



Aberdeen *Group*

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Technology Platforms for Supply Chain Finance

*How to Drive Competitive Business Advantage by Increasing Payment
and Financing Automation with Business Partners*

March 2007

Executive Summary

Best in Class Gaining Competitive Advantage with SCF Technology

Supply chain finance is an emerging area of interest – more than 69% of companies in Aberdeen's inaugural 2006 SCF study indicated they had either implemented or were evaluating SCF programs. Leaders are enjoying significant improvements in key business metrics such as DPOs, DSOs, and lower unit costs. To determine the role technology plays in these initiatives, Aberdeen conducted a study in February and March 2007 across 100 companies.

Supply chain finance (SCF) technology helps automate the process of exchanging payments, related documents, and information between buyers, sellers, financial institutions, and other involved parties. It supports related visibility and workflow for all the parties involved. The technology can also involve access to financing/credit extended by participating financial institutions or the supply chain participants themselves.

One of the most striking findings of this study illustrates how efficient strategies in using SCF technologies can improve a company's position in the market:

⇒ **Best in Class companies are 6X more likely to have gained significant competitive advantage due to implementing SCF technology**

Based on the findings, Best in Class companies are more likely to understand the value SCF technology can bring in improving corporate financial performance, while their peers are focused more on transactional efficiency improvements.

- Best in Class companies are 1.5 times more motivated by the *emerging savings/profit opportunities* of improving SCF technology.
- Best in Class are most focused on how SCF technology enhancements can improve their financial metrics versus just seeking basic internal productivity gains.

Benchmarking Requirements for Success

Best in Class companies were found to process twice as much volume via their main SCF platform as their lower-performing peers, when measured by the annual dollar turnover. They are also processing three times more invoices monthly across their SCF platform. In addition, the results show that Best in Class respondents are *accelerating* their investments in a variety of SCF technology areas to further enhance their capabilities.

Best in Class use SCF platforms that are:

⇒ **1.5 times more likely to provide access to payables financing, and almost twice more likely to provide access to receivables financing**

⇒ **1.5 times more likely to provide access to inventory financing**

By using SCF technology to improve an organization's key financial metrics, ensuring the transparency of its business processes, and strengthening its business relationships, a company can position itself for innovative growth strategies.



Required Actions

Laggard/ Industry Norm Steps to Success:

- Know what to focus on when crafting a SCF program: identify the most critical financial metrics that matter to your business unit (use the list prioritized by the Best in Class in our study), and **focus on these specific metrics when developing a SCF program** to fit your needs.
- Invest in a SCF technology platform that provides strong visibility and automates the key functions for you and your trading partners, as well as **provides access to appropriate financing options** (access to financing is critical).

Best in Class Next Steps

- Use SCF technology that provides visibility into shipments and inventory and **enables access to inventory financing**
- Improve financial risk management with new SCF technology platforms that offer **enhanced analytics tools** for credit scoring, supplier risk assessment, and the analysis of how using trade discounts and receivables/payables financing can impact the working capital balance.

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Chapter One: Benchmarking the Best in Class

Fast Facts

- Best in Class companies are 6X more likely to have gained a significant competitive advantage due to implementing SCF technology.
- Best in Class companies are 1.5X more motivated by the emerging savings/ profit opportunities of improved SCF.

Best in Class Companies are Gaining Competitive Advantage with SCF Technology

Supply chain finance (SCF) is an emerging area of interest – more than 69% of companies in Aberdeen’s inaugural 2006 SCF study indicated they had either implemented or were evaluating SCF programs. To determine the role technology plays in these initiatives, Aberdeen conducted a study in February and March 2007 across more than 100 companies.

One of the most striking findings of this study shows how efficient strategies in using SCF technologies can improve a company’s position in the market:

⇒ **Best in Class companies are 6X more likely to report that they have gained significant competitive advantage due to implementing SCF technology**

Best in Class achieved competitive advantage through improving key business metrics, both on the financial and the operational sides of business (such as the cost of labor and transaction processing, DPO/DSO, company profit, the cost of trade financing, or business process transparency/visibility). Companies that excel in these metrics are getting ahead of their competition and beginning to truly leverage the next step of savings in the supply chain.

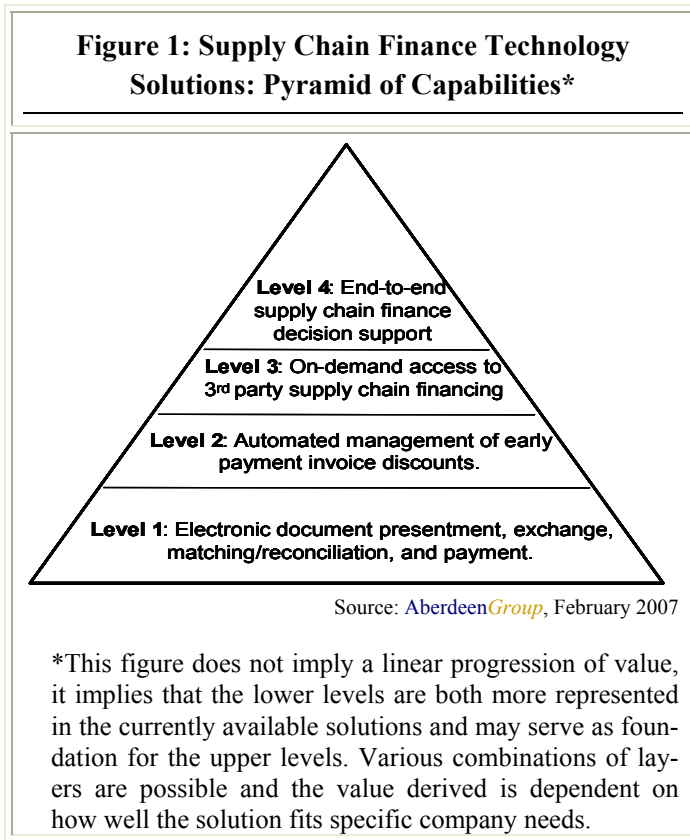
Supply Chain Finance Technology Choices

Financial supply chain technology facilitates the process of exchanging payments, related documents, and information between buyers, sellers, financial institutions, and other involved parties. SCF technology incorporates both transactional financial supply chain automation and access to financing/credit; extended by the participating financial institutions or supply chain partners themselves.

The most widespread technologies to automate financial supply chain transactions today focus on automating various stages of the Accounts Payable (AP) and Accounts Receivable (AR) processes. These technologies include electronic invoice presentment and payment (EIPP) solutions that provide system-to-system integration across buyer-seller ERP systems and their banking partners. International trade finance technology platforms that help automate letters of credit and open account activity are also gaining increased attention. In addition to these, a number of SCF solutions also support third-party financing (e.g., invoice or inventory financing) or invoice discount management capabilities for trading partners.



Introduction: Supply Chain Finance Technology Options



The pyramid in Figure 1 represents the layers of SCF technologies available to companies. The base of the pyramid shows foundational technologies that facilitate an electronic flow of documents and data between buyers and sellers.

The upper layers show enablers that build on the foundational technologies to offer early payment discount management, on-demand access to third-party financing, and – at the apex – various analytics tools that can help a company estimate the costs of financing in their supply chain and improve decision making. **(For a more detailed overview of SCF technologies and their key functionality see Appendix A).**

Establishing the basic level of automation outlined under Level 1 is extremely important. Having shared transaction visibility between buyers, sellers and their financiers, which is enabled at this level of automation, is an essential capability that needs to be achieved before companies can progress further in their SCF programs and potentially become Best in Class performers.

Aberdeen’s 2006 SCF research found that the most important consideration when selecting a SCF technology platform is the **ease of interaction with buyers, suppliers, and bank (financial institution) processes** (cited by 69% of study participants):

- **SCF Technology for Suppliers:** From the supplier’s point of view, the lack of automation used in managing SCF processes is among the top 3 obstacles to improving SCF practices. Implementing a technology solution that enables both streamlined transaction processing/document management and access to financing is **the #1 prioritized action** reported by the suppliers in the study. This technology directly helps to address the top 2 challenges cited by suppliers – cash flow uncertainty and constricted access to trade financing.



- **SCF Technology for Buyers:** As for the buyers, implementing new technology for better automation and visibility in the supply chain is reported as a #3 prioritized action (40% of the buyers) that would address their second-most pressing problem – the growing burden of manual-intensive financial processes.

Our research shows that both buyers and suppliers strongly desire better automation in their payment and funding processes. When establishing their payment and funding strategies with supply chain partners and deciding on the appropriate technology option, companies should not only focus on automation for the purpose of their own internal transactional efficiency but also for the purpose of improving externally facing processes with their customers and suppliers.

Maturity Class Framework

Based on this research, Best in Class companies are more likely to understand the value SCF technology can bring in improved corporate financial performance, while their peers tend to focus more on transactional efficiency improvements.

- Best in Class companies are **1.5 times more motivated by the emerging savings/ profit opportunities of improved SCF**
- Manual-intensive processing of financial transactions is the top pressure driving an increased focus on SCF technology for the overall sample of the study, while the **pressure to improve financial metrics is #1 for the Best in Class**

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance:

Best in class (~20%) —practices that are the best currently being employed and significantly superior to the industry norm

Industry norm (~50%) —practices that represent the average or norm

Laggards (~30%) —practices that are significantly behind the average of the industry

Is Your Company Best in Class?

In order to determine whether a company was “Best in Class,” study participants were asked to indicate their performance improvements over the past 18 months that could be directly attributed to their use of a financial supply chain technology platform. The improvement areas measured were:

Financial:

- Labor costs
- Transaction processing costs
- Rate at which trade financing is obtained (own or for trading partners)
- Profit
- DPO (for AP-focused technologies)
- DSO (for AR-focused technologies)

Process:

- Business process transparency/visibility



As can be seen in Table 1, Best in Class organizations are defined as those that have improved in at least three of the above-listed financial metrics over the past 18 months and/or improved their business process transparency/ and visibility (which leads to additional operational gains).

Table 1: Companies with Most Performance Improvements Named Best-in-Class

Maturity Level	Performance Improvement
Best in Class:	Has improved in at least 3 of the financial metrics over the past 18 months and/or business process transparency/ visibility
Industry Average:	Has improved in 2-3 of these metrics over the past 18 months (in the case of 3 improved metrics, 2 of them were financial + an improvement in business process transparency/ visibility)
Laggard:	Has improved in only 1 or none of these metrics

Source: AberdeenGroup, March 2007

The Best in Class are aggressively targeting the key financial metrics, which reflect much more than just the costs of financial transaction processing. These top performers are focusing on the financial supply chain as a whole and are achieving significant competitive benefits as a result. **Companies considering SCF technology should take a more strategic view of how to deploy these technologies in order to maximize the benefits from their SCF technology investment.** In particular, evaluate how the technology can improve productivity, cash flow visibility, and funding for your trading partners.

Best in Class PACE Model

Best in Class companies exhibit the following PACE framework attributes (PACE is a proprietary Aberdeen research framework that stands for Pressures, Actions, Capabilities, and Enablers. For a full explanation of the PACE framework, see Appendix B). In other words, to achieve better SCF performance, these are the strategies, organizational changes, and technology enablers that the Best in Class companies are adopting.

<p>PACE Key — For more detailed description see Appendix B</p> <p><i>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</i></p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures</p> <p>Capabilities — the business process competencies required to execute corporate strategy</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices</p>
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**Table 2: Best in Class Companies' SCF Technology Usage: PACE**

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> • Pressure to improve financial metrics • Opportunity to lower end-to-end supply chain costs 	<ul style="list-style-type: none"> • Automate AP and AR processes • Automate purchase order management (e.g. enabling suppliers to create commercial invoices and other documents based on electronic P.O. data) • Automate charge-back management (e.g. invoice deductions) • Adopt technology that facilitates access to trade financing 	<ul style="list-style-type: none"> • Enhanced financial supply chain visibility: ability to seamlessly communicate with the trading partners, including trade-related document exchange, contractual terms and deadlines and the status of each transaction (e.g. invoice status) • Ability to access supply chain financing at various stages in the supply chain (payables/ receivables/inventory financing programs) 	<ul style="list-style-type: none"> • SCF technology platform with access to payables financing • SCF technology platform with access to receivables financing • SCF technology platform with access to inventory financing • Electronic invoice presentment • Trade-related document preparation and management • Invoice matching/ reconciliation (internal) • Electronic payment process

Source: AberdeenGroup, March 2007

Aberdeen Analysis

Table 3 summarizes some of the SCF technology options available in the market today and identifies which types of companies should consider them. All of these technologies enhance transactional supply chain visibility by helping to automate the process of exchanging payments, related documents, and information between buyers, sellers, financial institutions, and other involved parties.

Table 3: SCF Technology Options: A Snapshot of Value Propositions

Technology Type/ Feature	Value Proposition	Who Should Consider
EIPP (electronic invoice presentment and payment)	Streamlined presentment and payment of invoices; elimination of manual processing, faster invoice processing and payment time	Any company for which it takes more than 3 FTEs a year to process invoices and related payments
Automated invoice discount management platform	More effective use of cash for the buyers; more flexibility in accessing cash for suppliers	Buyers that often have excess cash on hand or that want to ease their suppliers' cash flow shortage Suppliers that often need cash and have difficulty accessing it on-demand from another source



Technology Type/ Feature	Value Proposition	Who Should Consider
Automated platform with access to receivables financing	Faster access to cash for suppliers, often at a cheaper rate (e.g. if a financier provides financing for approved invoices leveraging a buyer's better credit rating)	Suppliers looking to optimize their financial supply chains and decrease the average cost of trade financing, as well as increase cash flow predictability
Automated platform with access to payables financing	Attracting third-party funds to finance payables enables sellers to extend payment terms for cash-strapped buyers	Buyers with long cash conversion cycles looking to extend their payment terms with the help of external financing
Automated platform with access to inventory financing	Reduced inventory carrying cost	Companies with high levels of inventory and long in-transit times
Automated platform for letters of credit/ open account management with access to third-party trade financing	Automated management and status tracking of trade-related documents; reduced cost of trade financing	Exporters/importers with high volumes of international trade and complex multi-layered supply chains

Source: [AberdeenGroup](#), March 2007

A company that improves its key financial metrics and ensures the transparency of its business processes is well-positioned to support innovative growth strategies that can turn it into a market leader. Deploying improved SCF technology is proving to help companies achieve those objectives.

The next chapter will take an in-depth look at the technology capabilities being used by the Best in Class.



Chapter Two: Benchmarking Requirements for Success

Fast Facts

- Best in Class are almost twice as likely to use SCF platforms that provide access to receivables or payables financing.
- Best in Class are processing twice as much volume via their SCF platform as measured by the annual dollar turnover and three times more invoices monthly.

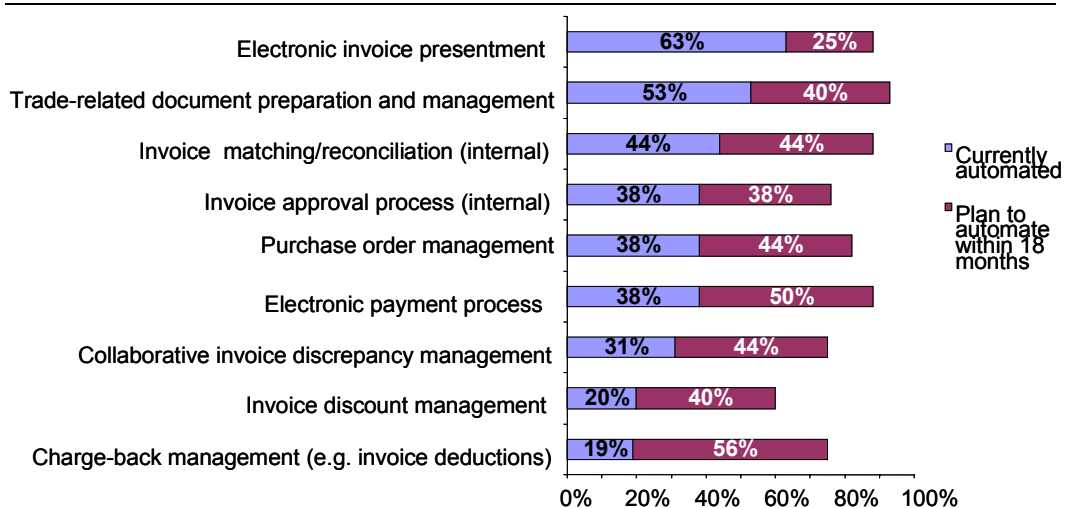
SCF Technologies: Best in Class Practices, Deployment Strategies, and Investment Plans

Numerous technology platforms are available today to help companies automate different processes in support of supply chain finance. This chapter investigates specific technology features and solution capabilities used by Best in Class companies in this study that have helped them drive improvements in three or more key financial metrics.

Current and Planned Use

Figure 1 below shows the current and planned automation of the SCF-related functional processes by the Best in Class:

Figure 2: Current and Planned Automation of SCF Processes by the Best in Class



Source: AberdeenGroup, March 2007



Deployment Issues and Responses

The top five challenges encountered by study participants during deployment and implementation of their SCF technology platforms are:

- Internal integration issues – 56%
- The need to redesign business processes to fit the new solution – 55%
- Staff resistance – 49%
- Training (time and costs) – 47%
- Lack of internal IT resources – 44%

The Voice of End-User: Responses to the Deployment Challenges

“Selecting a provider that understands our needs and has the know-how to deliver a solution that meets those needs. Understanding inventories and finances prior to conversion. Testing the application in concert with existing process to confirm functionality before deployment.”

- Large North American utilities company

“[Have] chosen the right SCF/SCM e-collaboration platform which was integrated with our ERP system”

- Middle Eastern industrial equipment manufacturer

“Running a formal project based on problem identification and business case with a subsequent formal project allocation of all resources needed to execute”

- Mid-market public sector organization, Australia

Best in Class Lead in SCF Technology Investment Plans

Best in Class companies are accelerating their investments in various SCF technology areas. Survey participants have reported the following **investment plans for new SCF technology in 2007** (weighted average¹):

⇒	Best in Class - \$ 350,000
⇒	Industry Average - \$220,000
⇒	Laggards - \$65,000

¹ Companies that reported planning to invest “more than \$1 million” were conservatively averaged at \$1,100,000



Best in Class Lead in Volumes Processed by SCF Technology

Best in Class companies are also more likely to have more transactions processed via their SCF technology platforms; measured both by dollar value and the volume of transactions:

- ⇒ Best in Class are processing **twice as much volume via their main SCF platform as measured by the annual dollar turnover** (\$934 million, on average, for Best in Class, versus \$481 million, on average, for the rest of respondents).
- ⇒ Best in Class are processing **three times more invoices monthly** via their main SCF platform (192,000, on average, for Best in Class, versus 60,000, on average, for the rest of respondents).

Competitive Maturity Assessment

Table 4 presents a competitive framework of SCF technology platforms usage, as demonstrated by the participants of the current study. For Aberdeen's overall maturity framework in supply chain finance (including process, organization, knowledge management, technology/financing), please see the [New Strategies for Financial Supply Chain Optimization Benchmark Report](#).

The competitive framework below drills down specifically into the two main aspects of SCF technology platforms: automated capabilities and access to financing. (Note: Keep in mind that the maturity level of a company is designated by improvements in key metrics – not by absolute performance. Nonetheless, as seen below, the Best in Class have enjoyed both the most relative improvement in financial performance and lead in absolute performance).

Table 4: Competitive Framework

	Laggards	Average	Best in Class
Primary SCF platform (most frequently used)	Spreadsheets or a part of existing ERP system	Custom-developed application or a part of existing ERP system	Part of ERP or an on-demand/ hosted SCF platform from a third-party specialist
Financing available via SCF platform	Payables financing		
	33%	39%	53%
	Receivables financing		
	21%	35%	50%
	Inventory financing		
	25%	19%	33%



	Laggards	Average	Best in Class
Automation of SCF-related functional processes	Electronic invoice presentment		
	50%	52%	63%
	Trade-related document preparation and management		
	41%	23%	53%
Financial Metrics	Days Payable Outstanding		
	32	35	42
	Days Sales Outstanding		
	38	47	21

Source: AberdeenGroup, March 2007

Best in Class Companies Lead in Using SCF Platforms with Financing Access

The Best in Class are **further ahead than their peers in deploying electronic invoice presentment and using automated preparation and management of trade-related documents**. Additionally, while the data did not show a definitive Best in Class differentiation among the companies based on the automation of various functional sub-processes or functionalities, the data did show a **strong correlation between the Best in Class performance and whether or not the SCF technology platform provided access to the key types of supply chain financing**.

Best in Class companies are most likely to have payables, receivables, or inventory financing available via their SCF technology platform.

Best in Class use SCF platforms that are:

- ⇒ **1.5 times more likely to provide access to payables financing**
- ⇒ **Almost twice more likely to provide access to receivables financing**
- ⇒ **1.5 times more likely to provide access to inventory financing**

The Future of SCF Technologies

What are corporations seeking in a SCF technology platform? One of the key tenets of successful SCF management is the timely availability of accurate information on financial (and physical) supply chain events. Tables 5 and 6 showcase the types of information and specific features that have been prioritized by the Best in Class on the wish list of things readily accessible via a SCF platform:

**Table 5: Desired Information in a SCF Technology Platform**

Desired Information
<ul style="list-style-type: none"> ▪ Invoice status – 88% ▪ Purchase order status – 81% ▪ Key financial metrics (e.g. Days Payable Outstanding, Days Sales Outstanding) – 81% ▪ Shipment status – 81% ▪ Payment terms/ aging list – 69% ▪ Volumes of transactions processed – 69% ▪ International trade-related documentation status – 56% ▪ Invoice discount-related information – 50% ▪ Credit limit/ utilization – 50% ▪ Financing status (e.g. if using 3rd-party financing) – 44% ▪ Credit rating of trading partners – 44%

Source: AberdeenGroup, March 2007

Table 6: Desired Features in a SCF Technology Platform

Desired Features
<ul style="list-style-type: none"> ▪ Cash flow forecasting – 69% ▪ Financial risk analysis/management tools (e.g. credit risk) – 69% ▪ Access to platform via mobile devices – 67% ▪ Tool to calculate cash flow impact of offering/accepting invoice discounts – 67% ▪ Access to 3rd-party financing from one financial institution – 63% ▪ Analytics tools (e.g. supplier/customer scorecards) – 63% ▪ Dynamic invoice discounting (supplier- or buyer-initiated) – 56% ▪ Access to 3rd-party financing from multiple financial institutions – 50% ▪ Transaction visibility (order/shipment/inventory status) – 50% ▪ Alerts/notifications – 50% ▪ Supports multiple languages – 50% ▪ Access to a network/community of pre-connected trading partners – 44%

Source: AberdeenGroup, March 2007

Case Study: Global Supplier of Networking Equipment Uses an SCF Platform

A global supplier of networking equipment adopted a third-party SCF platform to support its distribution finance program with the emerging market buyers. This supplier uses the platform to exchange, process, and analyze program-related data and documents, as well as manage the financing and payment terms.



Platform Features Used:

- Tracking the status of documents and processes; document processing
- Managing customer financing arrangements under the program’s rules
- Enhanced reporting and analysis
- Advanced portal functionalities with online access

Benefits Achieved:

- Real-time visibility into the program activity and the status of each customer (e.g. credit line utilization, credit rating, payment/financing terms and history, etc)
- Improved business agility: Having real-time information on the status of each customer enables managers to respond to customer demands much faster and build each customer relationship based on a personalized approach
- Usability and flexibility: The platform has been very well received by staff members internally and by the supply chain partners. It has simplified and facilitated the process for the company and its customers, who have been seamlessly on-boarded to the platform.
- Improved analytics capability: With advanced reporting capabilities that provide better analytics, including graphical representation of trends and comparisons, the program management now has much stronger decision-support tools to manage and grow the program.

Aberdeen Analysis

The Best in Class capabilities and usage strategies covered in this chapter call for the following actions among companies investigating SCF technology options:

- ⇒ When choosing a new technology platform, pick the one that provides the most visibility into financial supply chain events (e.g. the status of invoice, P.O., shipments, international trade-related documentation status) as well as insight into the terms of trade and financial performance (financial metrics, payment terms, volume of transactions processed, invoice discount-related information, etc)
- ⇒ When choosing a new technology platform, consider choosing one that offers access to financing of payables/ receivables, or inventory – depending on which area is the biggest pain point for your company
- ⇒ When choosing a new technology platform, evaluate how the solution provider can help onboard your trading partners and other stakeholders onto the system and generate transactional usage of the platform. This study clearly shows that Best in Class process more transactions via their SCF technology platform, both in terms of dollars and the number of invoices.



Choosing the right technology to support financial supply chain management can measurably improve financial results, increase staff productivity, and strengthen trading partner relationships. As this study shows, using a platform that provides access to third-party financing of payables, receivables, or inventory is a turning-point differentiator for the Best in Class performance in several important financial and process metrics.

The availability of up-to-date and reliable information on relevant financial supply chain events makes it possible for both the trading partners and their creditors to attain the level of visibility at which all parties can make the most efficient decisions. Buyers and suppliers can better negotiate pricing and payment terms for goods while financiers can better estimate the financial risks involved; this often leads to lower-cost credit insurance and trade financing. These activities allow an enterprise to remove unnecessary costs from its end-to-end supply chain and improve corporate competitiveness.



Chapter Three: Required Actions

Fast Facts

- Average/Laggards: Use a SCF technology platform that provides access to payables, receivables, or inventory financing (depending on specific company needs). Focus on a number of financial metrics when creating a SCF program, not just automation efficiency.
- Best in Class: Use technology to gain better visibility into shipments and inventory and improve financial risk management. Also evaluate inventory financing-related capabilities.

Laggard/ Industry Norm Steps to Success

1. *Know what to focus on when crafting a SCF program*

Identify the most critical financial metrics that matter to your business unit (align with the overall company’s financial objectives), and focus on these specific metrics when developing a SCF program to fit your needs. The most common metrics to target are shown in Table 7. (The order was prioritized by the Best in Class buyers and suppliers of Aberdeen’s foundational SCF survey in 2006. For full results of that study, read [The Supply Chain Finance Benchmark Report](#), September 2006.)

Table 7: Best in Class Most Common Metrics to Use in Your SCF Program

Buyers	Suppliers
1. Supplier performance (lead time, product quality, disputes)	1. Average cost of short-term capital (annualized %)
2. Return on capital employed (ROCE)	2. Days Sales Outstanding (DSO)
3. Days Payables Outstanding (DPO)	3. Overall weighted cost of capital for the company (annualized %) – includes the cost of trade financing
4. Accuracy of cash flow forecasting (% of time forecasts correct - i.e. within your expected range)	4. Return on capital employed (ROCE)
5. Debt/ Equity Ratio	5. Average Internal Rate of Return on a project
6. Overall weighted cost of capital for the company (annualized %) – includes the cost of trade financing	6. Accuracy of cash flow forecasting (% of time forecasts correct - i.e. within your expected range)

Source: AberdeenGroup, September 2006

Average and Laggards in the study were measuring much less metrics and were more focused on traditional DPO/DSO metrics, without complementing them with more insightful indicators that reflect the trade financing costs and overall supply chain performance (e.g. supplier performance, ROCE, the accuracy of cash flow forecasting, and the cost of capital used for finance various aspects of the supply



chain). To be able to move to the next maturity level, these companies need to start looking beyond DPOs and DSO and begin estimating and tracking the end-to-end supply chain costs and performance.

2. *Invest in a SCF technology platform that provides strong visibility and automates the key functions for you and your trading partners*

Having shared visibility into relevant supply chain events is a cornerstone of efficient collaboration among supply chain partners. When selecting a SCF technology platform, a company should not only focus on automating internal processes but should also think about the usability of the platform by supply chain partners.

The analysis of buyer-supplier relationship in Aberdeen's prior SCF research has shown a striking disconnect between what the companies want from their supply chain partners and where they are willing to commit themselves. For example, buyers repeatedly cited the desire to extend payment terms, while suppliers in the same study reported the top challenges of cash flow uncertainty and the lack of supply chain automation.

One of the compromises that could be reached in this situation is for a buyer to offer its suppliers on-boarding capabilities to its SCF platform, which would provide enhanced visibility and predictability of cash flows for suppliers in addition to cutting down manual processing costs. In many cases, such technology is paid for by the buyer, so offering it for use to the suppliers could create a favorable environment for negotiating better trading or payment terms. The key to success is in developing SCF programs collaboratively and choosing the technology platform that would provide automation benefits to both buyers and suppliers.

3. *Invest in a SCF technology platform with access to appropriate financing options*

Depending on your department's functional focus – the purchase-to-pay process with suppliers (AP side) or order-to-cash process with customers (AR side) – create a business case to implement a SCF technology platform with access to payables or receivables financing.

Moving to the Best in Class practices could significantly reduce supply chain costs, as outlined below:

- Best in class DPO advantage compared to Average/Laggard = 9 days
- Best in Class DSO advantage compared to Average/Laggard = 22 days

“Top management support [from] the CFO, treasury, or controller's office [was key to successfully deploying our SCF technology]”

- North American CPG company



Best in Class Next Steps

1. *Use technology to gain better visibility into shipments and inventory*

Increase the granularity of event information from purchase order through invoice in order to help financial partners provide you and your supply chain partners with lower-cost financing of the supply chain. B2B hubs, global trade management platforms, and SCF technology networks can be helpful in gaining this event information.

2. *Use technology that enables access to inventory financing*

Aberdeen's SCF research shows a strong interest from companies in using inventory financing as part of developing new strategic practices in working capital optimization. **40% of the Best in Class say they would like to be able to access inventory financing via their SCF platform**, while 33% already have this capability.

3. *Improve financial risk management with better SCF technology platforms*

Financial risk analysis and management tools along with the cash flow forecasting tools rank at the top on the list of desired features accessible via a SCF technology platform, as reported by the Best in Class study participants. Improved risk assessment and risk management capabilities are essential in gaining access to more accurately priced trade financing and credit insurance for the supply chain partners.

Aberdeen Analysis

Best in Class companies are leading the way in developing innovative SCF techniques and adopting enabling technologies. For companies that are only beginning to investigate their options in SCF, it is essential to choose a technology that not only reduces financial transaction processing costs but also establishes the roadmap for a more strategic SCF program. This includes providing flexible access to supply chain financing at many points in the supply chain and at the most appropriate time.

Once that stage is achieved a company is free to strategize and test various financing options to find the solution that decreases financing costs and risks for its supply chain, reinforces relationships with its trading partners, and increases the supply chain's overall competitiveness.

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Appendix A: **Explaining Figure 1: Capabilities of SCF Technology Solutions**

Level 1: Electronic document presentment, exchange, matching/reconciliation, and payment.

These foundational technologies streamline and facilitate parts or all of the order-to-invoice-to-payment process. The most widespread technologies today focus on automating Accounts Payable (AP) and Accounts Receivable (AR) functions. These platforms reduce the financial transaction processing costs while providing enhanced invoice and payment status visibility for buyers and sellers. In some cases, on-line purchase order management is also included, which helps to automate the management of purchase orders, shipping documents, invoices, and other documents, and make them more visible.

Examples of these technologies include electronic invoice presentment and payment (EIPP) systems, electronic purchase order-through-invoice management, Letters of Credit and Open Account management platforms, etc. On the AR side, technology solutions can help format invoices to meet individual customer requirements, as well as offer buyers an easier way to view invoices, make approvals, and take advantage of early payment discounts offered by the supplier. These systems can be a combination of Web-based data entry, document viewing and status, and system-to-system connectivity (e.g., buyer's ERP system to supplier's ERP system).

Level 2: Automated management of early payment invoice discounts.

This technology helps companies to automate the process of offering, accepting, and otherwise managing early payment invoice discounts. Some solutions in this category support dynamic discounting – a capability that allows buyers or suppliers to automatically offer and process discounts based on the pre-determined criteria, where the counter-party can “opt in” to early payment offers on a whole order or just a line-item level. This functionality is increasingly found as an extension of Level 1 solutions. The invoice discount programs can be funded by either a company's own cash reserves or an external financier. Some technology platforms provide the ability to access third-party discount funding from a bank or non-bank financial institution (see Level 3). Technology platforms can also provide working capital management tools as an add-on to the discount management capabilities (Level 4).

Level 3: On-demand access to third-party supply chain financing.

There are many emerging SCF technology platforms that provide access to different types of financing, including receivables, payables, pre-shipment financing, inventory financing, and other financing types. To take full advantage of such offerings, supply chain partners (buyers and suppliers) have to improve collaboration and mutually develop better supply chain finance strategies that would cut the cost of financing and enable lower overall costs. For many companies, their inefficient SCF practices represent millions of dollars of missed savings opportunities.

Level 4: Supply chain finance decision support tools.

Analytics tools such as performance scoreboards, graphical representation of various trends, and side-to-side metrics comparisons help companies to make better decisions about their current and future supply chain finance strategies. For instance, one example is a tool to calculate the impact to cash flow from offering/accepting invoice discounts. End-to-end supply chain costing is an area of potential future innovation, where SCF providers could offer the tools to help companies estimate both the current supply chain costs for themselves and their suppliers or customers in addition to the opportunity costs of forgoing alternative supply chain financing arrangements.



Appendix B: Research Methodology

In February and March 2007, Aberdeen Group conducted a survey of over 100 companies regarding their current and planned use of supply chain finance technologies, their strategies for deployment and the benefits achieved due to the implementation of these technologies. Among the study participants, two-thirds of respondents said they were most involved with the purchase-to-pay process with suppliers at their organization (AP side) and one-third indicated involvement in the order-to-cash process with customers (AR side). Depending on their reported focus, respondents were asked some additional/modified questions. The demographics of the survey participants:

- **Geography:** 48% of participating companies have their headquarters in North America, 36% - in EMEA (Europe, Middle East, and Africa), 16% - in Asia/Pacific.
- **Job title:** 21% - C-level or VP, 50% - director/manager in logistics, supply chain, procurement, or finance, 29% - other (consultants, staff, etc)
- **Industry:** the research sample included a variety of industries, with the following sectors most represented: automotive/ aerospace, high technology, retail/ distribution, among others.
- **Company size:** 27% of participants were from small business (less than \$50 million in annual revenue, 39% - from mid-size companies (between \$50 million and \$1 billion in annual revenues), and 34% - from large companies (more than \$1 billion in annual revenues)

Table 8 provides more information on Aberdeen Group’s PACE methodology.

Table 8: PACE Framework

PACE Key
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:
<i>Pressures</i> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)
<i>Actions</i> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)
<i>Capabilities</i> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)
<i>Enablers</i> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: AberdeenGroup, March 2007

Appendix C: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [*Financial Supply Chain Automation: Assessing the Technology Vendor Landscape*](#), February 2007
- [*Supply Chain Finance Benchmark Report*](#), September 2006
- [*New Strategies for Financial Supply Chain Optimization Benchmark Report*](#), November 2006

Information on these and any other Aberdeen publications can be found at:
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