How to de-risk your supply chain and optimise the credit-to-cash process

By Adrian Floate*

Many companies benefited from a decade of low-interest rates and the fiscal policy measures put in place to minimise the impacts of COVID-19. However, these measures eventually had to taper. Throughout 2022 the Reserve Bank of Australia (RBA) raised interest rates by 300 basis points, finishing with a 25-basis point hike to 3.10 per cent at the December meeting. Not only are businesses now dealing with the financial impacts of rising interest rates, but supply chain disruptions and persistent inflation indicate that difficult trading conditions may be ahead.

According to KPMG's recent CEO survey, 86 per cent of executives think there will be a recession in the next year. With all the macroeconomic factors that make up this environment, financial decision-makers must equip themselves with the tools they need to minimise supply-chain risk, effectively manage credit, and strengthen cash flow. Importantly, these tools shouldn't complicate your business. They should provide the foundations to make stronger commercial decisions and outpace competitors in the next economic cycle.

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Start by addressing invoicing problems to improve credit control processes

According to Xero, 48 per cent of invoices issued by SMEs in 2021 were paid late. These late payments result in cash flow pressure, increase the risk of negative cash flow and can adversely impact a

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company’s balance sheet. To address late payments, finance and accounting teams need strong systems which should improve a company’s credit management. They should also address the root causes of late payments – invoicing mistakes, ineffective risk management and disconnected payment processes – to accelerate the credit-to-cash process.

Incorrect or unclear invoicing information, such as issue dates, due dates, payment terms, and payment methods, can make it more difficult for customers to pay on time. When a customer receives an invoice, there shouldn’t be any guesswork. They should be able to click a link to view the invoice, choose payment options, manage their payment times, and quickly batch-pay invoices. Similarly, sending invoices with little or no itemisation can also cause confusion. Setting up product and service categories in your accounting system ensures all invoices are correctly itemised, so the customer knows exactly what they’re paying for, how to pay and when payment is due.

Timing is another important factor when sending invoices and following up late payments. If you wait too long to send an invoice, key information such ▶

as discounts, line items, and other specifics can be forgotten. These delays and ambiguities create extra work for your staff and your customers when clarifications are required. Similarly, sending invoices via post or email is difficult to track. With 89 per cent of invoices in Australia still paper-based or PDF, your company can get paid faster by using connected delivery methods such as e-invoicing, coupled with a Pay by Link feature, which allows customers to conveniently view and pay invoices through a secure link, wherever they are.

No matter what challenges you face with invoicing and chasing late payments, making the payment process as efficient as possible with automated digital tools will boost cash flow across the supply chain and streamline credit management. Importantly, these tools and features provide the data that credit management professionals need to assess credit risk in real-time. This results in more timely decision-making so that adjustments can be made before unsustainable levels of ageing and bad debt accumulate.

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Automated digital tools can strengthen credit management

According to McKinsey, up to 46 per cent of current organisational tasks in Australia could be automated by 2030. And for those businesses that opt to automate their payment processes, it will boost cash flow while cutting up to 20 hours a week of invoicing and payments administration. Before jumping into the process of automating single tasks, companies should identify automated options that will transform end-to-end processes.

By integrating digital tools that resolve various financial and accounting challenges, from inefficient credit management processes to limited payment options, companies can ensure they maximise their return on investment (ROI) from their chosen solution. In finance, this ROI is centred around shifting financial risk and solutions that provide a single source of data between all parties involved in a transaction.

With a solution in place, for example, an e-invoice could be generated and sent directly to a customer's accounting and ERP system so that payment can be made, associated accounting and reporting tasks completed at both ends, and credit risk data updated in real-time.

It's about making all roles across a company's finance and accounting functions work together seamlessly and more efficiently, which not only delivers operational and

strategic benefits internally, but benefits suppliers and vendors too.

Seamless data integration gives all parties in a transaction everything they need to pay on time and complete the associated tasks efficiently. As a result, credit management professionals gain more time for strategic work as administrative burdens are lifted through automation and smart features that make it easier for businesses to pay on time. Further, having the tools to trade without over-extending credit reduces risk without compromising a customer's ability to buy what they need. In short, automated digital tools make credit management easier and more efficient. When these tools are coupled with external financing facilities, transaction risks shift to a third party.

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Decoupling payments and lending strengthen cash flow

One of the key benefits of automated digital payment tools is the capacity to offer customers a range of credit and payment options without increasing credit risk. In these cases, a third party (most likely the company which is delivering your chosen automated digital tools) sits in the middle of the transaction, offering flexible trade terms via a variety of on-demand financing solutions that benefit both buyer and seller. The seller can transact with more customers who may not have previously met the company's credit risk criteria, and its cash flow is boosted through the wide range of available payment options. Similarly, buyers are able to space out their payments more, meaning they have the ability to place larger orders and better manage their cash flow.

Using a solution that decouples payments and lending shifts risk to the third-party provider, which builds confidence and trust without impacting your balance sheet. Not only does this strengthen cash flow but having an automated platform to manage the risk of each transaction empowers credit professionals to focus on higher-value tasks. Companies that gain the bandwidth to focus on strategic initiatives rather than simply surviving turbulent times often perform better in the long term as they are well-positioned to outpace their competitors throughout the recovery and next economic cycle.

Weather current and future cash flow risks with one connected platform

With supply chain disruptions and inflation persisting and the likelihood of a recession growing, taking steps to gain control over your cash flow will be critical in preparing for and weathering the year ahead. Automated digital tools that shift the risk in each transaction to a third party provide the systems and processes that credit management professionals need to efficiently and effectively manage credit risk. With these tools, it becomes easier for buyers and suppliers to trade, more time is available for high-value work, and real-time data drives stronger commercial decision-making and proactive credit management.

"Time in the market beats timing the market" is a common phrase for those investing in markets, and the same is true when companies invest in automated digital tools. The longer these tools are implemented in a company, the more powerful the benefits become – operationally, strategically and financially.

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