

Reverse Factoring: Supplier Financing as a Procurement Instrument

Reverse factoring, also known as supply chain finance (SCF) or confirmed payables, is a financing instrument in which a buyer has the invoices of its suppliers paid early via a bank or financing partner. The supplier receives its money quickly on favourable terms, while procurement can extend its payment terms and preserve liquidity. For technical buyers, this instrument is a lever for stabilising supplier relationships and working capital at the same time.

Key facts

- In reverse factoring, a financing partner pays supplier invoices early; the buyer only settles the amount at the agreed, often extended, payment date.
- Unlike classic factoring, the initiative comes from the buyer, which usually results in significantly lower financing costs.
- Typical effects are faster incoming payments for the supplier and an extension of days payable outstanding (DPO) in procurement.
- In practice, interest rates are often agreed close to the buyer's reference rate, typically only a few percentage points above it.
- The balance sheet treatment is important: depending on the structure, the payable may need to be classified as a trade or financial liability, which affects key ratios.
- Reverse factoring works best with stable, verified invoice data and a limited number of qualified suppliers.

Definition: Reverse factoring

Reverse factoring is a three-party financing arrangement between buyer, supplier and a financing partner. The buyer irrevocably confirms the due invoices, and the financing partner pays these to the supplier before the due date, less a term-dependent financing fee.

Distinction from classic factoring

In classic factoring, the supplier sells its receivables to a factoring company on its own initiative and bears the costs alone. In reverse factoring, the buyer initiates the programme, confirms the invoices and, in return, benefits from extended payment terms. Because the default risk primarily rests with the highly rated buyer, financing costs in practice are significantly lower than in classic factoring.

Economic logic for both parties

The supplier exchanges a long, uncertain payment term for a fast, predictable cash inflow and can thus improve its own financing and early payment discount options. The buyer gains liquidity without burdening suppliers through a pure extension of payment terms. A robust business relationship is a prerequisite: the programme is often only offered to suppliers who have passed a positive qualification check and deliver reliably.

Methods and approach: Building an SCF programme

Implementation typically follows a multi-stage process from preparation through supplier qualification to operational running. A clean invoice data basis is essential, as the financing partner relies on buyer-confirmed, verified payables.

Preparation and invoice data quality

Before launch, procurement should review the invoice processes together with finance: master data quality, invoice approval lead times and the reconciliation of open items, for example as part of GR/IR clearing. Invoice discrepancies, returns or open dunning procedures must be clarified before confirmation, otherwise disputes with the financing partner will arise later.

Supplier selection and onboarding

Suitable candidates are suppliers with regular invoice volumes, medium to large company size and a recognisable need for liquidity. Communication should emphasise the voluntary nature of the offer. A supplier code of conduct linked to the programme or supplementary agreements on due date compliance can create additional commitment.

Operational processing

After invoice approval, the buyer electronically confirms the payable to the financing partner, who then presents an early payment offer to the supplier. For each invoice, the supplier decides whether to sell it early or wait for the due date. On the due date, the buyer pays the full amount to the financing partner.

Key KPIs and effects on procurement and the balance sheet

The success of a reverse factoring programme can be steered with a handful of key figures that procurement and treasury should define jointly.

Working capital key figures

At the centre are the days payable outstanding (DPO) on the buyer side and the days sales outstanding (DSO) on the supplier side. A successful programme typically extends the DPO by 30 to 60 days, while the supplier's effective DSO falls thanks to the early financing. The early payment discount level should also be monitored: those who extend payment terms often forgo early payment discounts.

Programme key figures

Relevant are the acceptance rate (the proportion of confirmed invoices that suppliers actually pre-finance), the utilisation of the programme volume and the financing spread. A low acceptance rate indicates that the terms or the onboarding process need improvement. Data analysis in procurement helps to systematically identify suitable suppliers and to underpin the savings forecast for the programme realistically.

Keeping an eye on supplier performance

Since extended payment terms shift the burden, due date compliance and quality should be measured in parallel. Service level targets and service credits (SLA) from existing contracts can serve as steering instruments here. Declining supplier performance after programme launch is an early warning signal.

Risks and controls: Legal, accounting and dependency

Reverse factoring is economically attractive, but carries legal, balance sheet and strategic risks that must be controlled in a structured manner. Tax and balance sheet details must be clarified on a case-by-case basis with auditors and tax advisers.

Balance sheet classification and distortion of key figures

Regulators and auditors increasingly demand a clear distinction: is it a trade payable with an extended payment term or a credit line? The classification affects debt ratios and covenant calculations. In practice, audit firms require comprehensible documentation of the programme logic, the terms and the collection policies.

Supplier dependency and the power question

Those who strongly extend payment terms shift liquidity pressure into the supply chain. For weaker suppliers, this can lead to insolvency risks, which risk analysis in procurement should systematically capture. Especially in single sourcing or single-source management, the following applies: a financing advantage is of little value if the supplier gets into crisis and failures loom.

Contractual and tax framework conditions

Programme agreements should include provisions on invoice disputes, credit notes, set-off situations and unwind procedures. Changes to the ownership structure of suppliers (change of control) can also become relevant, as financing partners tie rating and programme participation to them. For cross-border programmes, local tax regulations must be reviewed; statements on this generally apply only after examination in each individual case.

Current developments: Interest rates, regulation and digitalisation

Reverse factoring is under dual pressure to adapt: the interest rate and regulatory environment are changing the terms, while digitalisation is lowering the barriers to entry.

Interest rate and regulatory environment

Rising key interest rates increase financing costs and diminish the advantage over alternative short-term financing. At the same time, accounting practice and regulatory interest in SCF programmes are increasing; listed companies must present their programmes in a more transparent manner. Early coordination with auditors and house banks reduces rework.

Digital platforms and dynamic programmes

Modern programmes run largely via platforms with automated invoice matching, e-signatures and dashboards. This reduces the onboarding effort and makes the instrument usable for smaller suppliers as well. Combined with systematic supplier development, such as co-creation with suppliers or structured procurement processes such as RFX, SCF can become part of a broader supplier partnership strategy.

Sustainability-linked variants

A growing field are programmes in which the financing terms are linked to the sustainability criteria of suppliers, for example documented Scope 1 emissions or standards met under the supplier code of conduct. This allows ESG goals to be combined with a financial incentive without additional effort in the

receivables purchase.

Typical metrics

Days Payable Outstanding (DPO): typically +30 to +60 days

Extension compared to the status quo after programme launch

Acceptance Rate: commonly 60–90 %

Proportion of confirmed invoices that suppliers have pre-financed

Financing spread: typically 1–3 % p. a. above the reference rate

Mark-up on the buyer's interest rate, depending on rating and term

Due date compliance of participating suppliers: > 95 %

Benchmark; analyse deviations promptly after programme launch

Practical example

A medium-sized mechanical engineering company with around 120 active suppliers gradually extended its payment terms to 90 days and came under increasing pressure from three structurally important steel and parts suppliers who demanded pre-financing costs in their prices. Instead of rolling back the payment terms, the company launched a reverse factoring programme for 25 key suppliers together with its house bank.

- Preparatory clean-up of invoice master data and open items, including integration with the GR/IR clearing logic
- Offer to qualified suppliers: pre-financing on terms below their own credit lines, in return for 90-day payment terms
- Monthly monitoring of due date compliance, acceptance rate and supplier risks in the risk analysis
- Clearly documented procedures for credit notes, complaints and unwinds with the financing partner

Conclusion

Reverse factoring combines the liquidity objectives of the buyer with the financing needs of suppliers and can create win-win situations where terms are fair and processes are clean. Prerequisites are robust invoice data quality, careful supplier selection and clear balance sheet documentation. Procurement, treasury and auditors should steer the programme jointly and keep supplier risks continuously in view. Anyone who views reverse factoring in isolation as a mere payment trick risks trust and supply capability in the supply chain. As an integrated component of a working capital and supplier programme, however, the instrument delivers genuine, measurable value.

Frequently asked questions

What is reverse factoring in simple terms?

Reverse factoring is a supplier financing solution initiated by the buyer. A financing partner pays the confirmed invoices to suppliers early, while the buyer settles the amounts only at the extended due date. This gives the supplier fast liquidity and gives the buyer greater payment flexibility.

What is the difference between reverse factoring and factoring?

In classic factoring, the supplier sells receivables on their own initiative and bears the costs alone. In

reverse factoring, the buyer confirms the invoices, which reduces the default risk and lowers the interest rates. In addition, the buyer directly benefits from extended payment terms.

Is reverse factoring accounted for as a payable or a loan?

This depends on how the programme is structured and is assessed on a case-by-case basis by auditors. Where it is purely an extension of payment terms based on the commercial relationship, the trade payable remains in place. Where there is a significant credit character, classification as a financial liability may be required, which affects key ratios and covenants.

Which suppliers are suitable for reverse factoring?

Suitable suppliers are primarily those with regular invoice volumes and a recognisable need for liquidity, for whom the programme terms are cheaper than their own financing costs. Very small suppliers also benefit if the onboarding effort is kept low. In practice, companies start with 10 to 30 key suppliers.

What risks does reverse factoring pose for procurement?

The main risks are shifted liquidity pressure on weaker suppliers, balance sheet reclassifications and reputational problems where arrangements are unfair. In addition, invoice disputes and unwind transactions can increase the operational effort. Ongoing risk analysis and clear contractual provisions significantly mitigate these risks.

How is reverse factoring assessed in terms of guarantees and rating?

Banks and rating agencies examine whether SCF programmes are effectively equivalent to credit lines, especially where payment terms are strongly extended. Transparent documentation, limited programme volumes and market-appropriate terms counteract this. Details vary depending on the rating approach and should be coordinated with the banks involved.