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Simple, Transparent and Effective Processes For Global Commerce

BUSINESS REQUIREMENTS SPECIFICATION (BRS)

Business Domain: Supply Chain PDA – Finance and Payment

Business Process: Purchase Order Financing

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1. Preamble

This document describes the Purchase Order Financing request process being a part of the payment process for financing the trading parties that lack the funds to pay their suppliers such as the customer and the supplier in the supply chain process.

2. References

- UN/CEFACT. Techniques and Methodologies Group (TMG). CEFACT's Modelling Methodology (UMM): UMM Meta Model – Foundation Module. (Candidate for 2.0). 2009-01-30
- Common Supply Chain Requirements (BRS)
- Business Requirements Specification (BRS) Documentation Template, version 2.0

3. Objective

This document aims to define the Business Processes and the Business Transaction of the Purchase Order Financing in the supply chain finance.

The Business Process is the detailed description of the way trading partners intend to play their respective roles, establish business relations and share responsibilities to interact efficiently with the support of their respective information systems.

Each Business Transaction is realized by an exchange of Business Documents (also called messages). The sequence in which these messages are used, composes a particular instance of a scenario and are presented as use cases in the document.

The business documents are composed of Business Information Entities (BIE), which are preferably taken from libraries of reusable business information entities. **The BIEs will be defined at a later stage.**

The purpose of the project is to develop a UN/CEFACT business standard guidelines for Purchase Order Financing.

Purchase Order (PO) financing (POF) is a financing option for trading parties that lack the funds to pay their suppliers (e.g. manufacturers), or Sellers that need cash in advance and on this basis can also offer extended payment terms to their Buyers. Once payment is collected from the buyers who signed the purchase orders, the purchase order financing company will be reimbursed for its outlays and collect its fee. Purchase order financing is a variation on factoring, which is typically based on invoices.

4. Scope

Purchase order financing gives companies a short-term solution for funding orders tied to inventory required to complete sales transactions. It can be both addressed to “receivable” (similar but different to factoring) or “payable” (financing of commercial debits) items. It can be based on purchase orders released/received or contracts already signed between **customer** and **supplier**. It can be **covered by a banking credit line** or by **other financial agent**, which **caters for direct payment to the supplier**.

It is normally used on the basis of competitive service levels (e.g.: rate, duration).

It is similar to invoice financing, but with a different risk management standing. Orders can be linked to contracts or follow the contract on a periodic basis.

The parties involved in the exchange of data are the customer (buyer or payer), the his supplier (seller or payee) and his financial institution (or financial agent).

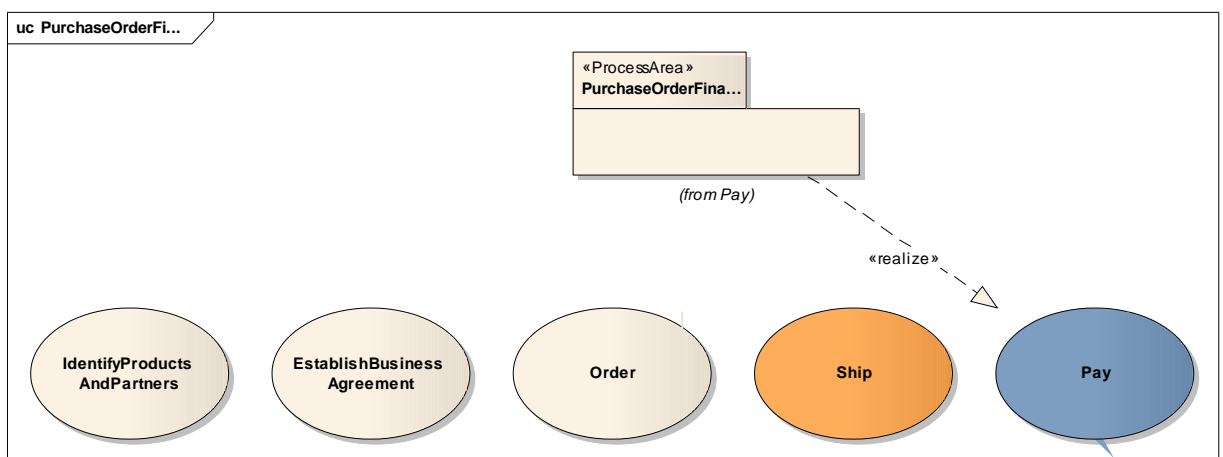


Figure 4-1 Positioning Purchase Order Financing Request within BUY-SHIP-PAY Process Model

| Categories | Description and Values |
|-------------------------|---|
| Business Process | BUY-SHIP-PAY/Procurement&Sales/Pay/PurchaseOrderFinancing |
| Product Classification | All |
| Industry Classification | All |
| Geopolitical | Global |
| Official Constraint | None |
| Business Process Role | Customer , Supplier |
| Supporting Role | Customer'sBank, Supplier'sBank |
| System Capabilities | No limitations |

In the payment cycle the transfer of funds takes place between the customer and the supplier in settlement of the amounts that are due for the supply of goods and services.

Purchase order financing is a short-term commercial finance option that provides capital to pay suppliers upfront for verified purchase orders.

The following functions comprise the request cycle (phase#3 of the figure 4.2):

- The generation of the Purchase order financing request based on orders that have to be executed between the supplier (requestor) and the customer;
- The communication of the Purchase order financing data between the supplier and the financing agent;
- The communication of the Purchase order financing approval between the financing agent and the supplier.
- The reconciliation by the supplier of the purchase order financing.

To simplify the description the parties involved are limited to customer, supplier and his bank. In the total trade process, each of the parties can play more than one role. For the payment cycle, the customer can act also as consignee, invoicee and payer. The supplier covers the roles of seller, consignor, sales agent or sales company.

In order to provide an overview of the Purchase Order Financing Service model, a business scenario has been identified, where the Financing Requestor submits Purchase Order Financing Request to the First Agent; these two are the only actors involved in the message flows within this scenario (phase #3 of the figure 4.2).

According to the service level agreed, the First Agent may use Financing Request Status messages to give the Financing Requestor information about the requests status.

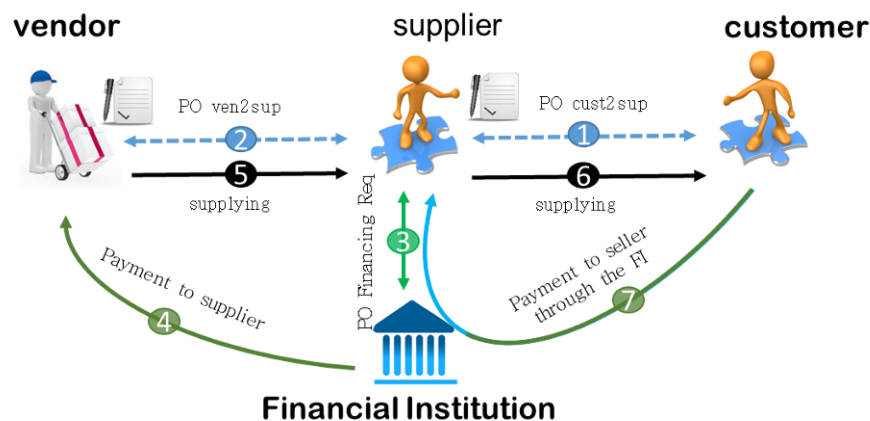


Figure 4.2 - Typical scenario workflow

In particular, the Financing Requestor (i.e. the account owner) sends the purchase order financing request to his bank (Financing Agent). After presentation of the purchase order financing request, the First Agent completes preliminary checks and sends a first "status report" message to the Financing Requestor.

Subsequently, the First Agent completes all necessary checks in order to allow financing and communicates to the Financing Requestor the final result of the financing request (eg financed, not financed).

5. Business Requirements View

5.1. Business Process Elaboration

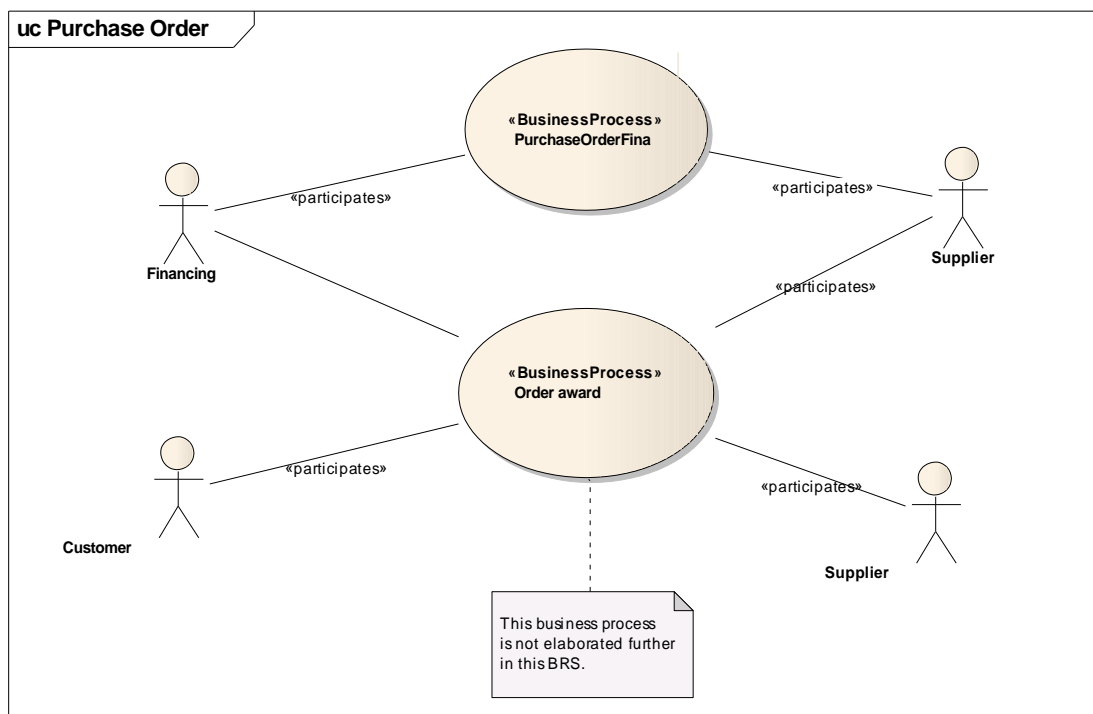


Figure 5-1 Business Domain Use Case Diagram

5.1.1. Purchase Order Financing Process

This process supports the generation and communication of the Purchase Order Financing request by the supplier to the financing agent. The Order is related to a payment, or other form of financial settlement, in respect of the provision of goods, services provided by the supplier, or other transaction involving a payment.

5.1.1.1. Scope

The Purchase Order Financing (POF) will be used to allow the supplier to inform the financing agent of detailed information relative to an order.

The POF will give an overview of the information that are taken in account in the financing process by supplier bank. It also specifies the identification and the requested execution date of the Payment Order.

5.1.1.2. Definition

The POF process is the mechanism by which the supplier informs his financing agent about the order details to be financed. This process should be related to the process of transfer of funds between the parties (customer and supplier) and the respective banks specified in the payment order process.

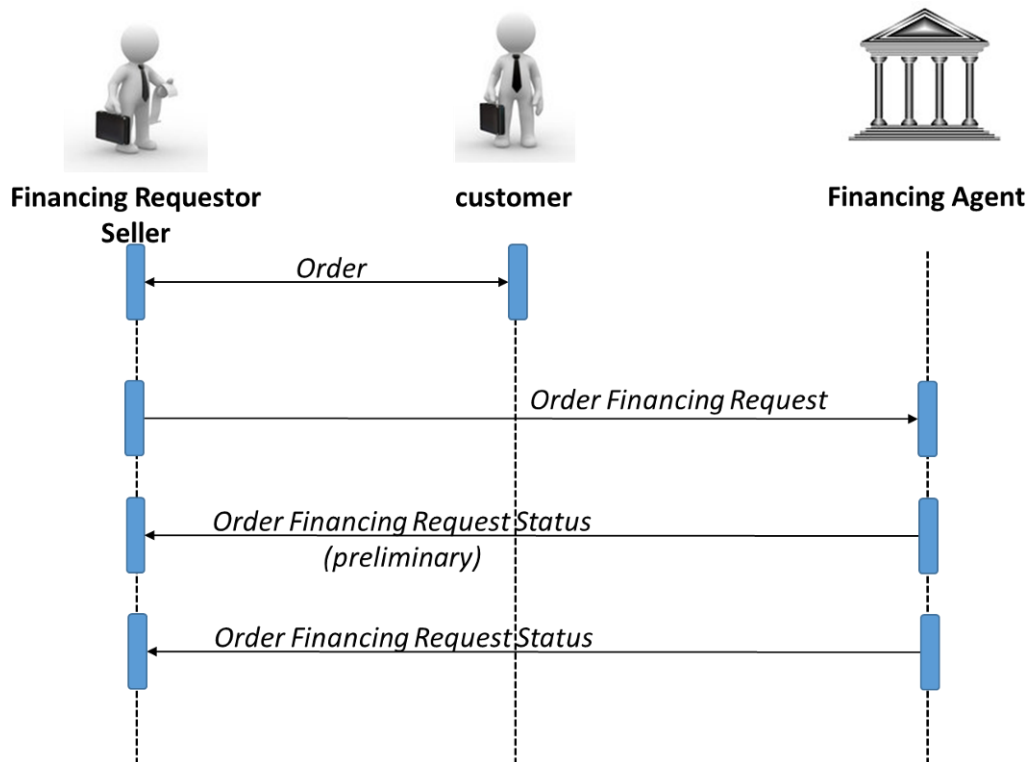


Figure 5-2 Business Process Use Case Diagram

5.1.1.3. Principles

According to the service level agreed, the First Agent may use Financing Request Status messages to give the Financing Requestor information about the requests status.

In particular, the Financing Requestor (ie the account owner) sends the purchase order financing request to his bank (First Agent). After presentation of the purchase order financing request, the First Agent completes preliminary checks and sends a first "status report" message to the Financing Requestor.

Subsequently, the First Agent completes all necessary checks in order to allow financing and communicates to the Financing Requestor the final result of the financing request (eg financed, not financed).

Assumption of this scenario is that the Buyer has already sent an order to the Seller, related to a trade transaction.

5.1.1.4. Use case description

| | |
|------------------------------|---|
| Business process name | PurchaseOrderFinancing |
| Identifier | Purchase Order Financing Request |
| Actors | Customer, Supplier, Financing Agent |
| Description | <p>a buyer awards a seller a large purchase order. From a business standpoint, the purchase order is one that the seller can't afford not to accept, but from a cash flow standpoint, it is one that the seller can't afford to produce. For that the seller contacts a PO finance company and supply them with financial information about the company, the supplier and the buyer (customer).</p> <p>Next, the finance company pays the supplier(s) directly by posting a letter of credit that guarantees payment once they deliver to the buyer. Once the order is delivered the buyer remits payment directly to the finance company.</p> <p>From that payment, the finance company recovers its capital, deducts its fee and sends to the seller the balance, the seller's profit.</p> <p>In most cases, purchase order financing could be combined with invoice factoring.</p> |
| Pre-condition | Assumption of this scenario is that the Supplier and the Buyer have already signed an order, related to a trade transaction. |
| Post-conditions | The supplier is adequately informed about the order being settled by the payment being made. |
| Scenario | <p>Based on the agreed payment conditions between the parties, there is one actor playing the role of Financing Requestor and one agent playing the role of First Agent (Financial Agent).</p> <p>The Financing Requestor can act on behalf of a Supplier or can be the supplier.</p> <p>In particular, the Financing Requestor (ie the account owner) sends the order financing request to his bank (Financial Agent).</p> <p>After presentation of the order financing request, the First Agent completes preliminary checks and sends a first "status report" message to the Financing Requestor. Subsequently, the First Agent completes all necessary checks in order to allow financing and communicates to the Financing Requestor the final result of the financing request (eg financed, not financed).</p> |
| Remarks | |

5.1.1.5. Business Process Activity diagram

This shows the activities carried out by the Supplier and First Agent in the exchange of purchase order information and the state of the financing.

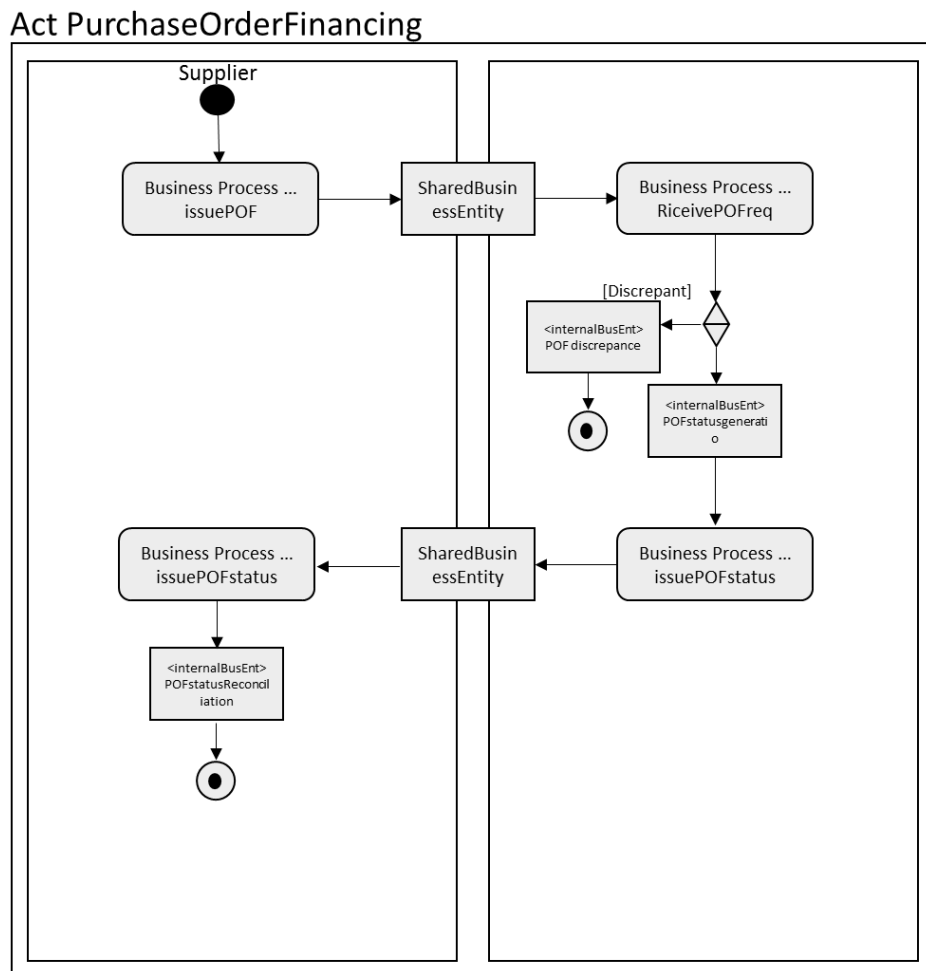


Figure 5-2 POF - Business Process Activity Diagram

5.1.1.6. Business Entity- LifeCycle diagram

The POF Business Entity has the state “Issued” as a result of the exchange of information between the Supplier and his bank in the PurchaseOrderFinancing Process. Following “reconciliation” of the order, the corresponding order etc, the Financial Agent will recognize the state of the Request Entity as “accepted “. If there is a discrepancy, he will recognize the state as “discrepant”.

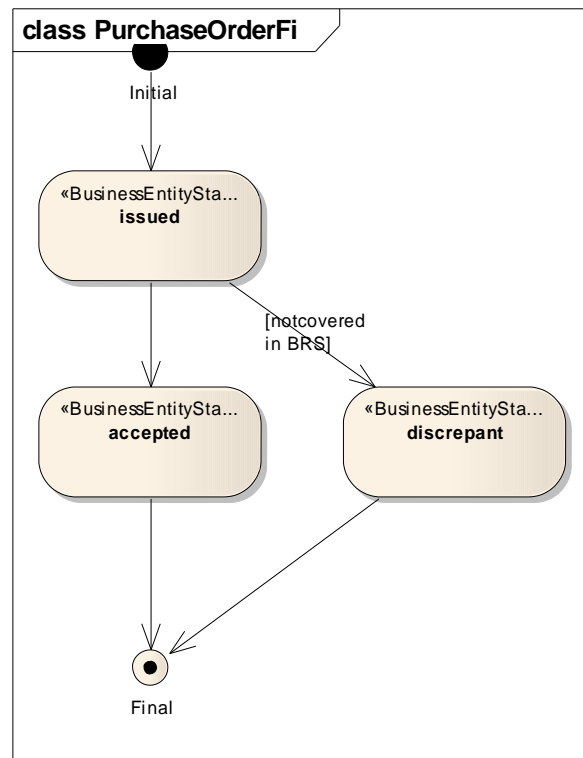


Figure 5-3 Entity States of the Purchase Order Financing Entity

5.1.1.7. POF request (Business Collaboration)

The POF Process consists of a single Business Transaction and thus the Business Collaboration Use Case is also a simple one. Figure 5.4, below shows the BusinessCollaboration Realisation Use Case and the links between the Supplier and his bank and the authorized roles of financing requestor and First Agent.

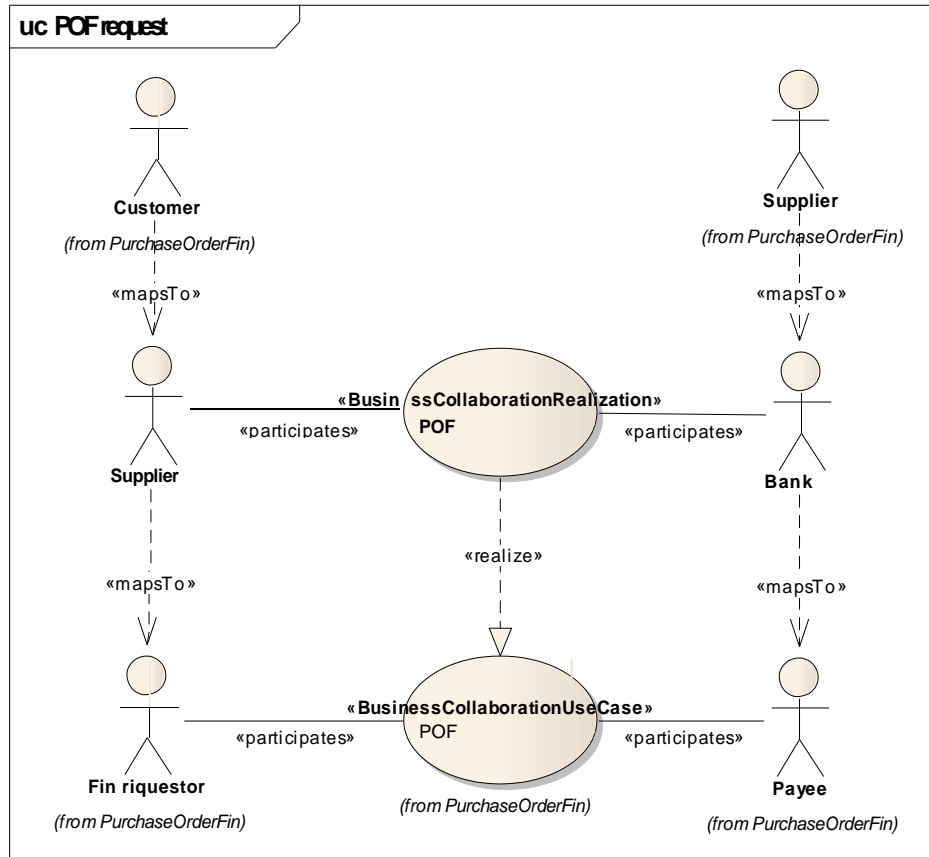


Figure 5-4 POF - Business Collaboration Realisation Use Case Diagram

5.2. Information Flow Definition

5.2.1. Issue Purchase Order Financing request (Business Transaction)

5.2.1.1. Business Transaction - Use Case Diagram

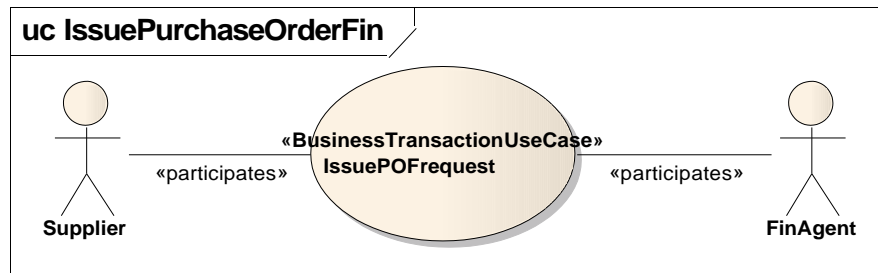


Figure 5-5 IssuePurchaseOrderFinancingRequest - Business Transaction Use Case

5.2.1.2. Business Transaction - Use Case Description

| Business Transaction | |
|--------------------------|--|
| Identifier | IssuePurchaseOrderFinancingRequest |
| Description | The Purchase Order Financing Request message is issued by the Financing Requestor (Supplier) and represents a financing request related to an order signd between the supplier and the customer. For every order it is always possible to identify a supplier and a buyer (customer) |
| Authorized Roles | <ul style="list-style-type: none"> - Supplier - Financing Agent |
| Legal Steps/Requirements | None |
| Economic Consequences | None |
| Initial/Terminal Events | <ul style="list-style-type: none"> • Initial: the supplier sends the Purchase Order Financing Request • Terminal: the Financing Agent receives the Purchase Order Financing Request. |
| Scope | The POF request message is used to exchange general information related to the order and to the financing request |
| Boundary | Not defined yet |
| Constraints | Failing this technical acknowledgement, the supplier shall re-issue his request message |

5.2.1.3. Business Transaction - Interaction View

This activity diagram shows the POF request “Information Envelope” that is provided by the supplier to the financing agent.

The data content of the "Information Envelope" should be specified in the Information Model (Not provided at this stage of the BRS).

Act IssuePurchaseOrderFinancing

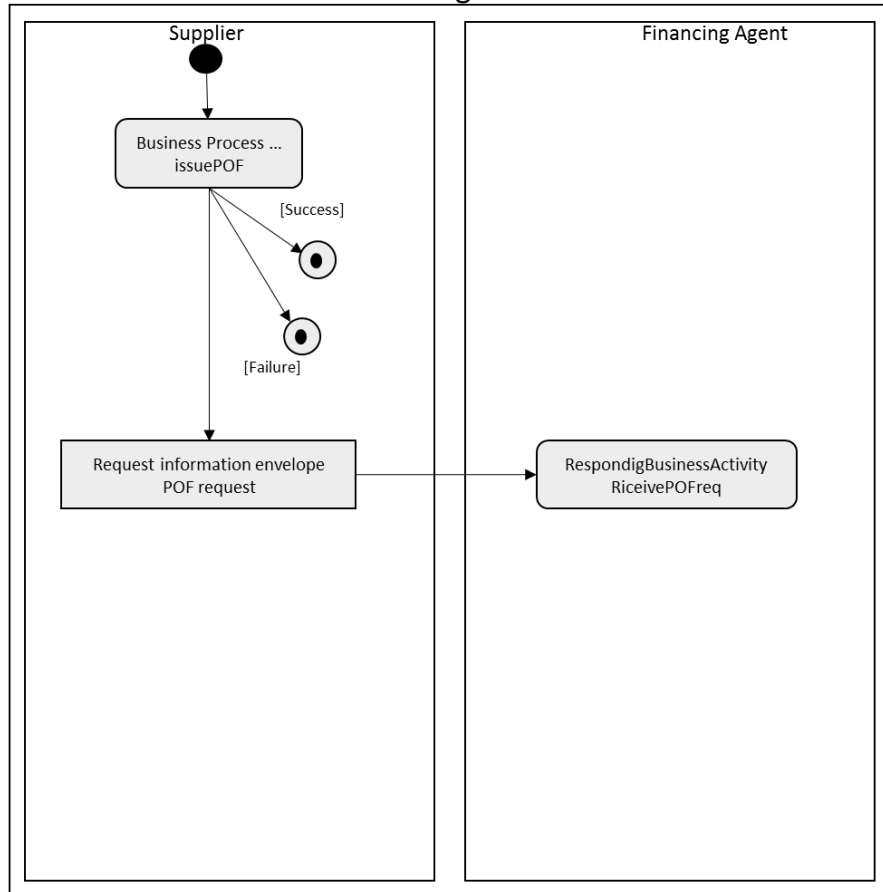


Figure 5-6 Issue POF request Transaction-Activity diagram

5.2.2. Issue Purchase Order Financing status (Business Transaction)

5.2.2.1. Business Transaction - Use Case Diagram

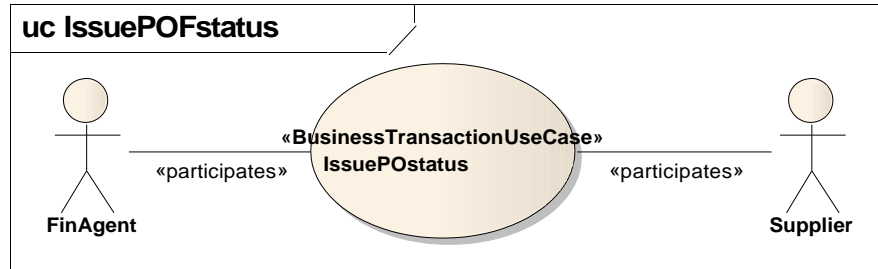


Figure 5-5 IssuePOFstatus - Business Transaction Use Case

5.2.2.2. Business Transaction - Use Case Description

| Business Transaction | |
|--------------------------|--|
| Identifier | IssuePurchaseOrderFinancingStatus |
| Description | The PurchaseOrderFinancingStatus message flows from the Financing Agent to the Financing Requestor to provide information about a request previously sent. Its usage will always be governed by a bilateral agreement between the Financing Agent and Requestor. |
| Authorized Roles | Fin Agent Supplier |
| Legal Steps/Requirements | None |
| Economic Consequences | None |
| Initial/Terminal Events | <ul style="list-style-type: none"> Initial: the Financing Agent sends the Purchase Order Financing Status Terminal: the Supplier receives the Purchase Order Financing Status. |
| Scope | The POF status message can be use two fold: <ul style="list-style-type: none"> - To provide information about the reception status (rejection, acceptance) of a request message (technical validation) - preliminary. - To inform the Requestor about the business status of the request (granted, pending, allowed or denied) |
| Boundary | Not defined yet |
| Constraints | Failing this technical acknowledgement, the Financing Agent shall re-issue his POF message |

5.2.2.3. Business Transaction - Interaction View

This activity diagram shows the POF status “Information Envelope” that is provided by the financing agent to the supplier.

The data content of the "Information Envelope" should be specified in the Information Model (Not provided at this stage of the BRS).

Act IssuePurchaseOrderFinancing

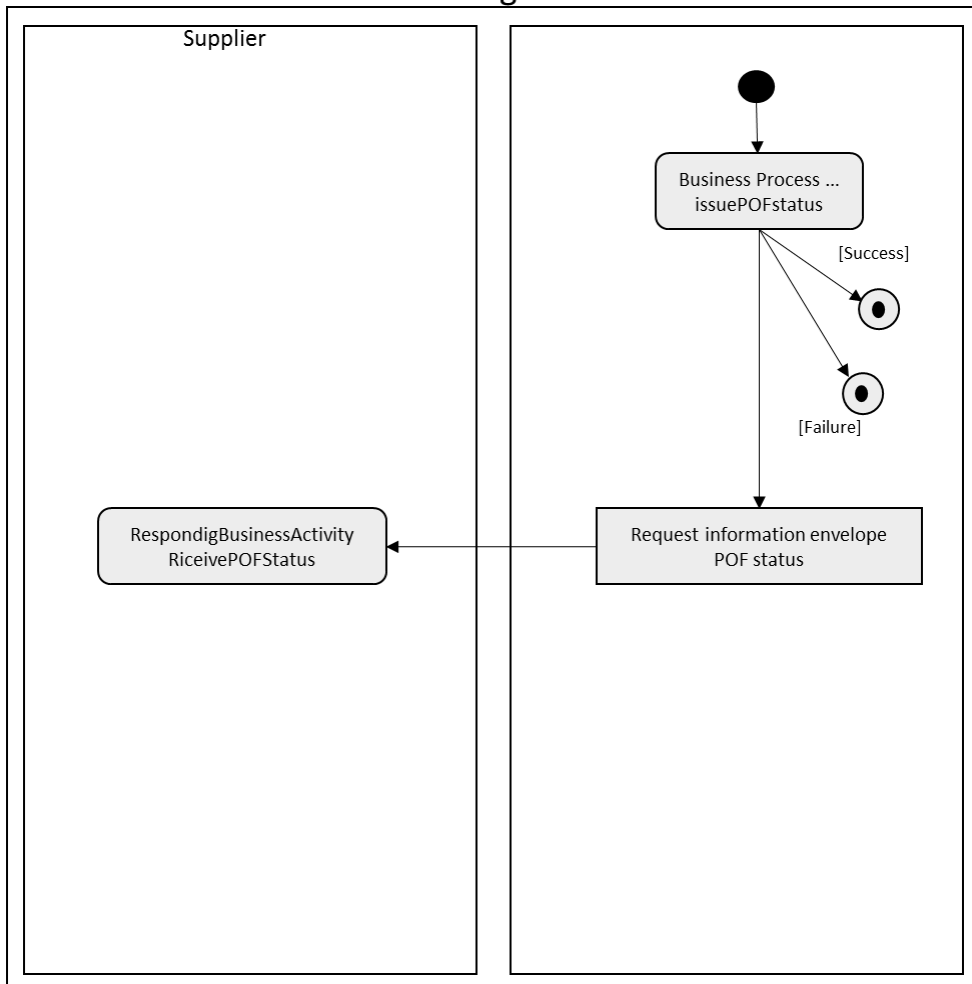


Figure 5-6 Issue POF Status Transaction-Activity diagram

5.3. Information Model Definition

5.3.1. Business Entity Model

The Figure 5-7 shows the Business Entity Class Diagram, useful for the further development (messages) for the POF Request.

Further developments should be agreed with other standard organizations, in order to ensure a constant alignment in the cross-border standardization activities of the Finance and Payments domain, considering the already standardized ISO activities (e.g. Invoice Financing Request).

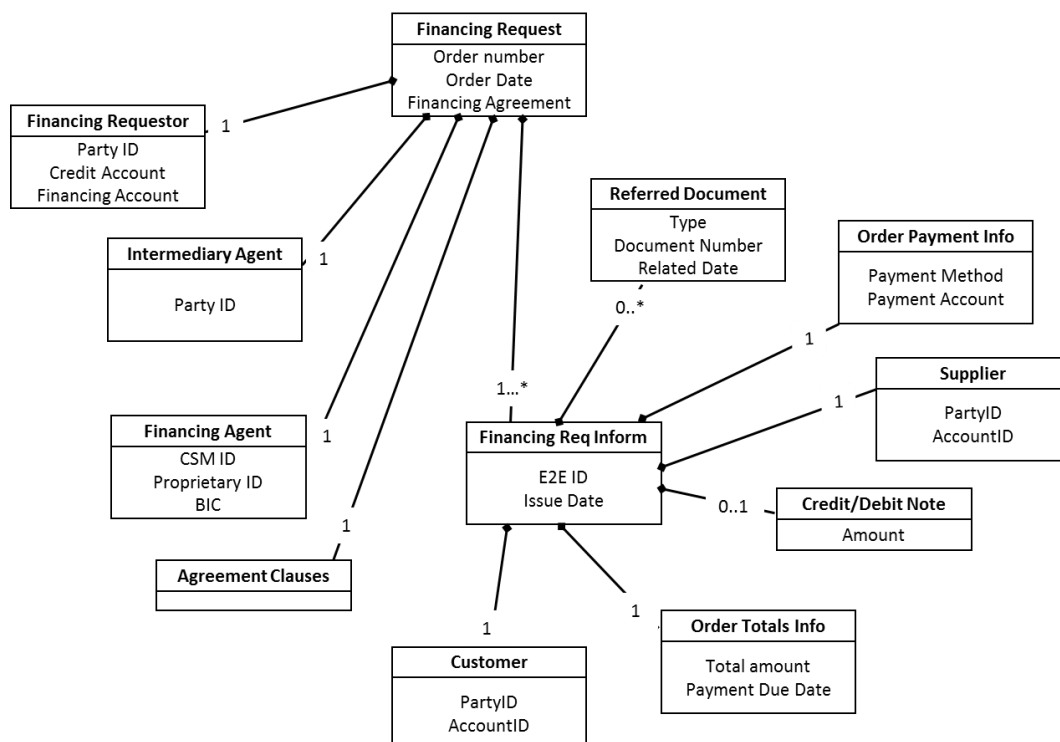


Figure 5-7 Business Entity Class Diagram

5.3.2. Business Documents (TBD)

n/a

5.4. Business Rules (TBD)

n/a

5.5. Definition of Terms (TBD)

n/a