

Approaching Supply Chain Financing: Hummingbird vs Kingfisher style

Companies are generally in the lookout for ways to improve their working capital. The 2020 Working Capital Index report¹, which captures the key trends of the S&P 1500 companies, estimates that USD 497 billion are tied up in the working capital of these companies, which means that there is still a lot to be achieved. At present, the importance of effective working capital management has become even more evident as companies try to manage the uncertainties presented by the COVID-19 outbreak. Moreover, the report includes empirical data that shows a clear correlation between a company's working capital efficiency during an adverse period (such as the 2008 global financial crisis) and its earnings growth as it recovers from the crisis. In the same manner, as the world fights to control COVID-19, companies should start deploying working capital management tools and position themselves for success once the recovery phase starts.

In particular, Supply Chain Financing (SCF) is an ideal tool for companies to improve working capital and prompt growth by way of optimizing accounts receivable (AR) and/or accounts payable (AP). However, SCF includes various types of programs and a wide range of solution providers with different scopes, objectives and track record, making the selection process a tricky one for companies.

When it comes to analyzing and choosing the right SCF solution and provider, companies could follow two alternative approaches that resemble the characteristics of two iconic birds: hummingbirds versus kingfishers.

“Hummingbird approach”

Hummingbirds do not have a sense of smell and use their highly developed sight, particularly their colour vision, to select the flowers from which to sip the nectar. Also, hummingbirds feed from many flowers and plants, in short feeding sessions. Seemingly, a company following a hummingbird approach towards selecting a SCF solution will assess the options available mainly by their “appearance” which in this scenario would be the price, without undertaking an in-depth



¹ J.P. Morgan Working Capital Index 2020, June 2020

analysis of how to get the full potential of their working capital. With this approach, companies tend to get off-the-shelf, standard financing products with no processing intelligence, which promise easy-to-obtain benefits in the short term. Given the opportunistic nature of this approach, potential gains might remain untapped and even unexpected issues may arise, such as negative accounting consequences for the company and/or its counterparts (buyers or suppliers depending on the program type).

“Kingfisher approach”

Kingfishers are hunting birds that eat mainly fish. Their ideal fishing spot is a firm perch overlooking a clear pool of water. Once a kingfisher has located a suitable prey, it dives to catch it. Kingfishers have excellent vision and can judge depth under water accurately. Companies with a kingfisher approach will search for a SCF solution in a planned manner, evaluating



thoroughly the options available and selecting the one that is most comprehensive and best matches their clearly identified needs. The kingfisher approach is more strategic and has longer-term oriented goals, thus it focuses on the actual solution provider or servicer.

Overall, it is essential that companies try to improve liquidity but without forgoing the possible impact on the balance sheet and credit risk exposure. By adopting well-structured SCF programs serviced by a reputed provider with advanced technology and credit-sensitive processes, companies can, not only improve cash flow and optimize AR/AP in a balance sheet efficient manner, but also prompt sales growth, enhance risk management and reduce credit risk with no administrative burden.

Global Supply Chain Finance Ltd. ([GSCF](#)) is the leading servicer in the SCF market, with almost 30 years of successful experience in setting up and managing receivables and payables-based financing programs worldwide. With a state-of-the-art processing platform and structuring expertise, GSCF ensures that the right program structure is effectively established and that all processes are automated and tailored to the company’s needs. GSCF is a funder-neutral platform that fully endorses the kingfisher approach.