AUGUST 2021

AITE MATRIX: SUPPLY CHAIN FINANCE

ENRICO CAMERINELLI

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IMPACT REPORT

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INTRODUCTION

According to the International Chamber of Commerce (ICC), SCF can best be defined as the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events.[1] The term "supply chain finance" today covers a wide range of techniques, programs, and solutions in the financing of trade, including international trade.

Readers should care about this market as SCF is seen as an effective solution to combat cash flow issues and improve working capital, also in the context of a credit crunch and persistent late payments.

This Impact Report explores some of the key trends within the SCF market and discusses the ways in which technology is evolving to address new market needs and challenges. This report also compares and contrasts the leading platform providers' offerings and strategies, and it highlights their primary strengths and challenges. Finally, to help FIs make more informed decisions as they select new SCF platform partners, this report recognizes specific players for their strengths in critical areas.

METHODOLOGY

Leveraging the Aite Matrix, a proprietary Aite-Novarica Group vendor assessment framework, this Impact Report evaluates the overall competitive position of each vendor, focusing on vendor stability, client strength, product features, and client services.

The following criteria were applied to develop a list of SCF platform providers for participation:

- Coverage of SCF instruments portfolio
- Clearly defined strategy to deploy the technology platform as a supporting instrument to run SCF schemes
- Global reach
- Readiness for innovation

1. "Standard Definitions for Techniques of Supply Chain Finance," ICC, 2016.

The first evaluation criterion, "coverage of SCF instruments portfolio," needs further elaboration. A lack of clear definition of SCF instruments historically has represented a barrier to the full adoption of SCF. A missing nomenclature of SCF instruments didn't allow company decision-makers to properly compare solutions presented by competing players. In addition, each player adopted proprietary terms that added uncertainty to the existing confusion. To help remove uncertainty, ambiguity, and lack of clarity around terminology in both technical industry discussions and in broader conversations, the Global Supply Chain Finance Forum (GCSCF) provided a glossary of SCF techniques, categorizing them between receivables purchase SCF techniques, based on the sale of receivables, and loan or advance-based SCF techniques, having the characteristics of loans based on receivables (Table D).[2]

An important methodology element applied to this report consists in establishing the distinction between vendors that develop and sell software to clients—mostly banks that use the software to develop their own SCF portal—and those vendors that develop the software to run their own platform as intermediaries between corporations (i.e., buyers and suppliers) that use SCF schemes and funding providers (e.g., banks) that finance such schemes. This research report covers this second group of vendors that develop the software as a tool they use to run their SCF services platform and, for such reason, are referred to as SCF platform providers.

Participating SCF platform providers were required to complete a detailed product request for information (RFI) composed of both qualitative and quantitative questions, conduct a minimum 60-minute product demo, and provide active client references.

Further publicly available documentation[3] and data sources[4] were used to ensure consistency of definitions and use of terminology for a market that still suffers from a lack of common standards, rules, and practices.

2. "Standard Definitions for Techniques of Supply Chain Finance," Global Supply Chain Finance Forum, 2006.

3. "Study on Supply Chain Finance," Publications Office of the European Union, 2020.

4. pitchbook.com

THE PLAYERS

This section presents comparative data and profiles for the individual SCF platform providers that participated in the Aite Matrix evaluation. This is by no means an exhaustive list of SCF platform providers, and firms looking to undergo an SCF platform provider selection process should conduct initial due diligence prior to assembling a list of SCF platform providers appropriate for their own unique needs. Table A presents basic SCF platform provider information for the participating solutions.

TABLE A: EVALUATED VENDORS

FIRM	HEADQUARTERS	YEAR FOUNDED	TARGET MARKET	SAMPLE CLIENTS
C2FO	Kansas City, Missouri	2008	Corporations	Philips, Borealis, Travis Perkins
CRX Markets	Munich	2012	Corporations, banks, nonbank investors, factoring companies	Daimler, Wacker Chemie, Döhler, Nestlé, MAN
Demica	London	1990	Banks, corporations	ING, Lenovo, SSAB
Kyriba	San Diego	2000	Banks, corporations	Auchan, HSBC, Ferrero
LiquidX	New York	2015	Corporations, banks	Novelis, Becton Dickinson, Hexion
SupplierPlus Group	Tallinn, Estonia	2015	Banks, corporations	Bedford Row Capital Advisors, Forte Securities, Nordcon
Taulia	San Francisco	2009	Corporations	Henkel, Airbus, Nissan
Traxpay	Frankfurt am Main, Germany	2009	Corporations	EDEKA, Zwilling, NordLB

Source: SCF platform providers

THE MARKET

The following market trends are shaping the present and future of the SCF platforms market (Table B).

TABLE B: THE MARKET

MARKET TRENDS	MARKET IMPLICATIONS
SMEs are still suffering from late payments.	Young firms with no credit history and limited lender relationships face challenges while seeking financial support.
Full awareness and understanding of SCF techniques are still lagging among SMEs.	Potential SME market participants are incapable of selecting the most adequate solution for their needs.
Corporations want to improve the use of their liquid assets.	Banks are looking at SCF instruments (e.g., dynamic discounting) as possible solutions for liquidity optimization.
The boundaries between trade finance and SCF are blurring.	SCF solutions are also encompassing trade finance documents (e.g., letters of credit) as security for repayment.

Source: Aite-Novarica Group

KEY STATISTICS

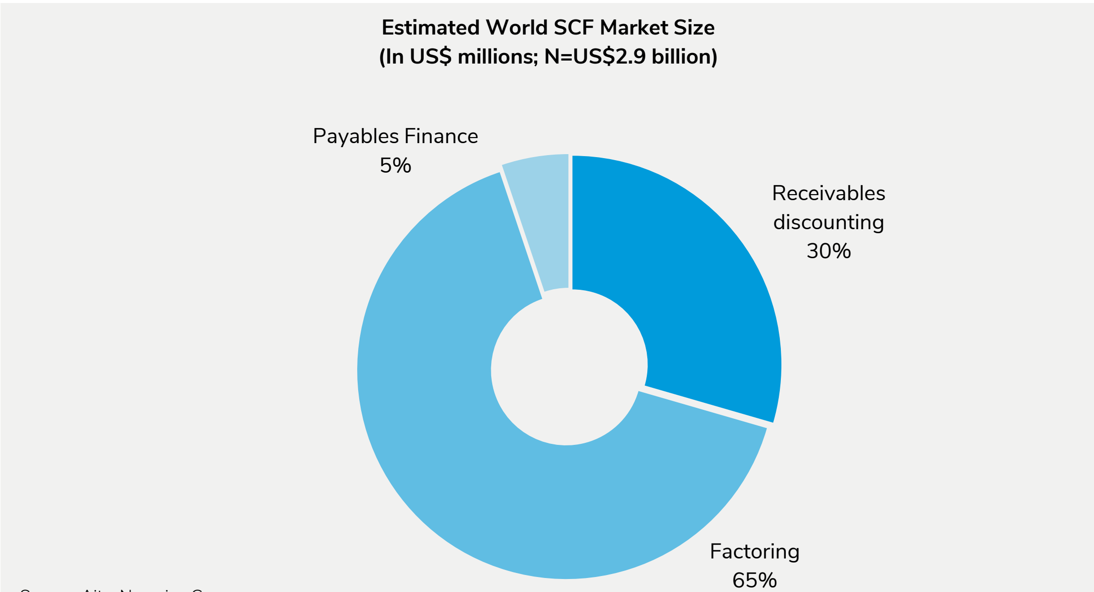
This section provides information and analysis on key market statistics of the analyzed SCF platform vendors.

ANNUAL MARKET SIZE ESTIMATES ANALYSIS

To date, no comprehensive database is available to allow the overall volume of the SCF instruments techniques to be determined, mainly due to inconsistent use of terminology that makes it difficult to systematically collect and reconcile data. The most prevalent SCF instruments that provide a good proxy to estimate the market size for SCF are factoring and receivables discounting, with payables finance emerging as another significant instrument.

Based on these premises, Aite-Novarica Group estimated the overall values that can be potentially financed via these SCF instruments (Figure 1).

FIGURE 1: ESTIMATED WORLD SCF MARKET SIZE

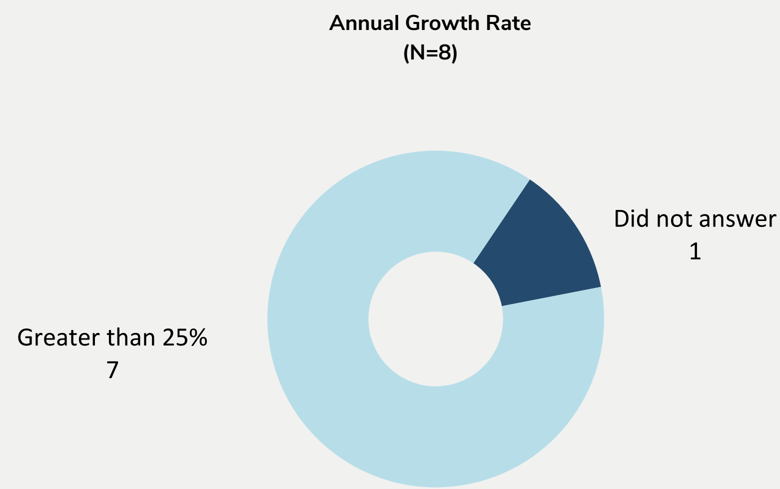


Source: Aite-Novarica Group

GROWTH RATE ANALYSIS

Almost all but one of the assessed SCF platform vendors has enjoyed a positive growth rate over 25% (Figure 2). Aite-Novarica Group interprets this as the consequence of the COVID-19 pandemic that has forced all companies of every size to make the best use of their available cash to sustain their supply chains and supplier/client base.

FIGURE 2: GROWTH RATE BREAKDOWN

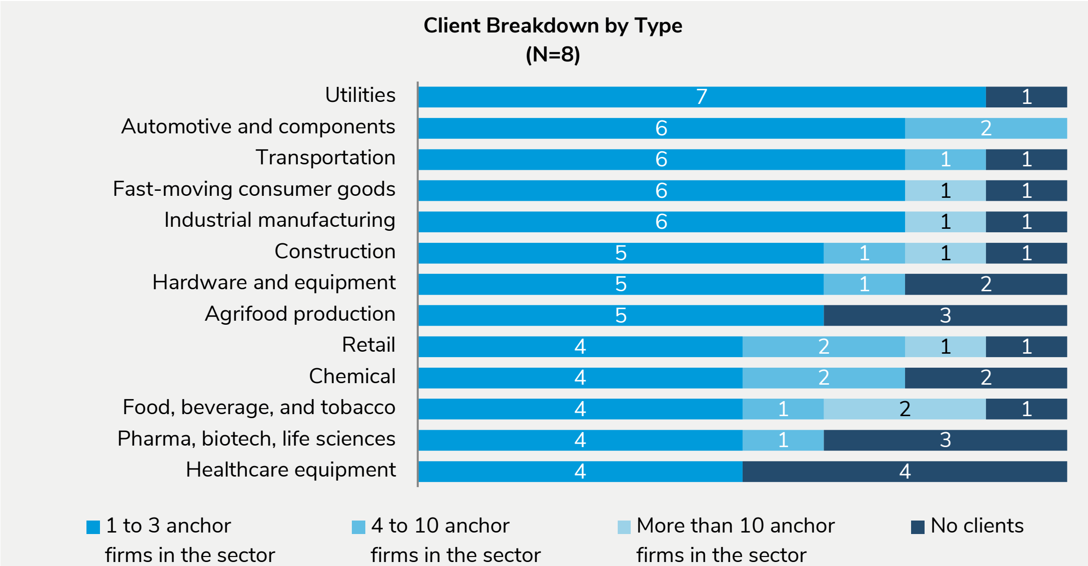


Source: SCF platform providers
No vendor reported negative to no growth or a growth less than 25%

CLIENT BREAKDOWN BY TYPE

The surveyed SCF platform providers have clients in every industry segment traditionally engaged in SCF schemes (Figure 3). Aite-Novarica Group analysts define “anchor” as a firm that represents the central focus (i.e., the anchor point) of an SCF program. Typically, these are large corporations that operate on the buyer side and establish SCF programs for their supplier base, for the most part, composed by SMEs.

FIGURE 3: CLIENT BREAKDOWN BY TYPE



Source: SCF platform providers

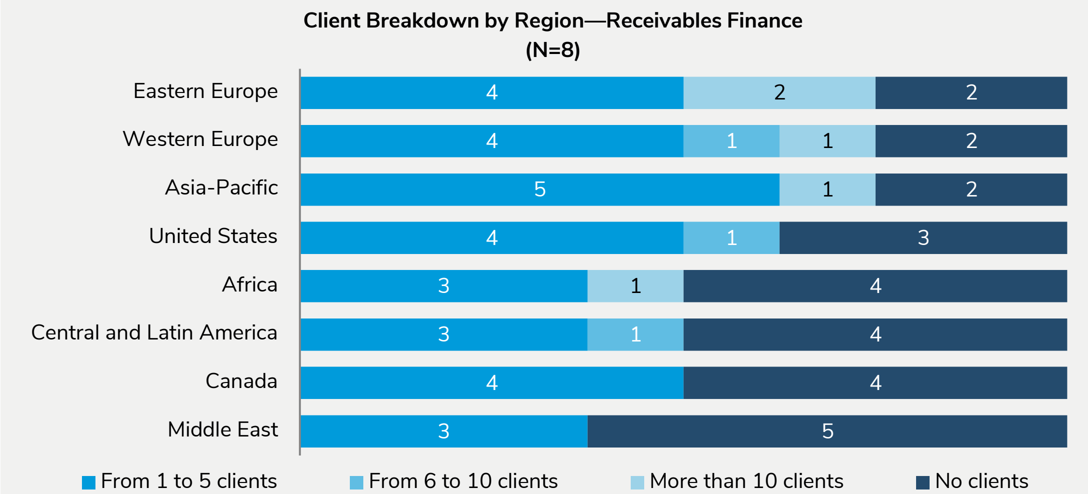
CLIENT BREAKDOWN BY REGION—RECEIVABLES FINANCE

The separation between receivables and payables finance is necessary to ensure the correct alignment with the prevalent SCF terminology and glossary (see Appendix).

This first regional breakdown (Figure 4) appreciates the number of SCF programs that have as a focal point companies that operate on the supplier side and whose main objective is to use their receivables as the security for repayment. The prevalence of adopters of this SCF set of instruments in Eastern Europe and Asia-Pacific is a testament that corporations have their suppliers mostly sourced from these regions.

Receivables finance programs are also relevant in Western Europe considering the wide web of supply networks in the region.

FIGURE 4: RECEIVABLES FINANCE CLIENT BREAKDOWN BY REGION



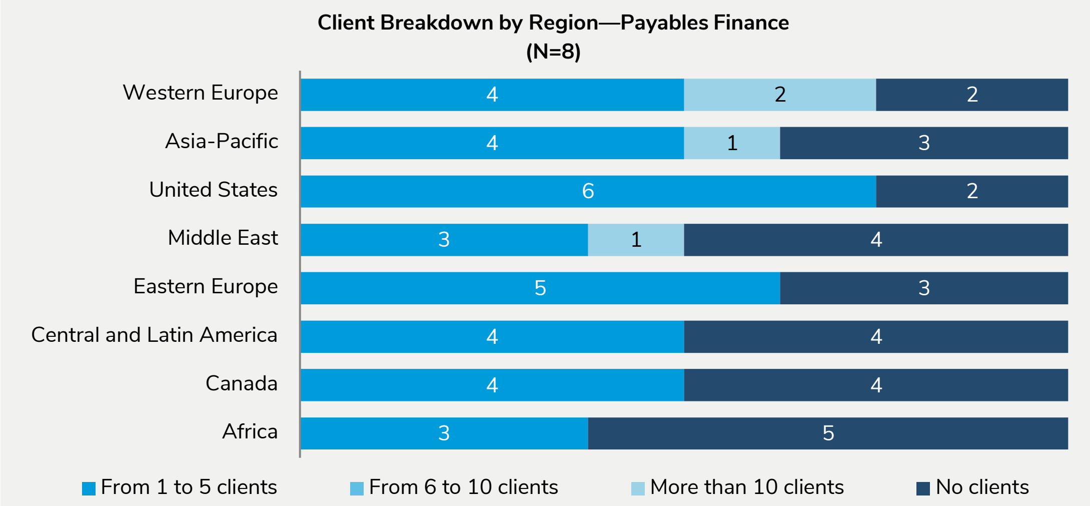
Source: SCF platform providers

CLIENT BREAKDOWN BY REGION—PAYABLES FINANCE

Clients for payables finance solutions are large buyers that want to give their suppliers the possibility to get early payments for their invoices (i.e., payables for the buyer) while the buyer repays the debt on the invoice due date—or later, depending on how the scheme is structured.

The geographical distribution of payables finance programs places (as expected) Western European, Asia-Pacific, and U.S. buyers in the top list (Figure 5).

FIGURE 5: PAYABLES FINANCE CLIENT BREAKDOWN BY REGION

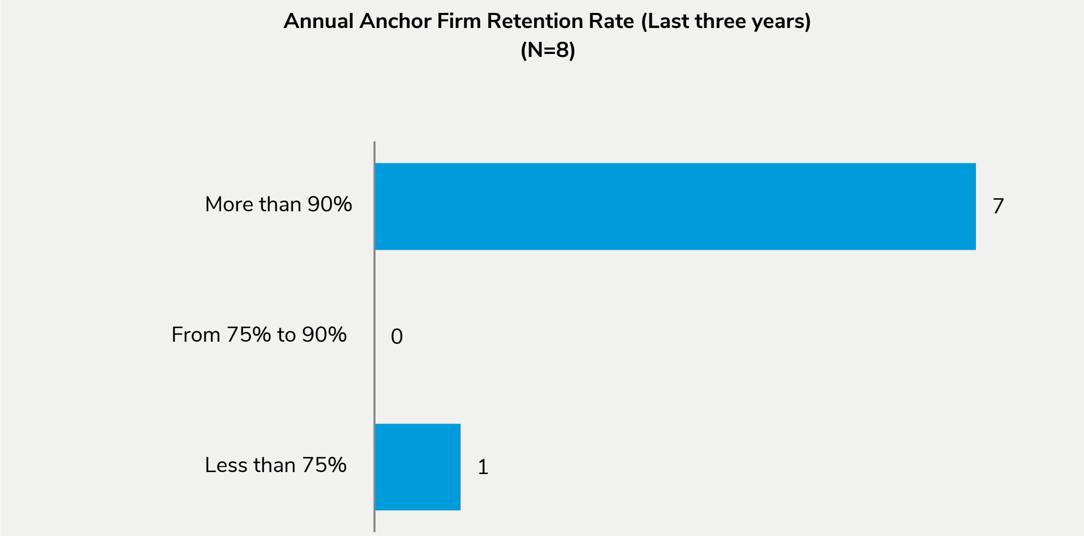


Source: SCF platform providers

ANNUAL CLIENT RETENTION RATE

That successful SCF programs are established on strong business relationships based on trust and with a long-term perspective is proven by the extremely high retention rate of the analyzed vendors (Figure 6).

FIGURE 6: CLIENT RETENTION RATE



Source: SCF platform providers

AITE MATRIX EVALUATION

This section breaks down the individual Aite Matrix components, drawing out the SCF platform providers that are strong in each area and how they are differentiated in the market.

THE AITE MATRIX COMPONENTS ANALYSIS

Figure 7 overviews how each SCF platform provider scored in the various areas of importance. Each SCF platform provider is rated, in part, based on its own data provided when responding to the RFI distributed by Aite-Novarica Group as well as on product demos and follow-up discussions as part of the Aite Matrix process. Ratings are also driven by the reference customers of the examined SCF platform providers to support a multidimensional rating.

FIGURE 7: AITE MATRIX COMPONENTS ANALYSIS BY HEAT MAP

Vendors	Vendor stability	Client strength	Client service	Product features
C2FO	84%	92%	93%	82%
CRX Markets	79%	80%	92%	91%
Demica	83%	92%	92%	91%
Kyriba	96%	89%	92%	86%
LiquidX	87%	82%	90%	92%
SupplierPlus	70%	74%	86%	93%
Taulia	86%	93%	94%	86%
Traxpay	84%	79%	90%	90%

Legend

BEST IN CLASS	91% to 100%
	81% to 90%
	65% to 80%
INCUMBENT/ EMERGING	Less than 65%

Source: Aite-Novarica Group

Vendor Stability

The vendor stability component evaluates the overall strength of the vendors in terms of financial stability, management reputation, risk management, and global presence. This component determines whether a given vendor has the basic foundation to compete and sustain its overall market presence.

Client Strength

The client strength component focuses on the number and diversity of the vendor's customers, the vendor's reputation among the clients, and overall customer turnover. This component measures whether a given vendor has a strong foundation of clients and a robust client pipeline to sustain its growth trajectory.

Taulia is among the vendors that take primary positions in this category with no major surprise: Satisfied clients are the most demanding to work with, as they demand a stable and solid partner to get the most value out of the offered features, functions, and innovative technology. The lower scores for some vendors reflect their still-limited geographical presence and recent company history. The fact they are in this Aite Matrix assessment next to more seasoned players must be for them a sign of a good standing and a promising future.

Client Service

The client services component evaluates the pricing structure and its various attributes as well as the comprehensive nature of the vendor's client support and service infrastructure. This component measures whether the vendor provides robust service and support to provide real value to the clients. Taulia leads the pack. All contenders show very good performances servicing their client base, a clear prove that this market accepts only players capable of servicing their ever-more-demanding client base composed of enterprises—large and small—financial providers, funding companies, and implementation service providers. For this category, clients do not assess the vendors based on the length of their presence in the market.

Product Features

The product features component analyzes the key features and functionality of vendor solutions and services, including implementation options, user experience, and the strength of the future product roadmap. This component measures whether the vendor offers enough key features and functionality to remain competitive.

SCF platform providers have been assessed based on how their SCF instruments portfolio covers the entire spectrum of SCF instruments. All players have a very good product coverage. All players show strong capabilities in this category, and for them, players apply the general rule that the SCF market accepts only platform providers capable to offer a vast—and continually developing—portfolio of SCF instruments.

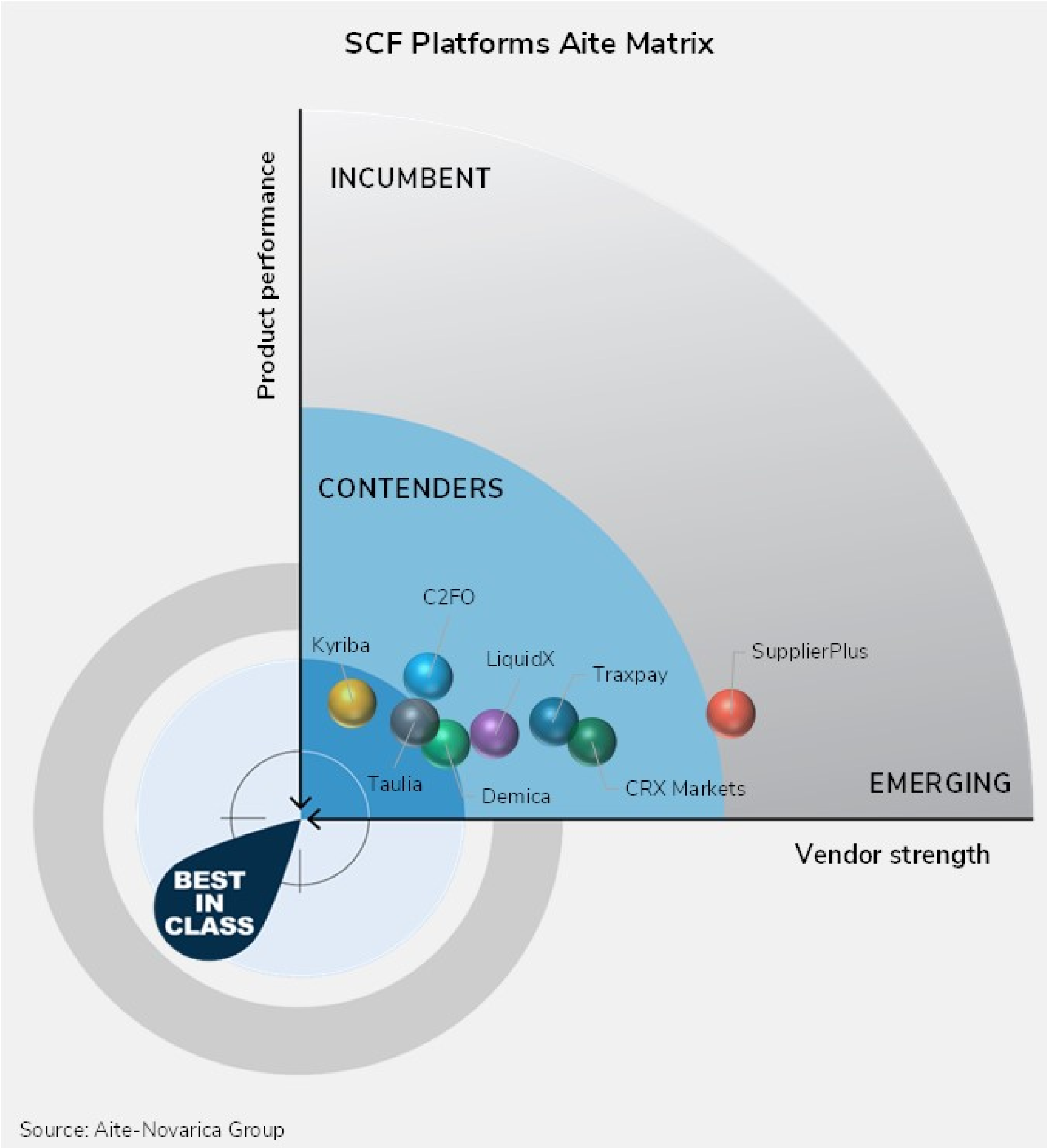
THE AITE MATRIX RECOGNITION

To recap, the final results of the Aite Matrix recognition are driven by three major factors:

- SCF platform provider-provided information based on Aite-Novarica Group's detailed Aite Matrix RFI document
- Participating SCF platform providers' client reference feedback or feedback sourced independently by Aite-Novarica Group
- Analysis based on market knowledge and product demos provided by participating SCF platform providers

Figure 8 represents the final Aite Matrix evaluation, highlighting the leading SCF platform providers in the market.

FIGURE 8: SCF PLATFORMS AITE MATRIX



Best-in-Class Vendor: Taulia

Taulia has a long history and has been able to combine the accumulated experience with careful attention in keeping pace with technology advancements and emerging needs from corporate users and funding providers.

- **SCF platform provider strength:** Taulia's long-lasting presence in the SCF market enables it to deliver robust expertise, best practices, technology soundness, and product features.
- **Product performance:** In terms of product coverage, Taulia has shown clear ability to continually adapt to technology innovation and to develop the necessary infrastructure to support the execution of new SCF financial instruments across multiple jurisdictions and geographies.

BEST IN CLASS: TAULIA

Taulia is a fintech provider of working capital management solutions that helps companies access value tied up in their payables, receivables, and inventory. A network of more than 2 million businesses use Taulia's platform to determine when they want to pay and be paid.

Taulia offers an SCF platform intended to help companies strengthen supplier relationships. In the area of payables finance, it offers both reverse factoring and dynamic discounting (an SCF solution in which early payment is funded by the buyer that is largely used now by corporations as a liquidity management tool to capture discounts).

Aite-Novarica Group's Take

One element that differentiates Taulia from competitors is that it onboards all suppliers in scope when it starts a program for an anchor company. In some cases, this may imply thousands or tens of thousands of firms—large and small—to onboard, and this attracts corporations that might have experienced low adoption rates. Taulia's percentage of new deals won during the last year by replacing another vendor's solutions (60%) is higher than first-time implementations (40% of new wins).

Differently from other competitors, the SCF players Taulia comes up against most often in RFPs are banks (e.g., Citi and others) and PrimeRevenue (the only SCF platform vendor). This situation anticipates the competitive environment evolving over the next two years that Taulia will be facing: a continued shift toward technology and bank partnerships to get the best of both worlds to service multinational corporations. In addition to banks, Taulia partners with leading services firms such as KPMG, E&Y, and IBM. Taulia works with clients across the globe and expects to see the most growth from those located in North America and EMEA, and it continues to grow in the Asia-Pacific, having recently expanded its footprint into China and Singapore.

As one of the major players in the SCF platforms market, Taulia is subject to market trends that heavily impact its business, such as the desire for companies to access solutions to strengthen their supply chains in a post-COVID-19 pandemic scenario. ESG is another significant impacting trend, with the desire for fintech vendors to provide solutions that can help disadvantaged businesses or drive better supplier behavior.

Due to its global market presence, Taulia sees a broad set of macro trends impacting the market, such as the global payment terms regulation and the COVID-19 pandemic-related stimuli packages and their impact on cash positions for buyers and suppliers, and, lastly, Brexit and its implications around transactions between the U.K. and the EU. On the technology side, the key technology trends impacting Taulia's business are the continued increase in global acceptance of SaaS delivery models, the improvements in artificial intelligence and machine learning, and the continuous need to migrate from paper to electronic for payments, invoicing, shipping documents, just to name a few.

Basic Firm and Product Information

- **Headquarters:** San Francisco
- **Founded in:** 2009
- **Number of employees:** 300
- **Ownership:** Private
- **Target customer base:** Corporations
- **Number of anchor firm clients:** 125
- **Office presence:** U.S., Europe, the Asia-Pacific
- **Implementation options:** SaaS
- **Pricing structure:** Annual subscription, transactional fees, implementation costs
- **Typical sales cycle:** Six to 12 months
- **Time to roll out the solution:** Rollout time varies significantly based on the customer's ERP infrastructure and the scope of solutions it is purchasing. In case of a single ERP instance and the scope is limited to SCF, it can take six weeks.

Top Three Strategic Initiatives Over the Last Three Years

- Moving from a payables-centric company to a fully working capital management company
- Moving to a multifunder model for reverse factoring

- Developing complementary analytics products (e.g., cash forecasting, cash scenario planning)

Top Three Strategic Initiatives in the Next 12 to 18 Months

- Expanding the breadth of the working capital management solutions across the cash conversion cycle
- Expanding the global reach
- Expanding the network of funding providers

Client Feedback

Taulia clients tell Aite-Novarica Group they expect more ESG-driven SCF, improved analytics and data visualization for scenario planning, and adjacent products and services to improve payables processing (e.g., invoice automation, supplier management).

Table C displays the SCF platform provider's strengths and challenges.

TABLE C: KEY STRENGTHS AND CHALLENGES—TAULIA

STRENGTHS	CHALLENGES
Scope of service	Disconnection between accounts payable, treasury, and procurement departments at corporations
Flexible funding	Lack of SCF education at corporations
ERP integration	Clarity of SCF accounting principles

Source: Aite-Novarica Group

The ability to address the entire supply chain, flexible funding between reverse factoring and dynamic discounting, and automation capabilities via ERP integration (e.g., reconciliation, credit note handling) are part of Taulia's strengths as well as its ability to fulfill clients' desire for a broader suite of working capital management solutions. These competitive factors contrast against impediments to growth represented by the tendency of corporate departments to “fight” for ownership of the SCF program. This internal dispute is often exacerbated by a limited knowledge of SCF complexity not accompanied by adequate education. Another common problem to the wider adoption of SCF for many SCF platform providers is the lack of clear accounting guidance.

CONCLUSION

Corporate decision-makers:

- Apply the evaluation criteria learned from this Aite Matrix to short list and then select your SCF provider.
- Familiarize with SCF terms and glossary to prepare your SCF selection activity based on comparable items.
- Consider as possible solution providers those SCF platform vendors that combine long-term experience in the SCF market with readiness for technology innovation and a bank-independent approach.

Banks:

- Look at SCF as a powerful channel to maintain and increase your customer engagement.
- Leverage your SCF offering to cross-sell cash, liquidity, and payments management solutions to your corporate customers.
- Consider partnering with SCF platform providers with financial instruments that encompass the whole working capital structure: payables and receivables.
- Never stop educating your internal team, your customers, and your partners on the foundational elements of SCF, particularly the terms and definitions, as well as the governing legal and accounting principles.

ANNEX

Table D offers short definitions of SCF techniques as described in the Global Supply Chain Finance Forum's "Standard Definitions for Techniques of Supply Chain Finance."

TABLE D: SCF TECHNIQUES AND DEFINITIONS

TECHNIQUE	DEFINITION
Receivables purchase	This is an intermediate category for a variety of techniques in which sellers of goods and services obtain financing by selling all or a part of their receivables to a finance provider. The receivables will be transferred into the ownership of the finance provider by means of the assignment of title rights appropriate to the jurisdiction in question. Upon such a change of ownership, the seller will receive an advance payment for the receivables, which may include a margin or deduction reflecting the quality of the receivables, and a finance charge based on the pricing agreed between the finance provider and the client. Receivables purchase is offered through the four distinctive techniques described below, together with a number of variations.
Receivables discounting	This consists in sellers of goods and services selling individual or multiple receivables (represented by outstanding invoices) to a finance provider at a discount. Receivables discounting is usually offered to larger clients selling to multiple buyers.
Factoring	This consists in sellers of goods and services selling their receivables (represented by outstanding invoices) at a discount to a finance provider (commonly known as the "factor"). A key differentiator of factoring is that typically the finance provider becomes responsible for managing the debtor portfolio and collecting the payment of the underlying receivables.
Forfaiting	This consists of the without recourse purchase of future payment obligations represented by financial instruments or payment obligations (normally in negotiable or transferable form), at a discount or at face value in return for a financing charge. Forfaiting generally consists in financing the residue of very large transaction volume and on a longer term than factoring.

TECHNIQUE	DEFINITION
Payables finance	This is provided through a buyer-led program within which sellers in the buyer's supply chain are able to access finance by means of receivables purchase. The technique provides a seller of goods or services with the option of receiving the discounted value of receivables (represented by outstanding invoices) prior to their actual due date and typically at a financing cost aligned with the credit risk of the buyer. The payable continues to be due by the buyer until its due date. A variant is dynamic discounting whereby the buyer may utilize its own funds to pay an invoice or account payable prior to the original due date. Early payment discounts on invoices awaiting payment are offered to sellers and funded by the buyer. The service is dynamic in the sense that the earlier the payment, the higher the discount. There is no finance provider as intermediary.
Loan or advance-based SCF category	This is the second intermediate category of techniques. These include loans and advances made against receivables, rather than by means of purchase, as in the previous cluster of techniques.
Loan or advance against receivables	This is financing made available to a party involved in a supply chain on the expectation of repayment from funds generated from current or future trade receivables. Loan or advance is usually made against the security of such receivables but may be unsecured.
Distributor finance	This is financing for a distributor of a large manufacturer to cover the holding of goods for resale and to bridge the liquidity gap until the receipt of funds from receivables following the sale of goods to a retailer or end customer.
Loan or advance against inventory	This is financing provided to a buyer or seller involved in a supply chain for the holding or warehousing of goods (either pre-sold, unsold, or hedged) and over which the finance provider usually takes a security interest or assignment of rights and exercises a measure of control.
Loan or advance against inventory	This is financing provided to a buyer or seller involved in a supply chain for the holding or warehousing of goods (either pre-sold, unsold, or hedged) and over which the finance provider usually takes a security interest or assignment of rights and exercises a measure of control.

TECHNIQUE	DEFINITION
Pre-shipment finance	This is a loan provided by a finance provider to a seller of goods and/or services for the sourcing, manufacture or conversion of raw materials or semi-finished goods into finished goods and/or services, which are then delivered to a buyer. A purchase order from an acceptable buyer, or a documentary or standby letter of credit or a bank payment obligation, issued on behalf of the buyer, in favor of the seller is often a key ingredient in motivating the finance, in addition to the ability of the seller to perform under the contract with the buyer.

Source: Global Supply Chain Finance Forum

ABOUT AITE-NOVARICA GROUP

Aite-Novarica Group is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base. The quality of our research, insights, and advice is driven by our core values: independence, objectivity, curiosity, and integrity.

CONTACT

Research and consulting services:
Aite-Novarica Group Sales
+1.617.338.6050
sales@aite-novarica.com

Press and conference inquiries:
Aite-Novarica Group PR
+1.617.398.5048
pr@aite-novarica.com

For all other inquiries, contact:
info@aite-novarica.com

Global headquarters:
280 Summer Street, 6th Floor
Boston, MA 02210
www.aite-novarica.com

AUTHOR INFORMATION

Enrico Camerinelli
+39.039.21.00.137
ecamerinelli@aite-novarica.com

Research Design & Data:
Ana Ropotoaia
aropotoaia@aite-novarica.com