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Nick Reid on:

Cash(flow) is King

Credit as a concept has always been a key component of working capital. So why have commercial cards not seen the extent of uptake, given the benefits they bring to corporate treasurers?

The B2B payments industry is witnessing a shift in mindset amongst corporate buyers and their supply chains. Whilst this transformation has undoubtedly accelerated because of COVID-19, in my experience the pandemic is not the only catalyst.

Late payments has always been one way for buyers to preserve working capital but of late – no pun intended - the practice has become far more pronounced. Does it help anyone? Perhaps not! Every buyer is a supplier but every supplier is also a buyer. Any late payment therefore has a negative knock-on effect, and the more widespread the practice, the more acutely the effects are felt across the supply chain.

According to the FT, an estimated 50,000 small businesses cease trading every year in the UK alone due to late payments. For those that do survive, suppliers spend an estimated £4.4bn to collect outstanding payments each year. Most suppliers are entitled to charge interest on late payments, but few take up this option, for fear of damaging buyer relationships and losing contracts. At a time when some buyers are citing the pandemic as an excuse to enforce extended payment terms on suppliers, what other options are available?

Buyers have an interest in the long-term strength of their supplier relationships. Suppliers benefit from punctual payments by securing their future but also enabling development of more innovative goods and services that can only benefit buyers in the long term.

It is refreshing to see governments enforcing this, including applying punitive measures, to clamp down on late payments. Rather than viewing this as a punishment, I would encourage buyers to view this as an opportunity to strengthen supplier relationships and transform their accounts payable processes.

At a time when the cost of excessive working capital is high and even threatening the survival of many businesses, commercial cards can be used to float early pay discounts and boost liquidity in the supply chain, whilst preserving or even extending DPO for buyers. Put in a consumer context, interest on UK savings schemes is currently at best 0.7 to 1%. If the interest on available debts is equally low, it is a good time for me to utilise any credit at my disposal and deploy it into gainful opportunities if the risk is managed well.

Despite the obvious benefits of credit, why are cards only now beginning to be adopted? Perhaps they are not well understood. Perhaps, as technology permeates our personal lives, so will it in our business existence.

'Consumerization' is undoubtedly a trend I am currently seeing in B2B payments. As today's workforce becomes increasingly comfortable with the digital payment methods at their disposal as consumers, they expect that convenience to be replicated at work. Working capital is no different. Personally, I am used to paying for high value items with credit cards as much as I do for everyday expenses.

However, the concept of Buy Now Pay Later (BNPL) is proving increasingly popular, not only with consumers but also retailers who recognise its convenience for buyers and the opportunity for increased sales, even if it comes at a slightly higher cost to them. Obviously a lost sale is more expensive than a slightly higher cost of sale.

In a B2B context, making an innovative, consumer-like payment process available to your procurement department must be balanced with corporate governance requirements. Of course it can be hard to balance the two. Traditional commercial card products may invoke bad memories for some corporations due to lack of controls, non-compliance with policy and poor data reconciliation, potentially discouraging corporates from maximising the benefits of commercial cards or even using them at all.

Buyers should consider digital alternatives such as virtual cards instead. Extended DPO for buyers and reduced DSO for suppliers are key attributes of commercial cards, regardless of whether they are virtual or not. But virtual cards and their inherent qualities give corporate buyers the confidence to adopt commercial cards more extensively, since they combine perfectly the business requirements of convenience and corporate governance. The consequent boost to their own liquidity and that of the supply chain is invaluable, especially in today's business environment.

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