Name your rate™:

The working capital game changer

C2FO®

The World's Market for Working Capital®

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This report takes a deeper look at why a working capital market that improves cash flow through the early payment of approved invoices is appealing to the suppliers who enthusiastically use it today.

The state of the world economy combined with the challenges suppliers have with finding viable working capital funding options has opened the door to alternative approaches. C2FO proprietary data demonstrates that a true dynamic discounting model is quickly becoming the preferred choice to optimize working capital.

Working capital access, control and efficiency are challenges for the global supply chain

Many SMBs are finding that their access to working capital has not returned to pre-recession levels and some analysts predict that a complete recovery may never occur due to changes within the banking industry.[1] Even if an SMB can secure ongoing working capital funding, it often involves risk-based underwriting and constant bank covenant compliance monitoring.

Plus, as more buying organizations implement term extension strategies to improve their working capital positions, this practice is often crippling for smaller suppliers unless they are provided an affordable and flexible option.[2]

In today's economic climate, there are more varied options for obtaining working capital than ever before, but they may not be equally accessible, affordable or desirable.

Traditional funding options are less efficient for buyers and suppliers

- Legacy dynamic discounting offers "one-size-fits-all" pricing for suppliers and produces lower supplier adoption rates and less income for buyers.
- Static discounting requires a supplier to constantly discount invoices at higher rates. Plus, most buyer companies find it difficult to capture 100% of discount income and suppliers generally price those discounts back into cost of goods.
- Supply Chain Finance (SCF) is typically effective for larger suppliers, requires risk-based underwriting and complicated paperwork and contracts. Buyers can increase their DPO (Days Payable Outstanding), but they don't recognize additional income.
- Factoring provides consistent working capital to suppliers but agreements have volume restrictions and higher rates.

2015 Working Capital Outlook Survey

The C2FO Working Capital Outlook Survey examined more than 1,000 U.S. business owners' preferences for improving working capital efficiency, including trends associated with financing, working capital deployment and late payments.

Highlights

- 56% of U.S. business owners prefer to partner with customers who help them improve cash flow
- 54% are increasingly concerned with their ability to finance long-term growth over short-term growth
- 57% have moved away from traditional forms of financing and are leveraging the cash flow from operations to fund their growth
- 91% of businesses noted that their estimated cost of borrowing short-term working capital is currently less than 8% APR

How would businesses deploy additional working capital?

With the appropriate access to working capital, most respondents say they would invest in purchasing equipment and/or inventory (25%); advertising or marketing (24%); invest in employees such as hiring, wages, benefits, etc. (21%); expand operations (13%); invest in new technologies (12%); and contingency planning (5%).

Doing Business with Supplier-Friendly Buyers

In line with industry trends that indicate an ongoing concern over large corporates delaying supplier payments, nearly 20 percent of businesses claim their customers regularly pay invoices later than expected. Despite these findings, 45 percent of business owners indicated they would not feel comfortable directly asking their buyers for early payment.

Survey results support a growing trend

In summary, these survey results underline a growing trend that is appearing across all industries: suppliers are concerned about their long-term financing and are not comfortable approaching their buyers to request early payment directly. Furthermore, suppliers are moving away from traditional financing and are moving toward self-financing because access to working capital can be limited, inflexible and expensive. An opportunity exists for buyers to leverage their working capital to improve the cash flow of their suppliers which would, in turn, remove the anxiety often felt with requesting early payment while empowering their suppliers to take more control of their cash flow.

The C2FO working capital market is a game changer for suppliers

The C2FO working capital market has created a unique market model where businesses can harness the power of *Name your rate™* for working capital. Buyers that have cash set their optimal rate of return and suppliers that want to optimize their cash position set their desired rate for early payment of approved invoices.

This is a game changer for businesses. Just like Priceline.com™ allows consumers to name their own price for travel and eBay lets people place their own bid for goods, C2FO provides ultimate working capital price control to businesses.

This means that regardless of company size and cost of capital, businesses can improve their working capital position at a rate that's almost always less than their unique cost of borrowing short-term cash.

This leads to much higher supplier satisfaction and program adoption rates compared to legacy dynamic discounting and supply chain finance.

For three years, we've been asking suppliers who use C2FO, "How likely would you be to recommend C2FO?" This is a question that allows us to track overall satisfaction and loyalty for C2FO using a Net Promoter Score (NPS). According to Satmetrix, companies with the most efficient growth engines operate with an NPS of 50 to 80[4]. Our C2FO scores have consistently been within this high benchmark and continue to increase.

Suppliers are highly satisfied with C2FO as a working capital option because the *Name your rate™* model provides suppliers ultimate control.

C2FO Net Promoter Scores[5]

Scores above 50 are considered world-class.

2014	Overall	Supplier Support
NPS Q1	55	66
NPS Q2	60	65
NPS Q3	61	70
NPS Q4	61	**78** ←

OVERALL NPS SCORE:
How likely would you be to recommend C2FO to another company?

SUPPLIER SUPPORT NPS SCORE:
How satisfied are you with your C2FO supplier relationship manager?

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Let's take a deeper dive into the stories of the suppliers themselves to reveal the common reasons why suppliers love C2FO.

"I can rely on C2FO. It works like a reserve parachute."

— MATT DAVIS, PRESIDENT & CEO / EAGLE INDUSTRIAL GROUP

Ten years ago, Eagle Industrial Group, Inc., started as a simple garage storage business under the brand name "MonsterRax." Matt Davis was retiring as an Air Force pilot and he and his wife wanted to do something on their own.

Since the beginning they have grown steadily by landing big accounts with Costco, BJ's Wholesale, Amazon.com and Menards. They have also increased their direct e-commerce business.

Matt Davis, president & CEO, Eagle Industrial Group revealed that there are things they could not have done without C2FO.

"C2FO has helped us accelerate cash during peak seasonal periods and ensure that overseas suppliers are paid on time to keep production running smoothly while maintaining high quality and safety standards. C2FO has also been there for us when we were maxed out on our line of credit, because you never have enough," said Davis.

C2FO has given Matt Davis peace of mind knowing that if he needs to make a significant investment, he can tap into the C2FO safety net.

"I'm all-in every day and C2FO has my back. It's one thing to have a culture of product safety. But now we definitely have a culture of financial safety, too," added Davis. "You always want to make sure you are protected. If I have to write a big check to make whatever problem go away, regardless of line of credit or what's in the bank, I can rely on C2FO. It works. It's like my reserve parachute."

> “C2FO mitigates financial distractions and enables us to focus on manufacturing our products.”

— LAWRENCE CHAKEY, CHIEF FINANCIAL OFFICER / MIGNONE, USA

Mignone, USA, started from the passion of its founder Shohreh Sedghi, 30 years ago, making aprons in her garage – where all great businesses begin – for Nordstrom. Today the company specializes in girls’ clothing.

Shore completely self-funded the operation and grew her business with Nordstrom, Costco, Bloomingdales, Sax Fifth Avenue and many boutique stores around the country. The growth was difficult because every new order created a demand for working capital to fund the production.

The challenge with booming large orders is that it takes three to four months to produce and they need to pay 90 percent of the labor as the order is produced. Small businesses just don’t have this kind of money sitting around. Even with a line of credit, it isn’t guaranteed to be available. This type of situation takes energy away from growing the company.

“We looked into factoring and purchase order financing, but C2FO was definitely the way to go,” said Lawrence Chakey, CFO, Mignone. “We save 200 to 300 basis points. Plus, C2FO gives us full control to select the receivables we want. With C2FO, I’m getting exactly what I want, when I want it, at a price that I want. Full control. That is a major plus,” added Chakey.

Chakey went on to say, “A few years ago, we couldn’t carry a large inventory. Now we have better cash flow and can cut more dresses, establish ongoing inventory and fulfill more orders. We are maturing as a business. The company is more profitable and more successful and a lot less stressful.”

And what does founder Shohreh Sedghi think about C2FO?

“She constantly asks me, ‘Did we make an early payment offer today?’ She loves it. She loves the control and ease of mind that C2FO gives us. Most importantly, C2FO enables us to pay our suppliers on time. Those relationships that we have with our suppliers are crucial to us,” said Chakey.

> “C2FO took the scare out of our cash flow. Somewhat of a lifesaver.”
>
> — ROBERT TORRE, CONTROLLER / INCHARACTER COSTUMES

InCharacter Costumes has been in the industry for almost forty years and is considered a pioneer in the mass market Halloween industry. As a highly seasonal business that starts the manufacturing process as early as January and anticipates payments that aren’t realized until November, they face a working capital challenge.

When looking at options to balance the cash flow during their big seasonal peak and valley, factoring was an option but was very expensive.

“C2FO is cheaper, flexible, and is a more cost-effective way to boost our working capital than borrowing on a line of credit or factoring on our receivables. It’s also very easy to use,” said Robert Torre, Controller, InCharacter Costumes.

“C2FO gives us the option to choose which invoices we want to use for early payment. Factoring is all or none and it also creates a nightmare in our A/R department in reconciling our receivables. C2FO takes that mess out of the equation. We have the flexibility to choose which invoices we want to be paid early and at what rate. This is a huge advantage,” said Torre.

Now that InCharacter Costumes is using C2FO with large customers like Amazon.com, they are eager to see Party City, Walmart, Sears and Kmart join the working capital market.

“I would love to see these companies enter the mix for this season,” said Torre.

The Name your rate™ model increases supplier adoption

The common theme with all suppliers that use the C2FO working capital market is *control*. When a business has the ability to self-regulate the timing of receivables, the early payment rate, and overall cash flow efficiency, the business will be more successful.

Since the first C2FO market transaction in March 2010, the platform has enabled collaborative wins between buyers and suppliers, delivering billions in working capital, and fueling financial growth for buyers and suppliers across the globe.

Plus, as more buyers are added to the market, suppliers can access a greater share of working capital, making it even more convenient and worthwhile for them to use C2FO as a primary source of working capital.

Key facts

- 91% of suppliers recommend C2FO
- On average, suppliers request early payment 83 times per year (participation is optional; therefore, this shows their need for working capital)
- Suppliers are successfully awarded early payment over 90% of the time
- Less than 0.25% of our suppliers have access to cheaper capital elsewhere (in a recent survey, just one out of 500 suppliers)
- 93% of suppliers have been awarded multiple times

If you're a supplier looking to improve your working capital position, tell your customers to take a serious look at C2FO.

If you're a buyer exploring ways to improve your bottom line and the financial health of your supply chain, talk to your suppliers about what options they prefer. More than likely, they are already using C2FO with others in your industry.

References:

1. Why Small Business Lending Is Not Recovering, August 4, 2014
2. Big Companies Pay Later, Squeezing Their Suppliers, April 6, 2015
3. 2015 Working Capital Outlook Survey, May 2015
4. The Net Promoter® Community, Satmetrix
5. C2FO Net Promoter® Score Study, Q1-Q4 2014

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