Research Reveals Multi-Billion Dollar Promise of Untapped Supply Chain Finance

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Businesses are missing out on billions of dollars (US) by failing to tap into one of the least used methods of alternative finance, says new research published by global accountancy body ACCA (the Association of Chartered Certified Accountants) and Aite Group. The research, launched at ACCAâ€™s 2nd Alternative Finance Conference in London this week, shows that suppliers of all sizes across the world could be missing out on between $60bn and $120bn by failing to exploit the potential of reverse factoring, through which businesses can finance themselves against the credit ratings of their major customers and achieve prompt payment in exchange for a discount.

The report, which includes a foreword by Matthew Hancock MP, Minister of State for Skills and Enterprise, also demonstrates for the first time the breakdown of benefits from reverse factoring, with suppliers capturing between 25% and 45% of the total savings through reduced cost of capital.

Manos Schizas, ACCAâ€™s senior economic analyst, said: â€œIt is incredibly inefficient that the businesses that find it hardest access finance are effectively relied upon to finance so much of the global economyâ€™s working capital. Apart from the potential benefits to the sustainability of supply chains across sectors, there are between $255bn and $280bn worth of savings to go round; that at least should spur businesses into action.â€•

â€œOf course, as Aiteâ€™s research shows, the breakdown of costs and benefits can vary a lot, and unscrupulous buyers, however rare, can give such facilities a bad name by capturing all gains for themselves. But even then, by making the cost of financial working capital transparent and predictable, supply chain finance at least allows suppliers to make informed commercial decisions.â€•

In Innovations in Financing SMEs, a paper published earlier this year, ACCAâ€™s Global Forum for SMEs highlighting Supply Chain Finance as one of the innovations most likely to change the SME financing landscape in the future. However, the Forum also noted the alternative finance model has a poor reach. The ACCA-commissioned study did, however, warn that reverse factoring involves a host of costs that the parties involved often fail to take into account; with the needs of its target audience in mind, it provided a simple conceptual framework and a checklist for chief financial officers (CFOs) or finance directors (FDs) trying to make or assess the business case for supply chain finance.