BEST PRACTICE GUIDE

The urgency to digitize documents, data, and capital for innovative supply chain finance and scalability

Three key supply chain essentials and three scenarios for delivering value beyond your four walls

Contents

When unprecedented global disruption struck in early 2020, businesses everywhere moved into survival mode. Scrambling to enable workers to operate remotely and promptly launch multiple capital preservation strategies, the urgency to digitize processes and documents to unlock data is more prevalent than ever—particularly in the supply chain where complex numbers of parties, systems, and document types expand across geographical regions and time zones.

Typically, billions of dollars are tied up in supply chain inventory. In recent months, retailers and manufacturers have prioritized removing working capital from supply chains, placing extreme strain on suppliers now, in the coming months, and stretching further into the rebound to normality. Access to capital and timely data will be essential to survive and thrive in the economic recovery.

Today's supply chain challenges

- 94% of Fortune 1000 companies experienced supply chain disruption from COVID-19[1]
- 75% of Fortune 1000 companies felt a negative or highly negative impact on business[2]
- 77% of CFOs implemented cost containment measures, according to PWC's **April CFO Pulse survey**, with cash flow the CFO's primary concern[3]
- 56% of respondents thought they could get back to "business as usual" in three months, down from **90% when the survey ran in mid-March**[4]
- 58% of factories surveyed in late March had to shut down most or all of their operations due to cancelled orders at the onset of the crisis[5]

Call to action

Rather than rushing into panic-instilled overreactions, now is the time for stronger collaboration amongst trading partners. A networked, multi-enterprise approach is the natural basis for future resilience: connecting buyers, suppliers, and finance providers on one digital platform where data and working capital is unlocked for the entire supply chain, instead of unilaterally amongst buyers or suppliers. Documents and processes are digitized to reduce errors and delays, while enabling scalability needed for a recovery. Programs are deployed to pay suppliers faster and improve the health of the supply chain, while generating value to buyer and supplier.

Pressing needs to improve supply chain health

Digitization

In prior years, while digitization was identified as a strategic objective by many companies, it has still been viewed as an optional approach; hence the abundance of static and disconnected buyer-supplier collaboration points in current supply chains. Processes are highly manual, systems are fragmented, and workflows are inefficient and error prone. Excel® spreadsheets, emails, and phone calls remain a staggeringly large piece of everyday business. The impact: delays, non-compliance, and friction between buyer and seller. The time and resources lost when managing and synchronizing simple things like purchase order confirmations, negotiation, documentary compliance, and invoice approvals cripples flexibility and the agility to respond, while locking up large amounts in working capital.

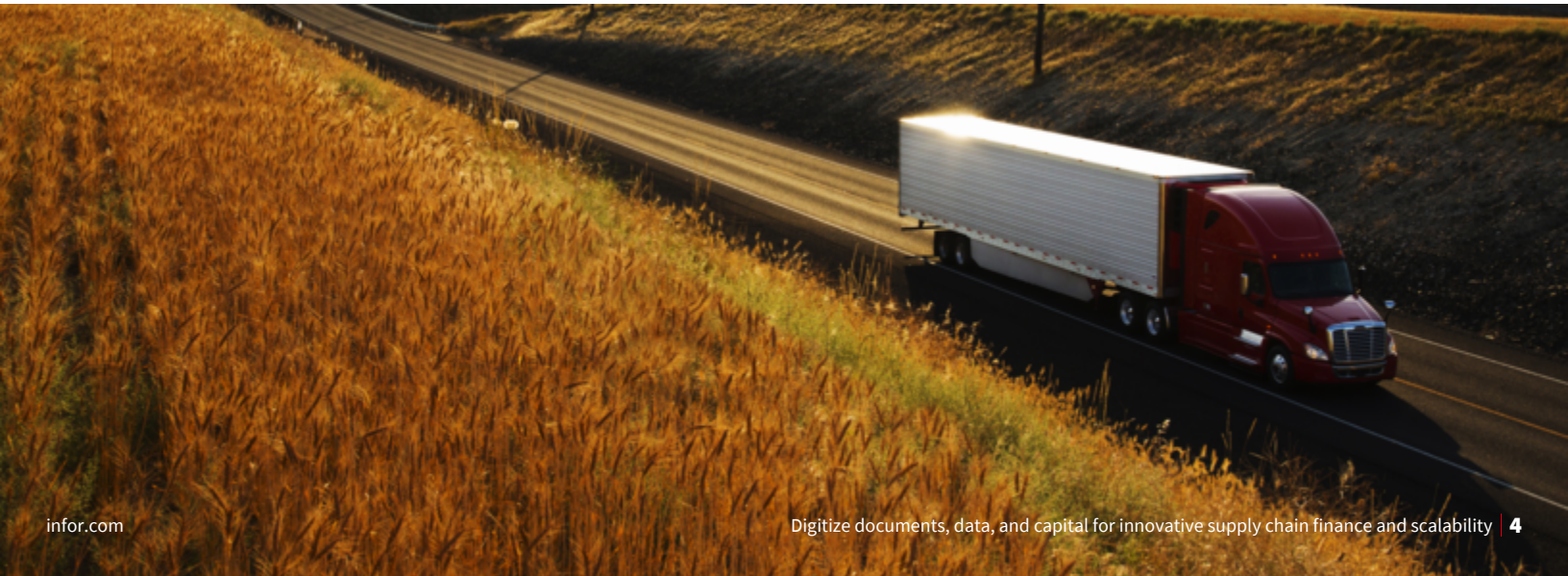
Anywhere paper or manual processes exist, errors, delays, and a lack of visibility are commonplace. Most of all, there's a missed opportunity to harness real-time supply chain data that is essential to optimize decisions and mitigate risks.

Digitization key trends

- 28% of supplier invoices are paper[6]
- 31% of invoices arrive via email[7]
- 30% of Accounts Payable departments are manual or highly manual[8]

Going digital is no longer optional, but rather, essential to competing and eliminating supplier friction. Many of today's questions around how to mitigate risk can be answered by leveraging transactional history across buyer-supplier relationships. With a digitized network as the foundation, supply chain data can help deliver more robust and precise risk assessment for all participants to benefit from:

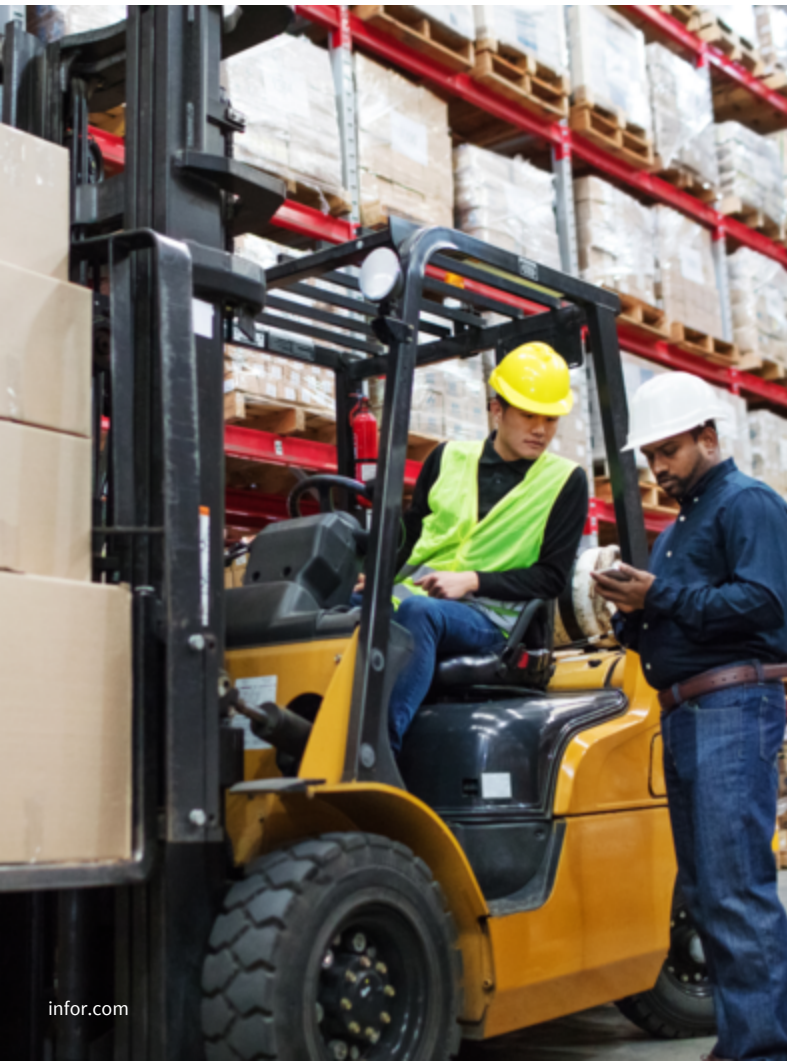
- Real-time intercompany workflow and collaboration
- Sharing forecasts and confirming capacity and order details with suppliers
- Determining the optimal milestone for capital injection in the fulfillment process to mitigate supply risk
- Identifying alternate sources of supply based on performance trends
- Orchestrating inventory moves from origin to final destination based on predictive and real-time signals



Access to capital

Current market conditions have placed supply chains in a perilous position. Unexpected events, risk, and uncertainty often lead to knee-jerk reactions, such as capital preservation initiatives, by major retailers and manufacturers. This can result in a contentious situation between buyers and sellers, where suppliers face liquidity shortages resulting from dried up credit, delayed payments, or order cancellations.

Suppliers often struggle to find the right balance of capital to satisfy financial obligations and maintain a certain production throughput, particularly smaller suppliers located in developing regions. The majority of small and medium-sized enterprise (SME) suppliers lack funding options, while others face high borrowing costs. Expensive capital costs end up baked into the cost of goods sold, eating away at margins. A cash-strapped supplier puts assurance of supply and customer satisfaction at risk.



Capital key trends

- 11% of North American companies canceled more than half of their orders at the onset of COVID-19[9]
- 86% of manufacturers have experienced order cancellations and 40% are struggling to pay employees due to COVID-19, reports Boston Consulting Group's survey of **500 apparel suppliers in major apparel manufacturing** countries[10]

Teaming up with suppliers can help tackle financial risk, while assuring a healthy supply chain. In a manual world, invoices sometimes take weeks to process and approve. But when purchase order (PO), invoice, and settlement processes are digitized, invoices can be auto-approved within a day. If payment terms are 30 days from invoice approval, an automated process creates a 29-day window of opportunity for suppliers to obtain supply chain financing.

In an automated world, suppliers are paid on time and possess the improved cash flow visibility to better plan their operations. Likewise, finance providers have visibility into the same digital ecosystem, allowing them to inject capital at different stages of a transaction. During an economic upturn, when anchor buyers have excess cash, they can take advantage of a digitized environment to fund their own suppliers early in exchange for a discount and receive a greater return on cash versus parking cash in a typical money market fund.

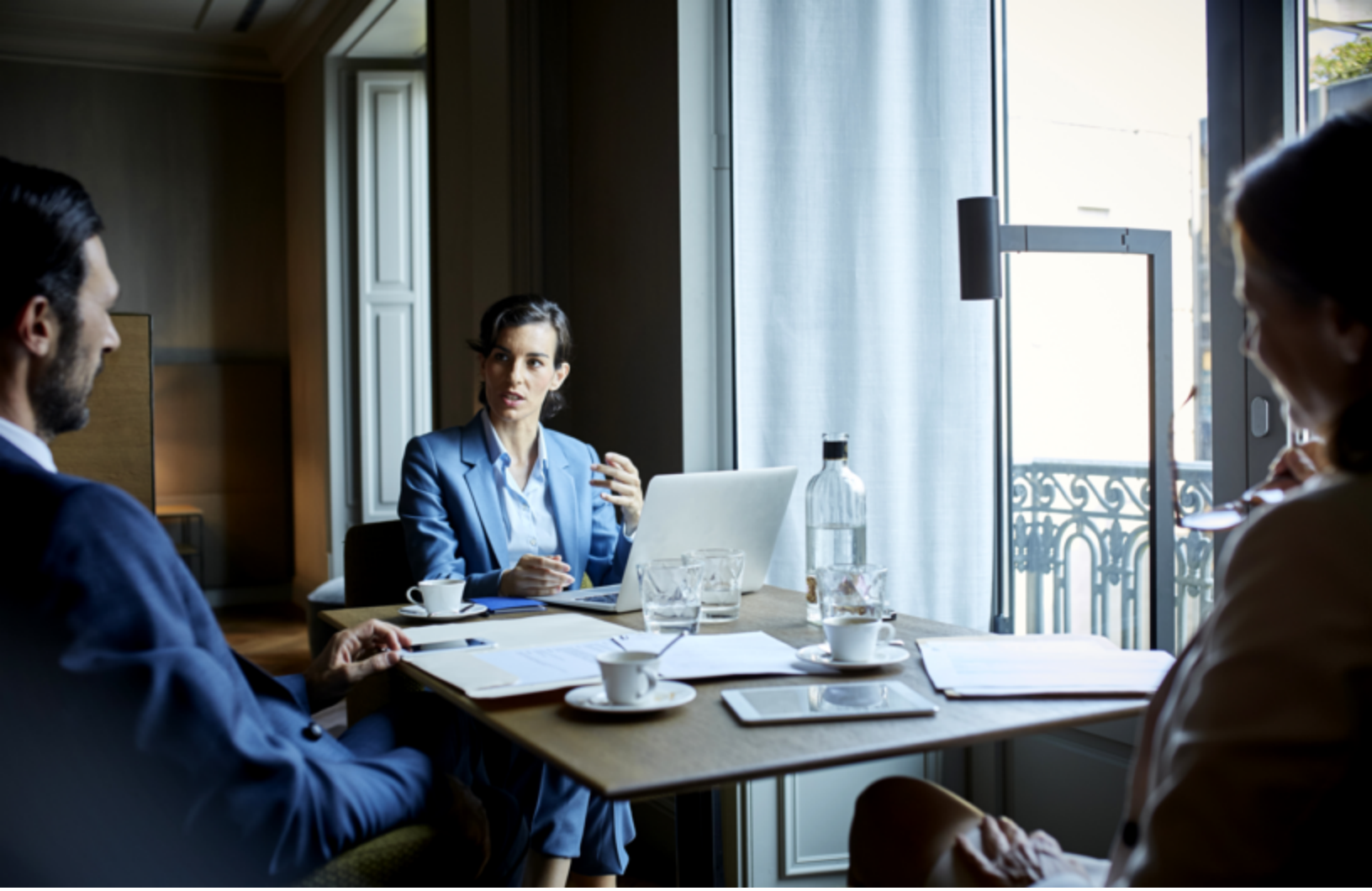
Addressing financial risk plays into—and helps mitigate—supplier criticality risk. The current global trade environment grows increasingly complex and volatile by the day. Partnering with suppliers through digital enablement and collaboration—on programs such as supply chain finance—is one of the few consistent and reliable wins that pays dividends for both buyers and suppliers.

Supply chain essential #1: Digital documents, data, and settlements

Companies need to focus on network connectivity and automation to drive agility and responsiveness. At the same time, it's essential to continue to invest in predictive and proactive sense and respond capabilities—ultimately, driving towards a cognitive supply chain vision.

Economic recovery readiness includes multiple key components starting with digital connectivity and collaboration. Digitization of documents and workflows enables management by exception and helps foster speed and agility. Multi-enterprise collaboration enables strategic programs that benefit all parties. For example, access to capital delivered to suppliers from a multi-bank network helps the entire supply chain endure dynamic liquidity shortages that stem from a crisis and a period of economic recovery. Not to be overlooked, the human element provides local support on the ground to enable supply chains and partners across the globe, which is key for process and data standardization. To be effective, there must be a digital network underpinning these efforts.

> **"Digital is not only an increasingly important sales channel; it can also help companies adapt cost structures and make each step of the value chain better, faster, and cheaper. For example, digitization can enable new logistics and sales-fulfillment options (such as click-and-collect and drive-through), fuel innovative ways of customer acquisition, and help predict and manage inventory to create a more resilient supply chain. The fundamental enabler to all this will be data—the transparency, governance, and accuracy of which have never been more important."**
>
> MCKINSEY & COMPANY, FASHION'S DIGITAL TRANSFORMATION: NOW OR NEVER[11]



Supply chain essential #2: Balancing efficiency and resilience

Digitization certainly helps drive efficiencies and lower overall cost. But in a world where sudden economic shocks are possible, companies must invest in building resilient operations. These two objectives—efficiency and resilience—normally conflict with one another. For example, just-in-time inventory is highly efficient but susceptible to stockouts. On the other hand, buffer stock helps ensure resilience but is highly inefficient. The two concepts are often assumed to be counterforces, but choosing one over the other isn't the only path. Working within a digital ecosystem, companies can balance efficiency and resilience effectively by automating processes, increasing worker productivity, and reducing costs where obvious. This combines the simultaneous benefits of connectivity and agility to make changes and adapt as disruptions occur without the need to buffer or add costly mitigation measures.

Supply chain essential #3: Flexible multi-bank financing

Digitally connecting the parties, systems, and documents involved in transactions opens the door to new and innovative programs to improve the health of the overall supply chain. Transactional data can be made available to finance providers on the network, enabling capital to be made available when and where it's most needed. In addition, a multi-bank business network enables a balanced risk approach to Supply Chain Finance and enhances the opportunities for program coverage across multiple jurisdictions above and beyond what a single bank may be able to offer. Lastly, local support for supplier activation and onboarding ensures maximum benefit for buyers, suppliers, and finance providers.

Three scenarios for generating value beyond your four walls

The digitization of core processes, combined with trading partner connectivity, has helped digital supply chain leaders become more responsive and adaptable. Here are three examples:

1. A footwear provider was undergoing rapid growth, but as the company expanded and demands increased, spreadsheets and manual processes were no longer sufficient to support current business or future progression. The brand digitally transformed sourcing, procurement, accounts payable, finance, and supplier management processes to help scale. The ability to digitally collaborate on orders, invoices, settlements, and ASN creation was foundational to the transformation. After expanding four times its original size, the company today has 99.8% invoice accuracy and spends only 30 minutes per day processing invoices.
2. A major global sports apparel brand sought to solidify the health of its supply base by ensuring access to capital. It tapped into a multi-enterprise network that connected all parties and digitized document flow to enable automated financing and settlement. A diverse portfolio of finance providers including non-banks were plugged in to create a significant pool of credit and deliver extensive coverage and programs to meet varying needs. In doing so, the brand was able to enhance the financial health of its suppliers while deploying its own capital preservation program.

3. An outdoor gear manufacturer had already automated its PO, invoice, and settlement processes to generate efficiency, but it was seeking further avenues to improve margins. It leveraged existing transaction data to auto-populate ASNs and packing and shipping instructions, which enabled direct shipments from the factory. As a result, prior plans to build a new distribution center were scrapped and deemed no longer necessary.

> **"At the best-performing companies, an 'inventory war room' uses big data and advanced analytics to first simulate dynamic demand scenarios specific to locations (channel, country, store) and SKUs, then to synthesize the resulting inventory risk—thus enhancing decision making. The war room decides, for example, whether to redistribute SKUs, transfer inventory to future seasons, or accelerate markdowns. A company's investments in developing advanced analytical tools to steer markdowns during the crisis will pay off almost immediately."**
>
> MCKINSEY & COMPANY, FASHION'S DIGITAL TRANSFORMATION: NOW OR NEVER[12]

Looking ahead

Both now and into the future, supply chains need agility to accelerate decision-making, respond to consumer demand, and keep suppliers funded. Elasticity and agility in the supply chain, including internal sourcing and finance teams, will be critical.

Future supply chains must adapt to different methods to source goods, fulfill, and facilitate payment across the supply chain, such as:

- Understanding risk exposure across the supply network
- Rotating the supply base to deal with regionalized disruptions and other unforeseen events
- Ensuring liquidity across suppliers to maintain assurance of supply
- Payment straight through processing

A cloud-based, multi-bank platform can digitize commerce and make capital available to supply chains through innovative programs. Digitization of documents, data, and capital raise the liquidity and scalability of the supply chain. When a network of finance providers have visibility into transactions, they are more willing to finance trade and everyone benefits. Suppliers improve liquidity while buyers move to preserve their own capital.

Going a step further, once manufacturers, retailers, and their trading partners are connected, they can begin the work towards gaining real-time, end-to-end visibility of data and insights on things like the location and status of orders, shipments and inventory across the entire network.

Visibility and connectivity are the first two layers of digital transformation. In addition, companies require predictive and actionable intelligence from those insights. You need to understand the impact of disruptions and what actions to take. For instance, it's not enough to know that the supplier of an essential part or component has slowed production.

[1] Accenture, Building supply chain resilience: What to do now and next during COVID-19, March 17, 2020.
[2] Ibid.
[3] PwC, PwC's COVID-19 CFO Pulse Survey: Insights from global leaders on the crisis and response, June 15, 2020.
[4] PwC, PwC's COVID-19 CFO Pulse Survey: US/Mexico findings, March 16, 2020.
[5] Center for Global Workers' Rights, Abandoned? The Impact of COVID-19 on Workers and Businesses at the Bottom of Global Garment Supply Chains, March 27, 2020.
[6] Institute of Finance and Management (IOFM), IOFM's 2018 Future of Accounts Payable Survey, 2018.
[7] Ibid.
[8] Ibid.
[9] Emma Cosgrove, "Canceled orders, delayed payments: How supplier collaboration could reverse apparel's nosedive, May 21, 2020.
[10] Boston Consulting Group, Rebuilding a More Sustainable Fashion Industry After COVID-19, April 30, 2020.
[11] McKinsey & Company, Fashion's digital transformation: Now or never, May 6, 2020.
[12] Ibid.

You need to know the impact of that loss of production or key component upon the customer. You need to know where else you can find those parts or components to prevent a service-level impact. In this scenario and the hundreds of others that play out as a result of any disruption or black swan event, visibility is the first layer of protection. On top of that layer is intelligence to deliver swift answers. Data drives decisions and actions.

Because supply chains are data-intensive, quickly changing, and complex, artificial intelligence (AI) is necessary for interpreting these dynamic signals. AI technology helps provide predictive alerting to disruptions or potential new opportunities, as well as decision support, so users can act quickly and optimally respond.

What does an intelligent supply chain look like?

- A data-driven representation of the supply chain allows companies to monitor everything that's occurring in real time—WIP, inventory in transit and at rest, cash flow forecasts 30, 45, 60, 90 days out, etc.—to drive intelligent decisions.
- Having end-to-end visibility across supply chain processes and functions means you can begin to leverage AI to sense changes in supply and demand signals and respond much faster.
- Network connectivity and agility provides a toolkit of possible resolutions that can be executed at lower cost or lower disruption across both the organization and the supply chain ecosystem. AI can help determine and prescribe optimal resolutions so that supply chain professionals can take the smartest actions to maintain service levels and hold down costs.
- The fusion and contextualization of physical and financial supply chain flows across the network to deliver value to all trading partners.

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