

# Supply Chain Finance

*A framework to generalize emerging concepts and practices*

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## Motivation

Increased attention for cooperative approaches for financing between firms. Our scientific contribution is an SCF framework that will generalize applications and consider key choices and trade-offs.

## Methodology

- Identify main execution dimensions based on an exploration of SCF concepts and applications.
- Use a Discounted Cash Flow (DCF) approach to identify trade-offs and key criteria.
- Evaluate contemporary reverse factoring practices based on the framework.

Five key criteria for adopting a SCF strategy:

SCF operations strategies	Return Uniform	Return Custom	Risk Uniform	Risk Custom
1. Expected additional return from solving underinvestment	Low	Low	High	High
2. Investment risk from underinvestment opportunities	High	High	Low	Low
3. Time span to collect benefits	Very short term	Short term	Long term	Very Long term
4. Expected additional return of customization	Low	High	Low	High
5. Investment cost of customization	high	Low	High	Low

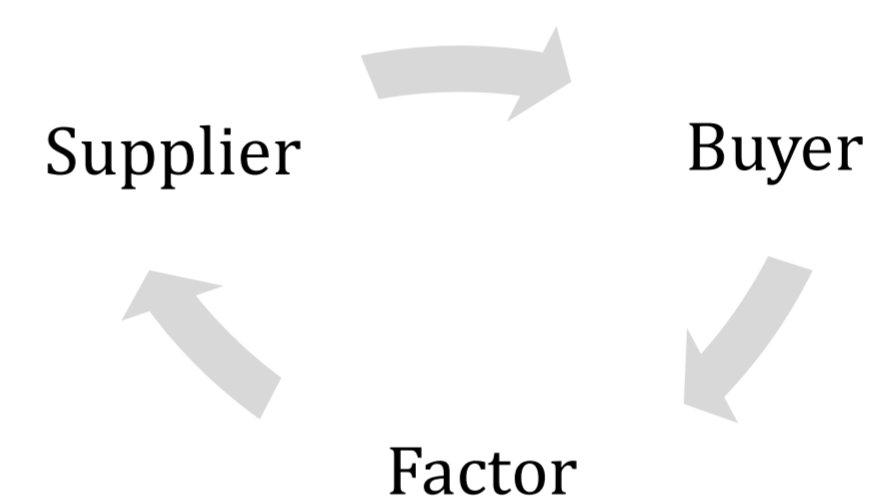
## A Supply Chain Finance framework

We identify two main dimensions and trade-offs.

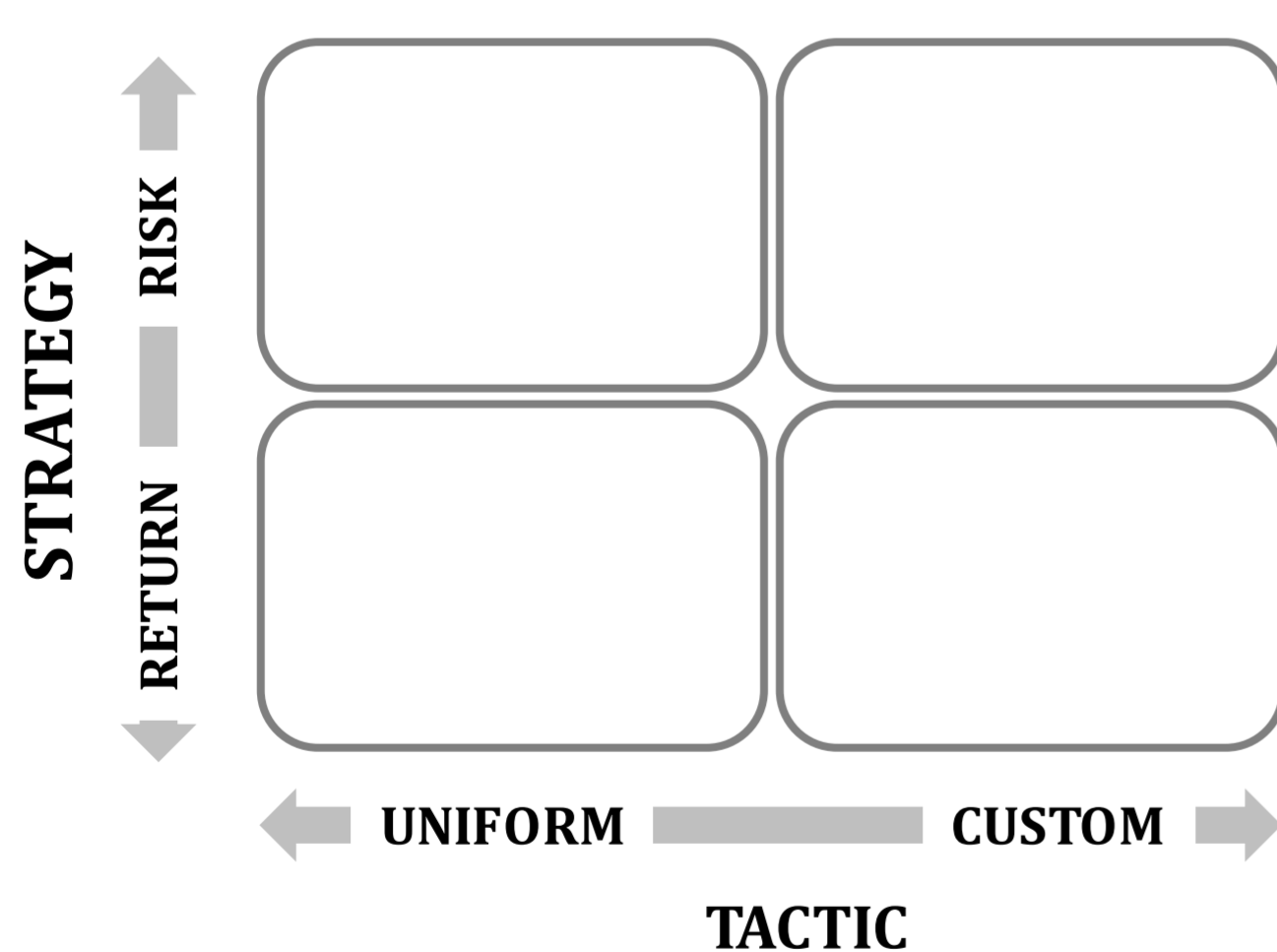
**Strategic orientation:** *Collect direct returns from offering SCF or indirect returns from mitigating operational risk through the SCF mechanism?*

**Tactical orientation:** *Minimize initial investment cost through uniformity or maximize long-run returns through customization?*

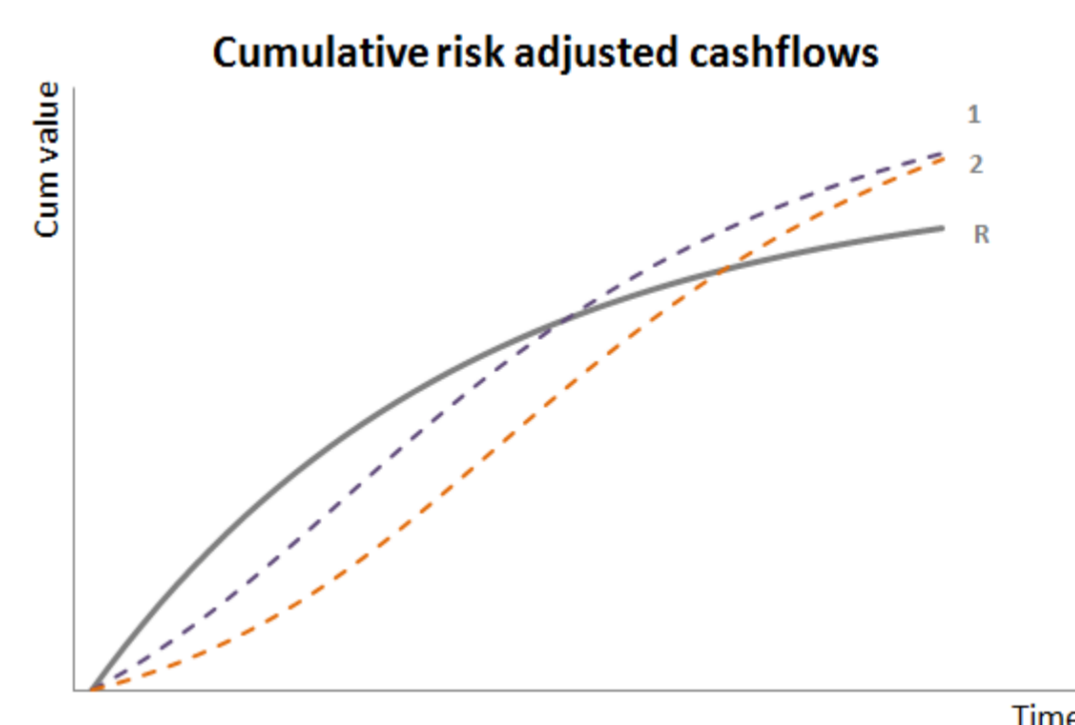
## Reverse factoring: An SCF application



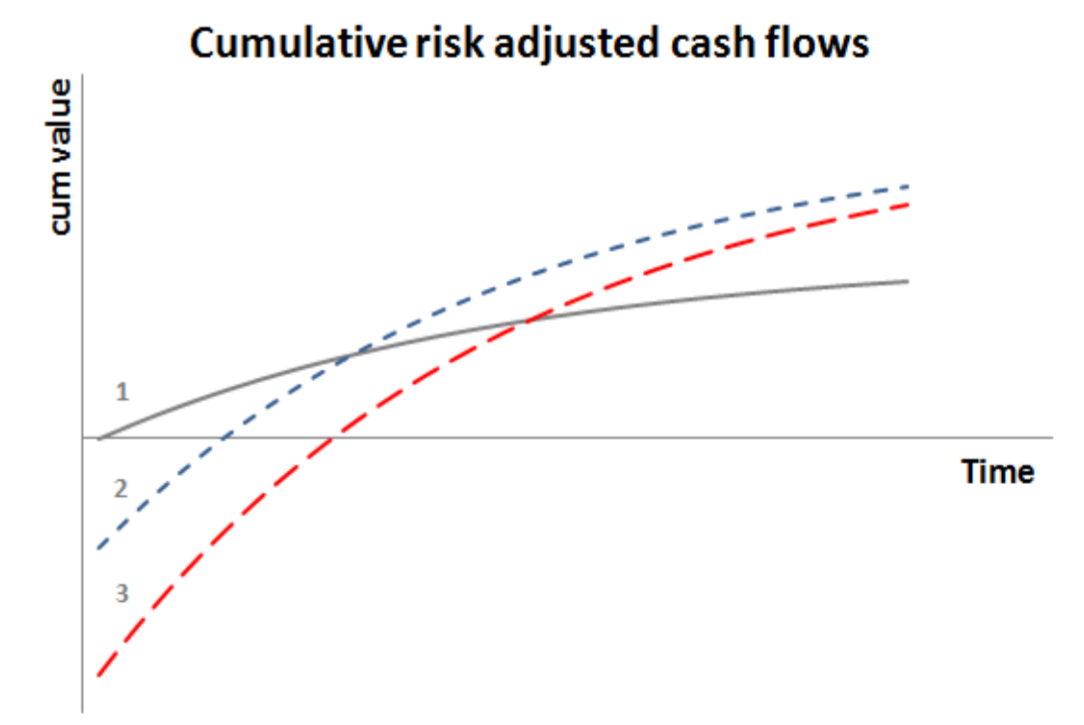
- Factor benefits from a low-risk financing transaction.
- Supplier benefits from improved financing conditions.
- Buyer benefits from improved commercial conditions.



## Strategic trade-off



## Tactical trade-off



## Conclusions

- Return-oriented strategies are more widely applied than risk-oriented strategies due to the challenges involved in assessing the value and risk of solving supply-base underinvestment.
- Risk-oriented customizations are barely applied due to the information processing capabilities required to obtain transparency on operations.

## Implications

- SCF benefactor: explore the value from risk-oriented strategies and customizations.
- SCF beneficiaries: explore the value of sharing information on operations underinvestment.
- SCF financer: explore investment in technologies to support risk-oriented SCF implementation.