How the right payment solution can drive growth and transform your supply chain

By Adrian Floate MICM*


Adrian Floate MICM

Despite the disruptions of recent years pushing businesses to move as much of their operations online as possible, friction still exists in business-to-business (B2B) payments. This friction causes late payments, has flow-on effects across the supply chain, and increases credit risk, particularly when companies rely heavily on trade credit to make sales.

Alarmingly, almost half of all business invoices are paid late, and 40 per cent of accounting professionals still spend half their time on manual tasks. Taken holistically, late payments hinder the cash flow cycle and can result in significant operational disruptions, even business failure.

The gravity of the problems that late payments cause highlights the opportunities available to businesses through the transformation of financial systems and processes. This transformation can have wide-reaching benefits, from empowering finance and credit management teams to be more strategic and making work more efficient for warehousing and supply chain management professionals – but only if the right solution is implemented.

Leveraging digital solutions drives a competitive advantage and reduces payment friction

The typical sales process fits into three categories: the trading window, trade credit,

> "The gravity of the problems that late payments cause highlights the opportunities available to businesses through the transformation of financial systems and processes."

"In a traditional scenario where the sales process remains fragmented, the supplier needs to wait for payment, while structured credit allows them to continue buying inventory and supporting customers."

and structured credit. These categories often operate independently, with a lack of integration or alignment between the business's inflows and outflows. If trade credit is overextended and customers are paying late, businesses become reliant on structured credit (credit lines, invoice finance, an overdraft facility, or traditional debt) to drive their cash flow.

In a traditional scenario where the sales process remains fragmented, the supplier needs to wait for payment, while structured credit allows them to continue buying inventory and supporting customers. Bringing trade terms into each transaction with digital technologies reduces friction between the trading window, trade credit, and structured credit. This allows for a more seamless experience, efficient information exchange, and, ultimately, better payment flow across the supply chain.

Everyone in a business ecosystem should benefit when a company implements a new system. By implementing solutions that focus on eliminating errors through collaboration and effective data interchange, companies gain a competitive advantage by delivering a better experience to both suppliers and customers. And, most importantly, everyone can get paid on time.

Mutually beneficial systems boost collaboration and productivity

There are several things businesses can do to automate their transaction lifecycle and reduce friction. Implementing an automated payment system is about your accounts receivable team creating collaboration with your customers' accounts payable teams. Similarly, it's about your accounts payable team creating electronic remittance advice that can be automatically integrated into every supplier's financial systems.

"With a tech-driven solution, businesses can easily offer better and more flexible payment terms, and easily collaborate on every transaction. But it's not just about the end benefits."

Further, with systems in place to automate data integration and reduce B2B payment friction, credit decision-making can be automated, too, with more data available to analyse and proactively prompt action when a customer's creditworthiness may damage the business's financial stability.

Easily optimise payment terms and extensions

Having the tools to collaborate on payment terms and extensions with customers without sacrificing cash flow drives strategic, financial, and operational transformation. By offering a variety of payment options with flexible terms, such as the ability to pay later with on-demand finance solutions, suppliers can close bigger deals.

Similarly, buyers are also more likely to buy from suppliers that offer flexible payment terms. For example, when a customer chooses buyer finance to pay for their purchase over time, the supplier gets paid in full and on time, while the customer can schedule their payments to better align with their cash flow. This boosts cash flow across the supply chain, making transactions beneficial to all parties.

With a tech-driven solution, businesses can easily offer better and more flexible payment terms, and easily collaborate on every transaction. But it's not just about the end benefits. Businesses need to think about having the right communications in place, too.

When a new payment solution is implemented, the business should develop effective communication plans to discuss and update existing payment terms. This may take the form of templated materials for relevant people to send to their customers or setting up short phone calls or demo sessions to show customers and suppliers how the technology is going to make it easier for everyone to transact.

Over time, the transaction data gathered through the system can be analysed to assess customer payment behaviour so credit limits and other payment terms can be adjusted proactively.

Consider early settlement discounts to amplify mutual benefits

Early settlement discounts (ESDs) are an incentive offered between trading partners in exchange for faster payment of invoices. They're designed to improve cash flow, lower the cost of carrying accounts receivables, and reduce reliance on structured credit. Importantly, with the right integrated payment solution, an ESD can be either supplier or buyer originated.

The key buyer benefits of ESD include cost savings and enhanced supplier relationships. And for suppliers, ESD reduces risk and improves cash flow. By implementing ESDs, business suppliers can encourage customers to make prompt payments. Similar to communicating the benefits of a new system when it is implemented, businesses should also outline the advantages of early payments through targeted activities, such as emails and phone calls to key customers and suppliers.

"By implementing ESDs, business suppliers can encourage customers to make prompt payments."

Selecting the right payment service provider

Selecting the right technology partner is critical when you're embarking on any kind of digital transformation. Your company and the vendor need to be aligned on priorities, and the vendor needs to demonstrate their understanding of your business's problems. Further, the vendor should have a consistent commitment to innovation. Their innovation plans should be clear so that the investment made today continues to deliver long-term benefits to the business as its needs evolve.

One of the most important aspects of vendor selection is finding solutions that deliver benefits not just to your business but to your trading partners, too. In the world of payments, businesses should be looking for solutions that offer end-to-end data integration so that information is shared efficiently across the supply chain. For example, with an integrated payment and procurement solution, a price rise can be communicated with the entire supply chain through the company's digital catalogue that reflects price updates in real-time.

A process review may be a necessary part of vendor selection, too. At this point, your business needs to understand if your vendor can adjust their processes to meet your specific needs or if your processes need to be revised as well. Finally, transaction fees, security features, and integration capabilities are other important things to consider when choosing a provider. The right provider will be able to work collaboratively with you to ensure you're both aligned, and the solution works for everyone.

"The ideal payment technology partner will provide software that takes the friction out of your B2B payments and removes fragmentation between the trading cycle, trade credit and structured debt."

Reduce credit risk and boost cash flow across the supply chain with integrated payments

The ideal payment technology partner will provide software that takes the friction out of your B2B payments and removes fragmentation between the trading cycle, trade credit and structured debt. By implementing solutions that deliver benefits not just to your business but across your supply chain, you can reduce the credit-to-cash conversion cycle, which reduces trade credit risk and reliance on structured credit to deliver your products and services.

The longer integrated payment solutions are active in the business, the more valuable data is gathered. This data can help drive stronger commercial decision-making, delivering wide-reaching benefits to your business and its suppliers and customers. As with any wave of innovation, the early adopters come out in front. Using technology to transform your payments and deliver benefits across the supply chain is no different. Start looking at ways your business can transform its payments today to drive growth and efficiencies across your entire supply chain in the long term.

*Adrian Floate MICM
Managing Director at Spenda
www.spenda.co