Outperforming the Competition with Supply Chain Finance

Characteristics that once defined market leaders (e.g. quality, innovation, price) have become table stakes in today's hyper-competitive business climate.

For businesses seeking new ways to outperform their peers, every aspect of the business is an opportunity to edge out the competition – including financial health.

Having the cash on hand to fund strategic initiatives can have dramatic effects on a company's market performance. Between investors' scrutinous eye and customer's growing expectations, the pressure is on for businesses to deliver superior performance all around.

Supply chain finance is one lever companies are pulling to inject a performance boost into the business.

By unlocking liquidity trapped in the supply chain, companies can tap into working capital to fund competition-oriented initiatives related to growth and innovation.

M&A transactions expand offering portfolios and market reach while accelerated R&D increases differentiation – but both provide a means for surpassing competitors in a crowded arena.

Despite the importance of this type of differentiation, today's competitive advantage is so much more than higher quality or better pricing. Especially in an era of instability, companies must take proactive measures to earn competitive advantage in numerous other areas, including:

FLEXIBILITY IN CHANGING ECONOMIC AND TRADE POLICY CLIMATES WITHOUT SACRIFICING STRATEGIC INITIATIVES

Corporations have been flush with cash for some time now, but economic indicators point to a significant market correction (or recession) in the near term. As they shore up the liquidity to sustain them through a possible downturn, companies are tightening their purse strings. Goldman Sachs has predicted S&P 500 cash spending will decline by 6% in 2019, the sharpest annual decline since 2009.

By materially improving free cash flow with supply chain finance, companies can more easily navigate economic volatility without aggressively holding onto cash.

These improvements can be used to fund competitive and growth initiatives that would otherwise go unfunded during a downturn – thus allowing the business to innovate and grow when competitors are not.

PrimeRevenue's multi-funder approach to supply chain finance provides added protections as it covers all currencies and geographies. This is particularly important as companies consider the need to switch suppliers as a response to trade policy changes.

STRONGER SUPPLIER HEALTH AND RELATIONSHIPS

Supply chain finance enables suppliers to get paid early – often within a few days of when an invoice is submitted and approved. This is particularly beneficial to suppliers who are under pressure to grow and respond to the widespread transformations happening across many industries. Keeping pace with these changes requires capital that's not always readily (or affordably) available to some suppliers. By accelerating cash flow, suppliers can tap into debt-free liquidity previously trapped within the cash conversion cycle.

Strong suppliers translate to competitive advantage for buyers. Companies need their suppliers to be financially sound and innovative – anything less can weaken the supply chain, impede productivity and cede competitive positioning.

By providing supply chain finance as a way to strengthen financial health, buyers can fortify their supply chain and strengthen supplier relationships to ensure suppliers have the capital needed to keep pace with innovation.

RISK REDUCTION ACROSS THE SUPPLY CHAIN

In many industries, companies rely on highly-specialized suppliers. If few or no alternatives exist, any disruption within a supplier's business can negatively impact the entire supply chain. This underscores the need for suppliers to be financially stable and able to invest in the innovation required by buyers' product roadmaps.

Another point of risk within the supply chain – one that can either gain or surrender competitive advantage depending on approach – are supplier payment terms. Thanks to mounting economic pressures, many companies are being forced to reexamine their payment terms with suppliers and extend them to align with industry benchmarks. Without a way to mitigate the negative impact, many suppliers are pushing back. This has the potential to wreak havoc on supplier relationships as well as weaken the financial health of both buyers and suppliers.

Fortunately, supply chain finance can help companies solve both issues.

Giving suppliers a way to get paid early and for the full amount of the invoice due makes it easier for suppliers to accept longer payment terms that will improve the buyer's cash flow.

IMPROVEMENT ACROSS KEY FINANCIAL METRICS

Extending supplier payment terms can materially impact key financial metrics like cash flow, DPO, corporate debt, interest expense, leverage ratios, EBITDA and enterprise value.

By having more working capital available to invest in strategic growth initiatives, companies can increase their competitive strength.

Although it should be noted that not every company is interested in drastically extending supplier payment terms, even modest extensions (which there still seems to be an appetite for) can deliver significant financial health benefits.

Supply chain finance can play a star role in successfully executing a supplier payment term extension through providing suppliers access to early payment – typically weeks earlier than specified in pre-extension terms.

Moving forward

Economic uncertainty and supply chain risk are driving many executives to rethink competitive strategy and tactics for the months ahead. Despite a more cautious spending climate, companies can't afford to spend less on growth and innovation initiatives or introduce added risk into their supply chains. The recessions of 2001 and 2007/2008 taught us that companies able to manage risk and invest in innovation and growth during a downturn are better positioned to gain/maintain market leadership in a post-recession climate.

Supply chain finance presents a clear path to gaining competitive advantage in any economic climate –particularly during periods of uncertainty when companies are most likely to pull back on spending. By unlocking millions (or billions) of debt-free capital trapped in the supply chain, companies can strengthen financial health, fortify supplier relationships and accomplish strategic initiatives at a time when their competitors aren't.

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About PrimeRevenue As a pioneer in global B2B payments, the PrimeRevenue SurePay Platform connects the entire supply chain by improving working capital and automating digital payments. Thousands of companies around the world leverage one streamlined platform to increase payment visibility, enhance control, and improve cash flow. PrimeRevenue is headquartered in Atlanta, with offices in London, Prague, Hong Kong, and Melbourne. For more information, visit **www.primerevenue.com**.

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