How Supply Chain Finance is Helping Retailers Navigate Shifts in Consumer Demand and Behavior

Heading into 2023, the retail and wholesale industry finds itself at an untimely crossroads. Just as supply chain bottlenecks have begun to ease, inflation and higher interest rates are driving consumer demand down in many sectors. The outlook for consumer demand over the next 18 months looks weak – or at best uncertain – as volatility in the overall economic climate persists.

Meanwhile, changes in customer behavior are causing retailers to rethink and reinvest in the retail experience. Online shopping remains king, but a return to in-store shopping has carved out a relevant role for brick-and-mortar locations. The store is now a showroom – a combined mix of inspiration and entertainment designed to capture brand loyalty. And marketing budgets for all channels are exploding as retailers and wholesalers embark on new social shopping experiences across multiple social platforms.

Operationally, retailers and wholesalers are under pressure to mitigate the impact of inflation on already-shrinking margins. Higher costs have affected every aspect of the supply chain – from labor and logistics to raw materials and finished products. For many retailers, inventory levels are also higher than anticipated. Recalibration of inventory and demand is still a work in progress, and steep markdowns and other inventory reducing strategies are being felt on the balance sheet.

How will these dynamics affect the financial health of retailers and wholesalers (and their suppliers) in 2023? Analysis from Fitch Ratings suggest defaults may be a possibility for some. At the same time, shrinking lender appetites and higher interest rates will drive many businesses to seek alternative sources of liquidity.

Reflecting on the current business climate, retailers, wholesalers and their suppliers are seeking answers to two important questions: "How can we navigate disruption and fluctuation in demand with more agility?" And, at the same time, "How can we accelerate the projects that will help us better compete and capture customer loyalty?"

The most resourceful answer is supply chain finance.

What is Supply Chain Finance and How Can it Benefit the Retail/ Wholesale Supply Chain?

Supply chain finance is a way to optimize working capital and reduce supply chain risk. Supply chain finance allows businesses to extend supplier payment terms while providing the option for their large and SME suppliers to get paid early. The buyer provides a way for suppliers to mitigate the negative impact of longer payment terms and to accelerate their own cash flow by pairing suppliers with funders who are willing to provide early payment for receivables.

The supplier can choose which receivables to submit for early payment, depending on their financial position and funding requirements. To complete the process, the buyer then pays the funder for the receivable based on the extended payment terms.

Unlike commercial-based lending, dynamic discounting or early payment programs, supply chain finance is a win-win for all parties involved. It doesn't negatively impact the balance sheet for either party and suppliers are paid the full amount due for invoices. Most importantly, the cash flow gains delivered are substantial enough to fund the kind of large-scale strategic business initiatives that often require millions (or billions) of dollars in working capital.

Benefits

At any point in time, today's retailers/wholesalers (and their suppliers) have a number of initiatives that need to be executed in order to navigate, grow, scale and compete amid market volatility. These initiatives typically require large financial resources and funding. Supply chain finance can help.

Earlier Access to Payments | Early payment isn't just a selling point – it's a lifeline for many retail suppliers. Access to timely invoice payment enables them to survive volatility, prepare for increases and contractions in consumer demand, and invest in innovative R&D that powers the retail supply chain.

Suppliers in the consumer discretionary sector – which includes retail suppliers – got paid 2.5 months early on the PrimeRevenue Platform over the last 12 months. **On average, suppliers took early payment on 73% of available invoices.**

Multi-Funder Structure | Using the right program partner, supply chain finance offers a multi-funder approach that allows companies to offer supply chain finance to a greater number of suppliers covering more currencies and geographies. This not only extends the benefit of early payment to more suppliers that need to support their customers' transformations, but it also allows for more supplier participation – which is beneficial to the buyer's working capital goals. Additionally, it allows retailers/wholesalers to reward multiple relationship banks with an opportunity to provide liquidity instead of a single bank.

Improved Cash Flow | Retailers/wholesalers often need access to readily available cash to navigate shifts in consumer behavior and demand. Supply chain finance improves a company's cash position. Better cash flow translates into increased access to low-cost liquidity that can be used to buffer the impact of shrinking margins and fund investments in customer experience and loyalty.

Lower Debt | Over the last decade, many retailers (and their suppliers) have benefited from the affordable cost of liquidity and have increased their debt. Unfortunately, rising interest rates are leading to drastically higher interest expenses. The cash flow and working capital improvements delivered through supply chain finance give companies the liquidity they need to pay down this existing (and increasingly expensive) debt.

Stronger Supplier Relationships | Suppliers can struggle with access to liquidity, especially when it comes to the surges in demand that many retailers experience. Early payment at a nominal fee can often be a lifeline for suppliers, offsetting the need to borrow from banks. It also gives suppliers visibility into payment processing and invoice status, allowing them to know exactly when they are getting paid. This may seem minor, but transparency to this degree instills trust and confidence. In turn, there is a lower risk of disrupting supplier relationships while still optimizing working capital.

Increased Financial Agility | The retail supply chain has demonstrated a need for greater agility in recent years. Industry transformation has bred innovation and opportunity, but it's also created new risk and instability. Having the financial agility to navigate new threats is critical. This is especially true for sub-investment grade suppliers and/or suppliers that want to access liquidity at lower funding costs.

Food Retailer's Award-Winning Supply Chain Finance Program Puts Suppliers First

Co-op strives to build a better tomorrow, and the same goes for its supply chain. When the global pandemic hit in early 2020, Co-op knew they needed an inclusive and easy-to-use solution that would offer suppliers the critical cash they needed to survive disruption. A single bank program couldn't offer the support or scalability Co-op needed, so they made the strategic decision to transition to PrimeRevenue's multi-funder, technology-enabled supply chain finance solution.

"Without a doubt, the biggest value is the fact that our suppliers have a sense of stability amid all of the disruption the world's facing at the moment. We know that they've got a reliable source of liquidity they can pull from and as much, or as little as they need, and that should help them withstand the economic challenges today. It also gives us security of our supply chain." – Simon Nuttall, Head of Tax, Treasury and Insurance, Co-op.

About PrimeRevenue As a pioneer in global B2B payments, the PrimeRevenue 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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