6 Supply Chain Financing Trends to Watch in 2019

**As supply chain financing continues to evolve, some key trends are emerging in the space. Following are seven to watch this year.**

1. **Companies are using their supply chains to keep tighter controls on working capital.**Made up of receivables, payables, inventory, cash and other assets, working capital has become a focal point for a lot of companies. They’re using their supply chains to manage that capital a lot tighter. For example, they’re moving assets off their balance sheets and onto their income statements—a shift that helps organizations “unburden themselves of assets and improve their financial positions.” To manage these shifts, supply chain professionals should focus on capital and cost flows within their own supply chains. That means asking yourself questions like: How are my suppliers managing their capital? What does our own working capital look like? And, how can we change the way we’re paying our suppliers?
2. **A larger pool of suppliers is offering a wider array of financing options.** Supply chain financing used to be the domain of factoring companies that would buy companies’ receivables at a discounted rate in order to free up working capital for them. That has changed significantly over the last few years. One of the biggest changes that has happened is that there are now more players offering a wider selection of alternatives in the market. For example, credit providers have taken an interest in providing capital while technology providers are enabling that transfer of funds and/or other mechanics associated with the evaluation of both customer and supplier. This mirrors trends in digitalization and data management with small- to midsized enterprise funding.
3. **The definition of “fundable transaction” continues to expand.**As the number of funding sources expands, those sources are essentially “broadening the spectrum” of entities they’re willing to fund. This has created opportunities for more supply chain partners to effectively manage their own working capital and operate in a healthier, more financially-sound manner. As long as the ‘customer’ is of a strong enough quality, and as long as the supplier actually delivers on whatever product or service is being commissioned, those arrangements can be deemed pretty good risks. These types of trends are pushing more providers to open up the definition of what they consider to be a ‘fundable transaction.
4. **Supply chain managers are becoming financial superheroes.** Today’s supply chains are about more than just make-source-deliver, which means that the people who run them need to be able to speak and understand the language of finance. That’s the lingua franca of organizations right now. It’s not necessarily the language of supply chain, but knowing the language of finance will help the practitioners communicate not only what the costs are, but also where the opportunities are.” After all, supply chains are franchise builders and growth engines, even if all practitioners don’t see it that way. Get your elevator speech ready. When you see your CFO tell him or her: ‘here’s how our supply chain is affecting revenue, profitability and working capital’. If you can do that, you’ll be a superhero.
5. **IoT, machine learning and artificial intelligence are facilitating supply chain finance relationships.** Blockchain isn’t the only new kid on the block in supply chain financing right now. IoT, machine learning (ML) and [artificial intelligence (AI)](https://www.scmr.com/topic/tag/Artificial_Intelligence)are all making an impact on the sector right now. And while these technologies are still maturing, AI is of particular interest to companies that are doing supply chain financing deals. It’s very useful with credit scoring, with some technology platforms doing the legwork on the scoring, and then presenting companies with the best financial proposal for each supplier. Based on their success so far, more AI, ML and other advanced technologies making their way into the supply financing sector in the near future. The more data that can be evaluated, the more precise decisions can be made on it. AI, neural networks, and/or human evaluation all continue to modernize the supply chain financing industry. “This industry is relatively old and hasn’t had a lot of huge advances. We’re at the stage now where some really significant and interesting advances are taking place.
6. **Demand for supply chain financing is going to continue.** As he looks around at the major trends taking shape right now in the global economy, demand for supply chain financing is expected to rise significantly over the next few years. With interest rates rising, new trade barriers being enacted, and other issues affecting the working capital of companies, no one can take available liquidity for granted. That rule applies both in and out of the company’s four walls and across the entire supply chain. Companies can’t just look at their own working capital without concern about the impact that it has on the rest of the supply chain. The global financial crisis of the 2000s as one example of why expanding payment terms to suppliers is not necessarily the smartest move. A lot of suppliers suffered and then that backfired to their customers. Using supply chain financing can fill those gaps and help even the smallest of suppliers stay financially healthy and operational.