



News and Views

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Mastering Supply Chain Finance: Buyer-Sponsored SCF Solutions

Welcome to the second of our two-part series publication on products within the Supply Chain Finance (SCF) industry. In this instalment, we will delve into buyer-sponsored SCF solutions. If you missed the initial release of our series, where we discussed vendor-sponsored products, you can access the article by following this [\[link\]](#).

In our recent publication, we emphasized the critical role of taking a comprehensive approach when structuring and managing Receivables-based products, as well as the importance of leveraging advanced technology. This principle equally holds for Payables-based products, where a buyer sponsors a programme. Buyer-sponsored products include **Supplier Finance** and **Trade Payables Financing**.

Supplier Finance, also known as Reverse Factoring, predates SCF products. Despite its emergence in a tech-limited era about 30 years ago, it is often incorrectly perceived as the sole SCF offering.

In these programmes, a buyer obtains extended payment terms from its suppliers. In exchange, suppliers are enrolled in a programme where they can anticipate their receivables by selling them to a funder at a more favourable rate than they could secure independently in the market.

If the buyer is credit-strong, the programme is usually not highly lucrative, but is straightforward to process and relatively secure in terms of credit risk. As a result, it is a popular product amongst commercial banks in Europe and the United States. However, the onboarding process for the hundreds or thousands of suppliers in these programmes is costly and time-consuming, further reducing already slim margins due to high competition. In some cases, funders may charge a higher discount rate to compensate for the challenges of onboarding, resulting in excess arbitrage relative to the buyer's credit rating.

In terms of credit risk, these programmes usually lack strong legal binding with the obligor (buyer). Consequently, a robust agreement (receivables purchase agreement) is essential with the suppliers, adding complexity to the onboarding exercise.

These programmes are often attractive for smaller, lower-rated suppliers, which can leverage the strong credit rating of the buyer. However, if the buyer itself has a weaker credit rating, the programme's credit risk quickly increases.

Additionally, if the buyer is not commercially dependent on the supplier, the risk associated with the programme increases. In cases of commercial disputes or supplier bankruptcy, the buyer, especially if less creditworthy, may avoid paying its obligations related to that supplier.

Overall, these programmes display low profitability or a heightened credit and business risk.

In contrast to Supplier Finance, Accounts Payable programmes, specifically **Trade Payables Financing**, focus on the relationship between one buyer and one supplier. These programmes offer a safer and less risky environment. The crucial difference lies in the programme structure and legal framework, with a careful selection of the buyers which can participate in such programmes.

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Trade Payables Financing is a proven successful product in the market with steady growth. All parties benefit: buyers grow at a competitive cost, suppliers consequently increase sales, funders receive adequate returns, and credit insurers, if any, operate in a low-risk environment.

Implementing this product requires a more detailed compliance and credit onboarding of the target buyers, as well as proper automated and close monitoring of processes. This ensures a level of (low) credit risk similar to traditional distribution finance products.

By having technology which automates the onboarding and the credit monitoring, as along with appropriate payables payment servicing procedures, KS-TF unlocks unique opportunities to support buyers optimize their payments, while providing a safe environment to investors.

At KS-TF, we possess the expertise needed to succeed in structuring SCF programmes, developing state-of-the-art technology, and adeptly managing related credit risk. We offer consulting services to companies seeking to establish or enhance their presence in the industry, drawing on our extensive experience in SCF.

If we sparked your interest, do not hesitate to contact us and stay tuned for our upcoming publications.

Kendall Stevens, President & CEO of KS-TF AG

After having built reputable and sustainable operations which became market leading, KS-TF AG, Switzerland based, was created as a consulting company and consists today of professionals with expertise in the trade processing and financing space, covering the disciplines of legal, credit, operations, strategy, structuring and software development. The latter in cooperation with suppliers of software dedicated to our services.