Exam case Supply Chain Finance:

This exam case is based on a paper of Professor Seifert from IMD Lausanne. IMD is a well-known business school. In this paper a survey of 23 executives reported on their experiences with supply chain finance.

Supply Chain Finance (SCF) represents an innovative opportunity to reduce working capital. Its underlying mechanism is reverse factoring making the technique buyer- rather than supplier-centric. Implementing SCF is a difficult and time-consuming task that requires top management attention.
Yet, it promises significant savings. Our survey results show that, on average, companies reduce working capital by 13% and suppliers reduce working capital by 14%.
Three factors differentiate successful implementations of SCF from less successful ones: Choosing the right banking partner, ensuring CEO sponsorship, and involving at least 60% of the supply-base.

Source: Seifert et al, Supply Chain Finance. What is it worth?, IMD, 2009

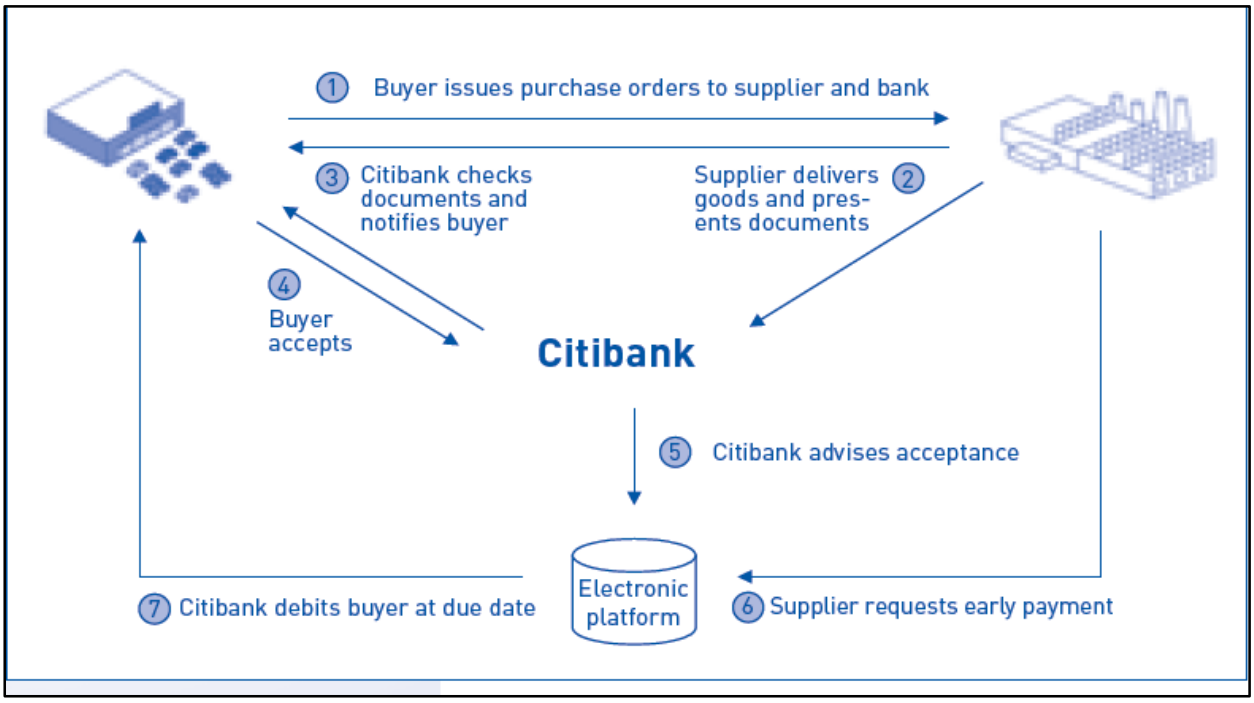

Figure 1 Reversed factoring (Seifert et al, Supply Chain Finance. What is it worth?, IMD, 2009)

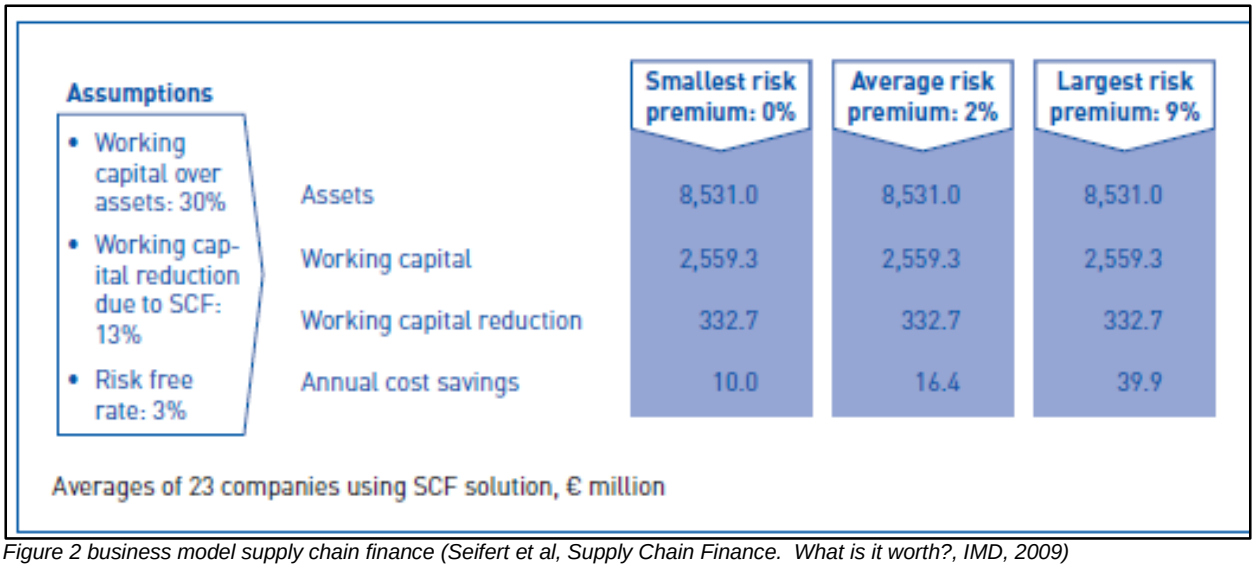

Figure 2 business model supply chain finance (Seifert et al, Supply Chain Finance. What is it worth?, IMD, 2009)

Questions

1. Professor Seifert's definition of Supply Chain Finance differs a lot from the definition of Professor Steeman. Mention (and calrify) at least three differences between the two definitions. .**(10 points)**

2. Why is reversed factoring buyer- centric? Explain your line of reasoning.**(10 points)**

An important aspect of implementing Supply Chain Finance is a good and independent performing IT platform.

3. Explain why a good performing IT and independent platform is so important for implementing Supply Chain Finance. Is this also the case in the research paper of Professor Seifert? Explain your answer. **(10 points)**

4. In figure 1 the process of reversed factoring is plotted. Another Supply Chain Finance instrument is Dynamic Discounting. Explain this instrument of Dynamic Discounting. Does Dynamic Discounting changes figure 1? Explain your answer. **(10 points)**

5. In figure 2 the business case is mentioned for the companies involved. Is this a Win-Win gain in terms of EVA in the supply chain? Explain your answer. **(10 points)**

6. In the business case of figure 2 the cost saving of a company - with a large risk premium - is 12%. How is this cost saving of 12% calculated? Provide an interpretation of the calculated cost saving of 12%, what are the explanatory factors in this business case. **(10 points)**

7. A firm offers terms of 2/10, net 60 (Customers have 60 days to from the invoice date to pay the full amount; however, if payment within 10 days, a 2 per cent cash discount can be taken). What is the effective annual rate (EAR) of paying after: 60 days or paying within 10 days? Show your both calculations. **(10 points)**

Consider the following financial statement information for a company:

	2015
Inventory	€ 3,000
Accounts receivable	€ 8,000
Accounts payable	€ 4,000
Net sales[1]	€ 60,000
Cost of goods sold	€ 20,000

For your calculations you can assume that a year has 360 days.

8. Calculate the following sub-questions for 2015 (show your calculations!):
    a. Day's sales in receivables (DSO). **(2 points)**
    b. Day's purchases in payables (DPO). **(2 points)**
    c. Inventory turnover period (DII). **(2 points)**
    d. Cash cycle. **(2 points)**
    e. How do you interpret the over-all outcome of your calculations? **(2 points)**

9. You participated in the supply Chain Finance simulation: The Cool Connection.
    f. What was exact your role (s) in the game?
    g. What was your learning experience in terms of single loop and double loop learning? **(20 points)**

End of the Exam!

[1] Assuming that all sales are made in credit!