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Examining Dimensions and Components and Application of Supply Chain Financing (In Chain Stores)

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ABSTRACT

Purpose: Supply Chain Finance (SCF) is a new approach in financing the working capital of economic enterprises, which can ultimately lead to economic growth and financial stability through efficient and smooth allocation of financial resources, improving financial risk management and increasing financial inclusion. Supply chain financing which runs parallel to the flow of goods and information, is common to all financing networks, and therefore it is important to understand its dimensions. The financing chain provides the cash flow needed to ensure the doors are kept open, the lights are on, employees are paid, and products are produced and shipped.
Methodology: To achieve this goal, SCF uses principles that have been effective in supply chain management (SCM) for decades. The core of this financing chain is to create an optimization plan that can simultaneously control all supply chain financial processes.
Findings: According to these cases, in this paper, considering the importance of managing the financial flow along the chain and using the principles and basics of research in the method of fact-finding and case study, an effort was made by examining the characteristics, dimensions and components of financing in the supply chain. As well as practical experiences in this field, a conceptual framework for the effective use of the financial flow management system as well as its principles and foundations should be provided.
Originality/Value: In this paper, we will examine dimensions and components and application of supply chain financing (in chain stores).

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1. Introduction

A major part of the financial flow management tasks of value chain businesses is defined in interaction with financial service providers. According to the capacities and capabilities of banks and financial institutions, they should be implemented in a more favorable way. Since the supply chain is the heart of the organization, it must work all the time and non-stop to set the pace of the organization. Money and cash flows are what keep the supply chain on and moving forward. Today, the role of financial management in the success of companies and supply chains is discussed not only in developing countries but also in developed countries, and the ability of these companies depends on the potential of investing in innovation and quality [1]. All these things require capital and as a result financing. Due to the role of financial management in the movement process of the company and due to high financial risk, they face many problems in financing. While the problems experienced by the supply chain in relation to providing the required capital can come from several sources, the domestic financial market may not provide enough financial products and services, or due to the lack of appropriate supply mechanisms. Financial and lack of legal flexibility or gaps in legal frameworks [2].

Companies are trying to address one of the new methods of financing these enterprises, i.e., supply chain financing (SCF). SCF, as one of the new financial innovations, is a service that only professional financial institutions are able to provide, and no legal institutions that are considered as institutions with strong financial resources are able to provide these services. Therefore, companies mainly examine and explain the importance of SCF and SME and how to solve the problem of financing by SCF as a new method of financing through debt [3].

The purpose of financing through the supply chain is to create a dynamic ecosystem between businesses, promote education, expand the interaction between members and improve the speed of interaction, synergy and cost savings, and access to financial tools and technologies. New, faster, and more efficient buying and selling, improvement of taxes and economic factors at local, regional, and national levels. The main target population is micro, small, and medium-sized businesses (SMEs, tradesmen, merchants, cooperatives), suppliers of high-end businesses, and consumers of high-end business products. Supply chain financing facilitates the purchase, sale, and payment of goods and services such as: concluding contractual frameworks (sending purchase orders, matching the products sent and received with them, controlling and monitoring activities including collection of cash resources, use of technological support, management of liquidity and working capital, use of methods that reduce risks such as insurance and guarantee and management of payments and cash flows [4]. In other words, the task of this method is to create coordination among a wide range of participants so that the needs and requirements of the financial supply chain, such as the internal duties of the company, commercial parties, and service providers in the field of supply chain automation and in a wide range of financial services, be fulfilled in the financing chain, tools such as debt discounting, forfeiting and factoring are used [5].

For this reason, in this paper, it was tried to discuss and analyze the dimensions, components, and basic applications of supply chain financing, focusing on chain stores, and provide a framework for it. The structure of this paper is as follows: in the second part, the literature on the subject is discussed, and in the third part, the supply chain financing framework and its applications are discussed, and in the fourth part, supply chain financing in chain stores is discussed, and finally, the conclusion and discussion are presented in the last section.

2. Literature Review

Supply Chain Finance (SCF) is a term that describes a set of technology-based solutions that aim to reduce financing costs and improve business efficiency for buyers and sellers involved in a sales transaction. SCF methods facilitate the process from start to finish by automating transactions and tracking invoice approval and settlement processes [6]. In other words, supply chain financing reduces the risk of supply chain disruption and enables buyers and suppliers to optimize their working capital. According to this model, the buyers agree to approve their suppliers' invoices in SCF so that financing can be done by the bank or other foreign investors. These banks pay the supplier's invoice immediately after receiving the approval of the invoices from the buyers after deducting their fees [7]. Offering this short-term SCF credit that optimizes working capital and provides liquidity to both parties offers distinct benefits to all participants. While suppliers get faster access to the money they owe, buyers have more time to repay the bank. As a result, the parties can use the available cash for other projects to smooth the relevant operations [8].

Unlike other receivables financing techniques such as factoring, the supply chain is regulated by the buyer rather than the supplier. Another key difference is that suppliers can access supply chain financing with a financing fee based on the buyer's credit rating, not their own [9]. As a result, suppliers can usually obtain supply chain financing at a lower cost than they would otherwise be able to access. Buyer contracts with bank or SCF provider, suppliers send invoices to buyer through SCF platform. The buyer then approves the invoice and the invoice amount is paid to the supplier through the SCF platform. The supplier receives the payment, which gives a discount for receiving payment earlier and also pays the SCF provider's service fee or fee. The buyer then pays the SCF provider the full amount payable per the negotiated payment terms. The amount of the discount is usually based on the credit rating of the buyer. The SCF supplier can sell its receivables (invoices paid to the supplier) to someone else to reduce its credit risk (the maximum possible loss to the lender) [10].

3. How the financial supply chain works

First, the buyer agrees with a supplier in the supply chain and then invites its suppliers to join the program. Some supply chain programs are funded by a single bank or financial provider, while others are multi-vendor based and run by technology professionals through a proprietary platform. While buyers have traditionally focused on their largest 20 or 50 suppliers, technology-based solutions now enable companies to extend the supply chain to hundreds, thousands, or even tens of thousands of connected suppliers. Slow this is made possible by providing user-friendly platforms and supplier facilitation processes that simplify the onboarding of large numbers of suppliers quickly and with minimal effort [11]. Once a supply chain program is up and running, suppliers can request early payment on their invoices. From there, the supply chain financing process takes place, which typically looks something like this [12]:

- *The buyer generates a file from the accounts payable/ERP system of approved invoices, which is sent to the SCF platform (in case of cancellation of the invoice, the amount due is uploaded to the platform)*
- *The supplier checks the receivables and can make a sales offer (discount payment) or wait until the due date for payment.*

- *The financial institution receives and reviews the supplier's sales proposals and accepts or rejects them. If the sales offer is accepted, the payment instructions to the suppliers will be notified through the SCF platform supplier.*
- *The financial institution transfers the payment for accepted sales offers*
- *On the due date, the buyer either a) pays the money to the supplier through the SCF platform or b) the payment is made to the financial institution if the sale offer is accepted.*

The supply chain financing approach is shown in Figure (1).

Today, many platforms have been created in the world and in many leading countries in order to provide optimal and profitable financing services. These platforms are evaluated every year and prioritized based on the quality of the services they provide. Global finance editors select winners for the Business Finance Awards and Supply Chain Finance Awards with input from industry analysts, corporate executives and technology experts. The editors also consider input provided by financial service providers as well as independent research, taking into account a range of objective and subjective factors.

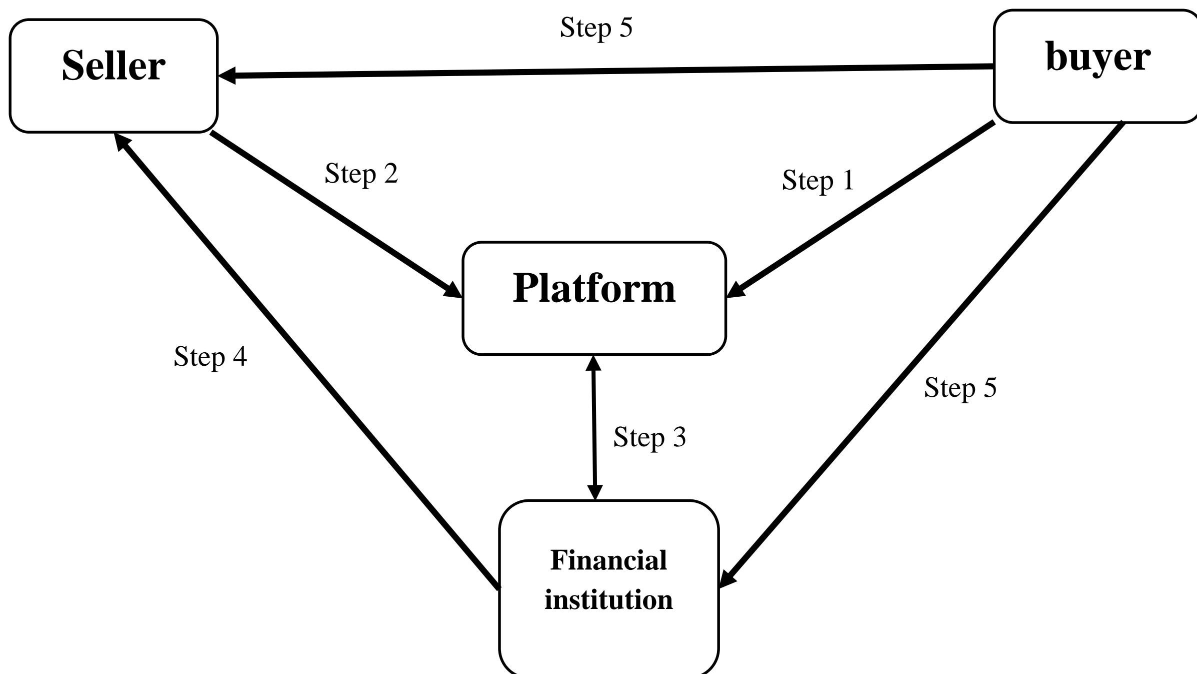

Fig. 1. Financial supply chain approach

The benefits that these supply chain financing platforms provide include [13]:

- *Speeding up and facilitating the financing process of working capital of production companies*
- *Reducing the need to obtain new facilities to finance working capital*
- *Strengthening stable relationships between producers and suppliers*
- *Reduction of non-current claims of banks*
- *Reducing the deviation of resources and increasing the efficiency of allocation of financial* resources
- *Increasing the transparency and controllability of the financial flow of the economy*

- *Reducing the cost of financing and reducing the finished product cost*
- *Help to improve banking health indicators*
- *Increasing diversification and deepening of financial markets*

4. Supply Chain Financing in Chain Stores

A chain store consists of several retail stores under common and centralized ownership. Major duties and functions of a chain store (business, advertising, rental, etc.) are controlled by a central command unit or a central management. Since the distribution system is the interface between production and consumption, any fundamental and major change in one of the two sectors of production and consumption will lead to a fundamental change in the distribution sector. The 18th and 19th centuries in Europe were the origin of changes in the methods of production, transportation, etc. As a result, the distribution system has not remained fruitless from these changes, so that modern methods and institutions of distribution have gradually grown and emerged in various dimensions and have been engaged in distribution activity as an alternative or complement to traditional methods. Chain stores are one of these distribution institutions that, after its creation, have gone through a path of evolution, although uneven, so that the current chain stores are a combination of all kinds of new distribution methods. The primary goals of the formation of these stores (of course, in favorable conditions after the industrial revolution) were mainly economic and due to the existence of high profit margins, people used to establish chain stores. But gradually, this new distribution institution showed that in addition to profitability (for the owners of capital in the private sector), it also brings major benefits to the society, and this is the reason why today the government men encourage and advertise the construction and development of these stores, or in charge of building these stores. A chain unit, on the one hand, must receive goods from manufacturers and supply sources, and on the other hand, must send the required goods to the stores in the chain. Therefore, for a chain store, the supply system or logistics is a very important issue, so that it can be said that the logistics network is the backbone of the store [14].

Suppliers are considered as one of the important pillars of the large and chain store organization and in the position of its most important business partner. A retail organization has two main processes, the process of supplying and buying goods in bulk from suppliers and the process of selling goods in retail to customers. In the process of supply of goods, one of the most important parts and in fact the topic of supply chain management can be considered the contracts of supply of goods [15].

In the supply contracts, the retail organization enters into written and legal agreements with its suppliers, according to which it is determined what goods are purchased from the supplier by the organization and how these goods are procured and purchased. The type of supply can be definite, trust or commission. The settlement period, purchase and sale prices, supplier discounts and all other agreements can be recorded in the supplier contract and be the basis of the commercial and financial transactions of the parties.

According to the structure of chain stores and the way they contract with suppliers, being in the financing chain can have an increasing value for the suppliers of these companies, which have a large volume of products and a very large number of suppliers, and are always concerned about the cash flow of claims. be in their times. Also, buyers can use financial rebates and increase their profits. For this reason, it seems that this chain is of high importance and brings maximum benefits to all players in the FMCG sector. This platform is shown schematically in Figure (2).

In the financing network of the supply chain, according to the type of contract of chain stores with their suppliers, financial institutions can facilitate both cash payments and periodic payment guarantees, and according to this facilitation When they receive a favorable cash discount from the supplier. The platform will also charge a fee for each transaction created in the network. This chain facilitates the supply process and maximizes financial transparency throughout the supply chain.

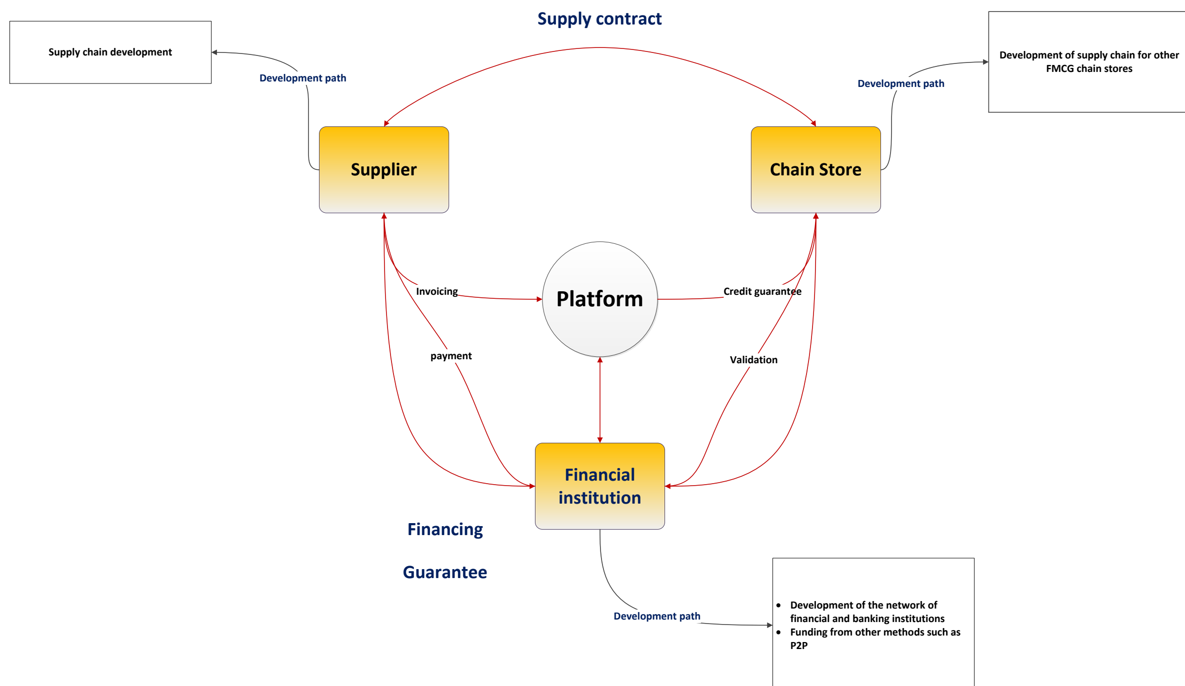

Fig. 2. Supply chain financing framework in chain stores

The use of supply chain financing platforms brings the following benefits for chain stores:

- *Effective, efficient and fast financing that can be used in situations where the request for facilities is much more than the realized financial resources.*
- *Helping economic growth and development by increasing transaction turnover, speed, ease and reliability*
- *Clarification of economic activities by directing resources to the real economic sector*
- *Reducing the attractiveness of smuggled goods (by creating suitable conditions for the purchase of target goods for different sections of the society)*
- *Supporting producers who intend to develop their market, but have kept their production capacity limited due to lack of trust in the non-cash market.*

5. Conclusion

In the competitive environment of today's world, companies and organizations take advantage of various technologies and management sciences to create competitive advantages through data management and knowledge management tools and to optimize organizational processes such as production or organization communication. One of the most important management sciences that has raised very useful topics in this field is supply chain management. By using this tool, the organization will be able to develop its business relations by optimizing the exchange of information with business partners such as suppliers of raw materials, distributors of products and contractors of goods

transportation. In this way, the economic enterprise will be able to market its product in much less time and reduce production time and wasteful costs. Chain stores have grown a lot in recent years, and therefore in different countries, a lot of attention has been paid to them and they are supported. One of the challenges that chain stores face, especially after the financial crisis, is financing issues, which have existed as a problem for a long time. Innovative financing tools can be used. Effective supply chain management requires a different approach to business execution than what companies have done in the past. In particular, the coordination and transfer of information between different departments that manage different elements of the supply chain is a key factor. A holistic approach to cash management may increase process efficiency through the use of electronic invoicing and electronic payments. Financial departments should be innovative in providing ways to increase financing and liquidity management. By using electronic data transmission, companies can increase their competitiveness, free up their working capital and reduce risk. For these reasons, in this paper, the dimensions and components of supply chain financing and their development paths are presented in a conceptual framework that can be useful for implementing a financing platform in chain stores.

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