How CFOs are Redefining Supply Chain Finance

Alok Mittal looks at how large-enterprise CFOs can leverage credit intelligence to strengthen their partners, and ultimately, themselves

From being mere 'treasurers of corporate value', CFOs now play an integral part in driving value creation for their organisations. The genesis of this shift lies in various domains: partnerships, contracting, M&A, corporate finance, and so on. Today, CFOs are helping businesses to create value in ways that tap into the full quiver of opportunities that the ecosystem provides. Consequently, more and more companies rely on CFOs to structure, refine and execute their strategic blueprints. An important element of this is the growing responsibility CFOs hold for ramping up capacity, or extracting efficiencies from their supply chains.

> Smaller organisations, on whom larger ones depend, tend to face bottle-necks when it comes to accessing finance

Expanding supply chain volumes

Larger organisations tend to interact with multiple small enterprises or MSMEs, either as procurers, suppliers, distributors, or simply as customers. Such working partnerships have greatly helped smaller businesses to chart their paths to success. However, the one red flag these minnows continue to face, even today, is a lack of adequate investment capital, which is needed for them to maintain consistent growth.

An important corollary is that, because of this funding bottleneck, larger enterprises are often unable to leverage the full potential of their supply chains. This is where the role of CFOs becomes acutely important.

Historically, larger companies have helped small businesses, not only with their operations, but also with financing. In this respect, CFOs can play a decisive part in financially enabling smaller businesses or supply-chain partners, albeit without having to provide the capital themselves.

The automobile sector is one vertical where multiple, finance-enabled supply chains exist. Here, many companies actively contribute to supply-chain financing, and, aside from the business advantage it provides, this has earned the bigger organisations stanch loyalty from suppliers, vendors, and distributors.

Global trends

Outside India, large enterprises have played a key role in enhancing their supply chain's financial capacity, opening up a whole new world of value creation. Making this possible, CFOs have devised an approach that neither interferes with the provider company's cash flows, nor requires them to take on any additional risks.

How do they achieve this? At one level, CFOs offer credit intelligence data about their suppliers and distributors to financing companies, which helps them make the right decisions and investments. At another level, technology, as it does with everything it touches, has made possible innovative ways to augment credit availability. Examples of this include Market Invoice, a company that permits its suppliers to sell their invoices on an institutional trading platform. Similarly, C2FO allows large enterprise customers to discount their own invoices for treasury management.

Across the world, Finance is playing a key role in enabling greater credit flows to smaller partners, distributors and vendors

Credit intelligence: The new kid on the block

One key reason why MSME financing is such a challenge in India is the lack of secondary data. Primary data, on the other hand, is hard to aggregate, and most such data is unreliable. Yet, to secure credit, it is paramount that business data be made available. Compared to their supply-chain partners, CFOs are highly adept at generating such credit intelligence. They are thus in a strong position to help their partners gain access to financial support, which in turn can augment their capacity to serve the principle.

The Indian situation

In India, new-age Fintech start-ups are revolutionising the supply-chain financing domain. One such company provides financing solutions for customers of large travel consolidators.

The consolidators provide information on the entire range of transactions that occur between the consolidator and its customers, in a provable manner. The Fintech company then analyses this data for trends and insights, and connects that data with financial data, as provided by the distributors. This allows lenders (either banks or NBFCs) to understand the creditworthiness of the individual customers (i.e., the travel agencies). This, in turn, helps consolidators generate more business and loyalty from their existing distribution agents. All of the parties involved win, simply by accessing data that was previously locked inside the enterprise-level financial infrastructure.

Similar solutions are now being deployed in multiple sectors, from automotive, to retail and e-Commerce.

Conclusion

Big enterprises know that, in order to nurture their business, they need to power the businesses they rely upon. Thus, small businesses are really the 'subsidiaries' on which most enterprises depend for their operational needs. CFOs have long focused on this segment of patrons, and they now have the tools required to unlock the potential lying inside these stakeholders.

Advances in technology and big-data engineering and analytics provide a huge opportunity for CFOs to create and sustain a new pedestal of growth, by revealing the credit intelligence and enhancing the financial capabilities that exist inside an organisation's supply chains. ■

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