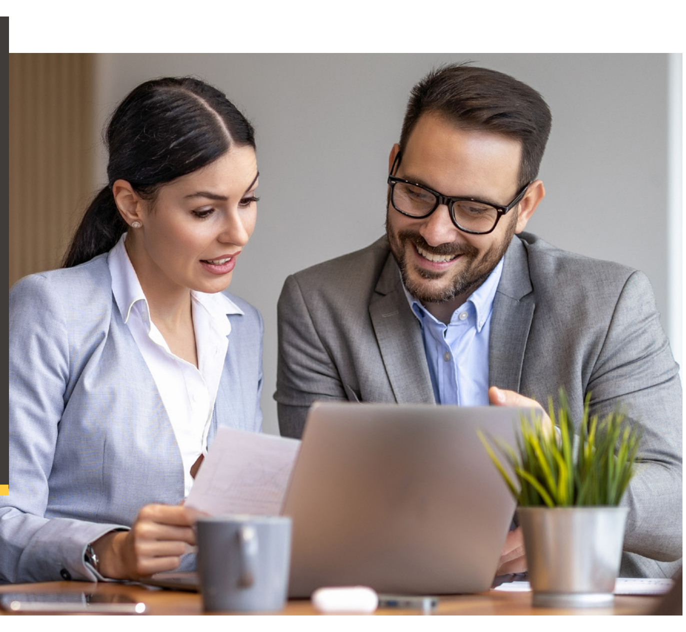
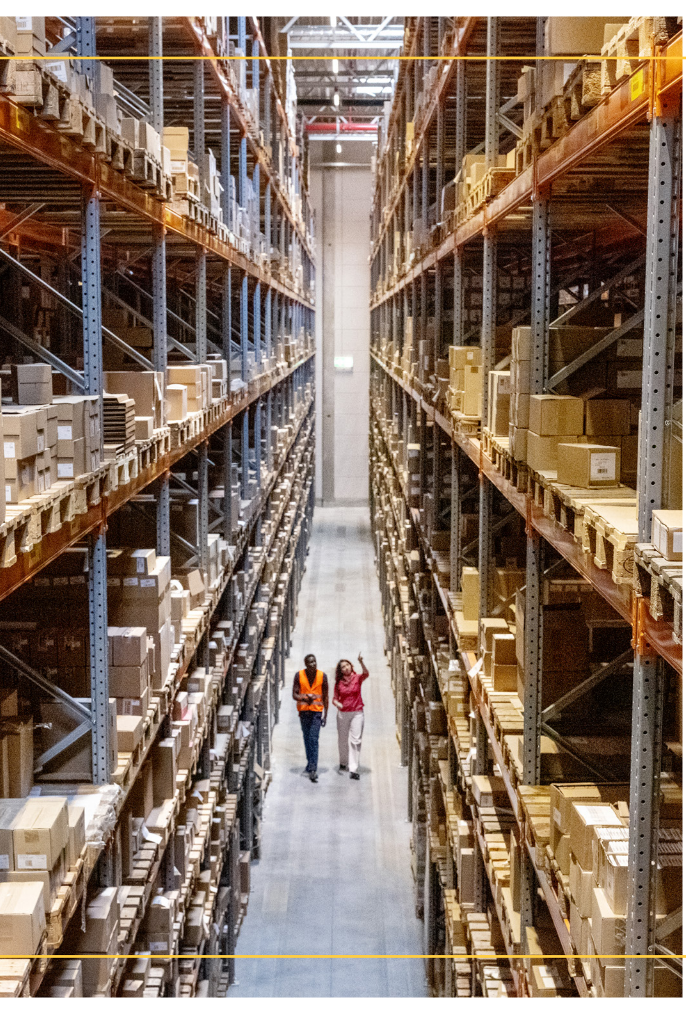
WELLS FARGO

Commercial Banking

What is supplier financing and how does it work?



In today's dynamic global market, managing cash flow effectively is crucial for businesses navigating complex supply chains. Supplier finance programs have emerged as an essential solution, helping companies optimize cash flow, enhance liquidity, and build stronger relationships between buyers and suppliers. These programs help improve operational efficiency and provide flexibility, enabling businesses to overcome financial challenges and seize growth opportunities.



How it works and why it matters

Supplier finance, sometimes also called supply chain finance, streamlines payments and enhances cash flow management. In this arrangement, a buyer collaborates with a financial institution to pay suppliers on behalf of the buyer. The supplier can choose early payment at a reduced rate, with the financial institution covering the payment upfront. The buyer then repays the financial institution at a later, agreed-upon date.

This solution benefits both parties: suppliers receive payment faster, often within days of invoicing, while buyers can extend their payment terms. This dual advantage boosts supplier liquidity and optimizes buyer working capital, freeing up resources for growth and operations without over-reliance on existing credit lines. Supplier finance can also complement other financing methods, such as business loans or invoice factoring, offering an attractive option for companies seeking greater operational efficiency and financial stability.

The growing popularity

Supplier finance programs have become more popular amid the higher interest rate environment, which has made other sources of capital more expensive and less appealing. Many companies are navigating reduced cash flow due to inflation and increased inventory levels to safeguard against supply chain disruptions. These factors drive businesses to adopt supplier finance for improved liquidity and financial flexibility.

Supplier finance process

1

Supplier → Buyer

Invoice approved

After supplier opts in, buyer approves the supplier's invoice for updated payment term.

Buyer informs the supplier of the extended payment terms and offers the option to be paid early by the financial institution, at a discount, any time after the invoice is approved.

2

Buyer → Financial institution

Payment instructions sent

Buyer sends electronic payment instructions to the financial institution for the invoice, including a future due date.

3

Financial institution → Supplier

Supplier notified

The financial institution digitally notifies the supplier that invoice is eligible for the early payment option.

4

Payment option → Supplier

Early payment option

The supplier can choose to be paid early by the financial institution at a discounted rate or wait to receive full payment on the due date.

5

Buyer → Financial institution

Final payment processed

On the due date, the buyer pays the full invoice amount to the financial institution.

Potential benefits for buyers and sellers

For suppliers

Increased working capital:
Immediate cash injection to cover expenses and sustain operations.

Affordable funding:
Lower-cost financing compared to traditional loans, especially when rates are high.

Reliable cash flow:
Faster payments reduce days sales outstanding and improve cash forecasting.

Reduced credit risk:
Receiving early payment on invoices reduces credit exposure to concentrated buyers.

For buyers

Enhanced working capital:
Extended payment terms free up cash for investments.

Greater supply chain resilience:
Financial support helps prevent supplier disruptions.

Stronger relationships:
Financial assistance fosters valuable supplier partnerships and early problem alerts.

Improved negotiating:
Preferred customers may secure better prices, discounts, and improved terms, enhancing profitability.

Simplified payments:
Centralized payments reduce administrative costs.

Ready to explore supplier finance?

Our team of financial specialists can work with you to help create a financing program that aligns with your business goals.