) in stock or transit. In this type of financing, the LSP takes the ownership of inventory from the supplier and resells it to the buyer. The primary difference between traditional IF, IF (LSP as mediator) and this instrument, is the disintermediation of the Bank/NBFI by the LSP. As compared to the other forms of inventory finance, this instrument is focussed on providing financial support to the suppliers. The supplier can use the loan for buying additional inventory or improving cash flow. Figure 12 presents the underlying mechanism for the IF (LSP takes the ownership) instrument.

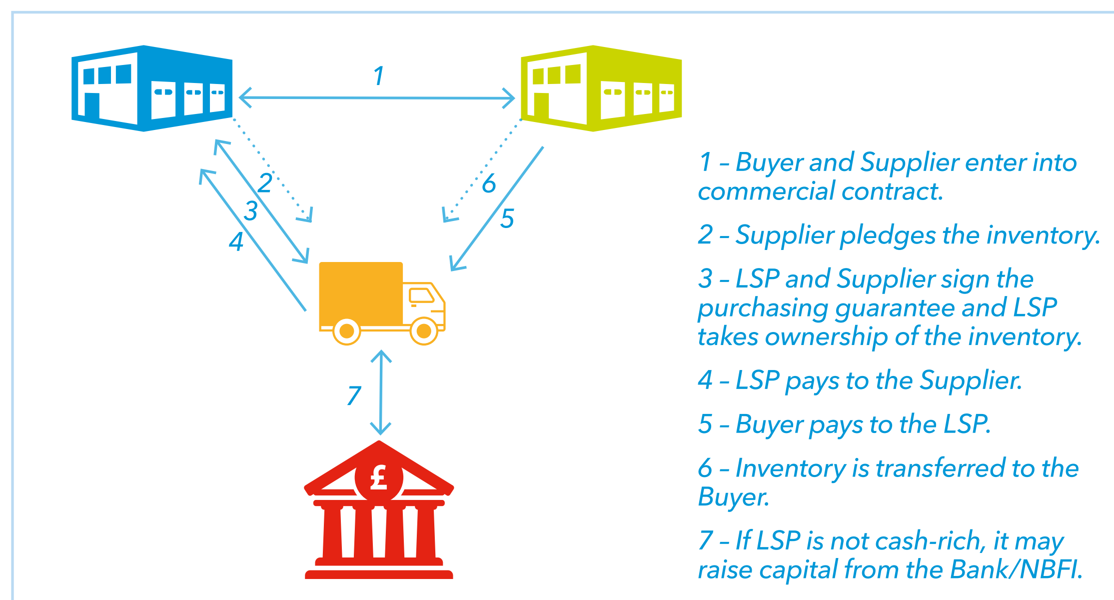


Figure 12 Inventory financing (LSP takes the ownership) instrument – mechanism

As illustrated in Figure 12, buyer and supplier enter into the commercial agreement. Following this, the supplier pledges the inventory to the LSP. The LSP undertakes the credit assessment of the supplier, signs the purchasing guarantee agreement and takes ownership of the inventory. The loan amount is based on the credit limit evaluated on the valuation of inventory conducted by the LSP. Typically the credit limit set is 55-65% of the value of the inventory. The credit limit set is based on the type of inventory, its condition (whether it is pre-processed, work in progress or finished) and its ability to be resold. Once the credit limit is finalised, the LSP transfers the loan amount to the supplier. Consequently, the LSP sells the inventory to the buyer. In case the LSP is not cash-rich, it may raise capital from the Bank/NBFI.

Figure 13 presents the SCF actors (profiteer, facilitator and coordinator), trigger and associated collateral, enablers and inhibitors for the adoption of IF (LSP takes the ownership) instrument and associated financial benefits.

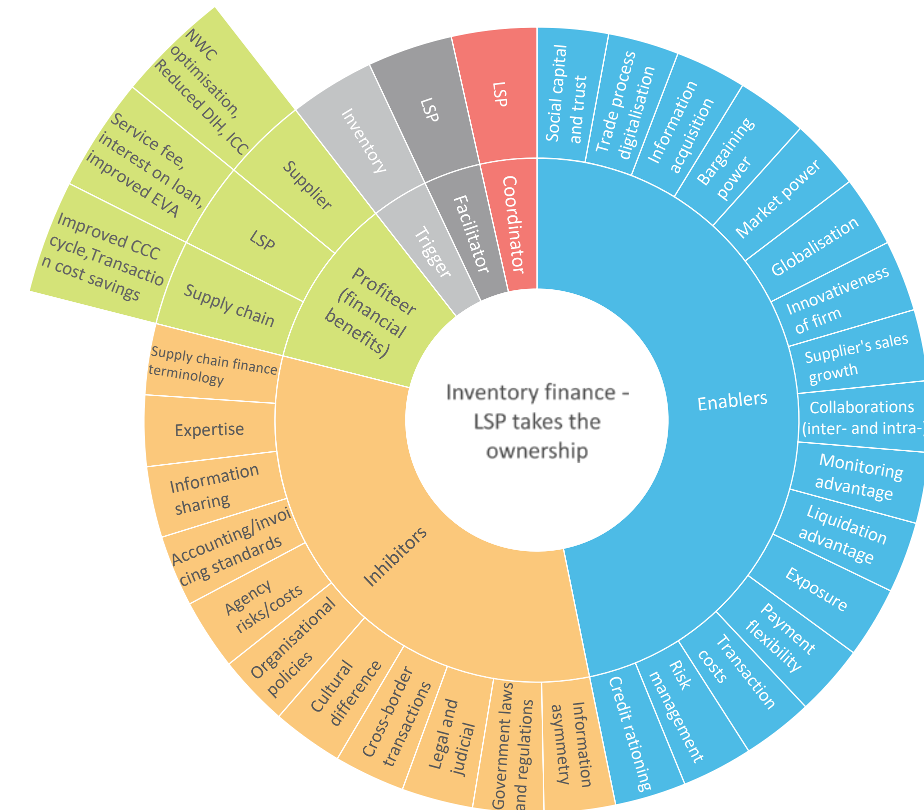


Figure 13 Inventory/warehouse financing instrument (LSP takes the ownership) – characteristics

As presented in Figure 13, the LSP coordinates and facilitates the inventory finance (LSP takes the ownership) instrument. The profiteers in this instrument are the supplier, LSP and supply chain. The collateral in this instrument is the inventory (raw materials, work in progress, finished). The adoption of this instrument is affected by the set of enablers and inhibitors. By using this instrument, the supplier can optimise their NWC, and reduce DIH and ICC, the LSP receives a service fee, earns interest on the loan and improves the economic value added (EVA). Furthermore, the overall supply chain benefits from the improved CCC and savings in transaction costs.

Using this archetype

Similarly to other forms of IF instrument, this archetype leverages the use of inventory and provides an additional line of credit to the firms. It is very useful in cases where LSPs are cash-rich and firms are credit rationed due to weak credit rating.

Key insights for adoption

- As with the other two forms, the most important aspect for adopting this instrument is the synchronisation between manufacturing and delivery cycles along a supply chain.
- Thorough quality inspections of inventory need to be carried out by the LSP.
- Different risk reduction techniques, such as a purchasing guarantee, should be signed.
- The double-pledging of inventory should be taken care of in this instrument too.

IF2: Purchase order financing

Purchase order financing is based on pledging a purchase order. It covers the working capital needs of a supplier. The financing includes an advance of money that goes to the supplier to fulfil a customer order. Figure 14 presents the underlying mechanism for purchase order financing.

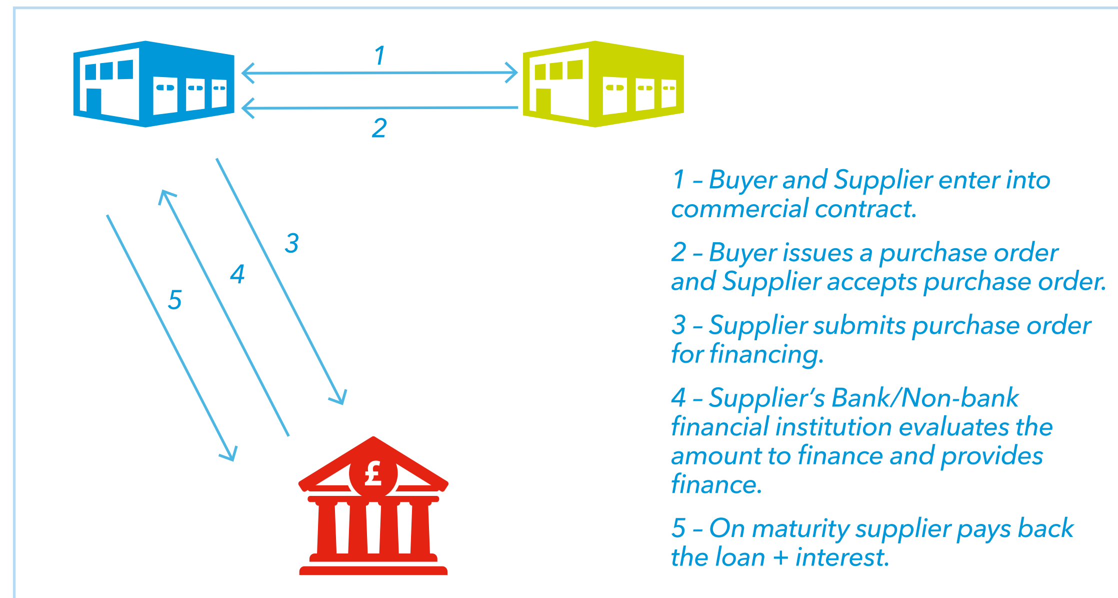


Figure 14 Purchase order financing – mechanism

As illustrated in Figure 14, buyer and supplier enter into the commercial contract. Following this, the buyer issues a purchase order and the supplier accepts it. Once a purchase order is accepted, the supplier submits it for financing to the Bank/NBFI. The loan amount is based on the credit evaluation of the supplier by Bank/NBFI. Consequently, the Bank/NBFI transfers the loan amount to the supplier and on maturity the supplier pays back the loan and associated interest.

Figure 15 presents the SCF actors (profiteer, facilitator and coordinator), trigger and associated collateral, enablers and inhibitors for the adoption of a purchase order financing instrument and associated financial benefits.

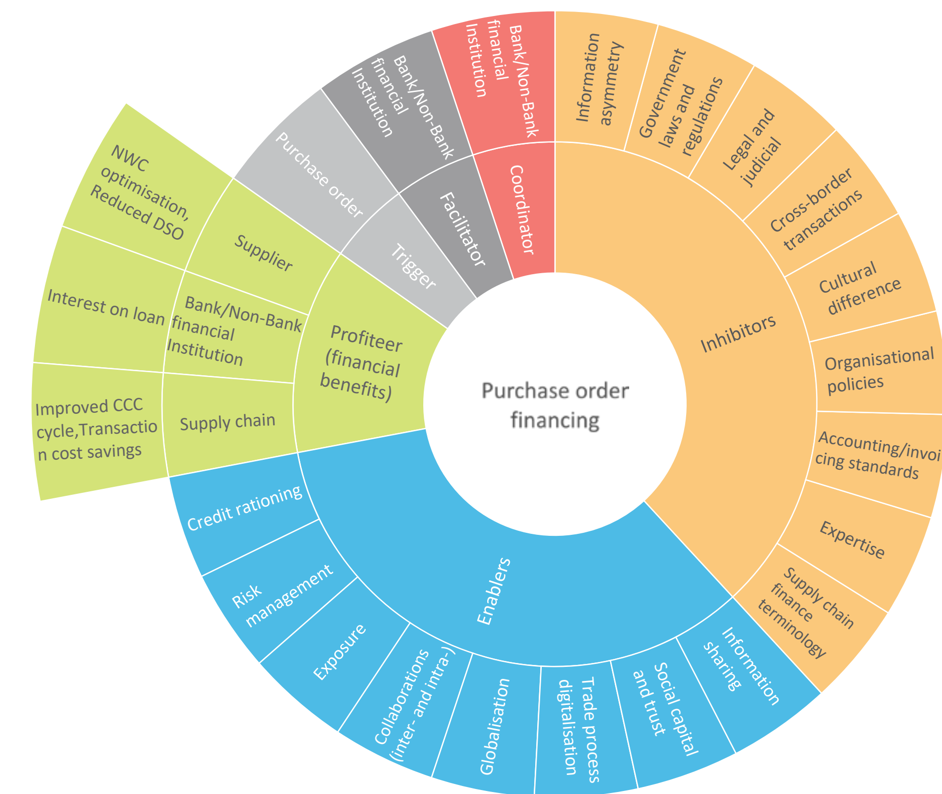


Figure 15 Purchase order financing – characteristics

As presented in Figure 15, the Bank/NBFI coordinates and facilitates the purchase order financing instrument. The profiteers in this instrument are the supplier, Bank/NBFI and supply chain. The collateral in this instrument is the purchase order. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, suppliers can optimise their NWC and reduce days sales outstanding (DSO), the Bank/NBFI profits from the interest on the loan and the overall supply chain benefits from the improved CCC and savings in transaction costs.

Using this archetype

This archetype uses the purchase order as a trigger for financing. The firms opt for this instrument if they require additional working capital for procuring inventory, labour or for optimising their cash flow. This instrument provides an opportunity to the supplier to fulfil customers' orders without any financial glitch.

Key insights for adoption

- As the purchasing order is the core of this instrument, the performance of the supplier to fulfil the order and the capability of the buyer to pay on time are crucial.
- Creditability, reliability and a proven track record of both supplier and buyer are of extreme importance for adopting this instrument.

IF3: Vendor managed inventory

Under vendor managed inventory, the supplier makes the inventory replenishment decisions for its buyer, by monitoring its inventory levels and making periodic resupply decisions regarding order quantities, shipping and timing. Figure 16 presents the underlying mechanism for vendor managed inventory.

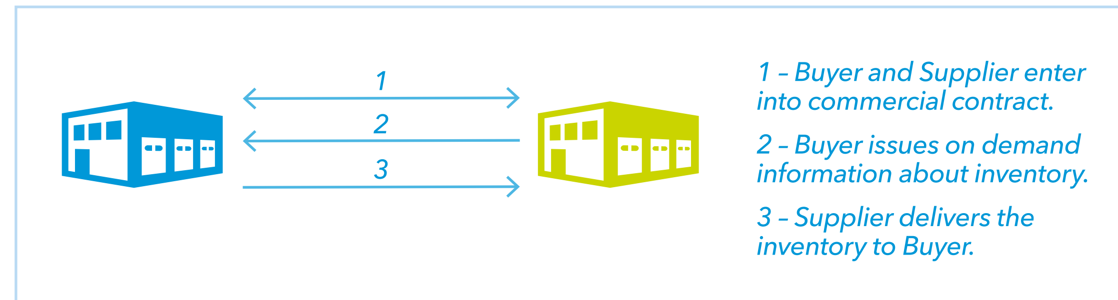


Figure 16 Vendor managed inventory – mechanism

As illustrated in Figure 16, the buyer and supplier enter into the commercial contract. Following this, the buyer issues demand information about the inventory. After receiving this information, the supplier delivers the inventory to the buyer as required.

Figure 17 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the vendor managed inventory instrument and associated financial benefits.

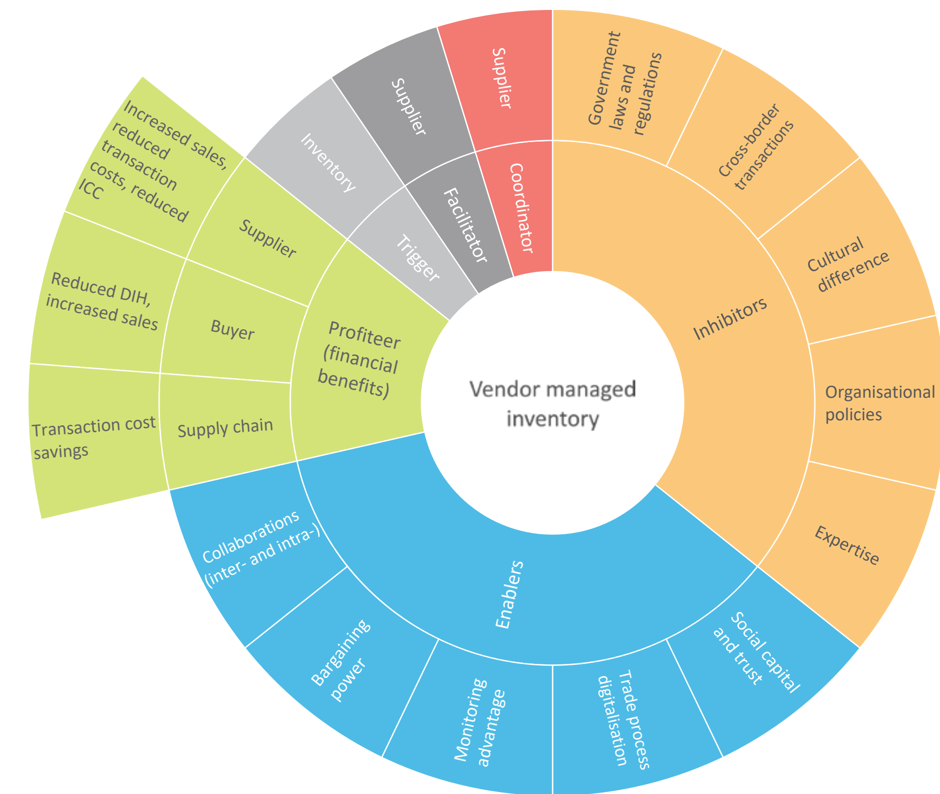


Figure 17 Vendor managed inventory – characteristics

As presented in Figure 17, the supplier coordinates and facilitates the vendor managed inventory instrument. The profiteers in this instrument are the supplier, buyer and supply chain. The trigger in this instrument is inventory. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can have increased sales, reduced transaction costs and ICC, buyer profits from reduced DIH and increased sales, and overall supply chain benefits from the improved savings in transaction costs.

Using this archetype

This archetype uses actual demand information related to the inventory, hence resulting in better scheduling of production. This instrument is useful especially in the cases where customers wish to eliminate stock outs, increase productivity and reduce inventory. Suppliers offering this instrument are motivated by a predictable flow of income and stable relationship with the buyer.

Key insights for adoption

- This instrument requires a high level of information synchronisation between buyer and supplier.
- A high visibility of material flow is also required for the adoption of this instrument.

IF4: Consignment stock

Under consignment stock, the supplier ships goods to its buyer's warehouses, maintaining property in them, until such goods are retrieved for selling. The supplier monitors the buyer's inventory levels, even on a daily basis. The basic difference between vendor managed inventory and this instrument is the location of inventory. Although in both cases inventory is managed by the supplier, the location of inventory changes from the supplier's to the buyer's warehouse. Figure 18 presents the underlying mechanism for consignment stock, respectively.

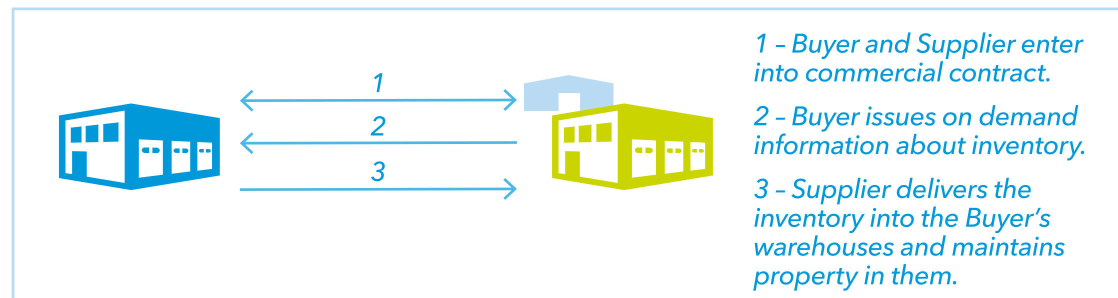


Figure 18 Consignment stock – mechanism

As illustrated in Figure 18, the buyer and supplier enter into the commercial contract. Following this, the buyer issues demand information about the inventory. After receiving this information the supplier delivers the inventory to the buyer's warehouse as required and manages property in it.

Figure 19 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the consignment stock instrument and associated financial benefits.

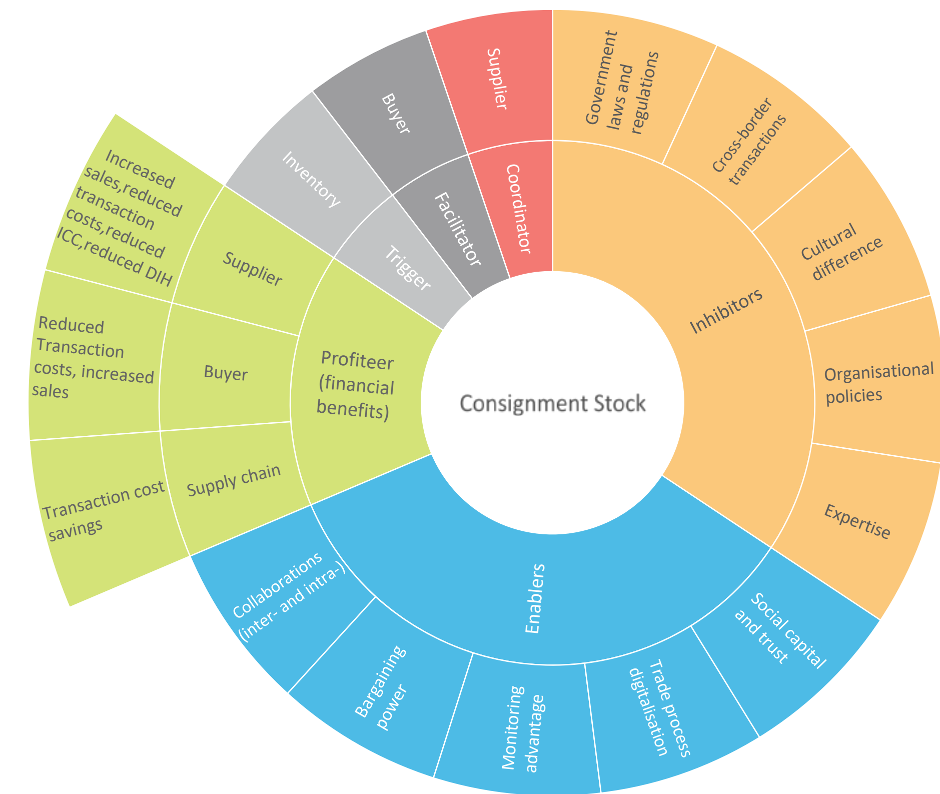


Figure 19 Consignment stock – characteristics

As presented in Figure 19, the supplier coordinates and the buyer facilitates the consignment stock instrument. The profiteers in this instrument are the supplier, buyer and supply chain. The trigger in this instrument is inventory. The adoption of this instrument is affected by the set of enablers and inhibitors. By using this instrument, the supplier can have increased sales, reduced transaction costs, DIH and ICC, the buyer profits from reduced transaction costs and increased sales, and the overall supply chain benefits from the improved savings in transaction costs.

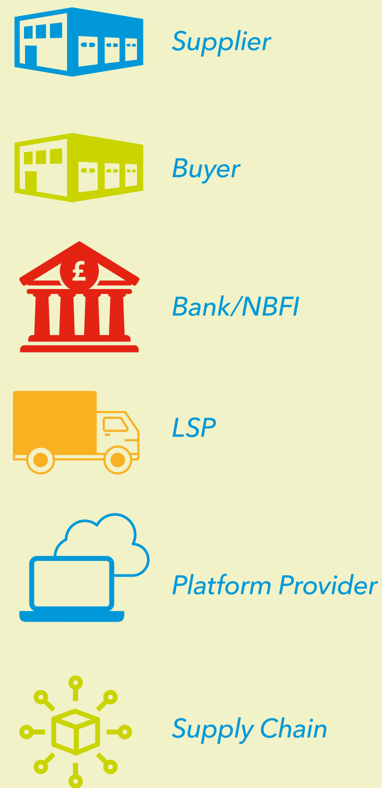
Using this archetype

The usage of this instrument is controlled by same variables as in the vendor managed inventory. This archetype also uses actual demand information related to the inventory, hence resulting in better scheduling of production. As with the vendor managed inventory, this instruments is useful especially in the cases where the customers wish to eliminate stock outs, increase productivity and reduce inventory. Suppliers offering this instrument are motivated by a predictable flow of income and stable relationship with the buyer.

Key insights for adoption

- This instrument requires a high level of information synchronisation between buyer and supplier.
- A high visibility of material flow is also required for the adoption of this instrument.

Archetype 3: Accounts Receivable/Payable Financing Archetype (APF/ARF)



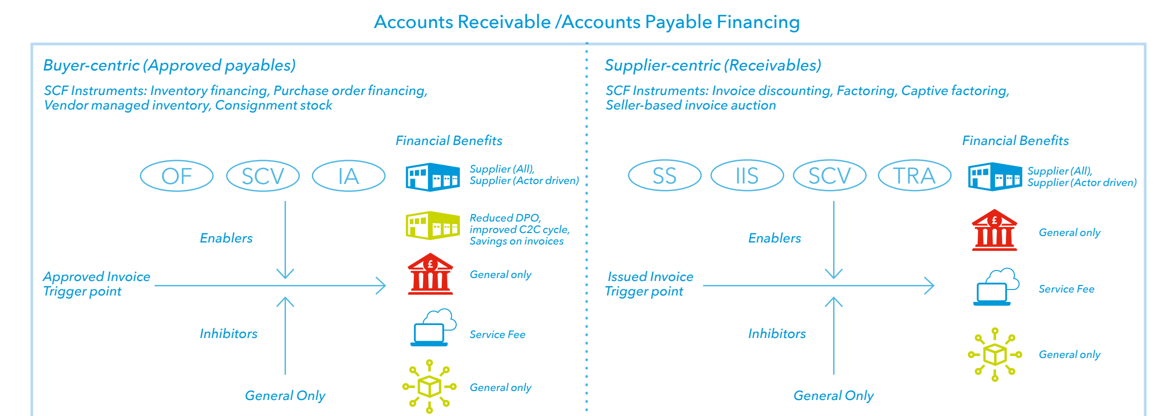
The collateral in the Accounts receivable/payable financing archetype is either approved payables or receivables. Figure 20 illustrates the instruments, trigger, enablers, inhibitors and financial benefits for the accounts receivable/payable financing archetype. The approved payable instruments are buyer-centric and include instruments such as:

- APF1: Reverse Factoring
  - APF1a: Reverse Factoring (without platform)
  - APF1b: Reverse Factoring (with platform)
- APF2: Dynamic discounting (without platform)
  - APF2a: Dynamic discounting (without platform)
  - APF2b: Dynamic discounting (without platform)

The receivables instruments are supplier-centric and include instruments such as:

- ARF1: Invoice discounting
- ARF2: Factoring
- ARF3: Captive factoring
- ARF4: Seller-based invoice auction

Figure 20 Reverse factoring (without platform) – characteristics



APF1a: Reverse factoring (without platform)

This instrument is coordinated by Banks/NBFIs (more usually banks). The buyer systematically informs a financial institution of payment obligations to selected suppliers, enabling the latter to borrow against the value of the relevant accounts receivable at a cheap rate. Figure 21 presents the underlying mechanism for reverse factoring (without platform).

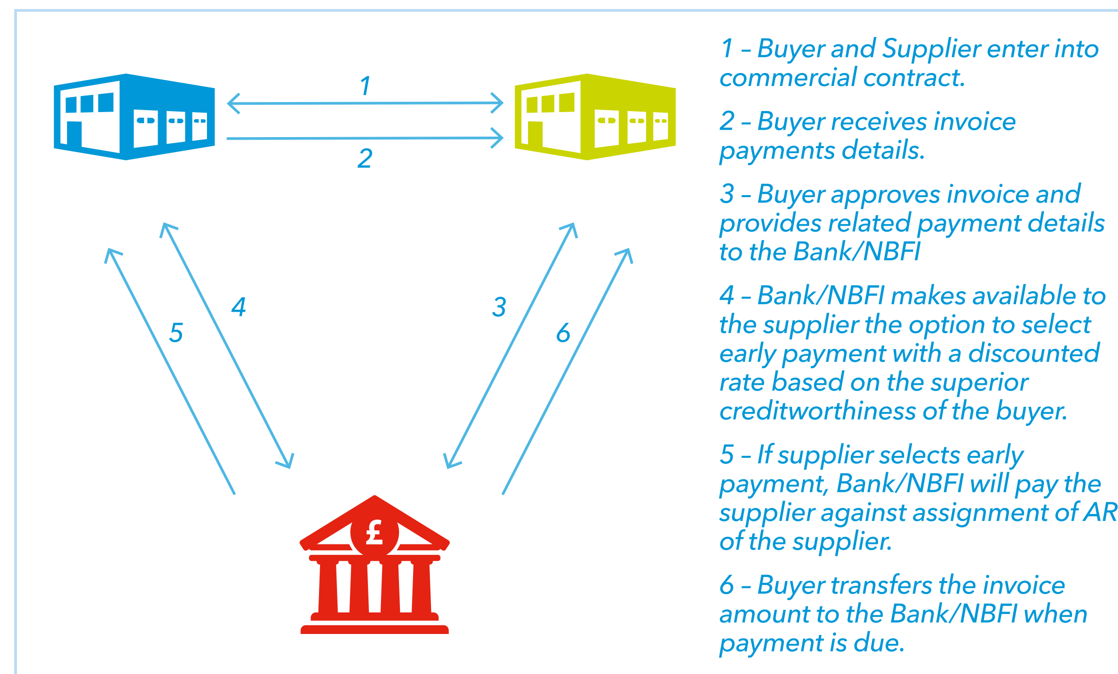


Figure 21 Reverse factoring (without platform) – mechanism

As illustrated in Figure 21, buyer and supplier enter into the commercial contract. Following this, the buyer receives the invoice payment details. The buyer approves the invoice and forwards the related payment details to the Bank/NBFI. Once the Bank/NBFI has received the approved invoice, it makes early payment options with a discounted rate based on the superior creditworthiness of the buyer available to the supplier. If the supplier opts for early payment, the Bank/NBFI pays the supplier. After the maturity period, the buyer transfers the invoice amount to the Bank/NBFI.

Figure 22 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the reverse factoring (without platform) instrument and associated financial benefits.

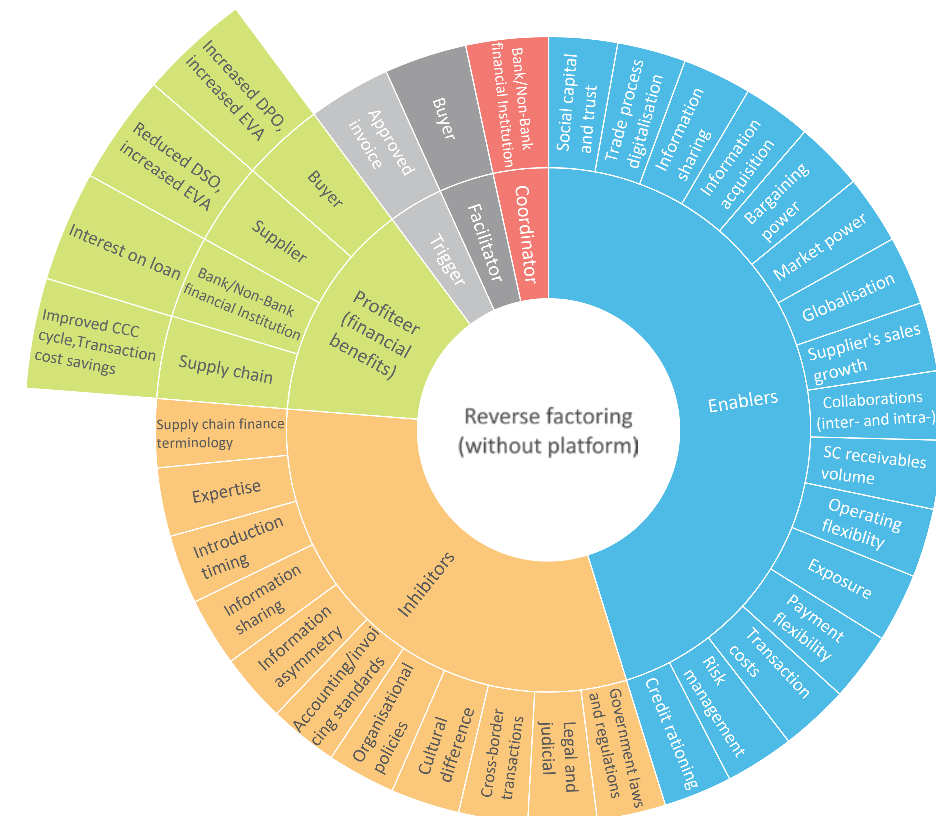


Figure 22 Reverse factoring (without platform) – characteristics

As presented in Figure 22, the Bank/NBFI coordinates and the buyer facilitates the reverse factoring (without platform) instrument. The profiteers in this instrument are the supplier, buyer, Bank/NBFI and supply chain. The trigger in this instrument is the approved invoice. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can reduce DSO and increase EVA, buyers can increase their DPO and EVA, the Bank/NBFI profits from interest on the loan and the overall supply chain benefits from the improved CCC and savings in transaction costs.

Using this archetype

This is the most commonly used SCF instrument, sometimes, unintentionally called just an SCF. The usage of this instrument is mainly intended to optimise the cash to cash cycle. This instrument is very efficient in situations where the extended payment terms are a major concern. This archetype creates a win-win situation both for buyers and suppliers. The suppliers have their invoice paid quickly (bank finance with buyer's credibility and credit rating) and buyers can defer their invoice payment and make their supply chain financially stable.

Key insights for adoption

- As the buyer acts as a focal firm in this instrument, its creditworthiness and relations with the Bank/NBFI play a crucial role in the adoption of this instrument.
- Extending this instrument beyond tier 1 suppliers is rather complex, requiring increased information exchange.
- Although the risk of double financing is considerably reduced in this instrument, it does still exist.

APF1b: Reverse factoring (with platform)

Conceptually this particular instrument is the same as the reverse factoring (without platform). The main difference is the involvement of a platform provider, acting as a facilitator in this case. This forces small changes in the mechanism and characteristics. Figure 23 presents the underlying mechanism for reverse factoring (with platform).

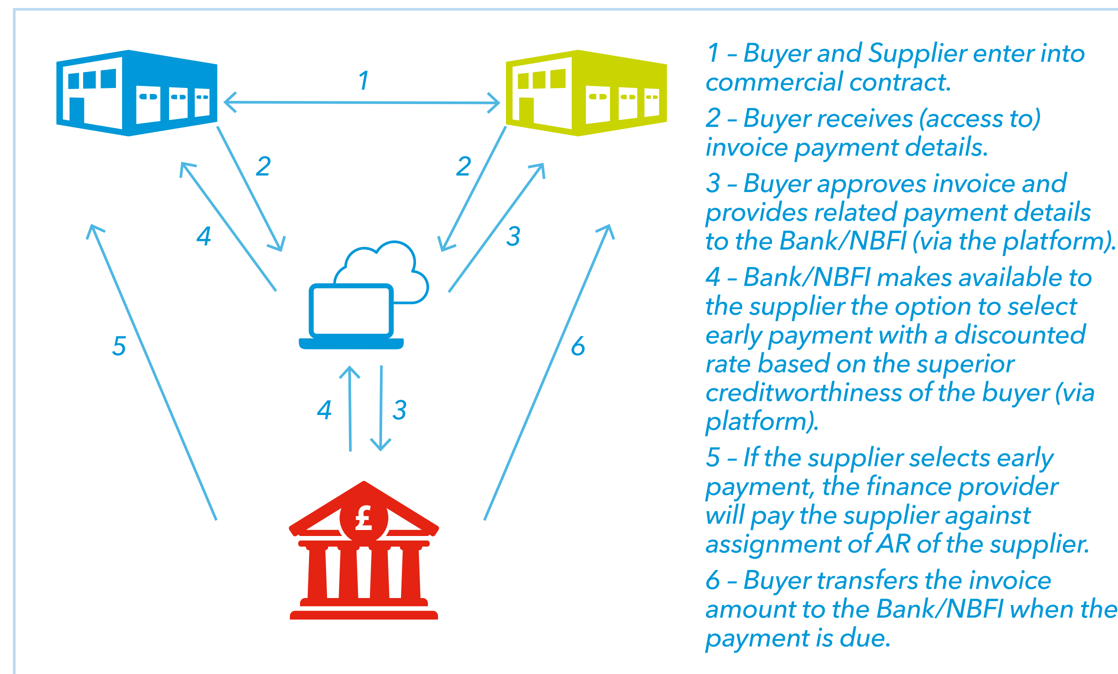


Figure 23 Reverse factoring (with platform) – mechanism

As illustrated in Figure 23, buyer and supplier enter into the commercial contract. Following this, the buyer receives access to the invoice payment details via a platform. The buyer approves the invoice and forwards the related payment details to the Bank/NBFI. Once the Bank/NBFI has received the approved invoice, it makes early payment options with a discounted rate based on the superior creditworthiness of the buyer available to the supplier via the platform. If the supplier opts for early payment, the Bank/NBFI pays the supplier. After the maturity period, the buyer transfers the invoice amount to the Bank/NBFI.

Figure 24 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the reverse factoring (with platform) instrument and associated financial benefits.

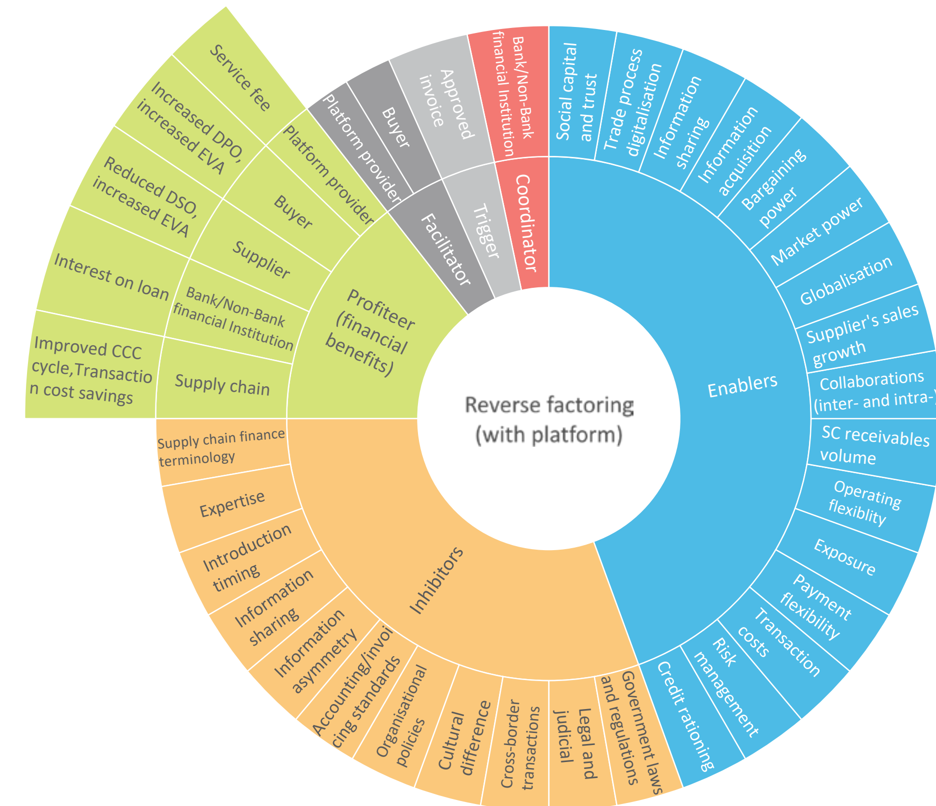


Figure 24 Reverse factoring (with platform) – characteristics

As presented in Figure 24, the Bank/NBFI coordinates and the buyer facilitates the reverse factoring (without platform) instrument. The profiteers in this instrument are the supplier, buyer, Bank/NBFI, platform provider and supply chain. The trigger in this instrument is the approved invoice. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can reduce DSO and increase EVA, buyers can increase their DPO and increase EVA, the Bank/NBFI profits from interest on the loan, the platform provider receives a service fee, and the overall supply chain benefits from the improved CCC and savings in transaction costs.

Using this archetype

In mechanism and usage, this instrument works in the same way as reverse factoring (without platform). With the inclusion of a platform provider, this instrument is easily usable. The usage of this instrument is also intended to optimise the cash to cash cycle. This instrument is very efficient in situations where extended payment terms are a major concern. This archetype creates a win-win situation both for buyers and suppliers. The suppliers have their invoice paid quickly (bank finance with buyer's credibility and credit rating) and buyers can defer their invoice payment and make their supply chain financially stable.

Key insights for adoption

- A higher level of digitalisation is required in this instrument.
- As the buyer acts as a focal firm in this instrument, its creditworthiness and relations with the Bank/NBFI play a crucial role in the adoption of this instrument.
- With the inclusion of a platform provider, extending this instrument beyond tier 1 suppliers becomes easier.

APF2a: Dynamic discounting (without platform)

Dynamic discounting (without platform) allows the dynamic settlement of invoices in a buyer-supplier relationship. For every day of payment in advance with respect to a predefined baseline, the supplier grants to the buyer a discount on the invoice's nominal value. Figure 25 presents the underlying mechanism for dynamic discounting (without platform).

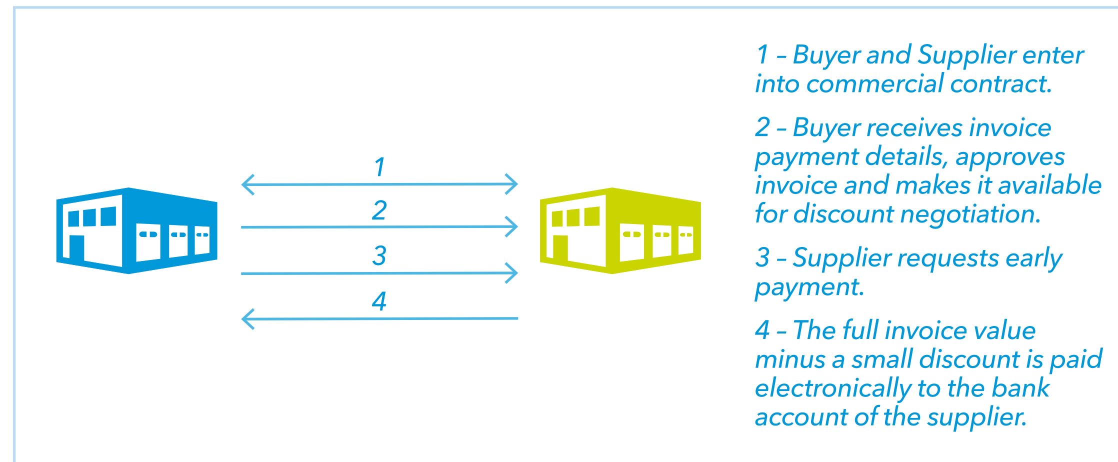


Figure 25 Dynamic discounting (without platform) – mechanism

As illustrated in Figure 25, the buyer and supplier enter into the commercial contract. Following this, the buyer receives invoice payment details, approves the invoice and makes it available for discount negotiations. Once the supplier has requested an early payment, the buyer processes the request. After processing the supplier's request, the buyer transfers the amount of the full invoice, minus a small discount, to the supplier.

Figure 26 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the dynamic discounting (without platform) instrument and associated financial benefits.

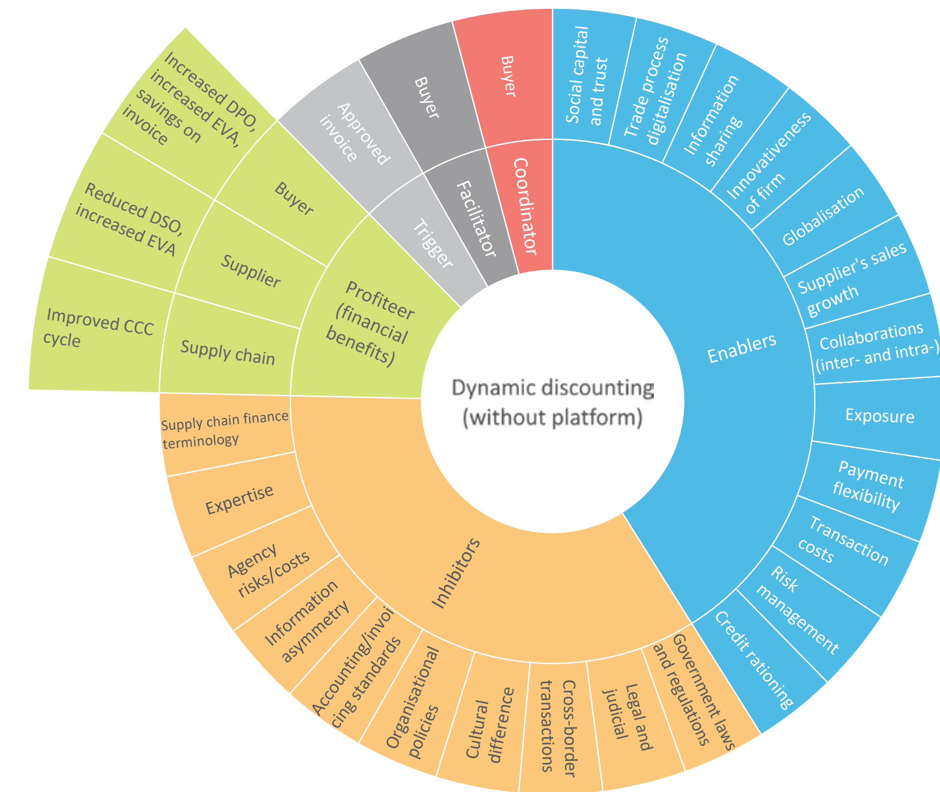


Figure 26 Dynamic discounting (without platform) – characteristics

As presented in Figure 26, the buyer coordinates and facilitates the dynamic discounting (without platform) instrument. The profiteers in this instrument are the supplier, buyer and supply chain. The trigger in this instrument is the approved invoice. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can reduce DSO and increase EVA, buyers can have savings on invoices and an increase in EVA, and the overall supply chain benefits from the improved CCC. Buyers might be able to increase their DPO if they involve a third-party finance provider.

Using this archetype

This instrument is the simplest in its form as it just requires negotiations between supplier and buyer to agree on the terms of discounting. The usage of this instrument is also intended to optimise the cash to cash cycle. This instrument is quite efficient for the suppliers' cash to cash cycle. This archetype creates a win-win situation both for buyers and suppliers. This instrument should be used by the suppliers wishing to have their invoice paid in quickly (minus discount) and buyers wishing to make their supply chain financially stable with optimised CCC and strong interrelations.

Key insights for adoption

- In an ideal case, the buyer needs to be financially capable to fund invoices for any amount.
- Payment flexibility from the buyer's side is very important in the dynamic discounting context.

APF2b: Dynamic discounting (with platform)

Conceptually this particular instrument is the same as the dynamic discounting (without platform). The main difference is the involvement of a platform provider, acting as a facilitator in this case. This forces small changes in the mechanism and characteristics. Figure 27 presents the underlying mechanism for dynamic discounting (with platform).

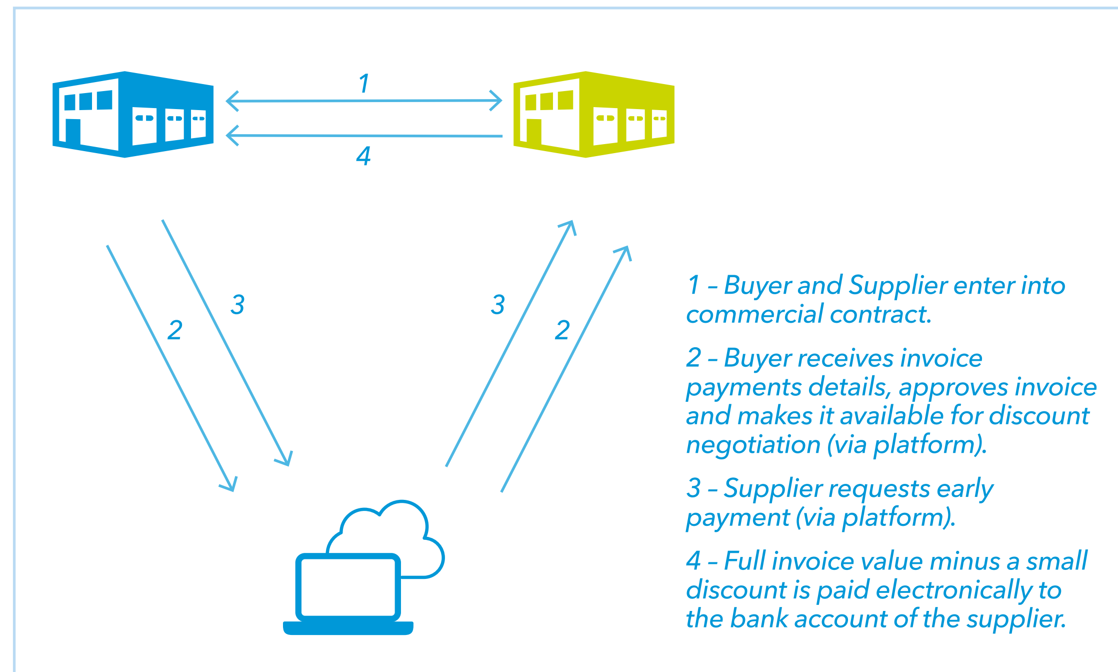


Figure 27 Dynamic discounting (with platform) – mechanism

As illustrated in Figure 27, the buyer and supplier enter into the commercial contract. Following this, the buyer receives invoice payment details via the platform, approves the invoice and makes it available for discount negotiations. Once the supplier requests (via the platform) an early payment, the buyer processes the request. After processing the supplier's request, the buyer transfers the amount of the full invoice minus a small discount to the supplier.

Figure 28 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the dynamic discounting (with platform) instrument and associated financial benefits.

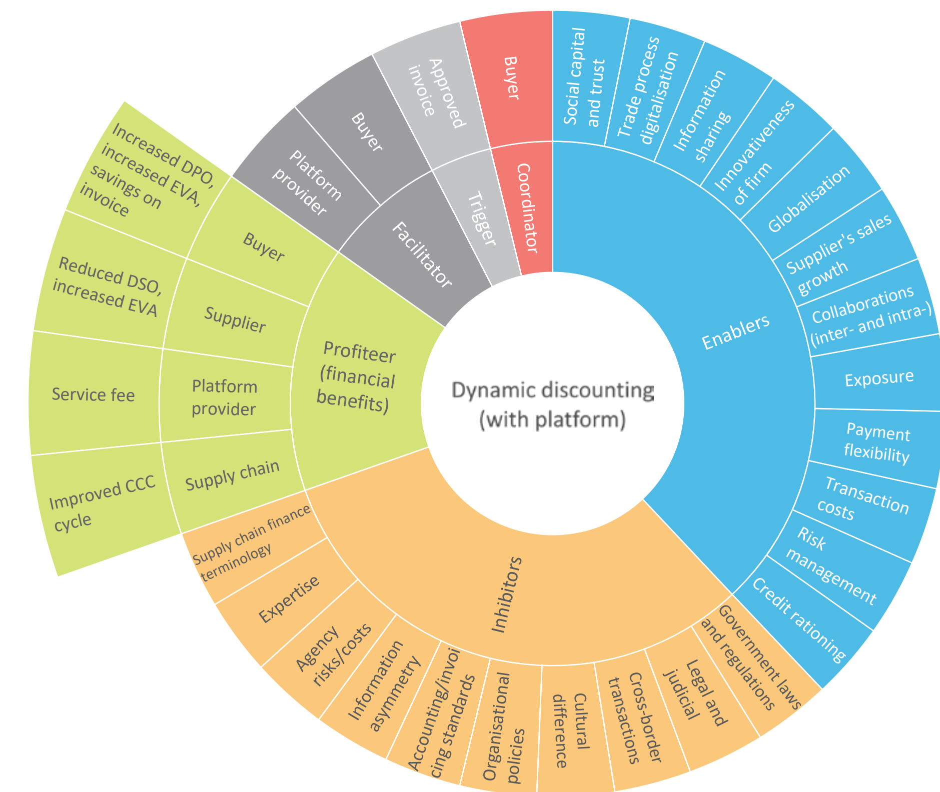


Figure 28 Dynamic discounting (with platform) – characteristics

As presented in Figure 28, the buyer coordinates and facilitates the dynamic discounting (with platform) instrument. The platform provider is more like a digitalisation facilitator with the main role of facilitating the exchange of information. The profiteers in this instrument are the supplier, buyer, platform provider and supply chain. The trigger in this instrument is the approved invoice. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can reduce DSO and increase the EVA, buyers can have savings on invoices and increase the EVA, platform providers profit from a service fee and the overall supply chain benefits from the improved CCC. Buyers might be able to increase their DPO if they involve a third-party finance provider.

Using this archetype

This instrument is the extended version of dynamic discounting (without platform) requiring negotiations between supplier and buyer to agree on the terms of discounting. The platform provider plays a crucial role in speeding up the processes involved. Usage of this instrument optimises the cash to cash cycle in the same way as its counterpart. It is quite efficient for the suppliers' cash to cash cycle, and creates a win-win situation both for buyers and suppliers. This instrument should be used by those suppliers wishing to have their invoice paid in quickly (minus discount) and buyers wishing to make their supply chain financially stable with optimised CCC and strong interrelations.

Key insights for adoption

- In an ideal case, the buyer needs to be financially capable of funding invoices of any amount.
- Payment flexibility from the buyer's side is very important in the dynamic discounting context.

ARF1: Invoice discounting

Invoice discounting is often used as a financing facility whereby a supplier offers receivables evidenced by an invoice for discounting by the Bank/NBFI. With invoice discounting, responsibility for the sales ledger operation remains with the company, and the service is normally undisclosed to customers. Payments the company receives are paid into a bank account administered by the invoice discounter, after which the company is credited with the balance, less charges. Figure 29 presents the underlying mechanism for invoice discounting.

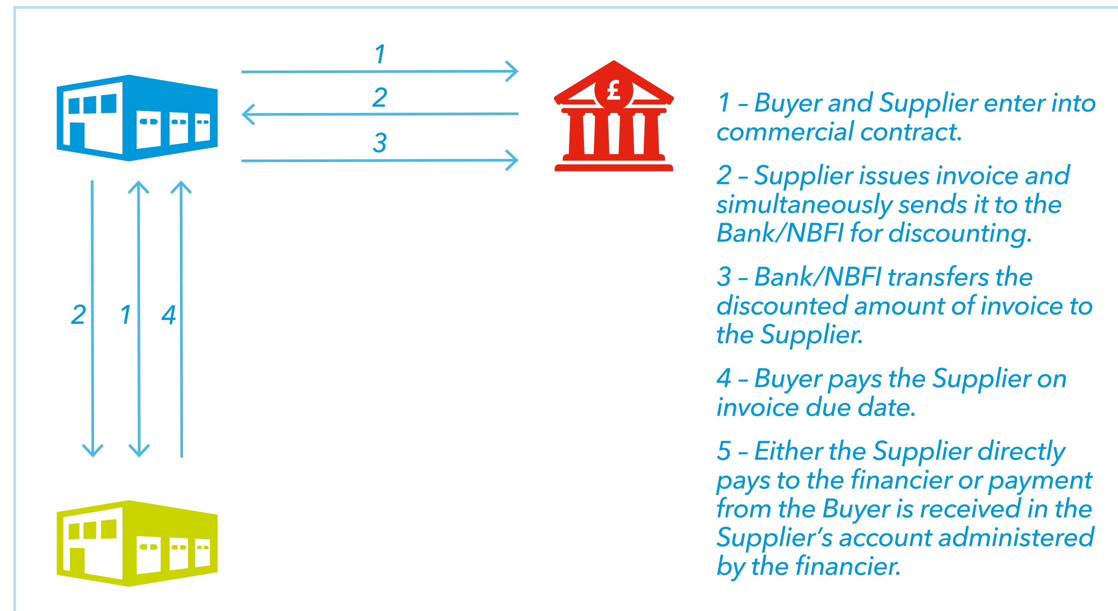


Figure 29 Invoice discounting – mechanism

As illustrated in Figure 29, the buyer and supplier enter into the commercial contract. Following this, the supplier issues an invoice and simultaneously sends it to the Bank/NBFI for discounting. Subsequently, the Bank/NBFI checks the credit rating of the supplier and on receiving a positive confirmation transfers the discounted amount of the invoice to the supplier. On the maturity date, the buyer pays the supplier. The Bank/NBFI is paid either directly from the supplier or payment from the buyer is received in the supplier's account that is administered by the Bank/NBFI.

Figure 30 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the invoice discounting instrument and associated financial benefits.

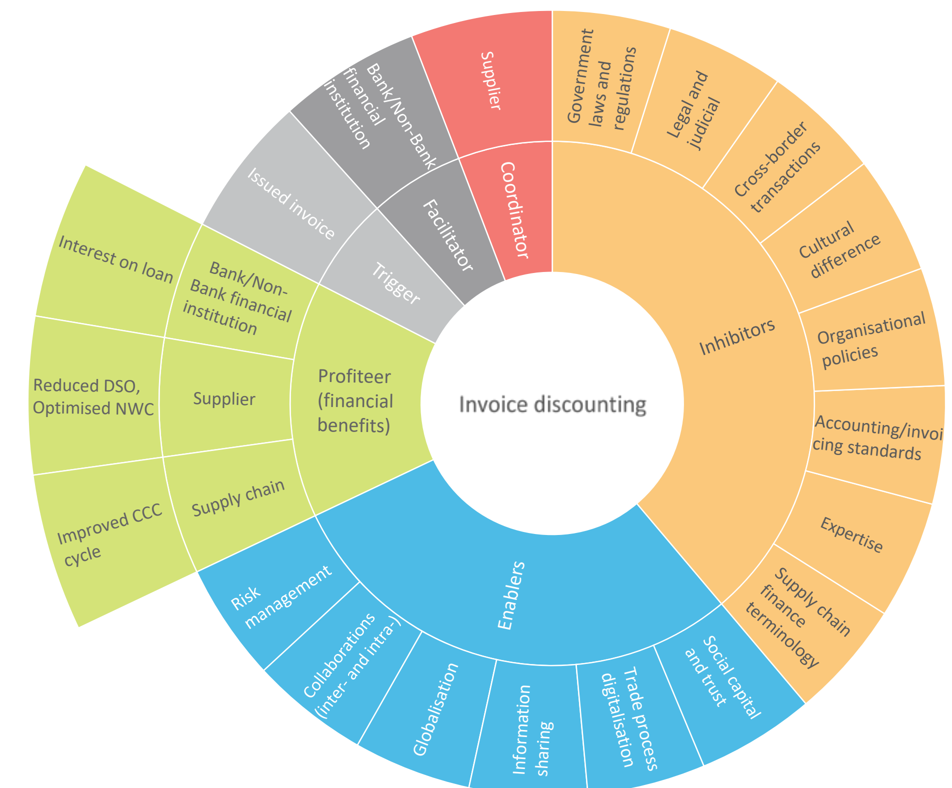


Figure 30 Invoice discounting – characteristics

As presented in Figure 30, the supplier coordinates the invoice discounting instrument and the Bank/NBFI facilitates it. The profiteers in this instrument are the supplier, Bank/NBFI and supply chain. The trigger in this instrument is the issued invoice. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can reduce DSO and optimise its new working capital, the Bank/NBFI profits from the interest on the loan and the overall supply chain benefits from the improved CCC.

Using this archetype

This instrument provides financing to the supplier with the possibility of receivables being removed from their balance sheet. Importantly, the financing transaction can remain undisclosed to the buyer, although, in certain cases, the buyer might be asked to validate the invoice. At a particular point in time, the supplier can discount multiple invoices to be paid by different buyers.

Key insights for adoption

- The Bank/NBFI acts on its own risk, independently of the seller.
- The buyer is in no way a participating party in this instrument.
- In certain cases, the Bank/NBFI may require confirmation regarding the approval of invoices within a specific time period.

ARF2: Factoring

Factoring is a form of receivables purchase, in which sellers of goods and services sell their receivables (represented by outstanding invoices) at a discount to a Bank/NBFI (commonly known as the 'factor'). The invoice is taken care of by the financier and buyers pay direct to the financier. Figure 31 presents the underlying mechanism for factoring.

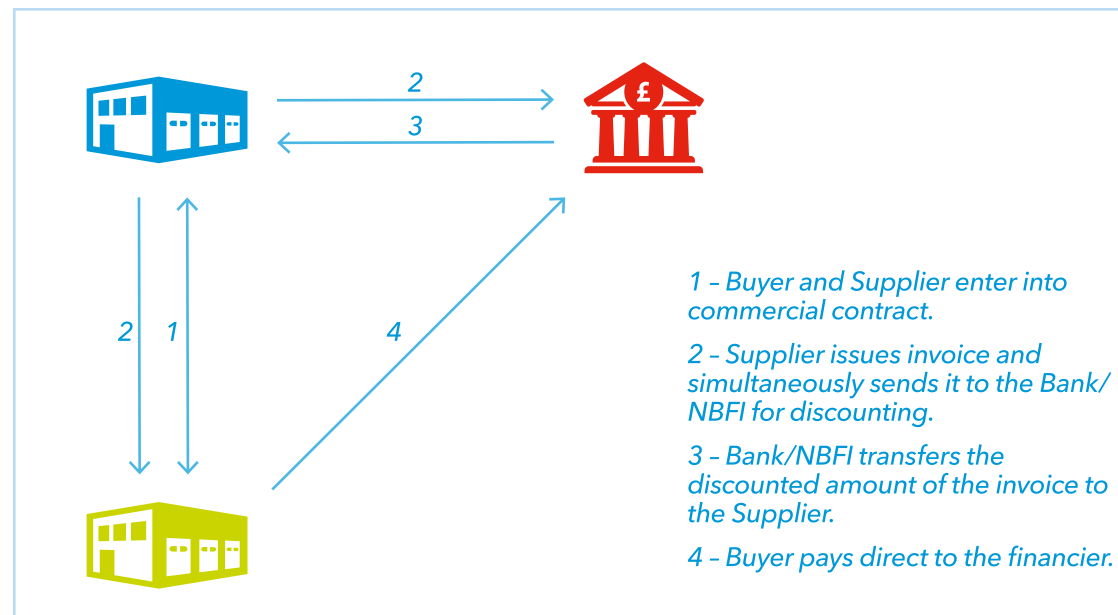


Figure 31 Factoring – mechanism

As illustrated in Figure 31, the buyer and supplier enter into the commercial contract. Following this, the supplier issues an invoice and simultaneously sends it to the Bank/NBFI for discounting. Subsequently, the Bank/NBFI checks the credit rating of the supplier and on receiving a positive confirmation transfers the discounted amount of the invoice to the supplier. On the maturity date, the buyer pays direct to the Bank/NBFI.

Figure 32 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the factoring instrument and associated financial benefits.

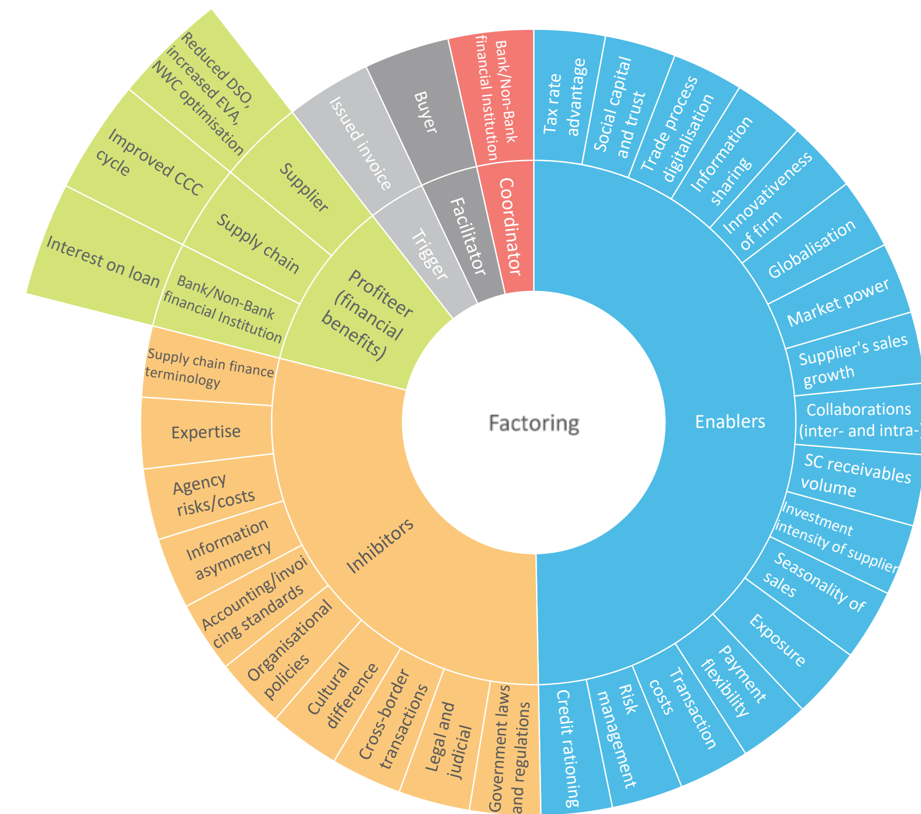


Figure 32 Factoring – characteristics

As presented in Figure 32, the Bank/NBFI coordinates the factoring instrument and the buyer facilitates it. The profiteers in this instrument are the supplier, Bank/NBFI and supply chain. The trigger in this instrument is the issued invoice. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can reduce DSO, increase EVA and optimise its new working capital, the Bank/NBFI profits from the interest on the loan and the overall supply chain benefits from the improved CCC.

Using this archetype

The major difference between this instrument and discounting (dynamic and invoice) is that the suppliers sell their invoices to the Bank/NBFI at the discounted rate. Hence, ownership of the invoices shifts to the Bank/NBFI. This implies that the buyer is liable to pay the invoice amount directly to the Bank/NBFI. At a particular point in time, the supplier can discount multiple invoices to be paid by different buyers.

Key insights for adoption

- Factoring requires expertise not only in financing but also in debtor management.
- Buyers need to be aware of the instrument adoption because instead of suppliers they become liable for the payment to the Bank/NBFI.
- In certain cases, the Bank/NBFI may require confirmation regarding the approval of invoices within a specific time period.

ARF3: Captive factoring

This is a typology of factoring in which the factor is owned by one large buyer and operates as its subsidiary, systematically purchasing all the invoices of the large buyer's suppliers, similarly to reverse factoring. The close relationship between the captive factor and the buyer allows for an extreme credit risk reduction. Figure 33 presents the underlying mechanism for invoice discounting.

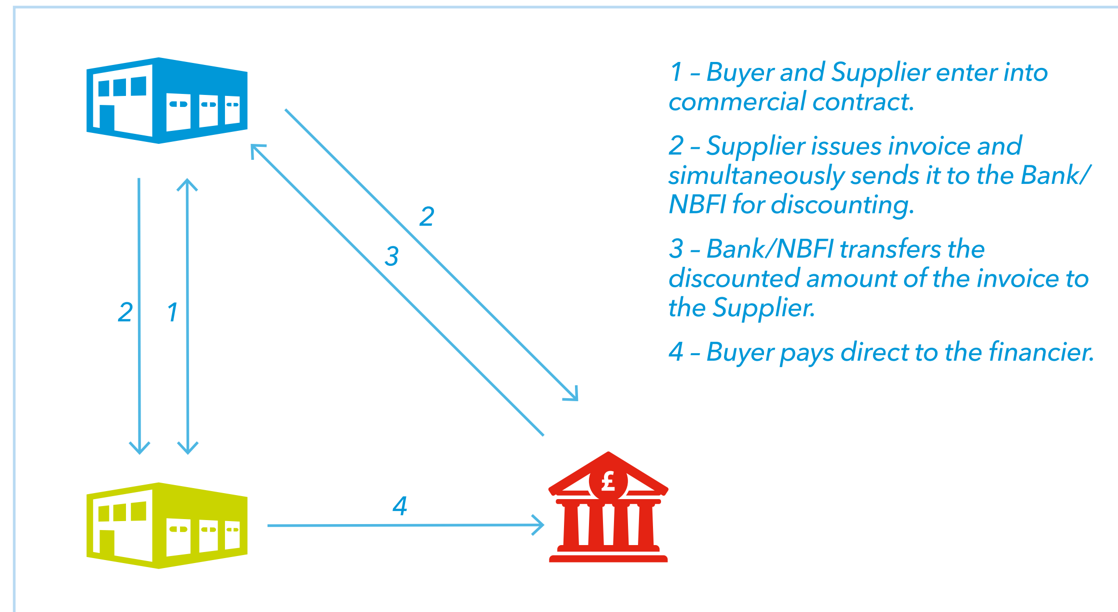


Figure 33 Captive factoring – mechanism

As illustrated in Figure 33, the buyer and supplier enter into the commercial contract. Following this, the supplier issues an invoice and simultaneously sends it to the NBFI (subsidiary of the buyer) for discounting. Subsequently, the NBFI checks the rating of the supplier and on receiving a positive confirmation transfers the discounted amount of the invoice to the supplier. On the maturity date, the buyer pays direct to the NBFI.

Figure 34 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the captive factoring instrument and associated financial benefits.

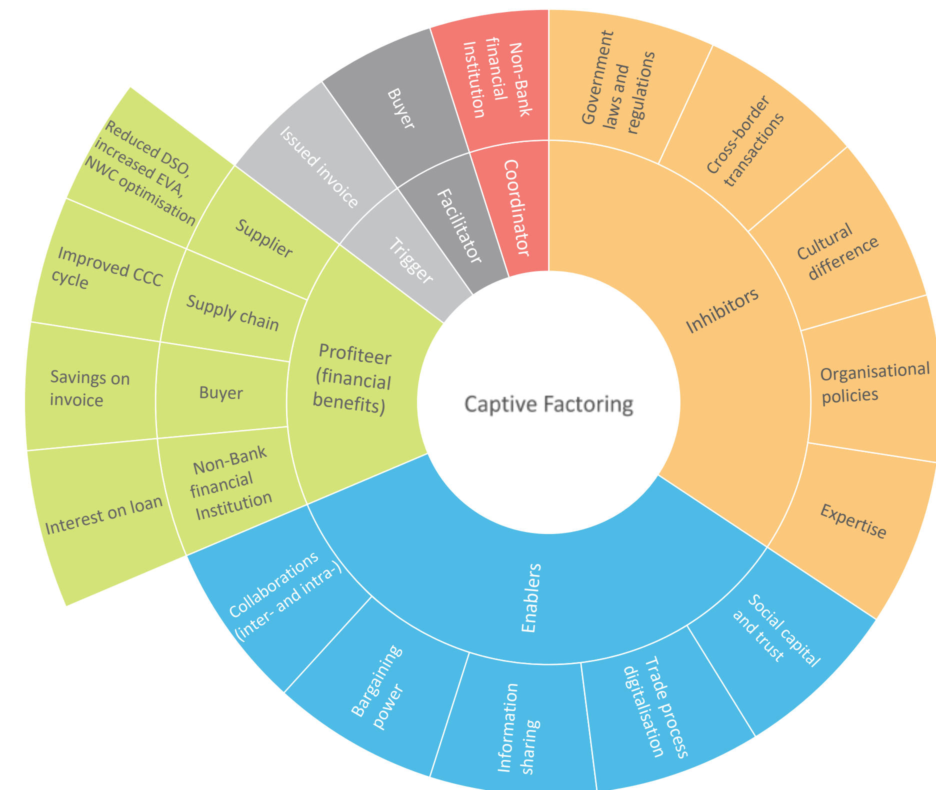


Figure 34 Captive factoring – characteristics

As presented in Figure 34, the NBFI coordinates the factoring instrument and the buyer facilitates it. The profiteers in this instrument are the supplier, buyer, NBFI and supply chain. The trigger in this instrument is the issued invoice. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can reduce DSO, increase EVA and optimise its new working capital, the buyer benefits from the savings on invoice, the NBFI profits from the interest on the loan and the overall supply chain benefits from the improved CCC.

Using this archetype

The major difference between this instrument and factoring is the financier. As the financier is the subsidiary of the buyer, it provides the buyer with greater flexibility. By using this instrument, the buyer can optimise its operations and strengthen the relationship with its suppliers. The ownership of the invoices shifts to the NBFI (buyer's subsidiary) and the buyer is liable to pay the invoice amount direct to the NBFI. At a particular point in time, the supplier can discount multiple invoices.

Key insights for adoption

- This instrument requires the buyer and its subsidiary to have expertise in financing or debtor management.
- Default or insolvency of a buyer is not of any relevance in this particular case.

ARF4: Seller-based invoice auctions

Seller-based invoice auctions instruments involve an online marketplace where (usually) small- and medium-sized enterprises (SMEs) can auction their invoices to a group of investors, which compete to purchase them. Figure 35 presents the underlying mechanism for seller-based invoice auctions.

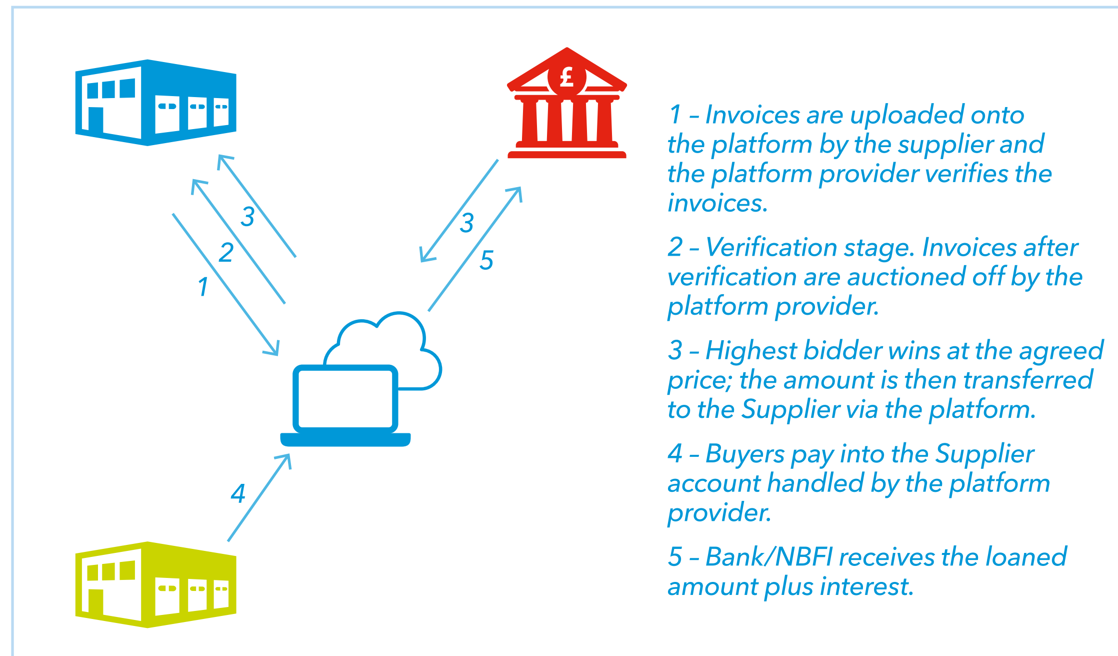


Figure 35 Seller-based invoice auctions – mechanism

As illustrated in Figure 35, invoices are uploaded onto the platform by the supplier. The platform provider verifies the invoices. Upon receiving positive verifications, invoices are auctioned off by the platform provider. The highest bidder wins at an agreed price and, consequently, the amount is transferred to the supplier via the platform provider. Following this, the buyer pays into the supplier's account handled by the platform provider and the Bank/NBFI receives the loaned amount plus interest.

Figure 36 presents the SCF actors (profiteer, facilitator and coordinator), trigger, enablers and inhibitors for the adoption of the seller-based invoice auctions instrument and associated financial benefits.

Figure 36 Seller-based invoice auctions – characteristics

As presented in Figure 36, the platform provider coordinates and facilitates the seller-based invoice auctions instrument. The profiteers in this instrument are the supplier, Bank/NBFI, platform provider and supply chain. The trigger in this instrument is the issued invoice. The adoption of this instrument is affected by the presented set of enablers and inhibitors. By using this instrument, the supplier can reduce DSO, increase EVA and optimise its new working capital, the Bank/NBFI profits from the interest on the loan, the platform provider benefits from the service fee and the overall supply chain benefits from the improved CCC.

Using this archetype

This instrument is a supplier-friendly instrument as the supplier can typically receive 70-80% of the invoiced amount upfront. The pricing in the auctions is transparent, which allows transparent transactions. While using this instrument, all the participating parties need to be careful about possible fraud. Furthermore, the insolvency risk of the buyer needs to be taken into account before auctioning any invoice.

Key insights for adoption

- The creditworthiness, both of supplier and buyer, is taken into account.
- Competitiveness in the auction plays a crucial role in determining the upfront payment and service fee.

Conclusion

The report presents a comprehensive taxonomy of SCF instruments and their characteristics. The developed SCF archetypes (Fixed-asset financing (fixed asset-centric), inventory financing (inventory-centric), accounts receivable/accounts payable financing (buyer-centric and supplier-centric)) provide a clear understanding of SCF, involved actors, required collateral and mechanisms. Based on the SCF archetypes, businesses can understand the relative significance of each SCF instrument available under SCF instruments' portfolio and adopt them based on their requirements. Businesses can also evaluate the financial benefits, enablers and inhibitors behind the successful adoption of each SCF instrument.

Glossary

Enablers and inhibitors

Credit rationing	Borrowing constraints from traditional banks and non-bank financial institutions
Tax rate advantage	Suppliers/buyers offer financial support to get the advantage of low tax rates e.g. sellers with high effective tax rates will supply more trade credit and are therefore more likely to have a larger investment in accounts receivable
Transaction pooling	Trade credit and financial instruments pool the transaction in order to reduce costs by providing a contractual alternative to immediate money use.
Payment flexibility	Flexibility in payments involve the flexible payment terms and timing.
Liquidation advantage/policy	Liquidation advantage in extending credit to high risk firms (seize delivered goods from customers in default and redeploy them efficiently). Lenient liquidation policy when client firms encounter financial distress.
Monitoring advantage	Monitoring advantage includes monitoring of debtors and inventory.
SCF Terminology	Standard SCF terminology that can be used by the organisation. Hence, providing more clarity about the SCF instruments and drivers.
Accounting/invoicing standards	Standards related to the accounting and invoicing.
Exposure (global and local)	SCF exposure in an organisation (internally and externally).
Expertise	SCF expertise in an organisation.
Agency risks/ costs	Risk and costs associated with the company silos.
Organisational policies	Organisational policies also sometimes act as deterrents for SCF and hinder the growth of SCF programs. To be competitive, there is a constant pressure to reduce the cost of finished goods. To achieve cost savings, often supplier selection is based on cost parameters. However, the selection of suppliers in global SCs is becoming an increasingly strategic decision
Intra and inter-firm collaborations	Collaborations within and outside the company for new service/product development and sustainability.
Globalisation	Fostering development of financial outsourcing and innovative strategies to have tight integration between physical operations, exchange of data and information and injections of liquidity.
Industrial Clustering	Closer proximity between the companies to lower capital barriers.
Social capital and trust	Social capital and trust between partners in SC effecting the credit availability and enforcement of financial contracts.
Introduction timing	Introduction of SCF solutions in an organisation.
Operating flexibility	Nullifying financial inefficiencies arising from the operations e.g. flexibility in replenishing or liquidating inventory, exchanging information
Seasonality of sales	Changes in the sales requiring additional capital at certain point of time.
Supplier's sales growth	Sales growth requiring additional financial and monitoring instruments.
Investment intensity of supplier	Investments by the Suppliers.
SC receivables volume	Receivables volume in the SC that can lead to the usage of SCF instruments.
Innovativeness of firms	Introduction of new ideas/solutions by a company.
Market Power	Ability of a company to raise and maintain its market position.
Bargaining Power	Bargaining power strongly depends on the level of competition in the market and the specificity of the goods. The higher the bargaining power of the buyer, the more buyers are focussed on the reduction of purchasing prices and less on strengthening of the supplier relationship.
Product market position	Clear, unique and advantageous position of the offered products/ value-added services
Product quality	Increase in the quality of the product due to incorporation of financial instruments.
Price discrimination	Trade credit can be used to price discriminate between different customers. Credit terms may not always be enforced and suppliers may also vary two-part-terms, offering higher discounts to selected customers or allowing them to take an unearned discount.
Trade process digitalisation	Level of digitalisation to remove the manual processes
Information symmetry	Availability of the same type of information in the Supply Chain.
Information acquisition	Capturing relevant information e.g. information related to business processes, information flow, material flow and cash slow
Information-sharing	Sharing information in the supply chain for collective usage
Cultural difference	Cultural differences might affect the buyer–supplier relationship.
Multiple currencies, different languages and multiple legal jurisdictions	Cross-border transactions are often slow and inefficient and lead to challenges for the global SCs
Legal and Judicial (commercial, formal contracts)	The legal and judicial environment may also play a critical role in determining the success of financial instruments like factoring e.g. A key legal issue is whether a financial system's commercial law recognizes factoring as a sale and purchase. It also creates loop holes for the reorganisation of commercial laws.
Government laws and regulations	Laws and regulations imposed by the government on financial markets.
Bank regulatory environment	Regulations directly affecting the banks e.g. BASEL III.

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