# Quick Outline of Supply Chain Financing

*By Jeremy P Stanfords*

Supply chain financing combines the cost and accessibility of capital in a supply chain. Some of the different variations in common use are financing options, early payment discounting, inventory management and balancing credit. This is not an innovative idea.

In fact, in advanced economies, many corporations employ it in different variations that have existed for decades if not hundreds of years. However, in the last few decades the idea has grown in importance for several reasons, including the steady increase in the costs of labor, energy and raw materials, as well as continually decreasing cost pressures.

In a world where many successful corporations are cutting dependence on physical assets and investing heavily in working capital, clearly businesses must earn the maximum value from their working capital possible. According to a recent study, 73% of corporations intend to use payment terms in their supplier dealings in 2007, making this type of financing a key to creating a successful trade finance strategy for the 21st Century.

The primary players in supply chain financing are the buyer, manufacturer or supplier, technology provider, and the bank or financial institution.

The principal player in this trade finance strategy is the buyer, who builds brands, advertises and often even creates demand in the consumer market for the products and commodities.

Manufacturers and suppliers need supply chain financing above all others, since they incur huge upfront expenses such as increases in labor costs, energy, and raw materials and must wait the longest before receiving payment for the products they produce.

Technology providers make supply chain financing possible through the technology they employ to bring all the players together. In this shrinking planet with instant worldwide communications and disappearing barriers of entry, a chief priority is to enable the visibility, scalability and ever-evolving innovation that businesses need to keep ahead of the competition.

The last cog in this financing wheel are the banks and financial institutions that lend the capital, provide financial services such as insurance and inventory financing, as well as offer receivables management services and payables discounting.

Clearly, supply chain financing is a trade finance strategy that rewards every party in the supply chain by allowing each of the players to focus on the strengths of their business models. Growing in importance with each passing decade, this trade finance tool will continue to evolve and become a critical part of the overall strategy of every successful business.

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Never call an accountant a credit to his profession; a good accountant is a debit to his profession.

— Sir Charles Lyell

The pen is mightier than the sword, but no match for the accountant.

— Glancey, Jonathan

Finance is the art of passing currency from hand to hand until it finally disappears.

— Robert W. Sarnoff