The Credit and Financial Management Review

The Journal for Credit and Financial Administrators

Volume 20, Number 1 First Quarter 2014

- Trade Structured Finance & Dynamic Discount (Customer Sponsored A/R Program), Factoring & Selling the Receivable (Vendor Sponsored A/R Program) Who Bears the Risk of Loss and Preference Risk When A Customer Succeeds With Its Terms Pushback
- Manage Your Corporate Giving Like an Investment
- Debt Drive Hedge Accounting Use and the Impact of SFAS 133 and IAS 39
- New Strategy Propels Cash Flow

The Credit and Financial Management Review

A Journal for Credit and Financial Administrators

Contents

The Credit and Financial Management Review is published quarterly by the Credit Research Foundation.

Subscriptions are $80.00 per year.

Submissions of articles or advertising opportunities should be directed to:

Lyle Paul Wallis, executive editor
Credit Research Foundation
1812 Baltimore Blvd., Suite H
Westminster, MD 21157-7146

New Strategy Propels Cash Flow

By: Eileen Banasiak

Abstract

Many businesses continue to adopt traditional approaches to cash management, which have proven to be only reasonably effective for improving cash flow. And, many banks are not openly lending or increasing credit lines. More often than not, companies fail to capitalize on opportunities to expand working capital through their internal tunnel vision when it comes to innovative cash flow strategies. Since they do achieve some results, they continue to apply the same accounts receivable based methods, but many companies have exhausted the use of such techniques. When in this situation, often the additional cash flow impact is minimal. Furthermore, what if your business already has low days sales outstanding (DSO) approaching the best possible DSO? How do you get more cash flow from implementing these accounts receivable based methods?

A change in cash flow management strategy is more important than ever for a company's growth and sustainability in today's economic hard times. Progressive companies are always in search of ways to maximize cash flow to have the working capital needed to afford opportunities. Many companies are taking advantage of secondary financing options as an integral part of their cash management growth strategy and finding success along the way.

Introduction

During these economically challenging, slow growth times and with the stringent credit controls for business lending by banks, businesses of varying sizes from start-ups to $2 Billion companies, may have tight cash flow limiting the working capital needed to grow their business. It is especially difficult for those companies on the middle revenue spectrum of $50MM-$2 Billion, which will be defined herein as mid-market, that are creditworthy and want to take their company to the next level. At the end of the day, having working capital and investing it wisely makes or breaks a business's ability to grow.

Traditionally, improvements in cash flow have come from more effective accounts receivable credit and collection activities and expense reductions. There have been many papers written on the techniques to measure, predict and improve accounts receivable that will reduce DSO, reduce disputes and increase collection effectiveness, among other measures. Generally, large expense reductions are insufficient when the intent is to expand the growth prospects of your business.

Successful cash flow strategies in this tough bank lending market are about leveraging secondary commercial financing solutions that are customized to the specific goals and challenges of your business. Financing is readily available from trustworthy sources and keeps cash flow steady, providing the working capital needed to keep your business intact without limiting growth.

Mid-market companies that are on the cusp of taking their business to a higher level can leverage secondary financing to extend accounts payable terms to their suppliers, which is known here as Supply Chain Payment Finance. This may allow better terms balance between sales, accounts receivable and accounts payable. Larger firms often take advantage of their size to extend terms to their vendors that will keep cash available for growth opportunities. However, generally mid-market firms do not have the size leverage and are more likely to be concerned about the financial strength and cash flow of their smaller company suppliers. In this paper, we will discuss the benefits of extending accounts payable terms and how to alleviate the financial pain that may be applied to your vendors.

What is the Impact of Extending Accounts Payable Terms?

As discussed above, there are many papers that discuss the tools to improve accounts receivable management. Businesses can achieve 5%, 10%, 15%+ improvements in DSO, which provides some impact on cash flow and borrowing costs. The question is - - Is it enough to overcome challenges and accomplish your goals - particularly since many companies have already exploited and achieved improvements in accounts receivable management since the financial crisis?

On the flip side, when you extend accounts payable terms to your vendor invoices from, let’s say net 30 day terms to net 60 day terms, you can potentially double your accounts payable balances. Every company is different, but generally the cash flow influx is very large, allowing for investment in growth and innovation that often will exceed gains on the accounts receivable management side. Can you imagine the powerful positive effect of doubling your accounts payable balances would have on your business? Will this improvement in cash flow allow for greater innovation and investment, and potentially reduce borrowing costs?

The quandary is how to extend accounts payable terms without having a substantial impact on your vendors’ financial positions, without having a disruption in their businesses and without having to make a large financial investment? The solution – Supply Chain Payment Finance.

What is Supply Chain Payment Finance?

Supply Chain Payment Finance (SCPay) allows a company to extend accounts payable terms, reduce internal administrative efforts related to accounts payable and the associated accounting costs, while providing early payment options on approved vendor invoices. SCPay helps companies automate and streamline supply chain account management and payment in one simple standardized step to let companies focus on what really matters – improving cash flow to grow their respective businesses. This requires the software necessary to automate the accounts payable process and to have a commercial finance partner to fund the early payments to your vendors.

All this can be accomplished without affecting your company’s bank relationships. Existing credit lines and loans can stay in place without any new encumbrances. Providing commercial financing on the supplier's invoices also does not affect the lien (UCC filing) that the bank typically has in place, with your company, on your collateral for its credit line and/or loans. The purpose of providing your vendors with financing is that it alleviates the financial pain to them as accounts payable days are increased (e.g., from net 30 days to net 60 days).

Suppliers that are financially strong will most likely be agreeable to the new extended payment terms and will be paid in 60 days without any financing requirements. However, other vendors that may have other orders to fill, bills to pay, wages, etc. that need the cash flow sooner can be paid earlier, at a discount on the invoice. Discounts would vary based upon when your supplier wants to get paid. For example, some vendors may want to get paid on day 1 after invoice submission, others on day 15, day 30 or day 45 and each would have a different discount associated with it. This allows financial flexibility based upon the cash flow needs of the particular vendor.

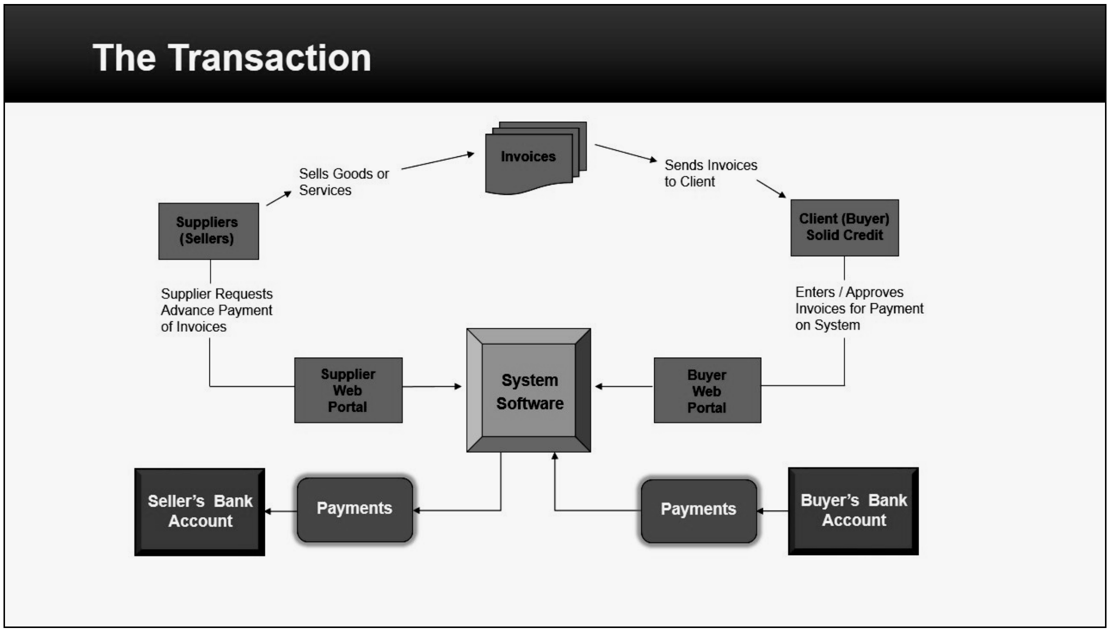
As you know, no supplier wants to turn away good business, but some simply cannot afford to have payment terms extended without affecting their business service. With an SCPay program, both buyers and suppliers benefit.

SCPay can be used by foreign and domestic companies and is particularly well suited for companies with sales between $50MM and $2 Billion across a large number of vendors. Manufacturers, wholesalers, retailers, construction, logistics and other companies can increase cash flow through SCPay.

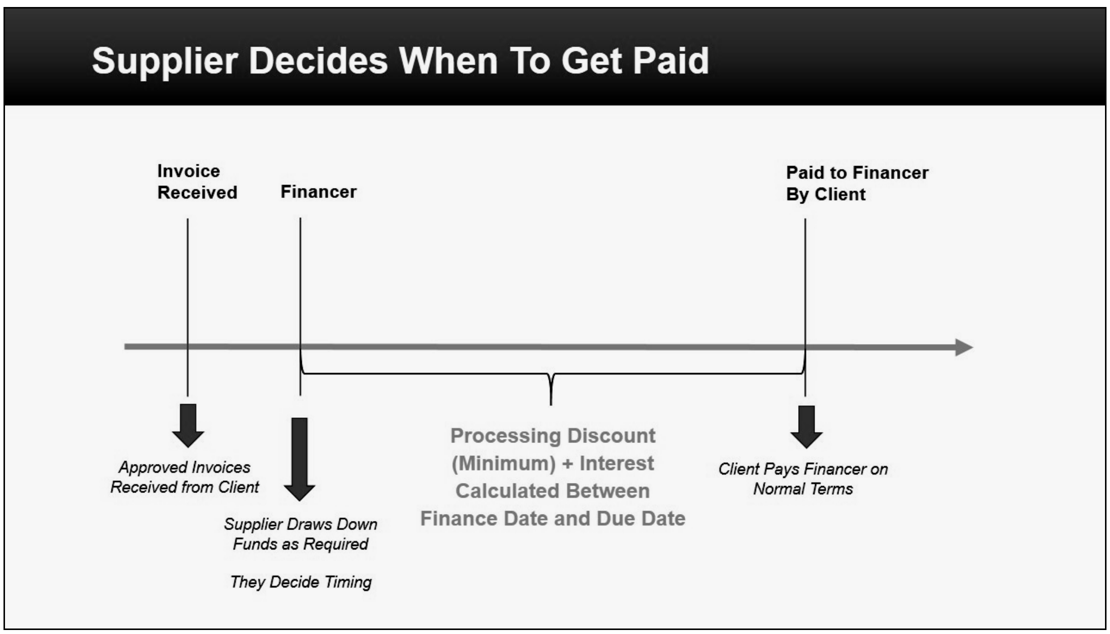
How Does Supply Chain Payment Finance Work?

The vendor provides goods and services to the buyer on a discrete or ongoing basis. The buyer has the financial strength to be credit insurable for the extended terms to its vendors. The buyer is prepared to authorize an early payment to suppliers before a standardized due date to allow suppliers early payment. This accounts payable process for the buyer and vendor is generally in a cloud environment that allows for automation of the invoice approval process.

When evaluating financing companies for SCPay, it is extremely important that the system being used offers highly secure data encryption technologies that meet stringent Sarbanes-Oxley 404 audit trails, workflow and control requirements. It should be an automated, reliable and fully compliant cloud based system that is accessible 24/7 providing reports and analytics. An added benefit would be being able to white label the program with your brand and other requirements.



With this type of SCPay program, auditing and accounting information is easily accessible. Imagine having full control over your vendor accounts while the financing company takes care of supply chain invoice management and payments with expert systems and confidence. This is likely to improve supplier loyalty, retention and viability.



Benefits to Buyers

- Allows ability to standardize and customize payment terms
- Potential for additional float throughout year
- No need to negotiate term with vendors
- Suppliers can elect to get paid earlier or on terms

- Discount costs are paid by vendors
- Better vendor relations
- Quantifiable accounts payable department savings due to outsourcing accounts payable
- Reduce internal administrative costs: staffing, clerical, wire fees and check writing costs
- Highly secure, cloud based system with 24/7 reporting and analytics
- No disturbance to existing security with banks
- Can be branded under your corporate name
- Low cost to buyers, since program is funded by vendors

Benefits to Suppliers

- Standardizing of payment terms allows them ability to better manage their business
- Payment via ACH - no waiting for a check to arrive
- Can monitor and see exactly when they will be paid through web portal of buyer
- Can elect to get paid earlier and select how early they want to be paid
- Costs associated with early payment are a known and can be accepted or rejected relative to taking early payment
- Unlike utilizing the services of an accounts receivable factor, the supplier does not have to put up any collateral, UCC or personal guarantees

Supply Chain Payment Finance is a Win – Win

From mid-market companies that are looking to grow their business, but cash flow is tight, implementing a SCPay program is an ideal solution for quickly and substantially improving working capital. A SCPay program will allow you to extend payment terms with your vendors with an early payment option, which is at no additional cost to you. Suppliers who are in need of cash immediately can take advantage of being paid as soon as they want, less the discount. Supply Chain Payment Finance is a highly valuable accounts payment management and vendor payment tool. The cost of the SCPay program is mitigated with the ability to turn early payments into a cost recovery opportunity with the expansion of accounts payable days outstanding. The use of cloud based software allows the accounts payment process to be automated and streamline supplier payable process, saving time, money and resources. Is now the time to take advantage of SCPay as an integral component of your strategic growth management plan?

Eileen Banasiak is Vice President of Marketing and Business Development for Liquid Capital Express, LLC a secondary commercial financing source and credit insurance broker. Previously, Ms. Banasiak was Vice President of Marketing for EMCVenues, a full service strategic meetings management company and PredictiveMetrics, Inc., a statistical-based predictive scoring and analytical solutions company. Ms. Banasiak can be reached at 732-223-2290 or Eileen.Banasiak@LiquidCapitalExpress.com

Non Profit Org.
U.S. Postage
PAID
Westminster, MD
Permit No. 855

The Credit Research Foundation

1812 Baltimore Boulevard, Suite H, Westminster, MD 21157–7146
Telephone: 443-821-3000 Facsimile: 443-821-3627

Web Address: www.crfonline.org