

# Start Up Your SCF Business with Payables Finance Cliff Entrekin, Managing Director





www.convergence-capital.com

Copyright 2018, Convergence Capital Group Limited

This is not an ADB material. The views expressed in this document are the views of the author/s and/or their organizations and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy and/or completeness of the material's contents, and accepts no responsibility for any direct or indirect consequence of their use or reliance, whether wholly or partially. Please feel free to contact the authors directly should you have queries.

# CONTENTS

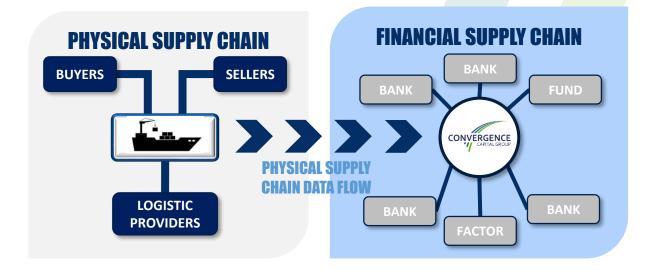
- Who are we?
  - Convergence Capital Overview
- What is Payables Finance and why should it be offered to your clients?
  - Solution Overview
- Prospecting and convincing Anchor Buyers to offer Payables Finance
  - Value Proposition
- Onboarding Suppliers once Program is Established
  - Implementation Approach
- Technological Tools to Support SCF and Decision Factors Banks should consider?
  - Technology Enablers
- Role of Convergence
  - Consulting + Technology

# CONVERGENCE CAPITAL OVERVIEW

# CONVERGENCE CAPITAL OVERVIEW

Convergence Capital Group (CCG) is a Hong Kong based service provider that delivers trade finance services to suppliers, funders, and corporates globally.

CCG works with 3<sup>rd</sup> party funders to provide the necessary capital to drive their clients' trade finance programs. By partnering with existing physical supply chain technology providers, CCG is able to access documentation and data from existing trade flows which provide effective risk management for their funding providers.



# CCG provides trade finance advisory services in the areas of:

- Payables Finance / Dynamic Discounting
- Receivables Finance (Factoring and Invoice Discounting)
- Distributor Financing
- Risk Mitigation

# GLOBAL FOOTPRINT WITH ASIAN FOCUS





**Convergence Capital Group** 

**Hong Kong** 

#### **Key Project Experience**

**Corporates:** Michelin, Kellogg, Canon, Wesfarmers, Aldo, Abercrombie & Fitch and Ralph Laruen

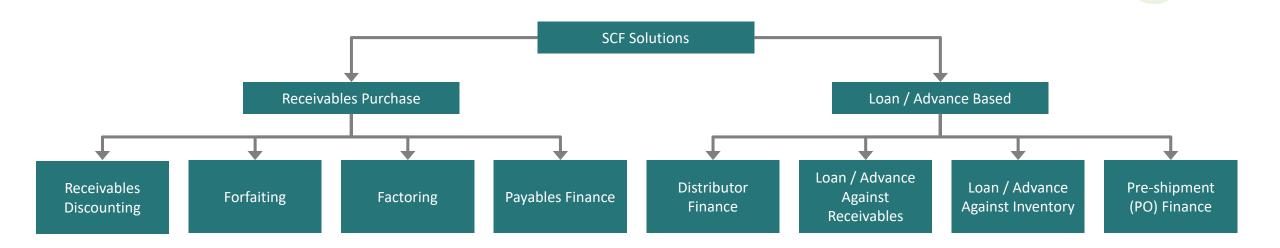
Funders: ANZ, BNP Paribas, HSBC, NAB, Westpac, BAML, Mizuho, UOB, and a variety of alternative lenders

# SOLUTION OVERVIEW

# BREADTH OF SUPPLY CHAIN FINANCE SOLUTIONS

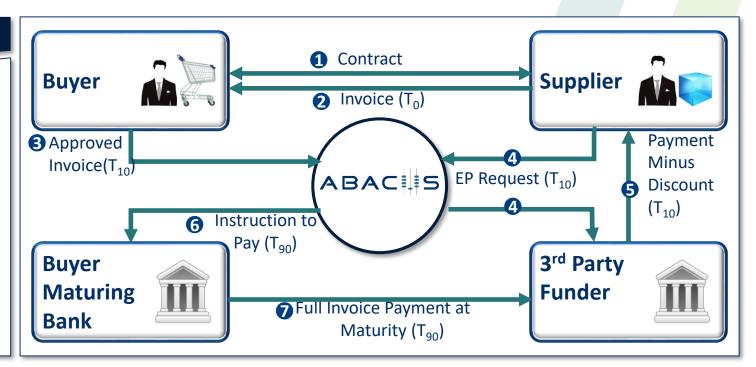
Supply Chain Finance is defined as the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. Payables Finance is typically applied to open account trade and is triggered by supply chain events

SCF solutions are broken down into 2 categories by the ICC:



#### **Overview**

Payables Financing allows a buyer to drive working capital enhancement with payment term extension. It allows suppliers to get paid early through a 3<sup>rd</sup> party funder. The buyer guarantees full payment of the invoice which results in a lower financing rate. In return, the buyer negotiates extended payment terms.



#### **BENEFITS**

#### **SUPPLIER**

- Complete control over when the supplier gets paid via an online request process
- Low cost of financing based on buyer's credit rating because of invoice guarantee
- Full non-recourse financing of invoices

#### **BUYER**

- Provides cash flow to fund growth and other internal initiatives
- Allows executive team to effectively meet corporate metrics and objectives
- Mitigates supplier default risk

# WHY PAYABLES FINANCE?

## **Benefits for SME Banking**

- New segment opportunities
- Market distinction
- Faster scalability
- Sales effectiveness
- Better portfolio risk profile
- Access to data and info

- Stronger relationships
- Enhance transactional business

## Benefits for Corporate Banking

- Competitive differentiation
- Key corporates access
- Enhance transactional business
- Cash & payment mandates
- Increases float income share
- Enhance fee income stream
- Increased business retention
- Increased limit utilization

# VALUE PROPOSITION

# VALUE PROPOSITION

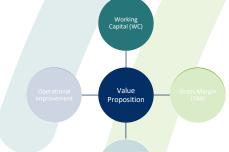
The primary key to success of any buyer led financing program is to ensure there is a significant value proposition for the buyer.

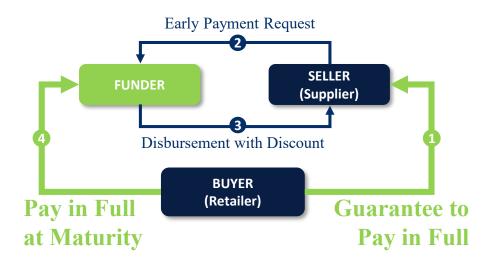
The buyer *MUST BE INVOLVED* in supplier onboarding and will only be enticed to do so with some tangible benefit to be extracted from the process.

There are 4 key areas Convergence works to provide value to drive successful buyer led programs.



Drive Working Capital Enhancement with Payment Term Extensions





Buyer provides a payment guarantee on approved invoices to supplier allowing them to access funding at lower costs

## How It Helps

The buyer provides supplier access to the Payables Financing program only after they have negotiated a shared benefit with the supplier, usually in terms of **extended payment terms** 

#### What's More

To make Payables Finance a success, CCG will facilitate the whole process with our proprietary technology:

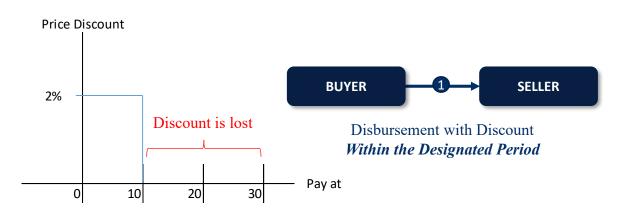
- Devise a **negotiation strategy** for each supplier based on analytics of supplier cost of capital, DSOs and industry specific payment term metrics
- Provide real-time negotiation and benefit tracking
- Automate the whole financing process with our cloud-based, trade finance technology platform

# DYNAMIC DISCOUNTING

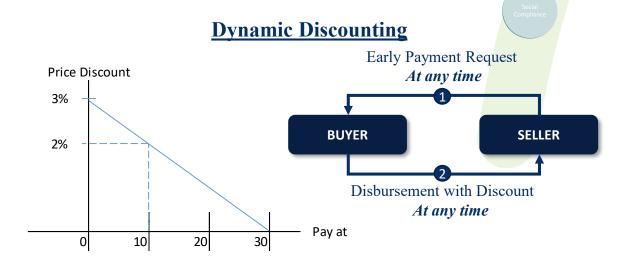
Paying suppliers early out-of-pocket to enjoy price discount

Utilizing one's excess cash, companies could offer early payment to suppliers while driving up gross margin

#### 2% 10 NET 30 Payment Term



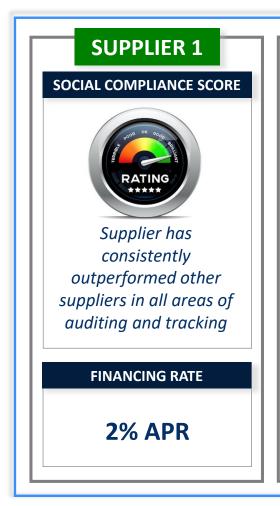
- Traditional NET 30/60 etc. payment term offers no incentives for buyer to pay early
- Even when early payment discount like above is offered, buyers can only enjoy the discount within a certain period of time.
- If buyers take a long time to approve invoices, the discount is lost



- A sliding scale payment term which offers the greatest flexibility to suppliers and buyers at the same time
- In the above example, by paying suppliers immediately buyers can enjoy a 3% discount
- Financially it is equivalent to depositing a sum of money ahead at T=0 at 3% per 30 days to meet the obligation at T=30, APR = 3% x 360 / 30 = 36%

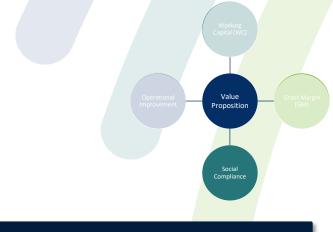
# SOCIAL CAPITAL SM

Enhance social compliance with financial incentives









#### **OVERVIEW**

- Social Capital SM programs have the ability to provide financing on preferential rates based on a suppliers social compliance scoring
- Available through buyer approved payables programs and audit procedures are conducted by the buyer with relevant data scoring shared with financing partner
- Receivables financing is also available with this program by conducting 3<sup>rd</sup> party audits, according to global standards, that are share with the financing partner to enable financing for an entire portfolio of obligors
- Done in coordination with development banks to provide additional credibility

# SCORECARD FINANCING SM

# Enhance vendor performance with financial incentives

Scorecard Dimension	Explanation	Weight	A 100%	В 75%	C 50%	D 25%	E 0%	Score
Costs/Pricing		30%						19%
Payment Terms	Ranks Vendor according to Payment Terms	10%	Criteria A	Criteria B	Criteria C	Criteria D	Criteria E	В
Product Pricing	Total Quantity of Items Purchased in Quarter Compared with Price Quotes from All Capable Vendors	15%	>2.5% Less Than Average	Average +/- 2.5%	>2.5% More than Average	>5% More Than Average	>10% More Than Average	С
Costs/Pricing Metric 3	Cost/Pricing Metric Explanation 3	1%						D
Manufacturing Supply Agreement	Has the Vendor Signed and Abided by the MSA?	4%						Α
<b>Supply Chain and Production</b>	30%						16%	
Weighted Average Lead Time	The duration of time from when an order is acknowledged by the vendor to when it is accepted by the freight forwarder. Weighted by Units Shipped.	15%						D
Email Response Time - Purchasing	Average time taken to respond to emails with purchasing (buyer or assistant buyer)	3%						Α
Communication Quality - Purchasing	Quality of communication, especially emails, with purchasing	3%						Α
Flexibility	The flexibility of the vendor to accommodate business requests to the best of their ability	3%						С
Late Orders	Number of POs that were shipped after agreed upon ship date without approval	3%						А
MOQs	The minimum quantity we can place an order for without any further commitment to buy	3%						С
Quality		20%						14%
QC Issues	Definition of QC Issues Metric	5%						Α
Quality Metric 2	Definition of Quality Metric 2	5%						Е
Quality Metric 3	Definition of Quality Metric 3	7%						Α
Quality Metric 4	Definition of Quality Metric 4	3%						С
Product Development		20%						17%
PD Metric 1	PD Explanation 1	6%						Α
PD Metric 2	PD Explanation 2	4%						В
PD Metric 3	PD Explanation 3	4%						В
PD Metric 4	PD Explanation 4	6%						В
Total		100%						65%

Scorecard Financing SM programs provide a financial framework for buyers to enhance vendor performance by offering variable early payment discount to vendors based on their performance. Those who score higher may be supported through reduced rates

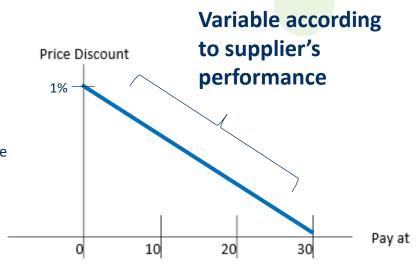
#### **Key Benefits**

#### Buyer

- Create a win-win solution to enhance vendor performance
- Improved buyer-supplier relationships
- Utilize excess cash to enjoy price discount and increase in GM%

#### Supplier

- Decreased finance costs
- Increase in cash flow can be reinvested to further enhance vendor performance



# IMPLEMENTATION APPROACH



#### **Program Design**

- Identify key Anchor
   Prospects within existing portfolio
- Discuss and determine key metrics and strategic goals with the buyer (e.g. working capital, gross margin, etc.)
- Gather Payments Profile
- Run analytics on supply base
- Select initial Suppliers for launch
- Construct roll out strategy and approve accounting treatment



#### **Operational Setup**

- Develop buyer and supplier communication medium and training plan
- Confirm IT implementation plan with buyer and supplier IT resources (minimal resource needs)
- Integrate ERP data files (matched invoice from Abacus, approved invoice from client ERP, etc.)



#### **Pilot Launch**

- Develop marketing plan and materials to educate
   Suppliers
- AP and Procurement Training
- Train buyer on supplier negotiation
- Create support channel to answer any questions
- Continue to expand outreach to target both large and small suppliers
- Monitor pilot to fix any problems and optimise



#### **Program Rollout**

- Compare initial supplier selection in pilot to determine rollout suppliers
- KYC and AML check of supplier
- Work with bank to ensure credit limits can meet expected demand
- Get feedback from Suppliers to help improve for future



#### **Ongoing Monitoring**

- Monitor usage from Suppliers, observing seasonality and if credit limits appropriate
- Ongoing credit review of buyer especially in case of major economic shock

Program Design - Anchor Prospects (Working Capital)





Investment Grade
 Companies or
 Equivalent (e.g.,
 Obligor Risk Rating of
 1-4)



#### Companies with:

- Direct Material
  Supply Chains and
  Spend (COGS)
- Greater Than 25 M
  USD annual volume



Access to Chief
 Financial Officer,
 Treasurer or Chief
 Procurement Officer



#### Companies coming from:

- Retail
- Automotive
- Manufacturing
- Consumer Goods
- High Tech



Initiatives around
Working Capital, Cash
Flow Conversion,
Free Cash Flow or
income or use of
short term cash

#### **OPERATIONAL ASPECTS**

- Primary Driver Payment Terms
  - Long Payment Terms 60 Days Or More
  - Looking To Increase Payment Terms to 45 days or longer
  - Looking to Eliminate Discount Terms
  - Concerned About Financial Health Of Supply Chain

- Secondary Considerations
  - Time to approve invoices is short
  - De-centralized procurement and accounts payable
  - Running an Payables Finance program today
  - Number of suppliers and jurisdictions

Program Design – Anchor Value Analysis



Introduction Meeting
Initial meeting to understand corporate objectives on risk, working capital and profit

Data Inputs

**Process Overview** 

# **Anchor Value Analysis**

Using Unison<sup>SM</sup> data and 3<sup>rd</sup> party data sources, we assess risk and devise a strategy around value

18/06/2019

To conduct analysis we must

relationships as well as financial

understand client's trading

strength

Program Design – Strategy Discussion



Strategy

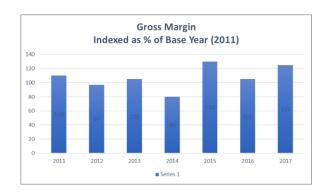
Approach

## **Working Capital Focus**



- Negotiate terms to 60 day standard terms
- Offer 3<sup>rd</sup> party financing on invoices
- Offer 3<sup>rd</sup> party financing on PO for suppliers willing to move to 90 day terms

#### **Gross Margin Focus**



- Negotiate terms to 60 day standard terms
- Offer Invoice as well as PO financing utilizing buyer excess cash
- Invoice financing will pay off PO financing

#### **Balanced Focus**



- Negotiate terms to 60 day standard terms
- Offer 3<sup>rd</sup> party financing on invoices
- Offer invoice financing from buyer excess cash to improve gross margin long-tail suppliers

<sup>\*</sup>the above approaches are generalized examples / detailed approaches will be allocated to individual supplier and distributor segments in the analysis phase

Operational Setup



# **UAT Set-up**

1-2 Weeks

- Walk through configuration guide and receive values
- Review and develop funder reporting specifications
- CCG to set-up funder and initial buyer and supplier orgs in Abacus <sup>SM</sup>

1 Week

#### 2-3 Weeks

## **Training**

- cCG to provide user guides and FAQs on system functionality
- In-person / webinar based training to walk through holistic system functionality

## **UAT Testing**

- Review test scenarios and testing plan with funder
- Funder tests system functionality
- Funder uses report to execute initial test trade transaction

Training Guides

CCG Funder Toolkit

Configuration

**Document** 

Testing Plan and Scenarios

Project Plan and Reporting

#### **Legal Agreements**

**Bank Account Set-Up** 

Pilot Launch

#### SELLER ON-BOARDING INITIATED WITH FORMAL LETTER FROM ANCHOR





29 April 2013

Subject: World-Class Payment Terms

Dear Valued Business Partner:

This is our first official year as Mondel8z International. Although our same delicious globally renowned brands are still joyfully crafted by the same world-class people, it's important to remember that much more has changed than the Mondel8z International name. We are a company focused on reinvesting in the growth of our brands by driving extraordinary value, responsibly and through competitive cost advantage and innovative solutions.

In the coming weeks, you will be hearing from us on several programs that we believe to be important for our mutual success. The first of these include the Global Food Safety Initiative, Materials Monitoring Program and the C18 Conflict of Interest compliance program. We appreciate your attention and commitment in supporting these efforts.

However, this letter is focused on the opportunity to transform and improve our payment processes. At Mondelêz International, we are investing our resources to ensure that optimization of these processes is done seamlessly and is successful. While we recognize that there has been some inefficiency in the past, we are confident that our optimization journey will continue to improve the overall source to pay processes. As an example:

- We have introduced new systems to enable us to better manage our Accounts Payable while giving you more visibility and consistency to how our suppliers are paid.
- Tools such as Supply Chain Financing, Electronic Funds Transfer, E-Invoicing, E-Payables and establishment of a supplier portal are also being rolled out to provide lower cost alternatives to traditional debt, reduce administrative costs and improve efficiency and supplier self-service.

Through an extensive analysis we have determined that in order to remain competitive, reflect current industry standards, and drive world-class growth, we need to change our payment terms. Effect current week of 1 July, acceptance of orders placed by us shall be expressly conditioned on the term for payment being 120 days. As one consequence of the systems transformation being implemented, all payments will be issued on or before the last day of the month in which the Final day of the Payment Term day occurs. Any discounts will be carried over at the new payment terms. These changes will be implemented except where applicable law would require a different payment term and payment date. When and where those legal restrictions differ, our systems will be modified accordingly to ensure our compliance with the legal maximums.

We understand that your business needs to be successful as well. We believe that the investments we are making to improve our payment processes will make us a more attractive and reliable oustomer through enhanced transparency and predictability. Thus, MondelE2 International sincerely believes that these efforts, both on the part of our business and yours, will position both of us to for continued success in the future. If you have any questions about the changes to our systems, payment terms, please reach out to your Mondele2 International Local or procurement contact.

Respectfully,

SVP & CPO Global Procurement

David Brearton EVP & Chief Financial Officer **ON-BOARDING** 

Top ~20% of suppliers comprising of ~75% of spend

- Set-up in person meetings
- SME RM Assigned to attend and provide details on program
- Onboard suppliers on site using tablet based Digital Bank Account Opening

Next ~20% of suppliers comprising of ~20% of spend

- Anchor to connect with supplier over phone and direct to nearest branch office (follow up with email)
- Branch onboard suppliers using tablet based Digital Bank Account Opening

Remaining ~60% of suppliers comprising ~5% of spend

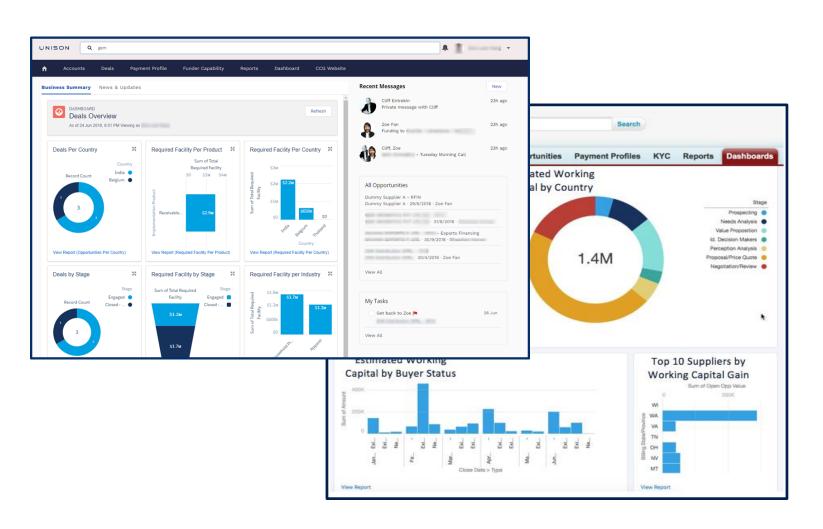
- Email sent to remaining "long tail" of the supply chain instructing them of nearest branch and program
- Branch onboard suppliers using tablet based Digital Bank Account Opening

ACTIVATION SHOULD ONLY FOCUS ON CUSTOMER ONBOARDING AND KYC / AML - BANK ACCOUNT NOT MANDATORY (BANK ACCOUNT OPENING OFFERED AT REDUCED FINANCING RATE)



# Ongoing Monitoring





Take a glance of everything you need to manage your day to day business with Unison <sup>SM</sup>.

#### Reports

Reports give you access to your deal data. You can examine your deal data in almost infinite combinations, display it in easy-to-understand formats, and share the resulting insights with others.

#### **Dashboards**

Dashboards help you visually understand your deal progress summary and get important updates on critical tasks so you can make decisions based on the real-time data you have gathered with reports.

# SUCCESS FACTORS IN PAYABLES FINANCE

# Program Operations

## **Value Proposition**



- Continuous anchor value analysis process and program design beyond simple rate arbitrage
- Contracting options and accounting treatment (true sale / off blalance sheet)
- Irrevocable payment guarantee in place with obligor as well as commitment to a successful implementation

**Supplier Onboarding** 

- Leverage anchor resources to market, educate and on-board suppliers
- Leverage technology to onboard suppliers (KYC, technology training, communication of funding parameters, etc.)
- Low touch KYC model different tiers of pricing for levels of SME onboarding

# 0

- Organization structure conducive to a cross silo cooperation model (hybrid model vs a pure corporate /commercial ownership)
- Program management services Including Project Management and Reporting
- Procurement training and support services including reusable tools
- Flexible funding parameters due to program automation

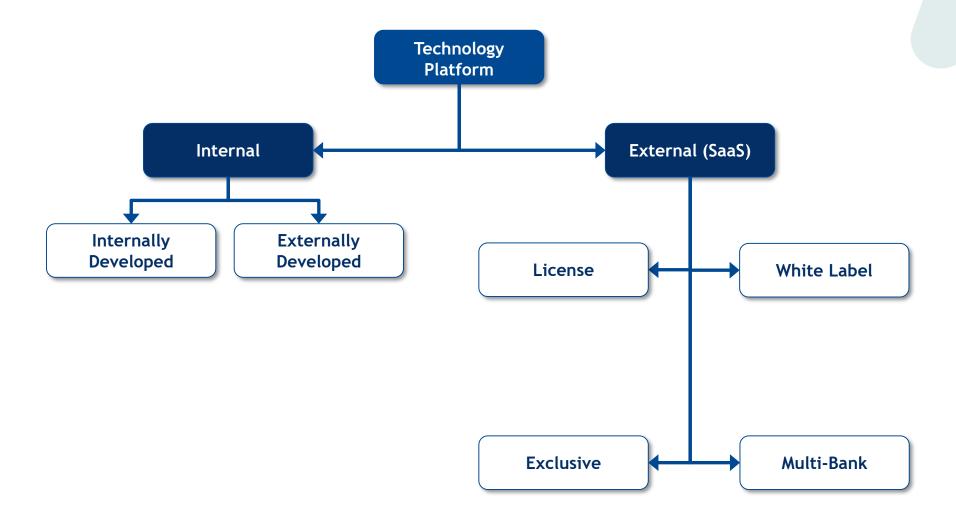
#### **Funding**



- Unlimited jurisdiction and currency coverage by leveraging funding partnerships (e.g., risk participation with other funders, FCI, credit insurance, etc.)
- Program pricing which can be flexible according to value proposition to anchor and supplier
- Ability to fund entire supply chain of anchor (i.e., the long tail) through new products and technology

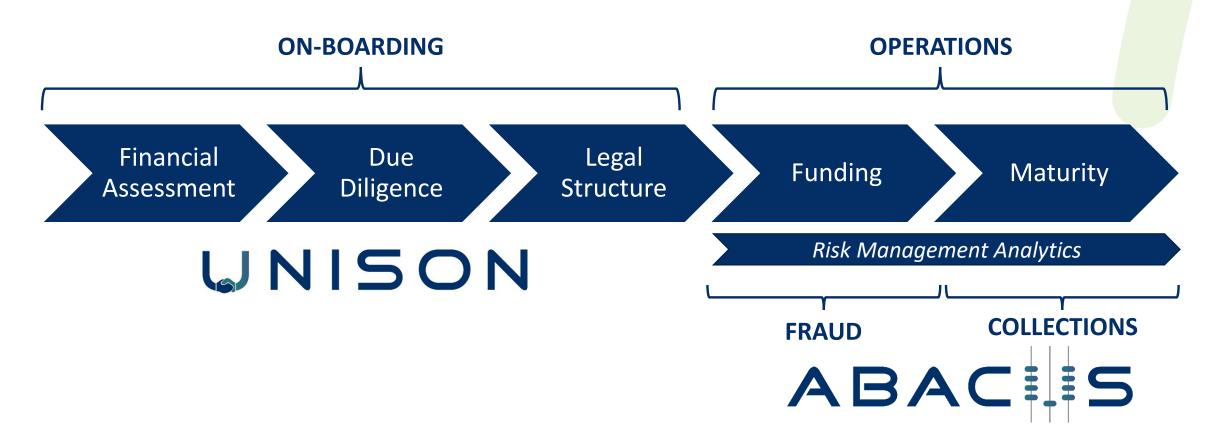
# TECHNOLOGY ENABLERS

# SCF TECHNOLOGY – DECISION FACTORS



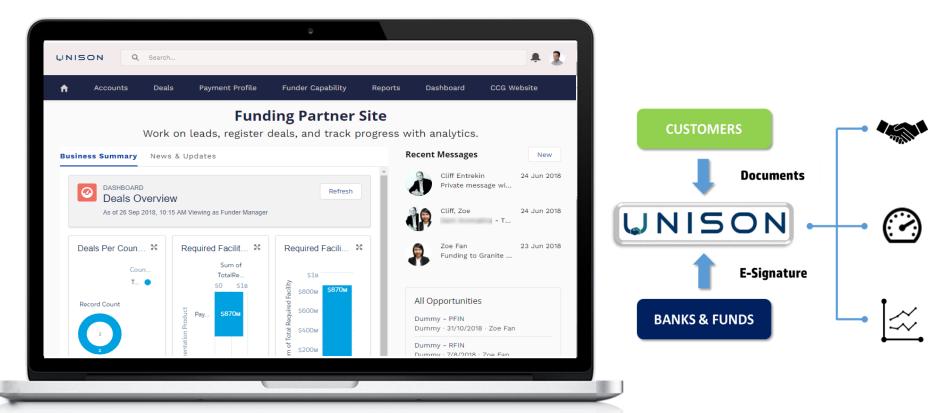
# CONVERGENCE TECHNOLOGY OVERVIEW

The following process gives a high level summary of how all parties will work together to provide funding to clients using CCG technology.



# UNISON

# STRUCTURING AND ONBOARDING PLATFORM



#### **Collaborative On-boarding**

Cloud platform that links customers and funders together for credit analysis and KYC documents submission / approval

#### Streamlined Process

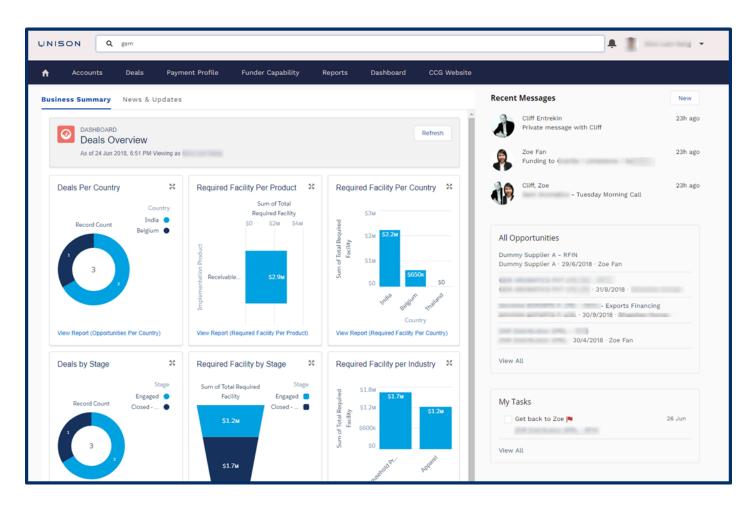
Keep everything on the platform, no back-and-forth email communication. Reduces communication errors and saves time.

## Real-time Tracking

Configurable Reports and Dashboards shows KYC operational metrics on a real-time basis

Can configure reporting to give immediate extract of client financial or due diligence data in any format

# PROGRAM IMPLEMENTATION AND REPORTING



Take a glance of everything you need to manage your day to day business with Unison <sup>SM</sup>.

#### Reports

Reports give you access to your deal data. You can examine your deal data in almost infinite combinations, display it in easy-to-understand formats, and share the resulting insights with others.

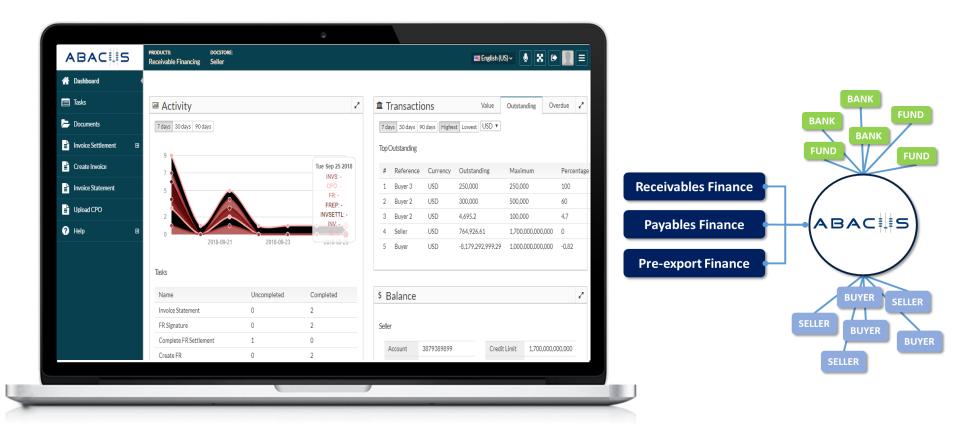
#### **Dashboards**

Dashboards help you visually understand your deal progress summary and get important updates on critical tasks so you can make decisions based on the real-time data you have gathered with reports.





# FUNDING AND RECONCILIATION PLATFORM



#### **Multi-funder Connection**

Access to global, regional and local funding institutions using a single platform

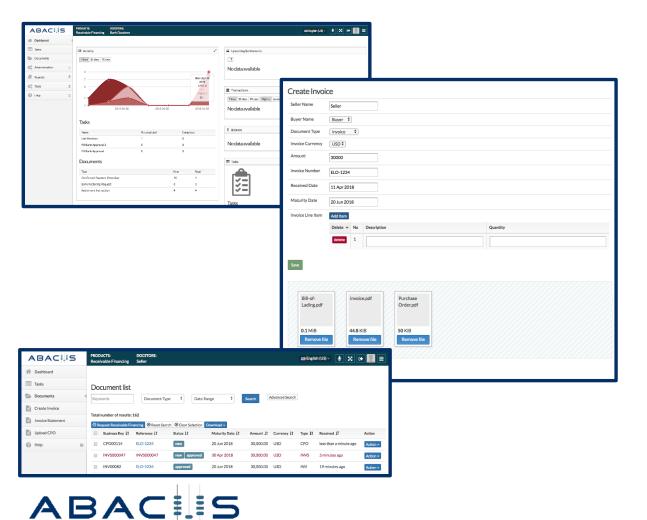
# Holistic Package of Solutions

Unique in the industry for its breadth of product functionality

## **Client-facing Platform**

Single process for funding both sides of the balance sheet, removing operational hurdles that normally exist when utilizing multiple funding sources

# FUNDING REQUEST AND APPROVAL



Abacus<sup>SM</sup> makes the process or funding request and approval easy and convenient for funders and corporates.

- **Buyer Maker** may create manually or upload multiple invoices and attach supporting documents on the platform.
- Buyer Checker receives a task to Accept the Invoice Statement. Once Accepted, a CPO document is available on document list, and if Rejected, the Invoices will be Released.
- Seller Maker select the invoices to discount and creates a Funding Request for early payment.
- Seller Approver receives a task to Approve the Funding Request. Once Accepted, a Funding Request must be electronically signed by designated Seller Signatory, and if Rejected, the Invoices will be Released.
- **Seller Signatory** receives a task to Electronically Sign the Funding Request. The Seller Signatory must **View** the necessary Funding Requests which are awaiting electronic Signature in their Task List.

# ROLE OF CONVERGENCE

# **ON-SITE CONSULTING**



# CONSULTING TIMELINE AND COSTS

2 Weeks 8-12 Weeks 8+ Weeks

## **SCF QUICK SCAN**

# STRUCTURE DESIGN

#### **PILOT**

- Benchmarking and assessment of funder capabilities in terms of sales, organization structures, credit, product, legal and technology
- Review of existing programs and their status to define challenges

AT LITTLE OR NO COST FOR CONSULTING FEES

- Recommend
   amendments to existing
   processes, operations,
   organizational structure
   and tools / technology
   utilized
- Work with RMs and other key personnel to design / revamp stale buyer programs

AT NO COST IF CONTINUED ADB INVOVLVEMENT

- Initiate anchor discussions following best practice implementation methodology
- Initiate technology review and "no integration" funding model (basis points service model)

REVENUE SHARE MODEL (i.e., BPS on successfully financed transactions)



#### **ABOUT US:**

Convergence Capital is a global expert in Trade Finance solutions. We support international buying organizations, based primarily in the US and Europe, as well as their supply chains, primarily in Asia Pacific, by providing working capital to drive success within their businesses.

Convergence Capital has the connectivity to support over 6,000 suppliers and 60+ buying organizations. With access to global and regional funding institutions, we have the capital necessary to drive successful supply chain finance programs as well as traditional receivables financing transactions.

We facilitate supply chain finance, or reverse factoring, programs with global buyers while supporting both local and international suppliers, as well as funders during each step of the process. Our support to local and international suppliers expands to include financing of receivables across their entire customer portfolio at rates and terms much more favorable than traditional factoring.

For more information, visit: www.convergence-capital.com



© Convergence Capital Group Limited For additional information, please contact CCG at:

Email: info@convergence-capital.com

Phone: +852 8192 6982

Mail: 42 F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong