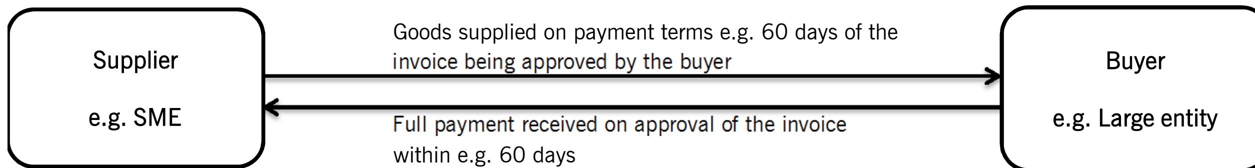
Supply chain finance

Initiated by the buyer, in its simplest forms SCF is where a supplier sells its invoices to a lender at a discount and requires the approval of the buyer. The lender uses the creditworthiness of the buyer, the larger entity. Which should mean the supplier can access finance at a lower cost than if it were to obtain the finance in its own right. The supplier will therefore receive its money earlier and thus improve working capital.

The aim is to improve access to working capital for SMEs, which traditionally is financed through more costly methods such as overdrafts, invoice discounting, credit card debt factoring or similar products. It also helps address the issue of larger entities paying smaller suppliers late or extending credit terms to the advantage of the larger entity.

Traditional supply chain



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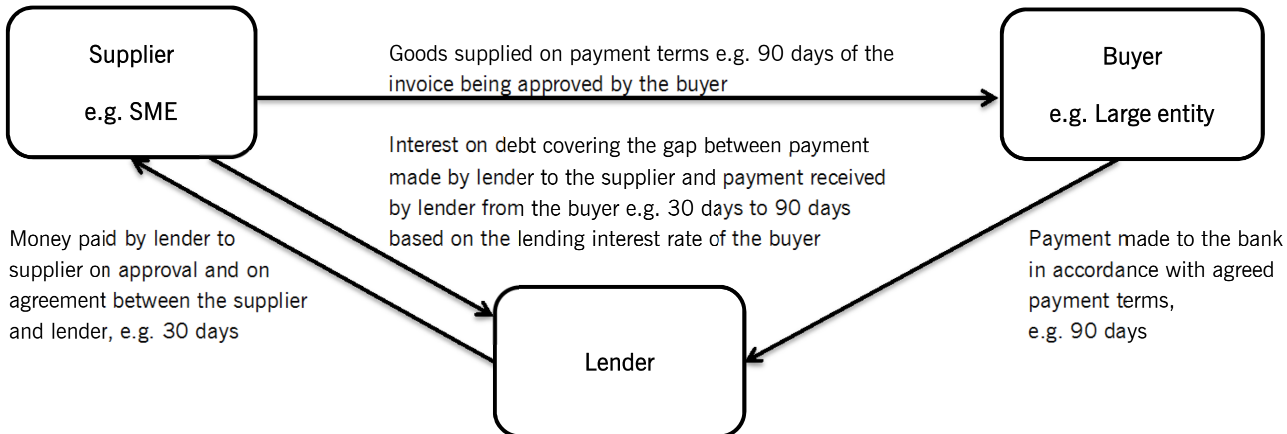

Advantages for supplier

- *Cheaper funding based on the credit rating of a larger buyer*
- *Converts accounts receivable into cash and improves liquidity position*
- *Receiving 100% of the invoice rather than 70-90% using other methods*
- *Overall cost of finance can be reduced*

Advantages for buyer

- *Allows flexibility in extending the terms for accounts payable*
- *Provides an additional source of working capital funding - which is not treated as debt on their balance sheet*
- *Can provide a cashflow advantage as payment is not made till later than the normal payment terms*

Please note that SCF is not suitable for all businesses and it is important that businesses evaluate its suitability and address the issue with a trusted business advisor.

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