FINANCIAL SERVICES OFFERED
BY A MULTIDISCIPLINARY B2B NETWORK

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Introduction

Globalisation is pushing industries of any kind and size to act as world wide global players. Industries buy and sell all over the world. Supply chains today are complex networks where members are heterogeneous: parts and component manufacturers but also Logistic and Financial Service Providers. These complex networks, constituted by companies of several industrial sectors, have to perform as a unique body. Thus, they need to be perfectly synchronised. When the majority of the network members belong to the EU 27, synchronisation can be easier. Using this chance, EU-based networks can compete with networks that take advantage of low labour cost countries such as Far East countries. [6]

In order to ensure continuous process monitoring and transparency, as well as accurate information flows, it is necessary to extend the electronic business relationship between manufacturers and their suppliers (B2B applications) towards those service providers, whose activities affect the quality of cooperation between business partners. [6], [11]

The FLUID-WIN research project targets business-to-business (B2B) manufacturing networks and their interactions with the logistics and financial service providers (FSP). The FLUID-WIN platform ensures the seamless integration of 3rd party service providers with their manufacturing networks, based on easy-to-use electronic services, with the innovative B2 (B2B) approach.

Logistic service providers (LSPs) and financial service providers (FSPs) are entities that offer services to supply networks - among others - in order to boost their competitiveness and help them achieve their business objectives. In the context presented here, which comes from the FLUID-WIN research project [4], ‚B2‘ refers to financial and logistic services, which are provided to existing ‚B2B‘ manufacturing networks constituted of manufacturers (OEMs, „prime contractors") and their suppliers all over the world. [9]

FLUID-WIN is a platform which can seamlessly integrate and transfer data among all the various partners in order to enhance the competitiveness of the whole business sector in Europe and to make the business processes as efficient as possible.

The platform enable the European manufacturing companies to keep their ability of quick response, achieving competitive prices by integrating the suppliers from other parts of the world. This platform will be supported through easy-to-adopt e-commerce applications and will integrate the commonly used logistics and financial services without installing thousands of peer-to-peer relationships (see [7]). The functionalities of the platform are recently tested and the platform will be used in production networks since 2009.

1. Financial Services

The European market is becoming more and more agile regarding trade finance services used by the SMEs operating in Europe. However, only a small percentage of companies use factoring and invoice discounting in order to alleviate their cash-flow difficulties.

Generally, an *invoice* is a commercial document issued by a seller to a buyer, indicating the products, quantities and agreed prices for products or services with which the seller has already provided the buyer. An invoice indicates that, unless paid in advance, payment is due for the buyer to the seller, according to the agreed terms. An invoice, in the form of a commercial invoice, is a key document for transporting products across many national borders. Furthermore, with its relation to money and payment, the invoice constitutes the link to the financial area and delivers the base

data for trade financial services such as Invoice Discounting and Factoring. [3]

1.1 Traditional Factoring

Factoring is a financial service offered through the FLUID-WIN Platform. There are some fundamental practical differences between the processes of the two financial services invoice discounting and factoring. These differences stay valid even if the FLUID-WIN concept supports these services. [3]

invoice discounting the factoring provider takes over most of the invoice receivables related to their clients' customers. The factoring provider becomes responsible to claim and receive the payments on behalf of its clients in its own bank accounts. This induces, of course, the involvement of Company B into the circle of service participants. Company B has to confirm that its incoming invoice is factored and that it has to pay to the financial services provider (FSP) instead to Company A. Thus, in factoring, this party is actively involved within the process whereas in invoice

Fig. 1: Traditional factoring
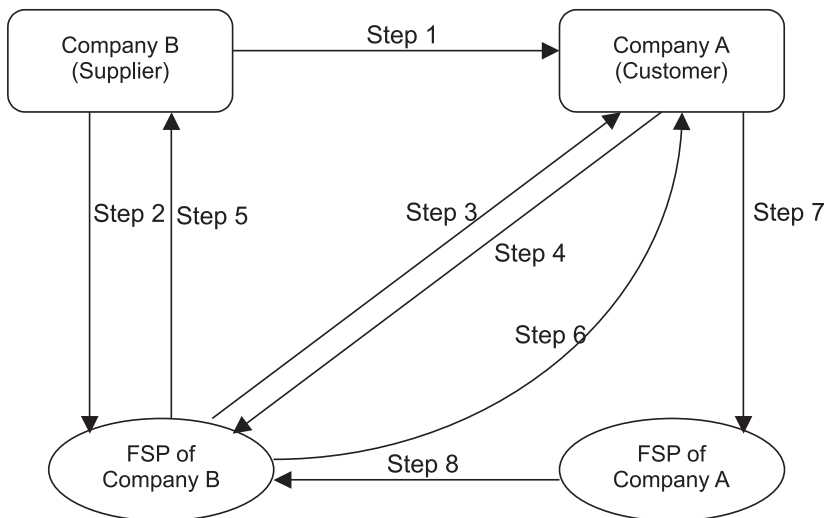
Source: Author's elaboration on the basis of Deliverable D13

The invoice discounting enables Company A to use its outstanding debts (invoices receivable related to the companies' customers) as a guarantee to get cash from a bank before its customer pays. Banks usually offer this service whereas often single invoice receivable serves as a guarantee for a short-term loan. Company A itself is responsible to claim the outstanding debt from its customer and it has to pay back the loan to the bank after a specific period. [3]

Whereas, factoring enables Company A to sell partially or completely its outstanding debts for cash (e.g. all their invoices). It is a financing technique in which Company A sells invoiced receivables at a discount to a bank or a factoring house or to an internal finance company. In difference to

discounting service, Company B does not play any active role. Moreover, it is very likely, that Company A has various customers and plans to factor the invoices of all those companies. Therefore, each has to confirm its related invoices. [3]

In the traditional factoring service workflow (without the support of the FLUID-WIN Platform), the business partners are communicating with each other directly, and the work done is partially paper-based as shown in Fig.1. The precondition for the use of factoring is an existing facility at the factoring FSP. If it is not yet set-up, it has to be created first. The traditional workflow starts when the FSP's client (Company B) generates an invoice for a service provided or products supplied to Company A. These are transmitted to Company

A directly, e.g. paper-based or by email (step 1). Company B manually collects the invoices to be factored, creates a factoring order and submits this factoring order together with the copies of the invoices to their financial partner (step 2). Having received the factoring order and the invoices, the FSP of Company A first checks whether the invoices relate to the agreed set of client's customers (Company B's) and if the sum of the invoices fits into to the agreed maximum amount. In parallel the FSP requests a confirmation of the invoices from Company A, which is time consuming and often paper-based (step 3). If the FSP's internal check is passed and the involved customers confirm their invoices (step 4), the FSP factors the outstanding debts of Company A and fulfils the requested payment (step 5). The confirmation messages are sent back paper-based to the FSP of Company A. After a certain time period (legally fixed in the invoices) the FSP of Company B requests Company A to pay the outstanding amount to its own account (step 6). Finally, Company A instructs its own bank to pay the open amount on the account of the FSP of Company B (step 7). When the FSP of Company A has transferred the amount, the traditional factoring workflow is completed (step 8). [3]

1.2 Traditional Factoring Supported by the FLUID-WIN Platform

The factoring workflow, also if supported by the FLUID-WIN Platform, follows the traditional pro-cess sequence. The main differences due to the support of the FLUID-WIN Platform are:

• All information is exchanged between the involved business partners via the FLUID-WIN Platform.
• The invoices of Company A can be directed to the Company B and be reused to create a factoring order to be transferred to the FSP.

Already in this intermediate stage of integration, the FLUID-WIN Platform brings all the partners together into a higher collaborative communication network in which they share and supply additional information to each other. First, it enables the seamless integration of a service from different domains (factoring service after a Transportation Service under use of the same consistent and reliable data). Second, it reduces the lead time which is necessary to get the confirmation of Company B, because the request and the confirmation are supported electronically. Furthermore, collected information can be used for instance to calculate Key Performance Indicators (KPI) and quality measurements with respect to the work done. However, because of the restricted availability of status information these KPIs are limited. [2]

Key Performance Indicators (KPI) are quantifiable indicators, agreed to beforehand, that reflect the critical success factors (of the company, department, project). These indicators are crucial, and measure the performance of those key proces-

Fig. 2: Model CAF
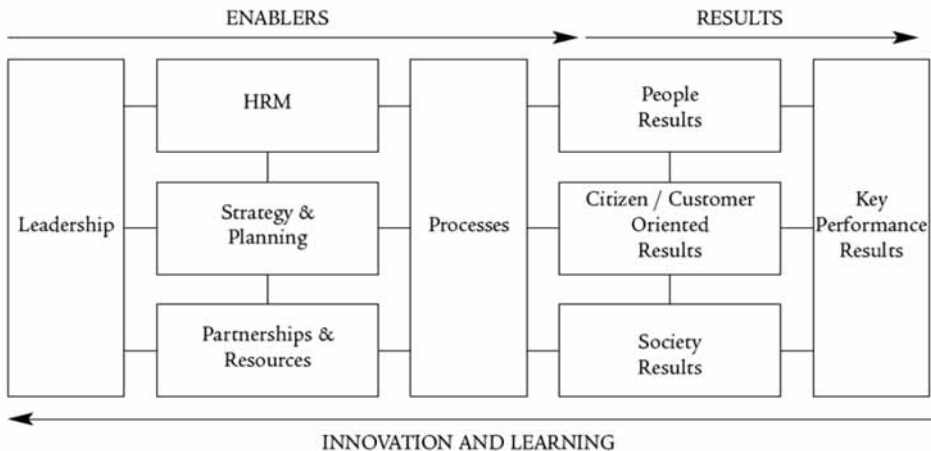
Source: The Common Assessment Framework, 2006

ses (essentially contained in Common Assessment Framework (CAF) which significantly affect the effectiveness and efficiency of key performance outcomes. A good example of customer satisfaction can be measurement in criterion „The results in relation to customer/citizen", which measures the processes we have put in place for delivering customer/citizen products and services. [5]

Common Assessment Framework (CAF) is a total quality management tool inspired by the Excellence Model of the European Foundation for Quality Management (EFQM) and the model of the German University of Administrative Sciences in Speyer. It is based on the premise that excellent results in organisational performance, citizens/costumers, people and society are achieved through leadership driving strategy and planning, people, partnerships and resources and processes.

The CAF is offered as an easy to use tool to assist public sector organizations across Europe to use quality management techniques to improve performance. The CAF provides a self-assessment framework that is conceptually similar to the major Total Quality Management models, EFQM in particular, but is specially conceived for the public sector organizations, taking into account their differences. The structure of the CAF is illustrated in Fig.2. The nine-box structure identifies the main aspects requiring consideration in any organisational analysis. Criteria deal with the Enabler features of an organisation. These determine what the organisation does and how it approaches its tasks to achieve the desired results, results achieved in the fields of customers, people, society and key performance are measured by perception measurements and internal indicators are evaluated. [1]

1.3 Integrated Factoring Supported by the FLUID-WIN Platform

The factoring service shares the same workflow with the invoice discounting in the very beginning. A facility at the FSP is needed to use the factoring service. If yet not existing, a new facility for Company A involving Company B data and an amount limit agreement has to be set-up. This activity of FSP is supported by Key Performance Indicators related to Company A and Company B provided by the FLUID-WIN Platform. [3]

Of course, these indicators are only available for those companies which (1) are FLUID-WIN users and (2) accept that their KPIs are published to the FSP. If Company B is already known and trustable for the FSP, then it approves the new facility. Otherwise, the FSP performs a thorough investigation (due diligence) on Company B depending on the credibility information supplied by other banks and credit rating services. Should the new facility for Company B not be approved, the factoring service does not take place with respect to this specific Company B. However, depending on the investigation results it is possible for Company A to factor invoices related to other customer companies. When the status of Company B is approved, Company A is eligible to use the financial services on FLUID-WIN. [3]

According to the integrated factoring workflow which is illustrated in Fig.3, Company A generates the invoices for the products or the services supplied. This invoice generation, however, is part of manufacturing or logistic services. Independently whether a factoring service should be used later on, all invoices are transferred to the relevant customer companies supported by FLUID-WIN (step 1). The real use of the integrated factoring service starts when Company A selects the invoices to be factored in the FLUID-WIN Platform. The Electronic Invoice Management functionality supports the creation of the factoring order by selecting the relevant invoices. Before they are transmitted to the FSP the FLUID-WIN Platform checks according to the security procedures whether the invoices fulfill the criteria of the FSP (step 1). This activity is called pre-checking. During the selection of invoices the FLUID-WIN functionalities Electronic Invoice Management and Financial Service Management check immediately the invoice-related Company B data depending on the FSP list of agreed customer companies and the agreed Company B credibility limits. If the check fails, the service has to be fulfilled with a certain invoice related to the not passing Company B (the invoice can not be selected any more within this specific factoring service). Provided that all invoices are acceptable, the factoring order including all invoices is submitted to the FSP (step 2). In parallel Company A is requested to confirm the invoices selected in the FLUID-WIN Platform to be factored (also step 2). Meanwhile, the status of the financial service can be followed over the

Fig. 3: Factoring integrated over FLUID-WIN platform
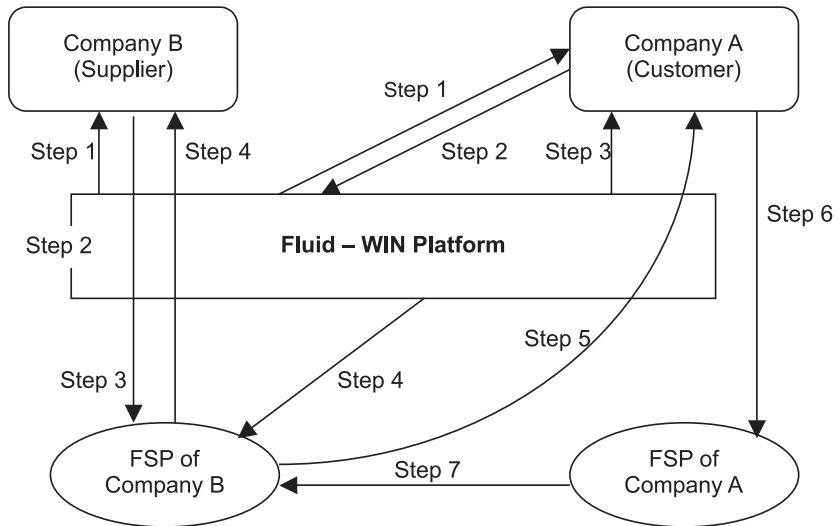
Source: Author's elaboration on the basis of Deliverable D13

FLUID-WIN Platform. However, because of the possible relation of the invoice to a logistic service, Company B has the chance to confirm the invoice factoring based on logistic status information. For example, Company B waits with the confirmation until the status of the transported goods is „delivered" and „without damage". Assumed that everything is ok, Company B can confirm the invoice by using the FLUID-WIN Platform (step 3). This confirmation is linked to a certain invoice and therefore to the factoring order. The confirmation is directed to the FSP (step 3) and Company A is informed (functionality Financial Service Monitoring). Status information is given to Company A also if all invoices are confirmed by the relevant Company B and if the FSP confirms finally that Company B and its credibility limits are accepted (step 5). This status means that the factoring order is accepted and the factored fund is available for Company A. After a certain period of time (defined as date of payment in the invoice) the FSP of Company A requests Company B to pay the invoice (step 4). Company A gives the payment instruction to its own FSP (step 6) and the payment is done to the FSP of Company B (step 7). The last both steps are not supported by the FLUID-WIN Platform; only status information is handled related to these events. The FSP of

Company A updates the status of the supplier and the customer companies on the FLUID-WIN Platform, only. The reason behind this decision is the broad availability of payment tools as well as the usual case that such activities are already provided by the local ERP tool or B2B-system (business to business). Anyway the existence of such tool is assumed as a precondition for the B2(B2B) approach followed by the FLUID-WIN concept. [3]

The factoring trade financial service is monitored over the whole process by the FLUID-WIN Platform according to specific states. Based on these states and further information, finally, the quality of the FSP factoring service is evaluated and generated within the FLUID-WIN Platform by the functionality Quality Measurement of FSP Service as a reference for future businesses. This information might be taken into consideration by the other users of the FSP's service. [3]

Summarizing, the following added values are provided due to the use of the FLUID-WIN Platform supporting the factoring service with an integrated workflow:

• The FLUID-WIN Platform enables the combination of logistic services or logistic-related information with financial services. For example, invoices related to logistic services

can be used for factoring, or logistic related information supports the decision making during the confirmation process, even if the LSP providing that information is not involved in the factoring service.

- Furthermore, the FLUID-WIN Platform eases the access to trade finance services for manufacturing companies as well as for LSP's.
- A pre-check mechanism ensures that only invoices can be selected for factoring which

- A complete set of states enables the continuous real-time monitoring of the whole factoring workflow. This has two consequences: it provides a bilateral transparency and information exchanged via the FLUID-WIN Platform can later be reused for the KPI calculations.
- The collected status data are the base for the generation of KPIs supporting the quality measurement of the financial service. The KPIs published for the manufacturer and LSP (FSP's

Fig. 4: Traditional invoice discounting
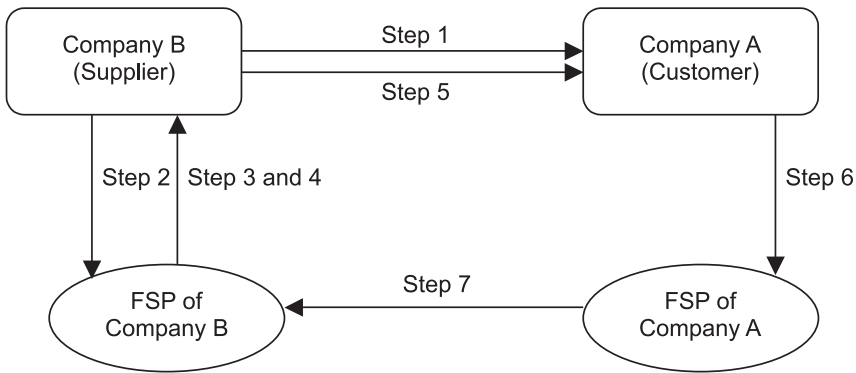
Source: Author's elaboration on the basis of Deliverable D13

are in the list of „agreed Company B" and within the credit limit. This ensures that the FSP does not need to reject any unqualified factoring orders, reducing the time spent. It also maintains an increased trust for the FSP's (banks and the factoring houses) on its clients utilising the FLUID-WIN Platform.

- Furthermore, the parallelization of the submission of the factoring order to the FSP and the request to confirm the factored invoice to Company B saves time. Also time is saved due to the electronic support of the confirmation process.
- The provision of KPIs used by FSPs enables a better monitoring of the FSP's clients with respect to B2B performance and reliability. The provision of the indicators enhances the transparency to the FSP's clients and debtors, and might have decreasing influence on the interest rate provided by the FSP because of the reduction of uncertainty and the time loss.

client) are used by them in order to estimate and control the performance (i.e. reliability, lead time etc.) of the services provided by the FSP.

- The FLUID-WIN Platform attracts new clients for banks and other FSPs as it provides an exceptionally secure environment bringing all the B2B networks together for inter-company transactions. [3]

1.4 Invoice Discounting

In the traditional invoice discounting service, the relations between the involved parties are generally bi-lateral and independent from each other. On the other hand, the credit terms and the credibility information of the companies are generally not easy to be found by the Financial Services Providers (FSPs).

When Company B sends invoices to the client Company A (step 1), the invoices will be received also by the bank together with a form with details

related to the transaction and other particular information required by the bank (step 2). The bank checks the credibility of this customer in order to check its exposure (step 3) and then it gives Company B the percentage agreed (step 4). Company B continues chasing the payment from Company A (step 5), and when Company A finally pays either directly or through its own FSP (step 6 and 7), the debt with the bank will be cut off and the rest of the amount is placed at the disposal of Company B (Fig.4). [3]

## 1.5 Invoice Discounting Supported by the FLUID-WIN Platform

Within the FLUID-WIN Platform, the invoice discounting is taken into consideration when the client of a FSP (Company A) requests to receive payment from its customer Company B. Company A is a placeholder and stands for the client of the FSP. Company A is demanding invoice discounting as a financial service from the FSP. Company A can either be the supplier or the Logistic Services Provider (LSP). Company B represents the customer of Company A (the customer of the FSP's client). If Company B is requesting the invoice, Company B is Company A. For invoices requested by an LSP, Company B can be both Company A or Company B, depending on which of the companies has ordered the logistic service from the LSP. [3]

Company B chooses invoice discounting (Fig.5). Each invoice, which is selected for the invoice discounting service, is sent before to Company A through the FLUID-WIN platform. With the Electronic Invoice Management functionality of the platform Company B prepares the invoice discounting order documents (step 1 and 2). The platform will offer an invoice discounting help manual for this. Having the invoices prepared, Company B sends them to the FSP assisted by the Electronic Invoice Management and reporting happens through the Financial Service Status Monitoring (step 3). Not only invoices are controlled, but also the service process of the related FSP is monitored. [3]

The FSP checks the document to determine whether the documents are from agreed customers of Company B (Company A) and whether they are within the agreed credit limits. This is done electronically within the IT (legacy) system of FSP, in which the approved companies are listed. The FLUID-WIN Platform maintains the communication with the related FSP for further detailed pre-checks about the credibility and limits of Company A. Company B can monitor

Fig. 5: FLUID-WIN supported invoice discounting
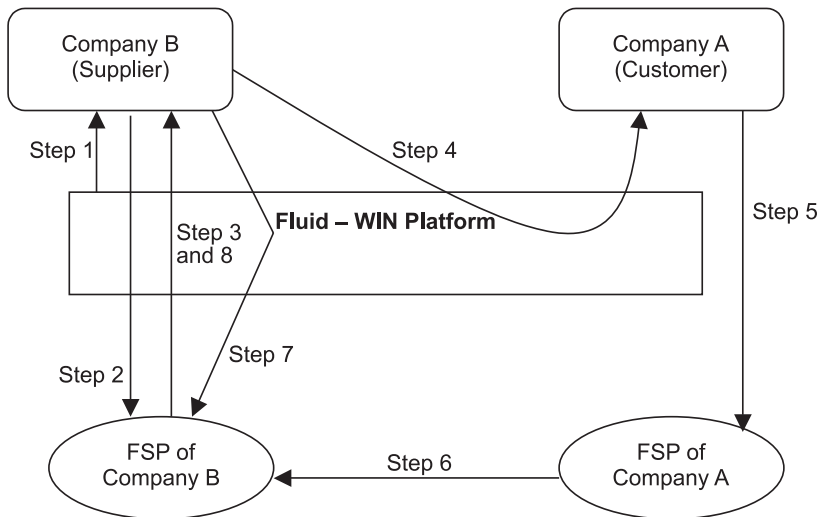
Source: Author's elaboration on the basis of Deliverable D13

this process over the FLUID-WIN Platform with the help of the financial service status monitoring functionality (step 3). This helps Company B to be able to react, accordingly. [3]

The next step for the bank is to make the percentage agreed with Company B available on the basis of the invoice (step 3). Then a normal (offline) debt management process is continued, until Company B collects the payment from Company A, without the further involvement of the discounting FSP (steps 4, 5 and 6). Even if not directly related to the invoice discounting service, the FLUID-WIN Platform can support the request to pay information to Company A. Depending on the result of the payment, Company B updates the status of payment of Company A either as paid or not paid. Finally, Company B pays the remaining invoice discount loan back (step 7). The invoice discounting service process is now completed. [3]

Certain Key Performance Indicators (KPI) can be calculated to measure the quality of the service fulfilment by the FSP.

In comparison to the traditional way of invoice discounting, the invoice discounting service offered by FSPs through the FLUID-WIN Platform introduces pre-checking of the invoice discounting order. This supported cross-domain information exchange helps to reduce transmission and incompatibility errors as well as time elapsed.

Furthermore, status information enables the calculation of KPI and quality information for evaluating the FSP's service performance by their clients. This is beneficial for the users in terms of controlling the reliability, uncertainty and time.

There are usually three parties involved when an invoice is factored:

• The supplier of the product or service for Company B (Company A or LSP) who generates the invoice.
• Company A which is the customer of Company B, i.e. the recipient of the invoice who promises to pay the balance within the agreed payment terms.
• The factoring company, which is the FSP in the FLUID-WIN context.

2. Service Interaction

A combination of services is generally possible either horizontally or vertically. Services can interact horizontally along the logical work sequence. For example, a company can use both a logistic and a financial service, e.g. a Transportation Service is followed by the discounting of the related invoice. Vertical interaction means that one company uses several services of the same kind, e.g. various logistic services are provided by different LSPs (e.g. one LSP fulfils the transport from A to B and a second LSP transports the goods from B to C). Another example for vertical service interaction is if the same set of business partners uses various services in parallel, like factoring and invoice discounting together. [3]

There are particularly ideal examples in the model which represent successful combination and interaction of the different services supported by the FLUID-WIN B2(B2B) Platform. First of all, the combined logistic service describes how two different sub-services, namely Transportation and Warehouse Services, form together a new interactive service fulfilling multiple expectations of the customers. With respect to the Combined Logistic Services and Integrated Factoring different scenarios have been discussed and some particular workflows are proposed. [3]

Another example of interaction between services can be seen in the KPI generation. The KPIs and the quality measurement information are provided by companies of different domains (manufacturing, LSP and FSP). These sets of information are transmitted to the FLUID-WIN Platform where they are stored and made available to other related users of the platform. This characteristic proves that the services interact and influence each other across the domains. [3]

A similar example with respect to this kind of interaction enabled by the B2(B2B) support is represented by the generation of invoices by supplier companies and LSPs. These invoices which are made available to the related users over the FLUID-WIN Platform serve as a link between the B2B manufacturing, logistic and financial domains. The FSP needs invoices from its client (usually the result of manufacturing or logistic business) for the fulfillment of the trade finance service. Hence, when Company A acquires the Factoring and/ or Invoice Discounting Services, the interaction becomes a reality. [7]

Furthermore, the logistic and financial services interact with each other by the help of the B2(B2B) support within the Factoring Service workflow. The FLUID-WIN Platform enables the combination of

logistic-related information with financial services. For example, logistic-related information supports the decision making during the confirmation process, even if the LSP providing that information is not involved in the factoring service. [3]

Conclusion

E-services like e-banking, web-shopping, web-auctions, e-government, e-health, e-manufacturing, e-learning are becoming part of everyday life for citizens everywhere. We presented how FLUID-WIN Platform can enhance business processes and business potential through innovative financial services. We have achieved this by elaborating on some of the main benefits offered by web-based platforms, while highlighting the advantages provided by the FLUID-WIN platform in particular. Detailed description of the multi-disciplinary B2(B2B) networks can be found in [10] and [12], [13], [14].

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ABSTRACT

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Globalisation is pushing industries to act as world wide global players. Industries buy and sell all over the world. Supply chains today are complex networks where members are heterogeneous (companies of several industrial sectors such as manufacturing, finance and logistics). These complex networks have to perform as a unique body; therefore, they need to be perfectly synchronised.

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FLUID-WIN research project aims to develop a platform which can seamlessly integrate and transfer data among all the various partners in order to enhance the competitiveness of the whole business sector in Europe and to make the business processes as efficient as possible.

The European market is becoming more and more agile regarding trade finance services used by the SMEs operating in Europe. However, only a small percentage of companies use factoring and invoice discounting in order to alleviate their cash-flow difficulties.

In recent years, the factoring as the alternative form of business financing becomes more and more popular. The aim of the paper is to give some information about the FLUID-WIN research project in relation to factoring and invoice discounting. These services are offered mainly by banks or by subsidiary corporations of banks, perhaps even by specialized companies called factoring houses. Factoring and invoice discounting utilization bring many advantages to entrepreneurs. Primarily, it is the possibility to obtain the financial resources before maturity of a claim.

Key Words: factoring, invoice discounting, key performance indicator (KPI), Common Assessment Framework (CAF), financial service provider, logistic services provider, FLUID-WIN.

JEL Classification: G20.