

# Taulia project

Work package 1

SCF market size

outline





# Assessing market size

- Assessing market size is a tough cookie: there are different definitions and different understanding of the concept: total addressable market, total market served, target market, actual volumes, and so on
- Even once your definition of market size has been clarified, other difficulties arise, due to the relative novelty of the SCF Topic: no one is currently collecting information on the SCF market size in a structured way with a big enough scope (both in terms of geography and SCF solutions)

*In this work package we will try to summarise existing models and methods for the assessment of the SCF market, providing – whenever possible – an updated estimate*



# Which market size(s)?

- Market size is not a unique definition
- In the simplest understanding, it is possible to identify three sizes of markets:
  - Total Available Market (TAM): total potential revenue opportunity for a product or a service
  - Served Available Market (SAM): total potential revenue opportunity within a firm existing competencies and constraints
  - Target Market (TM): total potential revenue from targeted customers
  - Penetrated Market (PM): actual revenues for a specific product or service
- Moreover, the assessment of the market size for SCF is complicated even further by the lack of standardize definitions: does it involve only Reverse Factoring? Or a larger set of solutions? Does it have to measure the stock (i.e. transaction volume at the end of the year) or the float (i.e. outstanding invoices)?
- Our approach is to collect and examine (and, where possible, expend) currently available assessments of the SCF market size

# Available assessments of the market

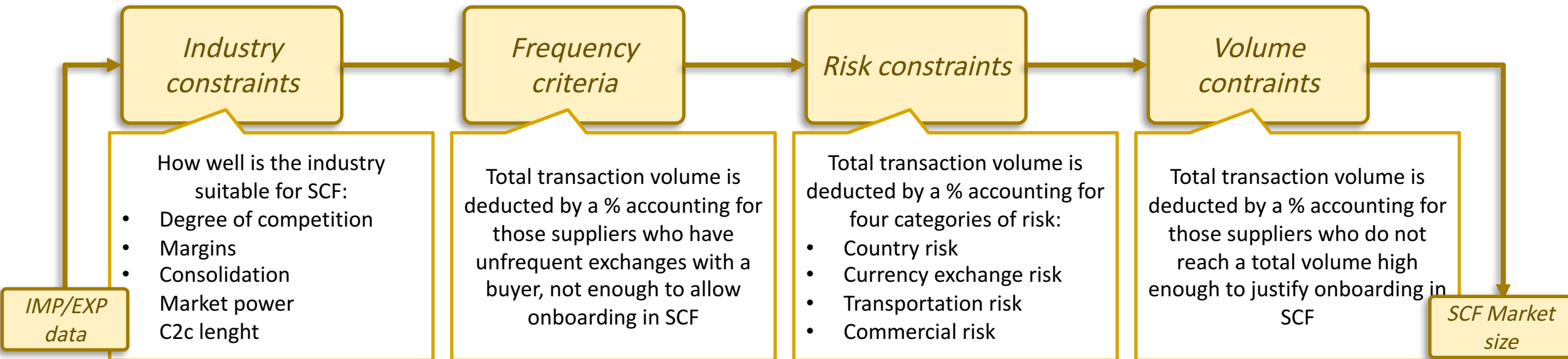
- The table below presents the main SCF market size efforts currently present on the market
- For Market size and Variable please see previous slide
- SCF scope includes only Reverse Factoring (narrow) or a mix of solutions (broad)

Owner	Hofmann & Belin	ING	Politecnico di Milano	GBI	M3
Market size	TAM	TAM	TAM	PM	TAM
Variable	Stock	Stock	Float	Stock	Stock
Geographical scope	OECD countries	Netherlands	Mainly Italy, limited European countries	World	Netherlands, SMEs
SCF Scope	Narrow	Narrow	Broad	Broad	<i>Discard</i> Narrow
Last assessment	2006	2012	2016	2016	2009
Our approach	Update	Update and increase scope	Report	Report	Update and increase scope



# Hofmann & Belin

- Source: Hofmann, E., & Belin, O. (2011). *Supply Chain Finance Solutions - Relevance, Propositions, Market Value*. Springer.
- Starting from OECD to non-OECD import and export value, Hofmann & Belin identify how suitable each industry is for SCF (identified as Reverse Factoring only) and provide a high-level assessment of the current market size
- What have we done: we have taken the model as is (i.e. industry assessment of SCF suitability) and have updated the input data to more recent data, including also OECD to OECD import and export values



# Hofmann & Belin

Industry	Suitability	SCF market size IMP [bln\$]	SCF market size EXP [bln\$]
Primary and Manufactured Goods	H	4018	3733
Agriculture, Forestry and Fishing	ML	37	37
Mining and Quarrying	ML	84	42
Food Products	MH	141	129
Beverages	MH	21	25
Tobacco	MH	7	5
Textile, Wearing Apparel, Leather and Related products	ML	87	46
Wood and products of wood and cork, except furniture	ML	12	9
Paper and printing	ML	19	18
Coke and Refined Petroleum Products	L	6	6
Chemical and Pharmaceutical Products	MH	339	361
Rubber and Plastic Products	H	125	120
Other Non-Metallic Mineral Products	H	47	44
Basic Metal and Fabricated Metal products	H	363	349
Machinery and Equipment	MH	710	647
Transport Equipment	MH	419	499
Furniture and Other Manufacturing	H	183	155
Electricity, Gas, Steam and Air conditioning Supply	L	0	1
Confidential and Unallocated	L	5	4
<b>Total</b>		<b>6625</b>	<b>6230</b>

Total market: 12.8 trillion dollars

# Hofmann & Belin – country level

- It is possible to “dissect” the Hofmann & Belin model down to country levels, identifying the most relevant countries in terms of SCF market
- Such list is divided into export flows (SCF market for buyers implementing SCF) and import flows (SCF market for suppliers onboarding)

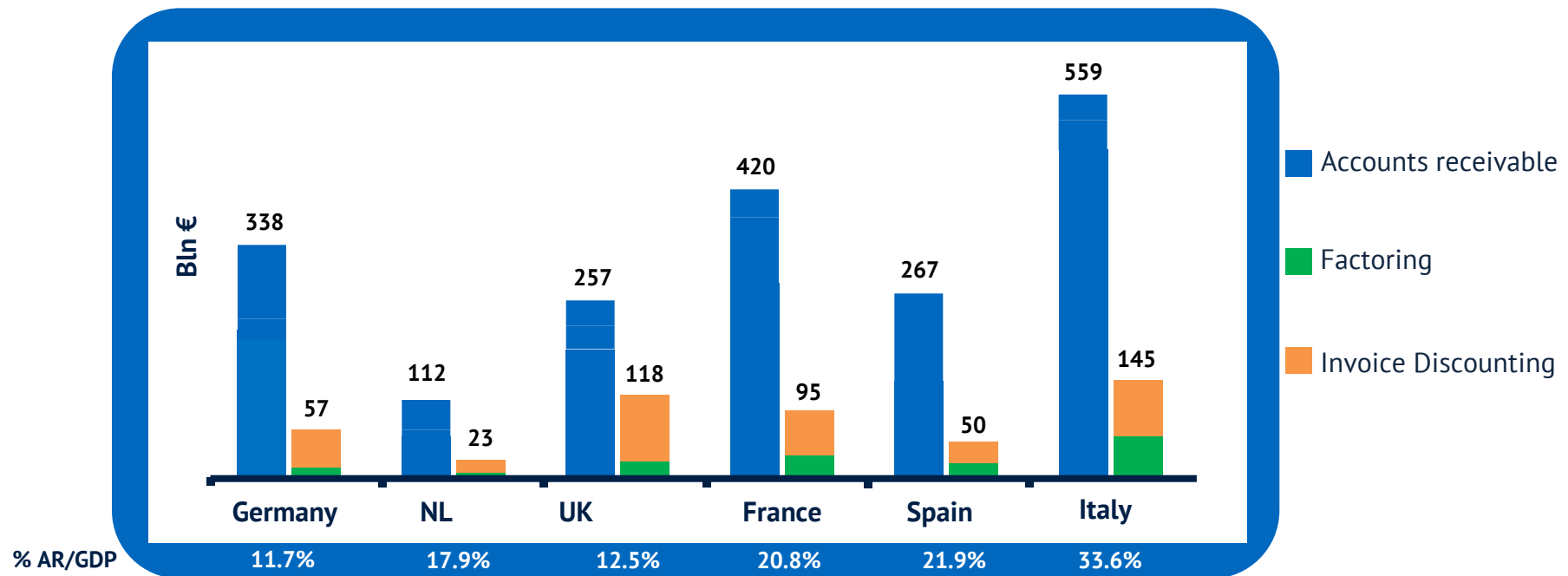
First 10 countries Export flows		First 10 countries Import flows		First 10 countries total	
Country	%	Country	%	Country	%
1 United States	16,4%	1 United States	24,3%	1 United States	20,5%
2 Germany	15,9%	2 Germany	11,3%	2 Germany	13,5%
3 Japan	7,4%	3 United Kingdom	7,1%	3 Japan	6,9%
4 Korea	5,8%	4 Japan	6,4%	4 United Kingdom	6,0%
5 France	5,8%	5 France	6,0%	5 France	5,9%
6 Italy	5,5%	6 Canada	4,4%	6 Korea	5,0%
7 United Kingdom	4,8%	7 Italy	4,4%	7 Italy	4,9%
8 Belgium	4,6%	8 Korea	4,3%	8 Mexico	4,4%
9 Mexico	4,5%	9 Mexico	4,2%	9 Canada	4,3%
10 Canada	4,2%	10 Belgium	4,0%	10 Belgium	4,3%
Other	25,1%	Other	23,5%	Other	24,3%



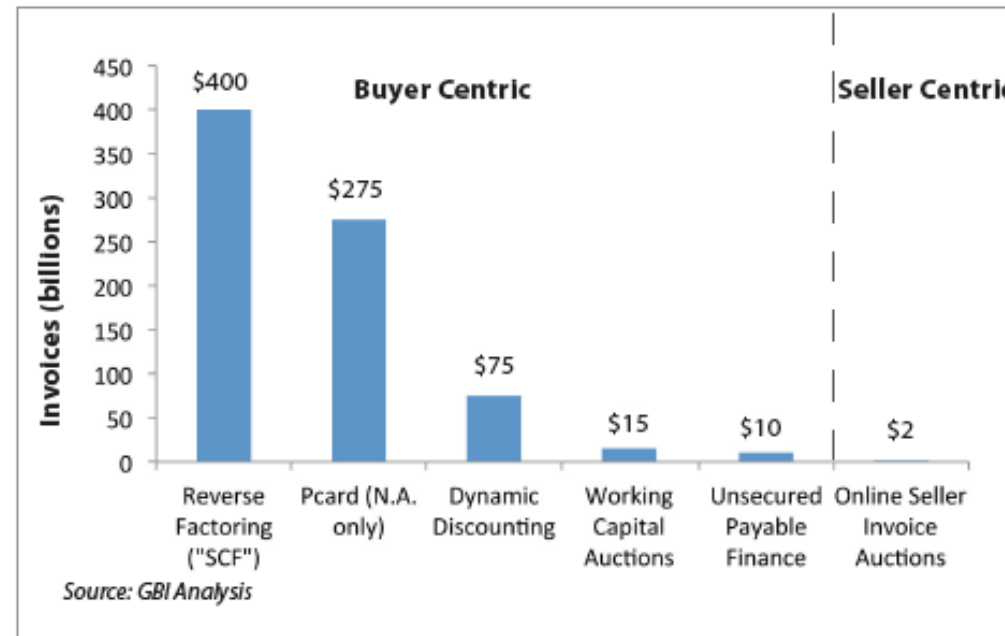
- Source: INGEconomicsDepartment, 2012. Supply Chain Finance. [Online], Available at: <http://www.nvg.nl/downloads/cms//ING%20Supply%20Chain%20Finance%20-%20June%202012.pdf>, [Accessed 3 7 2017].
- Starting from the value of imported goods, the method identifies how much trade volume is not suitable for SCF due to:
  - Monopolistic suppliers
  - High-risk countries (suppliers)
  - Transaction volumes
  - Frequency of transactions
  - Intra-company trade
- Although the report is mainly focused on Dutch buyer, as an exercise it is possible to extend it globally to OECD countries to get the following results:
  - *Imports suitable for SCF: 4.1 trillion euro*
  - *Export suitable for SCF: 2.2 trillion euro*



- Matching macroeconomic data, turnover of companies and payment terms, Politecnico di Milano assess the amount of accounts receivables for some of the most relevant countries in Europe
- They then compare this to the volume (again in terms of stock) of financing through factoring and invoice discounting, to produce a high-level figure of accounts receivable “available” for more innovative forms of financing



- Source: GBI. (2016). *2016 State of Supply Chain Finance Industry - Entering a New Era of Maturity. Report*. Retrieved from <http://www.seaburygroup.com/wp-content/uploads/2016/04/2016-State-of-SCF-April-15.pdf>
- In its 2016 guide, GBI provides a high level assessment of the SCF market
- Contrary to other approaches, they try to focus on served market, assessing current financed volumes
- Total volumes in 2016 (globally) accounts to 777 billions dollars (in terms of “annual \$billions of invoices”)





# Sum up of findings

## *Market size for SCF is likely to be in the 12-14 trillion \$ range*

- This should be intended as total addressable market, i.e. total (annual) volumes that can be subject to SCF solutions globally
- Hofmann & Belin's model, updated to most recent data, estimates a total flow suitable for SCF of about 13 trillion \$

## Coherence among models

- Models are indirectly aligned on confirming data
- Politecnico di Milano model shows a total value of accounts receivable that, converted and compared with Hofmann & Belin, results to be approximatively twice as much as Hofmann & Belin assessment
- This shows coherence among the assessment methods, considering the significantly higher scope of analysis introduced by Politecnico, which results in far less constraints



# Conclusions

- Market size is complex to be measured: many variables affect it, including the lack of concrete definitions surrounding the topic of SCF
- Comprehensibly, the available approaches on the market provide sparingly different results
- However, the indication on the penetrated market (approx. 800 billion \$, GBI), compared with the initial assessments on the total market available, are in line with predictions that the market can strongly grow in upcoming years, as its total potential is still approximatively 1.5 order of magnitude bigger



# Future developments

- To improve current assessment, two roads should be pursued:
  - Through the support of service providers, we can assess the penetrated and served market of SCF with astonishing higher level of accuracy, as well as predict its development in upcoming years
  - The SCF Community is willing to carry out this Research in order to provide a service to the SCF stakeholders, but providers would have to commit to the provision of anonymized and aggregated data – do you want to help us?
  - An industry level analysis should be carried out to see the impact of SCF through the years
  - This will allow us to provide much more in-depth analysis of the impacts and available opportunities for SCF in different industries
  - The SCF Community has already started this Research stream for some of the most relevant industries at a global level...
  - ...but this is something for the next episode 😊