

Supply Chain Finance: Managing liquidity along the supply chain

Supply Chain Finance (SCF) refers to financing solutions that optimise payment flows between buyer and supplier. At its core, it is about enabling suppliers to be paid earlier while the buyer retains their payment terms. For industrial buyers, SCF is therefore more than a financing instrument: it stabilises the supply base, improves relationships with suppliers and relieves the buyer's own balance sheet.

Key facts

- Supply Chain Finance encompasses methods such as reverse factoring, dynamic discounting and receivables financing.
- The aim is to optimise working capital on both sides of the business relationship.
- The supplier's capital tie-up period decreases without the buyer having to shorten their payment terms.
- In practice, SCF often acts as a lever for supplier retention and security of supply.
- From a regulatory perspective, SCF has come under greater scrutiny since the accounting scandals surrounding reverse factoring programmes; the accounting treatment must be examined case by case.
- Success is measured using KPIs such as discount acceptance rate, Days Payable Outstanding (DPO) and working capital improvement.

Definition: Supply Chain Finance

Supply Chain Finance is an umbrella term for financing and liquidity-oriented solutions deployed on the basis of real trading relationships between buyer and supplier. Unlike classic bank financing, SCF is based on the creditworthiness of the parties involved – frequently the buyer – and on approved invoices or releases. In practice, the term is understood with varying breadth; in the narrower sense it refers to payment term and financing solutions, in the broader sense also to working capital management along the entire supply chain.

Distinction from classic factoring

In classic factoring, a supplier sells receivables to a bank or factoring provider to obtain immediate liquidity – the buyer's creditworthiness plays a subordinate role. In reverse factoring (Supply Chain Finance in the narrower sense), by contrast, the buyer approves the invoice and thereby effectively guarantees payment at the due date. The bank finances on the basis of this creditworthiness at terms that are typically significantly more favourable than those a small supplier could obtain alone. The difference therefore lies in the risk basis: business risk in classic factoring versus buyer risk in reverse factoring.

Relationship to working capital and cash flow

Supply Chain Finance is closely interwoven with working capital management. Metrics such as the capital tie-up period, Days Payable Outstanding (DPO) on the buyer side and Days Sales Outstanding (DSO) on the supplier side describe how long liquidity is tied up in the supply chain. SCF deliberately shifts this tie-up: the buyer retains long payment terms, the supplier receives cash earlier. The Cash Conversion Cycle analysis of both parties is the analytical foundation of every SCF decision. Importantly, SCF is value-neutral: it optimises the distribution of the liquidity tie-up but does not create additional money.

Methods and instruments of Supply Chain Finance

The SCF toolkit comprises several instruments that differ by direction of the liquidity movement and by initiator. In practice, companies frequently combine two or three methods, depending on supplier structure and balance sheet situation.

Reverse factoring (confirmed payables finance)

The most widespread instrument: the buyer sets up a programme with a bank or a FinTech platform operator, submits approved invoices, and the supplier decides on each invoice whether they wish to be paid early in exchange for a discount. The financing costs are typically based on the buyer's creditworthiness, with the discount frequently in the range of short-term benchmark rates plus a risk premium. For the supplier, this is often the cheapest form of receivables financing. The buyer pays unchanged at the agreed payment terms, typically 60 to 120 days.

Dynamic discounting

In dynamic discounting, the buyer pays early and receives an early payment discount in return, whose scale depends on the payment date – the earlier the payment, the greater the discount. Unlike reverse factoring, no bank is interposed as financier; the buyer uses its own liquidity. This instrument is particularly suitable for companies with high cash reserves and delivers a measurable return on the liquidity deployed, which in practice is often above short-term money market rates. The prerequisite is automated invoice processing with clear match-and-merge rules so that approvals are granted quickly and reliably.

Further instruments: receivables buy-out, PO financing, inventory financing

Beyond the payment terms issue, Supply Chain Finance in the broader sense also covers financing before and during delivery. Purchase order financing covers the advance financing of procurement transactions, particularly for long lead times in project procurement or import business. Inventory financing and warehouse financing use stock levels as collateral – relevant, for example, for raw material inventories. Pre-export financing and forfaiting complete the spectrum. These instruments are often more relevant for mid-market suppliers than for the procurement side, but should be considered in the SCF concept as they affect security of supply.

Implementation in the procurement process

Supply Chain Finance is not purely a finance project: it thrives on clean procurement and invoice processes. Only those who match purchase order, goods receipt and invoice digitally and without errors can reliably approve invoices and operate programmes efficiently.

Process prerequisites in order management

The foundation of every SCF programme is an order management system that reliably and automatically matches purchase orders, goods receipts and invoices. Discrepancies – for example in quantities, prices or volume discounts in procurement – lead to invoice corrections and prevent the timely approval that reverse factoring programmes require. Clear match-and-merge rules and a high first-pass rate in invoice processing are therefore indispensable prerequisites. Framework conditions such as Incoterms (for example FCA) and unambiguous delivery and performance agreements also influence when a receivable is considered reliable.

Supplier selection and terms model

Not every supplier relationship belongs in an SCF programme. Typically, suppliers are selected who combine high revenues, long payment terms and a certain strategic importance – frequently these are also suppliers closely tied to material classification and A-supplier logic. A tiered terms model makes sense: whoever accepts the most advance financing or early payment discounts can be rewarded, for example within RFX processes in procurement or in bidder communication. It is important that participation in the SCF programme remains voluntary and is not misused as a lever for the unilateral extension of payment terms – that would damage trust and supply loyalty, as measured for example by On-Time Delivery (OTD).

Interfaces to planning and logistics

Supply Chain Finance interacts with operational planning processes. Material Requirements Planning (MRP) and min-max control determine when and in what quantities orders are placed – and therefore when receivables arise. A well-coordinated Sales and Operations Planning (S&OP) provides planning certainty that also stabilises the financing level. Conversely, SCF can create scope: when suppliers have better liquidity, safety time buffers can be calculated more realistically or bottleneck situations that would otherwise lead to an emergency order can be avoided.

Key KPIs for steering SCF programmes

Without reliable metrics, Supply Chain Finance remains a matter of financing detail. The relevant KPIs span the arc between the finance department, procurement and supplier development.

Metrics on the buyer side

Key metrics are Days Payable Outstanding (DPO), which can be derived from the capital tie-up period, as well as the development of net working capital. In addition, the proportion of procured volume handled via SCF instruments is measured – the so-called programme coverage. The savings realised from early payment discount and rebate agreements should be reported as a separate metric, as they show the direct return of the programme. In practice, companies report these KPIs quarterly to management and controlling.

Metrics at supplier and programme level

On the supplier side, the discount acceptance rate (what proportion of offered early payments is used), the duration from invoice receipt to approval, and the supply loyalty of the participant group all matter. A healthy comparison: do suppliers with SCF access have a better OTD rate than the rest? That would indicate that the programme genuinely contributes to security of supply. The dwell time of invoices in the clarification process is also an early indicator of process quality and comparable to the First Pass Yield of invoice processing.

Trade-off: working capital versus supplier resilience

A frequently underestimated aspect is measuring the trade-off. Maximum payment terms improve DPO but potentially strain suppliers' liquidity and therefore their resilience – with consequences up to insolvency risk in the context of obsolescence or bottlenecks. Advanced programmes therefore define a balancing ratio: how much of the DPO improvement is achieved through genuine SCF instruments (supplier-friendly) and how much through unilateral term extensions (risk-laden)? This transparency is also important towards the CFO and auditors.

Risks, compliance and legal classification

Supply Chain Finance is not trivial from a legal and accounting perspective. Anyone introducing programmes should be aware of the regulatory and reputational pitfalls and have them examined case by case.

Accounting and classification as debt

A central point of contention is whether liabilities from reverse factoring programmes should be reported as trade payables or as financing liabilities. Misclassifications can artificially flatter balance sheet metrics – such as net debt – and have been intensively criticised since relevant insolvency cases in other markets. In the EU, the legislator is working on clarifications; the concrete treatment must be clarified with auditors and tax advisers on a case-by-case basis. Transparency towards capital providers is warranted in any case, as the company's own creditworthiness bears the programme interest rates.

Supplier risks and ethical boundaries

SCF programmes must not serve to systematically place suppliers under financial pressure. Anyone who extends payment terms without consideration and installs the SCF offering as permanent compensation shifts liquidity problems onto the supplier base – with consequences for quality, supply loyalty and long-term innovation partnerships, for example in the innovation funnel. A model that gives suppliers a genuine choice and fairly shares the benefit is more sensible. Compliance aspects such as competition law in the context of coordinated terms models must also be examined case by case.

Operational risks: data quality and platform dependence

SCF programmes depend on clean master data and stable interfaces. Faulty supplier master data, unclear catalogue structures or inconsistent match-and-merge rules lead to approval errors and programme dropouts. In addition, a certain dependence on the respective financing partner arises; a default or a change in terms can impair the programme at short notice. It is therefore sensible to have a second financing partner in the background or at least a documented transition plan that works in a similar way to emergency order thinking in procurement.

Current developments and digitalisation

The SCF market is developing dynamically: platform models, automated processes and new risk models are changing the rules of the game – including for mid-market industrial buyers.

Platform models and bank–FinTech hybrids

Traditionally, SCF programmes were operated by individual banks. In the meantime, specialised platforms have expanded the market, connecting several financing partners competing for supplier receivables. This typically increases terms transparency and participation rates. For buyers this means:

fewer bilateral negotiations, more automated onboarding processes. At the same time, the demands on data quality and integration with the company's own ERP system are growing.

Automation through e-invoicing and AI

The widespread adoption of e-invoicing in many European markets is driving the automation of invoice approval and release – and thereby the foundation for SCF. AI-assisted matching of purchase order, goods receipt and invoice significantly shortens the time to approval, which in turn can reduce discount costs for suppliers. The selection of potential SCF candidates from the supplier base can also be automated in a data-driven manner, for example using historical payment behaviour and creditworthiness data.

Sustainability-linked Supply Chain Finance

A growing field is SCF programmes whose terms are linked to suppliers' sustainability criteria – such as CO intensity, ethics audits or compliance certifications. Suppliers with better sustainability ratings typically receive more favourable discount rates. Supply Chain Finance thus combines classic liquidity objectives with ESG steering of the supply base. For buyers, this creates an additional steering instrument that goes beyond the pure price and volume logic of classic procurement – even if the data foundation in practice is still often heterogeneous.

Typical metrics

Days Payable Outstanding (DPO): typically 60–90 days

Benchmark for industrial buyers; higher depending on sector and programme.

Discount acceptance rate: often 30–70%

Proportion of offered early payments actually used by suppliers.

Programme coverage: typically 40–80% of relevant procurement volume

Proportion of procurement volume handled via SCF instruments.

Invoice approval time: < 24–48 hours

Prerequisite for favourable discount rates; requires a high first-pass rate.

On-Time Delivery (OTD) of participants: > 95%

Indicator that SCF is not impairing security of supply.

Practical example

A mid-market mechanical engineering company with around 800 active suppliers had unilaterally extended its payment terms to 90 days as part of a working capital programme. Within a year, the frequency of complaints and price negotiation pressure rose; several strategic suppliers signalled financial distress. The company then set up a two-tier SCF programme.

- Reverse factoring programme for the 100 most important suppliers with voluntary participation and bank financing based on the buyer's creditworthiness.
- Dynamic discounting for suppliers with short-term liquidity needs, graduated by payment date and linked to the RFX logic in new tenders.
- Automated invoice matching with clear match-and-merge rules to reduce approval time from an average of several days to under 24 hours.
- Quarterly KPI reporting on DPO, discount acceptance rate and OTD development of participants to

management and controlling.

Conclusion

Supply Chain Finance combines finance and procurement goals into a shared lever: suppliers receive liquidity earlier, the buyer retains their payment terms and improves balance sheet metrics. The decisive success factor lies less in the choice of instrument than in process quality – clean order and invoice processes, transparent terms and genuine voluntariness on the supplier side. Anyone who misuses SCF as a lever jeopardises the long-term security of supply and innovative strength of the supply base. With the right KPIs, a thorough compliance review and a fair sharing of benefits, however, SCF becomes a genuine competitive advantage in industrial procurement.

Frequently asked questions

What does Supply Chain Finance mean?

Supply Chain Finance encompasses financing solutions that optimise liquidity on the basis of genuine trading relationships between buyer and supplier. Typical instruments include reverse factoring, dynamic discounting and purchase order financing. The aim is to distribute the capital tie-up period across the supply chain in such a way that both parties benefit.

What is the difference between reverse factoring and dynamic discounting?

In reverse factoring, a bank or platform finances the supplier's receivable early on the basis of the buyer's creditworthiness; the buyer pays at the original due date. In dynamic discounting, the buyer pays early using its own liquidity and receives a graduated early payment discount in return. The former requires a financing partner, the latter primarily free cash reserves on the buyer's side.

Is Supply Chain Finance also worthwhile for the mid-market?

Yes, particularly because mid-market buyers often have solid creditworthiness that their smaller suppliers do not. Via reverse factoring, suppliers can finance on terms that would otherwise be unattainable. The prerequisite is a digitalised order and invoice management system with a low clarification rate. The programme size must justify the set-up costs, which is why a focused circle of suppliers makes sense.

Is Supply Chain Finance mandatory for suppliers?

No, properly designed programmes are voluntary. The supplier decides on each invoice whether to use the early payment in exchange for a discount or to be paid at the due date. Mandatory participation is regarded as problematic in practice and can damage the supplier relationship. Transparency about terms and no linkage to contract award are important quality features.

How does Supply Chain Finance affect the balance sheet?

It depends on the classification: reverse factoring liabilities may be classified as trade payables or financing liabilities depending on the structure. The accounting treatment must be clarified with auditors on a case-by-case basis, as the classification affects metrics such as net debt and working capital. Transparency towards capital providers and auditors is crucial here.

Which KPIs are relevant for SCF programmes?

Key metrics are Days Payable Outstanding (DPO), programme coverage (proportion of volume handled via SCF), the discount acceptance rate of suppliers and the savings realised from early payment

discounts and rebates. In addition, invoice approval time and the OTD rate of participating suppliers are meaningful indicators. A balancing indicator that distinguishes supplier-friendly measures from one-sided term extensions completes the reporting.