Understanding Supply Chain Finance (SCF)

In order to understand how supply chain finance can help both buyers and suppliers, it is important to understand its underlying principles. Below are some common questions that companies ask about supply chain finance and its benefits.

WHAT IS SCF?

SCF refers to a range of financing and business processes that provide short-term credit to optimize working capital throughout the supply chain for both buyers and sellers. Although short-term credit is not a new phenomenon, connecting financial transactions to the movement of value through a supply chain is at the heart of SCF.

WHAT HAS LED TO THE DEVELOPMENT OF SCF?

Over the last decade, there has been a shift in global production patterns that has affected the operations of Canadian companies. To trade competitively in today's marketplace, a firm needs a strong supply chain that includes the domestic and offshore suppliers with which it works around the world. The automation of the supply chain processes that link buyers, suppliers and their financial institutions helps global businesses reduce overall costs and become more efficient, which enhances their ability to compete. Extracting costs and enhancing the strength of all supply chain partners lies at the heart of the value of SCF.

WHO IS INVOLVED IN AN SCF TRANSACTION?

There are often a minimum of three parties to the transaction: a company purchasing goods, the supplier of the goods and a financial institution.

HOW DOES SCF WORK?

There are many different types of SCF transaction. A typical Approved Payables SCF transaction works like this:

- A company purchases goods from a supplier. The supplier submits an invoice to the company.
- The purchasing company approves the invoice. This creates an irrevocable payment obligation for the purchasing company.
- Through a pre-established relationship between the supplier and the buyer's financial institution, the supplier may request funding of the approved payable at a date before the receivable's actual payable date.
- When the official payment date of the invoice arrives, the financial institution collects the payment from the purchasing company.

HOW WE CAN HELP

If you are interested in, or are already providing supply chain financing to your suppliers, we can work with your financial institution to enhance that capacity by providing a number of solutions including Accounts Receivable Insurance, Financing, and Bonding and Guarantees.