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# SUPPLY CHAIN FINANCE & CASH CONVERSION CYCLE SOLUTIONS

ANALYST REPORT SERIES



## WHAT

Discussing how supply chain finance (SCF) and cash conversion cycle (CCC) automation solutions can function as important tools in working capital initiatives.



## CRAIG JEFFERY

Founder & Managing Partner  
Strategic Treasurer



This presentation is provided by Strategic Treasurer.

# ABOUT THE SPEAKER

GET TO KNOW TODAY'S SUBJECT MATTER EXPERT



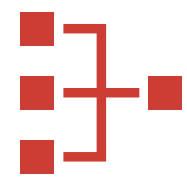
## CRAIG JEFFERY

Craig Jeffery formed Strategic Treasurer in 2004 to provide corporate, educational and government entities direct access to comprehensive and current assistance with their treasury and financial process needs.

His 30+ years of financial and treasury experience as a practitioner and as a consultant have uniquely qualified him to help organizations craft realistic goals and achieve significant benefits quickly.

# TOPICS OF DISCUSSION

## KEY AREAS OF FOCUS & ANALYSIS



### DEFINITIONS AND GOALS

WORKING CAPITAL, CCC AND SCF



### CCC SOLUTIONS

EFFICIENCY THROUGHOUT THE PROCESS



### SCF SOLUTIONS

VARIED DEPENDING ON SITUATION AND NEED



### CANDIDATES

FOR SCF



### SELECTION AND IMPLEMENTATION

GUIDANCE ON CHOOSING SCF SOLUTIONS



### LEADING PRACTICES

WORKING CAPITAL INITIATIVES

# WORKING CAPITAL

## DEFINED DIFFERENTLY BY DEPARTMENTS



**Distinct methods of calculation**

**Traditional working capital  
(used by accounting)**

Current assets  
-  
Current liabilities

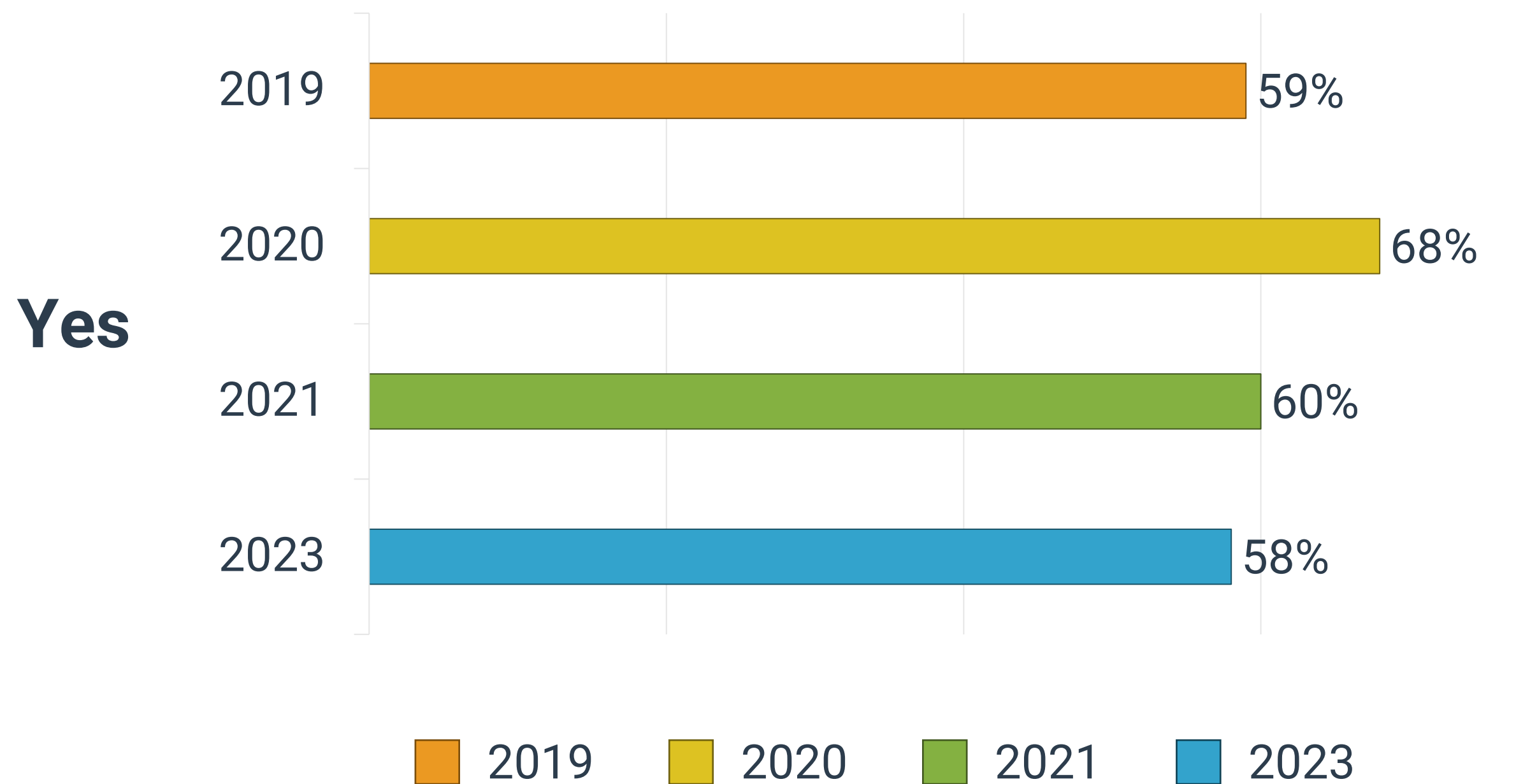
**Net adjusted working capital  
(used by treasury)**

Accounts receivable  
+  
Inventory  
-  
Accounts payable

# OPTIMIZING WORKING CAPITAL

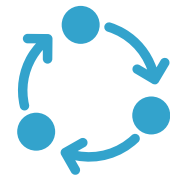
## LEVEL OF IMPORTANCE

» Does your organization place heavy emphasis on working capital optimization and associated operations (inventory, receivables, payables)?



# CASH CONVERSION CYCLE

## DEFINITION AND AIM



**Cash conversion cycle:** The amount of time a company takes to convert resources to cashflows

### Calculating the CCC

Days sales outstanding (DSO)  
+  
Days inventory outstanding (DIO)  
-  
Days payables outstanding (DPO)

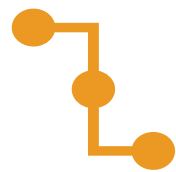
**Primary concern:** Determine whether processes involved in working capital are efficient



Don't just seek to minimize time. Rather, seek to optimize processes.

# SUPPLY CHAIN FINANCE

## DEFINITION



### **Supply chain finance:**

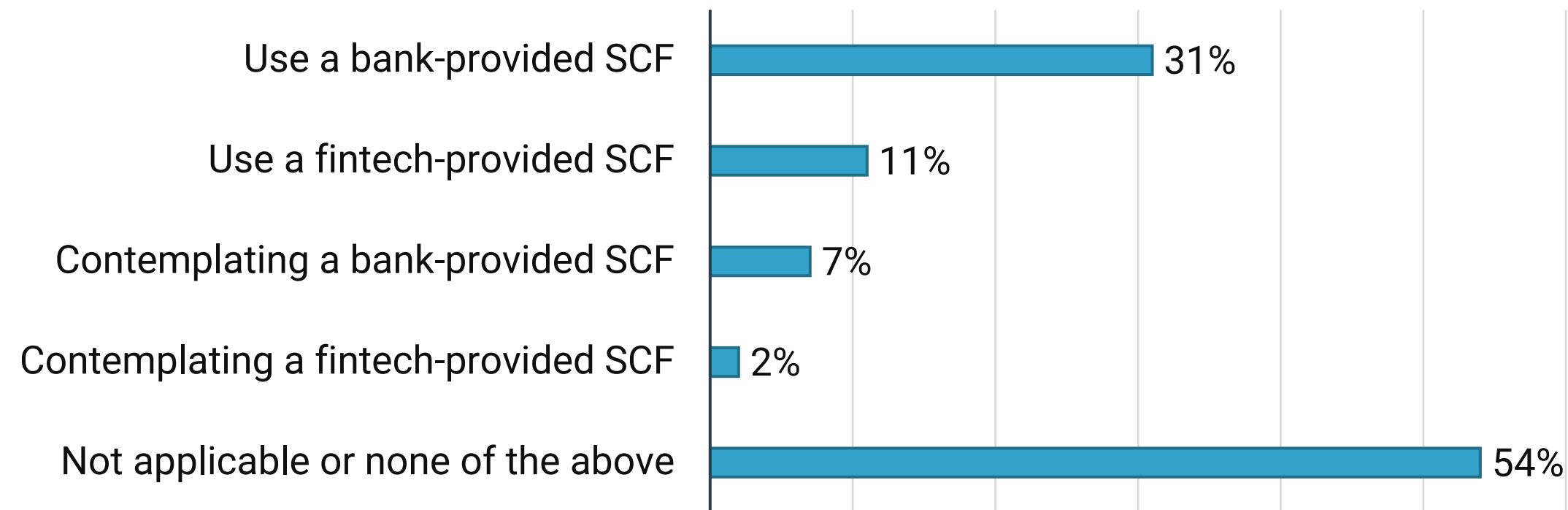
“The use of financial instruments, practices, and technologies to optimize the management of the working capital and liquidity tied up in supply chain processes for collaborating business partners.”

- Euro Banking Association’s definition

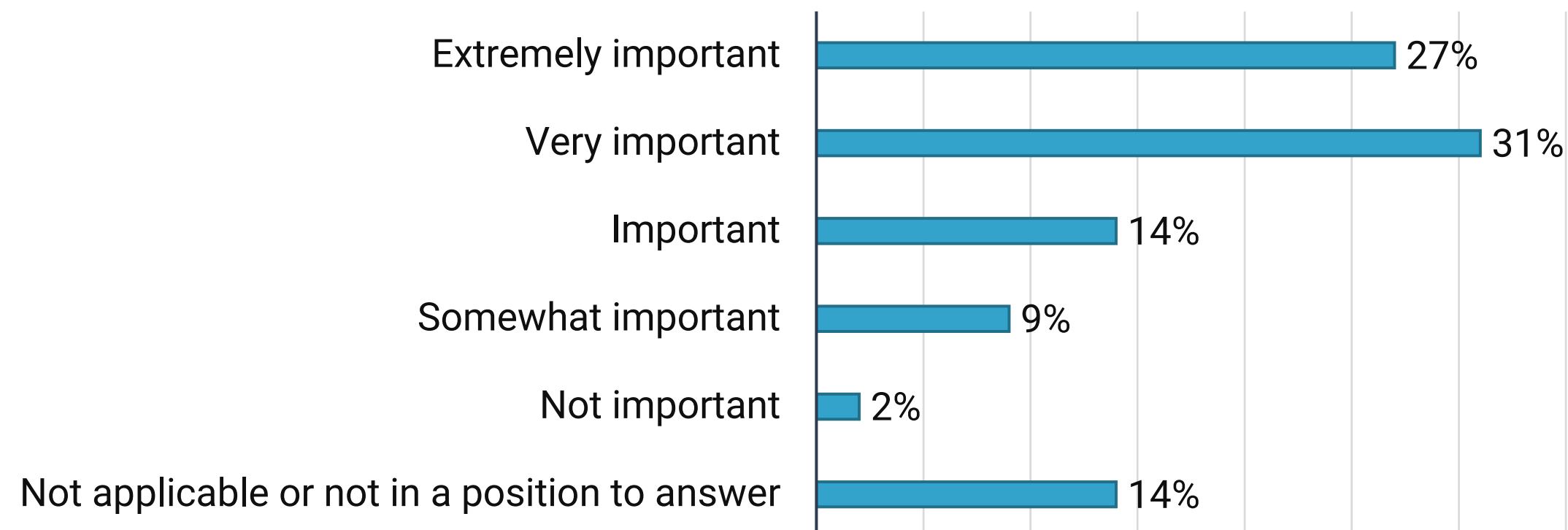


# POLL QUESTION

## Poll 1 - Please describe your SCF situation. (all that apply)



## Poll 2 - How important is working or leveraging your cash conversion cycle (CCC) for liquidity and working capital.



# AREAS INVOLVED

## IN THE CASH CONVERSION CYCLE

Each area below has its own priorities and concerns, and each area's operations impact working capital.



### Procure-to-pay

- Procurement
- Accounts payable (AP)



### Inventory

- From just-in-time to just-in-case



### Order-to-collect

- Credit
- Sales
- Fulfillment
- Invoicing or billing
- Collection and credit application

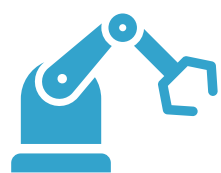
# PROCURE-TO-PAY

## AUTOMATION TOOLS



### The most common tools:

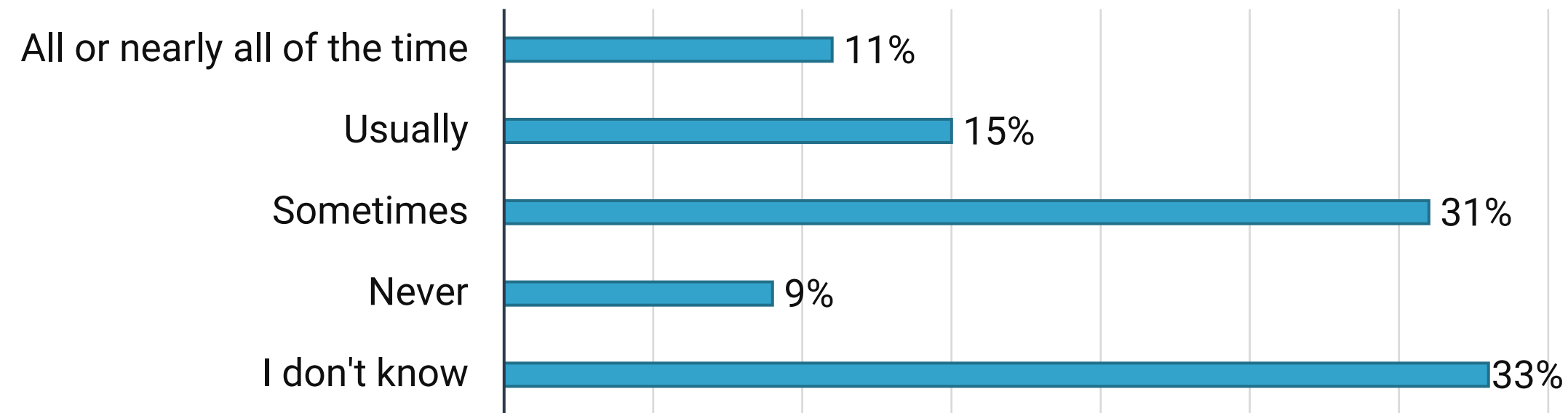
- Procurement platforms
- Vendor management
- Compliance management
- Receiving goods and services
- Receiving invoices
- Payment tools (AP)



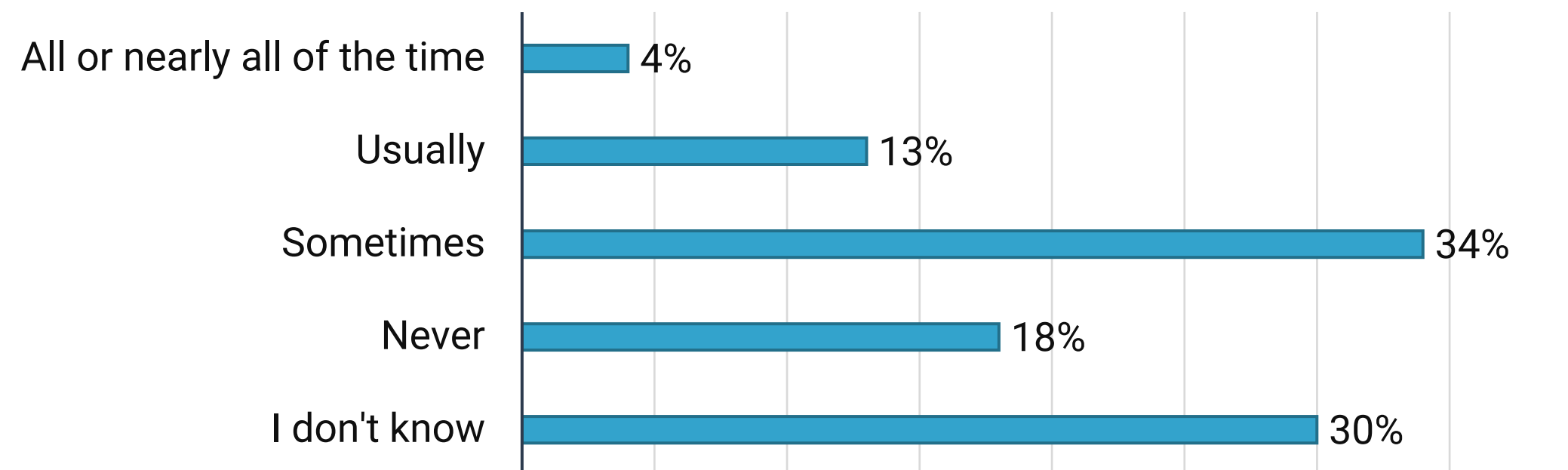
Automation opens up more options for payments via increased efficiency, offering more control and flexibility in managing working capital.

# POLL QUESTION

## Poll 3 - My organization TAKES discounts:



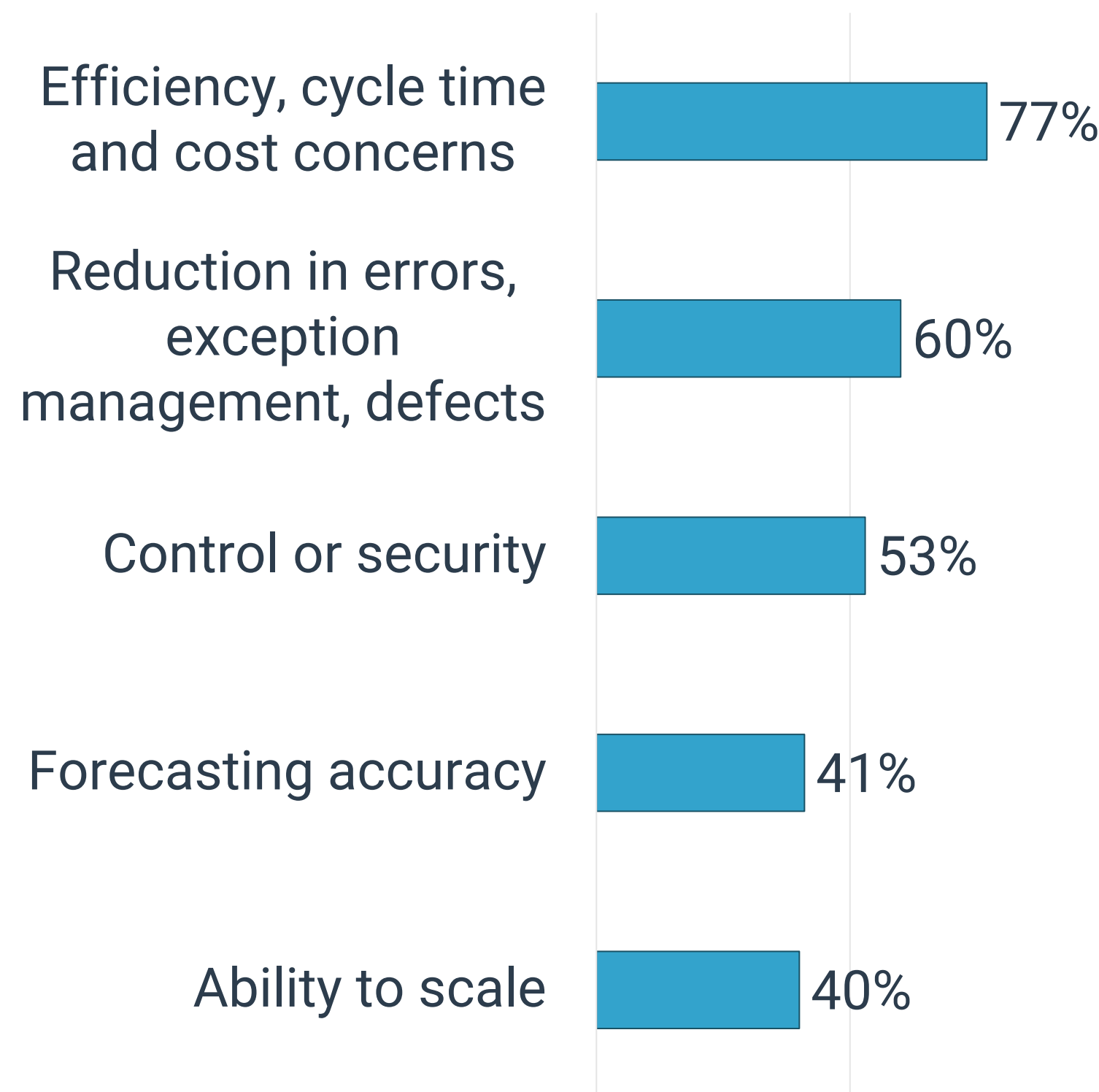
## Poll 4 - My organization OFFERS discounts:



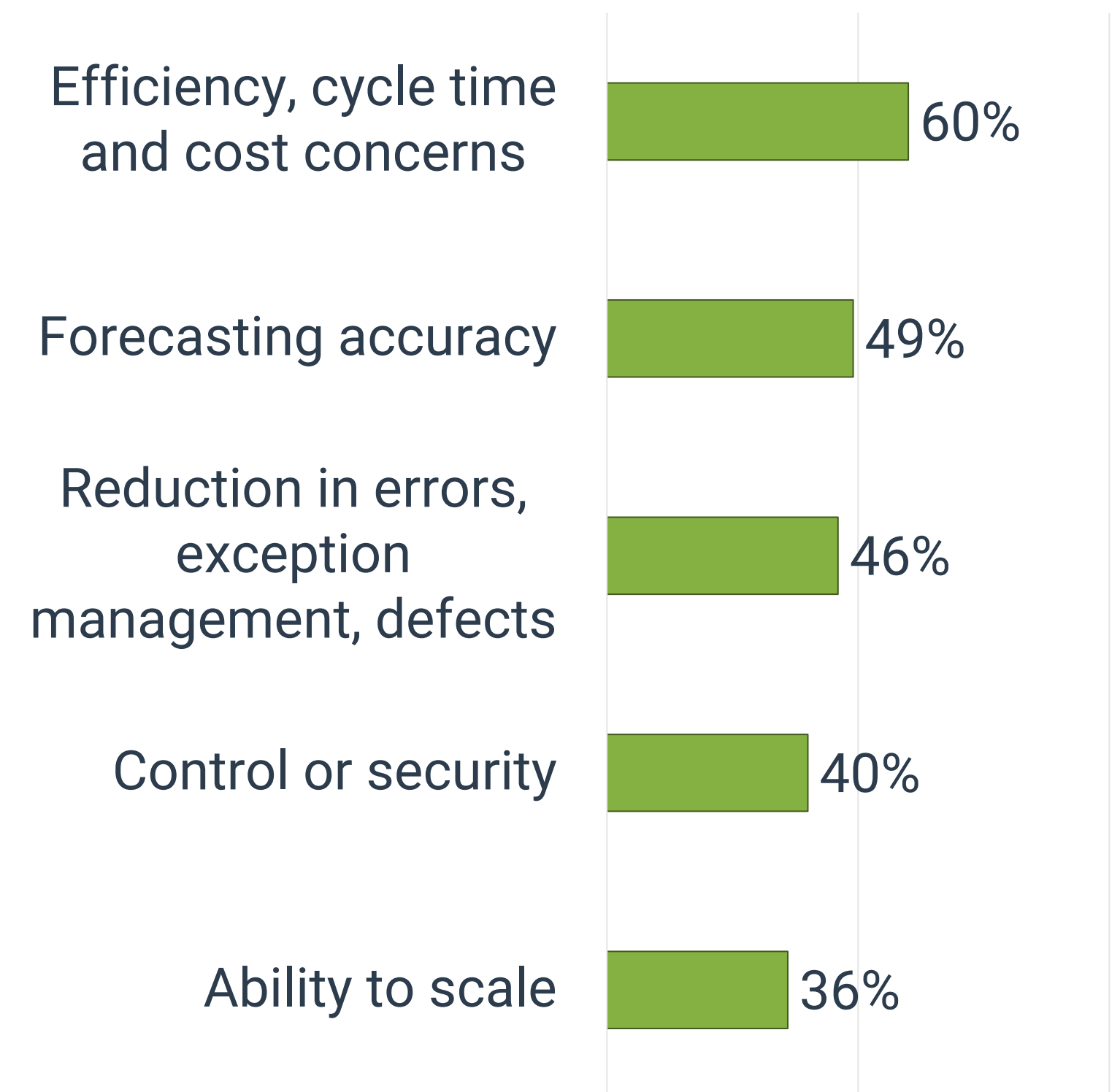
# DRIVERS TO AUTOMATION

## AP AND AR

» *What would drive you or drove you to more AP automation?*



» *What would drive you or drove you to more AR automation?*



# ORDER-TO-COLLECT

## AUTOMATION TOOLS



### Areas that may be automated:

- Credit rating and scoring
- Shipping, fulfillment and/or invoicing
- Cash application
- Collection



Automation allows for better control over working capital through increased speed in converting receivables to cash, improved customer relationships and reduced costs.

# INNOVATIONS

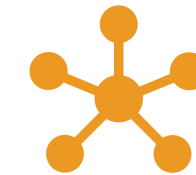
## IMPACTING CCC AUTOMATION SOLUTIONS



### AI/ML

Streamlining tasks in these areas:

- Forecasting
- Collection
- Cash application
- Payment security and fraud detection



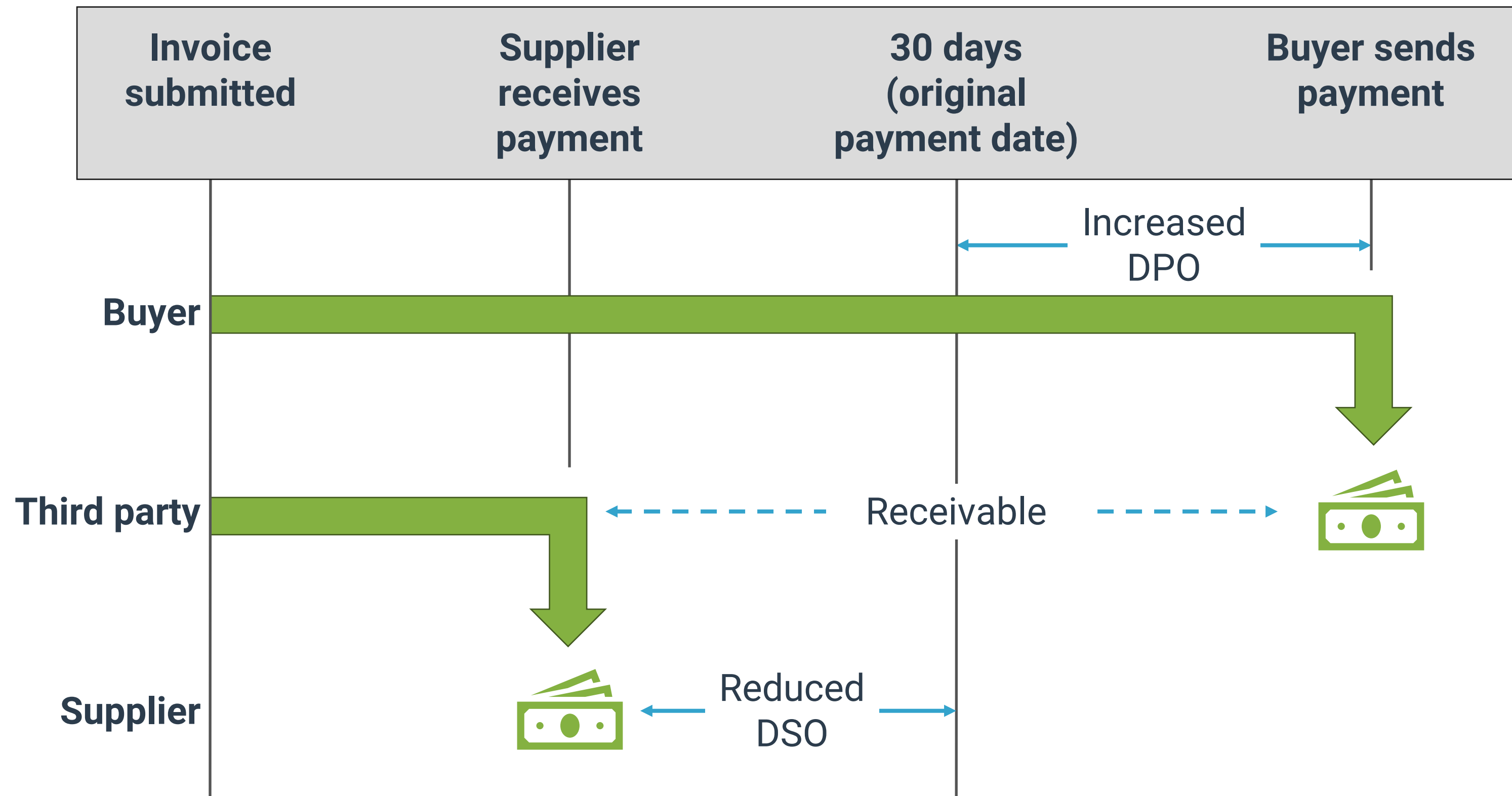
### Networks

Extending functionality in payments:

- Validating payees
- Vendor management
- Compliance
- Payment tracking
- Finding suppliers

# REVERSE FACTORING

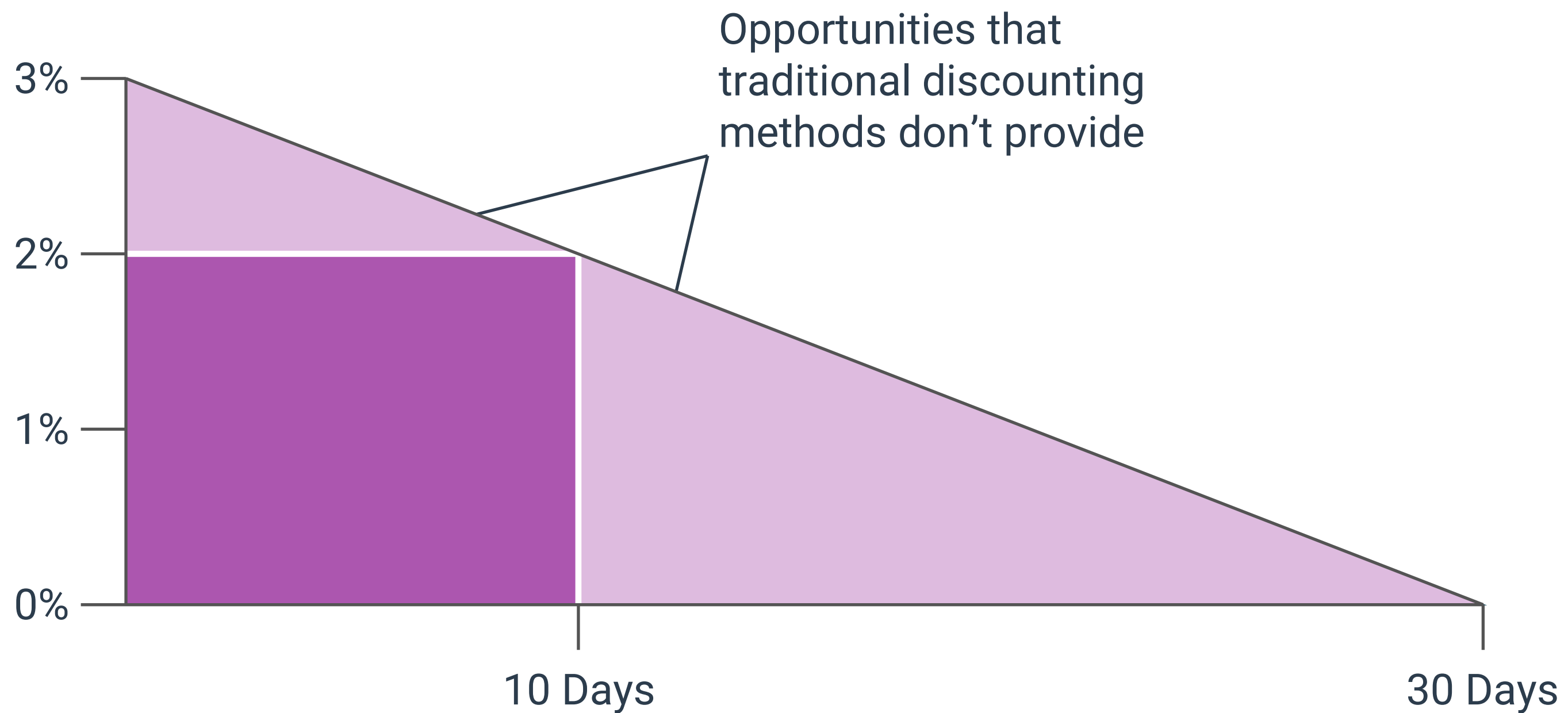
FROM WIN-LOSE TO WIN-WIN





# DYNAMIC DISCOUNTING

## A SLIDING SCALE OF DISCOUNTS

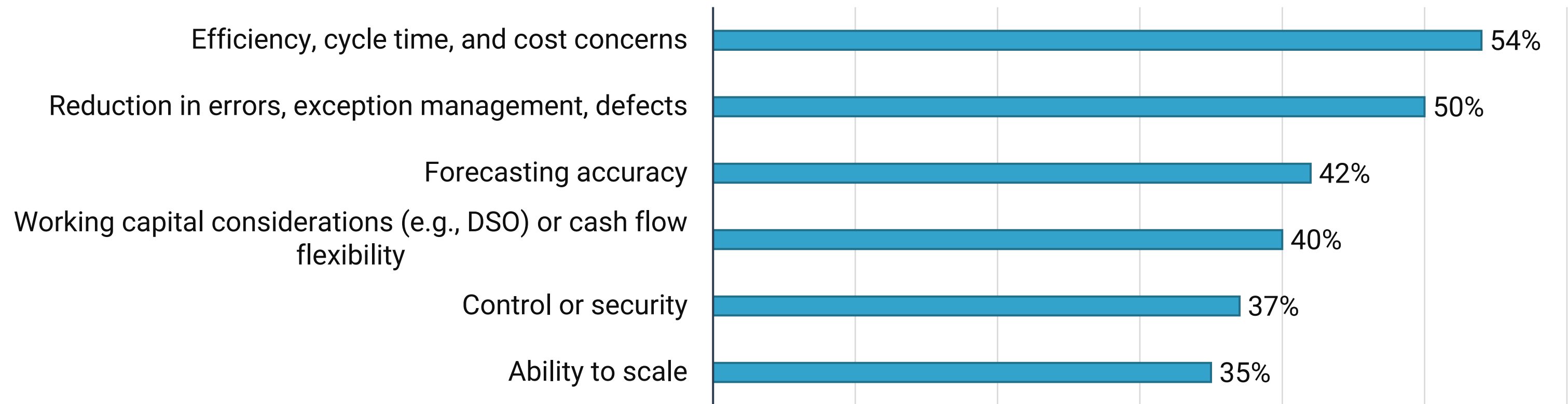


 Traditional discounting (2/10 net 30)

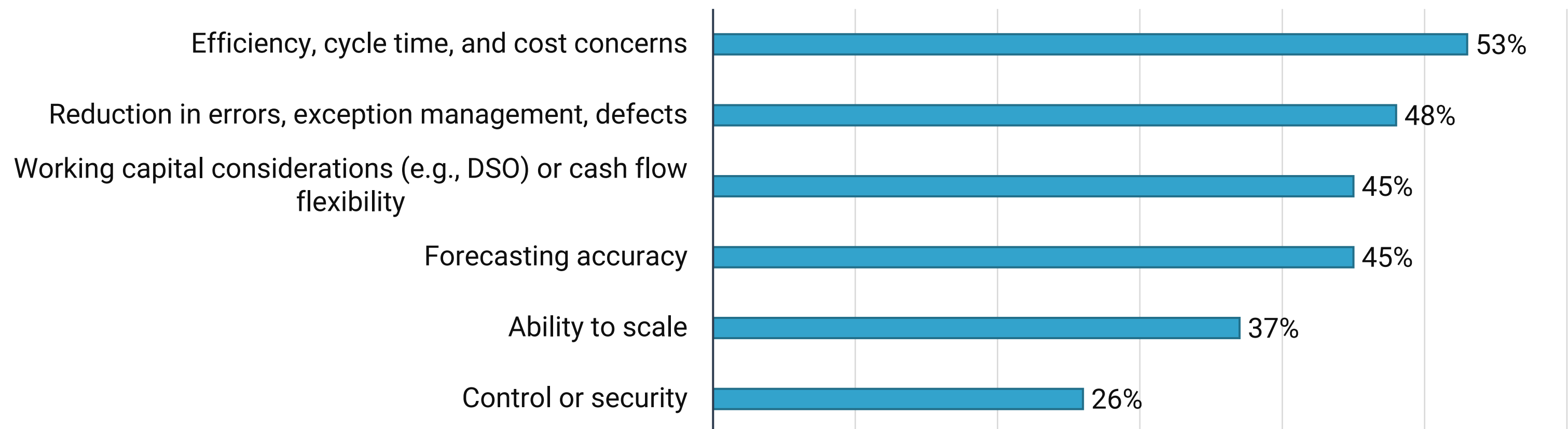
 Dynamic discounting

# POLL QUESTION

## Poll 5 - What would drive you/drove you to more AP automation? (all that apply)



## Poll 6 - What would drive you/drove you to more AR automation? (all that apply)



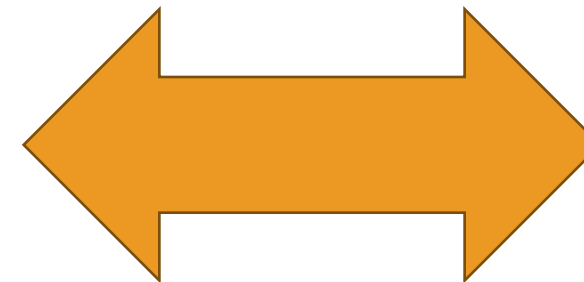
# HYBRID SCF

## FLEXIBILITY FOR FLUCTUATING LIQUIDITY

### Reverse factoring

**Situation:** Deficit of capital

**Response:** Leverage organization's credit and a third party's capital



### Dynamic discounting

**Situation:** Excess of capital

**Response:** Leverage organization's excess capital



**28%** of companies alternate between having excess cash and borrowing funds

# THE FUTURE OF SCF

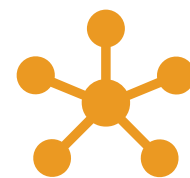
## FACTORS INFLUENCING THE USEFULNESS OF SCF



Interest rates



Compliance



Networks



Emerging technology

- Artificial intelligence
- Blockchain/distributed ledger technology

# WORKING CAPITAL INITIATIVES

## LEADING PRACTICES



### Working capital council

- Usually includes accounting, AR, AP, procurement, legal, tax, and more
- Typically led by treasury



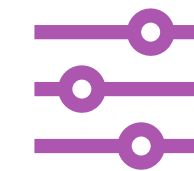
### Eliminate competing KPIs

- Seek to understand
- Ensure all voices are heard
- Communicate the need to change competing KPIs



### Establish a single set of KPIs

- Create a new set of KPIs all parties can agree on



### Monitor and fine-tune

- Meet monthly or quarterly and adjust as needed for optimal working capital

# ANALYST REPORT

TREASURY'S GO-TO SOURCE FOR DEVELOPMENTS AND SOLUTIONS



## SCF/CCC PROVIDERS



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lsq



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