Surviving Disruptions:

Supplier Perspective on Economic Shifts in H1 2023

PrimeRevenue

Introduction

In the first half of 2023, the economic climate was dominated by anti-inflation interest rate increases and a spate of bank failures that rattled markets across the globe. Moving into the second half of the year, the global economic outlook looks marginally better. The likelihood of additional interest rate hikes remains high as does the potential for further bank failures or serious financial disruptions. However, the scale and scope of both will likely be smaller and more contained. Overall, the market is showing nascent signs of optimism as inflation slowly creeps downward.

What does this mean for global supply chains – specifically supplier organizations? The economic impact on these businesses is harder to discern. Over the last three years, suppliers have encountered prolific disruption and recalibration. These outlier events have made it difficult to forecast growth and risk.

Key findings

To get a clearer picture of how suppliers are faring in the current business climate, suppliers trading on the PrimeRevenue platform were recently surveyed to better understand their demand forecast, their biggest business challenges, and how early payment programs like supply chain finance are helping their business . Key findings include:

- **Business demand is strong.** Well over half of suppliers (58.4%) are extremely or fairly confident their customers will maintain their current purchasing volumes with another 18.4% reporting they are moderately confident.

- **Cash flow and cost-cutting are top business challenges for suppliers.** Of the business challenges specified, suppliers said cost-cutting and negative impacts to cash flow is their biggest challenge in 2023 (26.1% and 26.5% respectively).

- **Suppliers expect supply chain disruptions and delays to hold steady throughout 2023.** More than half of the suppliers surveyed (62.7%) believe supply chain disruptions and delays will remain the same in 2023. Just over a quarter of respondents (25.3%) predict they will ease. Only 12% anticipate conditions worsening.

- **Most suppliers are concerned – albeit not overly – about the U.S. regional banking crisis.** Approximately 43% of suppliers said they were moderately concerned and 18.8% are fairly concerned. Only 10.1% of suppliers are extremely concerned.

- **Early payment programs like supply chain finance are delivering a positive impact to most suppliers.** The majority (64.2%) of respondents said their business would be positively impacted if they had more opportunities to participate in customer-led early payment programs. Around 58.5% of suppliers said improved cash flow is the most beneficial aspect of early payment programs, while 24.1% said better payment forecasting, accuracy and visibility was the top benefit.

- **Most suppliers surveyed are either fully utilizing early payment program participation to their advantage or are looking to expand participation.** Of the suppliers surveyed, 26.3% expected the number of invoices submitted for early payment to increase. Nearly 38% (37.7%) of suppliers expected the number of invoices to remain the same since they already submitted most invoices for early payment.

DEMAND FORECAST:

How confident are you that customers will maintain current purchasing volumes?

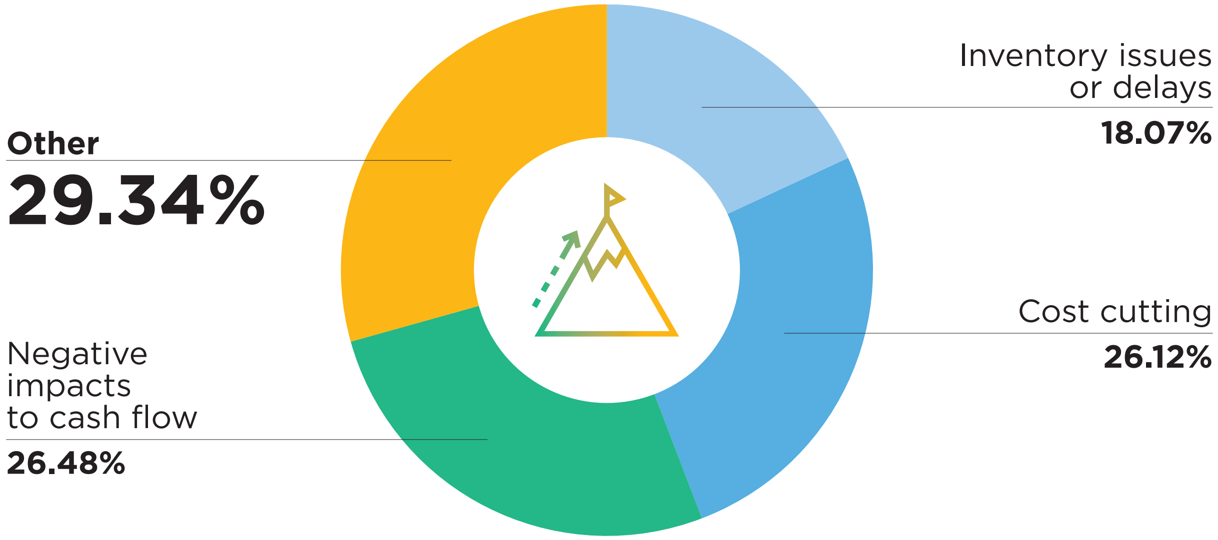
While tepid economic indicators often suggest lower demand across the supply chain, the reality looks quite different. Of the suppliers surveyed, 86.4% had some degree of confidence their customers would maintain their current purchasing volumes. Over thirty percent (32%) said they were extremely confident, with another 26.4% reporting they were fairly confident.

BUSINESS CHALLENGES:

What is your biggest anticipated business challenge in 2023?

Given the state of the economy and supply chain, it's reasonable to expect suppliers' biggest business challenges would likely fall into one of three categories: cost-cutting, cash flow, or inventory issues or delays. Nearly 71% (70.7%) of suppliers indicated this is true with equal numbers reporting cost-cutting and negative impacts to cash flow as their biggest challenge (26.1% and 26.5% respectively). Only 18.1% of suppliers said inventory issues/delays was their biggest anticipated business challenge in 2023.

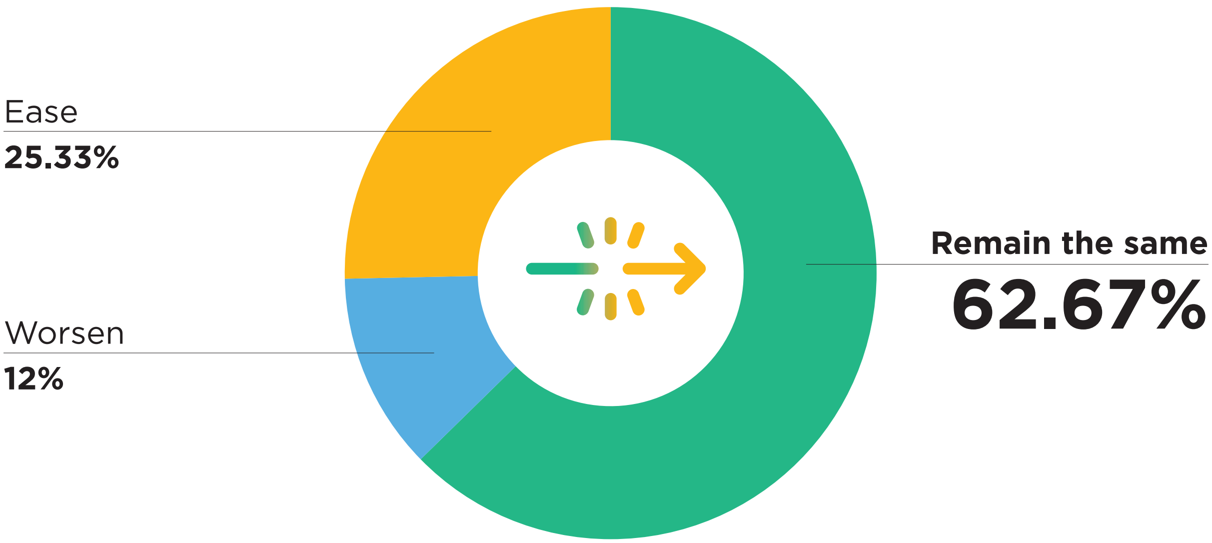
Interestingly, a (slight) majority of respondents selected "other" (29.3%). This is not surprising given the diverse industrial and regional mix of supplier organizations represented and the nuanced factors affecting operations and performance. For example, uneven labor demand and supply remains a persistent challenge in the food and beverage industry while some European supply chains continue to experience acute impacts from the war in Ukraine.



Throughout 2023, I predict supply chain disruptions and delays will…

While certain regions and industries show signs of supply chain disruptions easing, few businesses are back to pre-pandemic levels of efficiency. Material shortages, shipping delays and labor shortfalls are just a few of the reasons normalization remains out of reach for many suppliers. When asked to predict if supply chain disruptions and delays will improve, worsen, or remain the same in 2023, 62.7% of respondents predicted they would remain the same. Another 25.3% thought disruptions and delays would ease and 12% believed they would worsen over the course of the year.

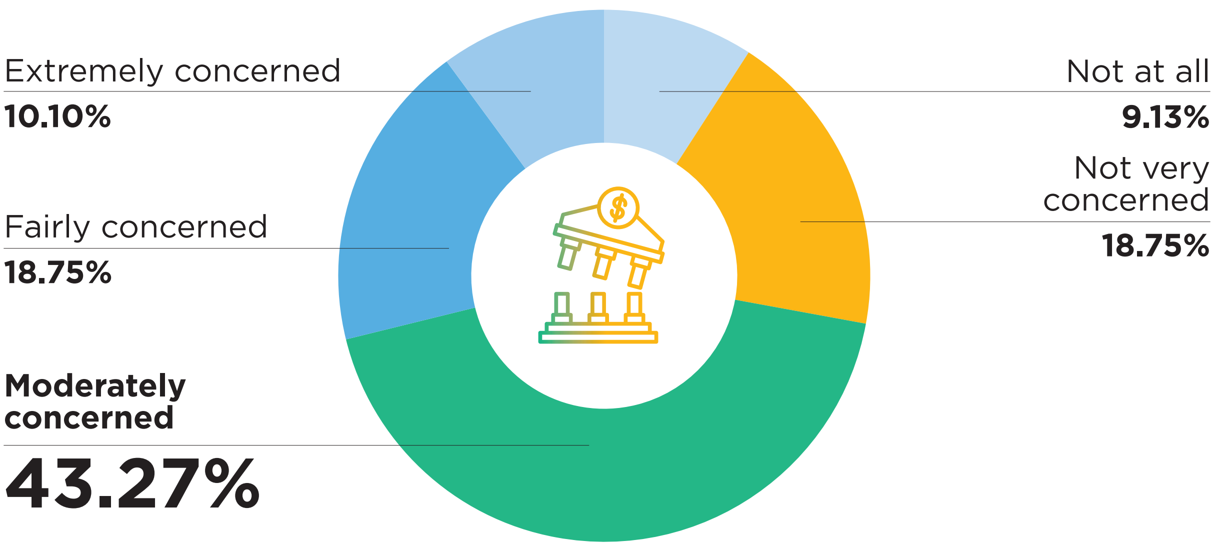
Key takeaway – supply chain disruptions and delays (and the negative cost impacts that accompany them) will continue to be the “new normal” for supplier organizations for some time.



How concerned are you about the recent U.S. banking crisis and its impact on your business?

The U.S. regional banking crisis has highlighted a tough business climate for small and regional banks. Since March, three of the four largest bank failures in U.S. history have occurred – First Republic, Silicon Valley Bank and Signature Bank. And the Fed's anti-inflation tactics could make other regional banks more vulnerable amid shrinking profits and deposit outflows to larger banks.

While the Fed has assured the public that the worst is over, a healthy – and largely moderate – degree of skepticism is present across the supply chain. When asked how concerned they were about the banking crisis and its impact on their businesses, 43.3% of suppliers said they were moderately concerned. Of the suppliers surveyed, 18.8% reported being fairly concerned and another 18.8% said not very concerned. Relatively few responses landed on the far ends of the concern spectrum, with just 10.1% of suppliers saying they were extremely concerned and 9.1% reporting they weren't concerned at all.



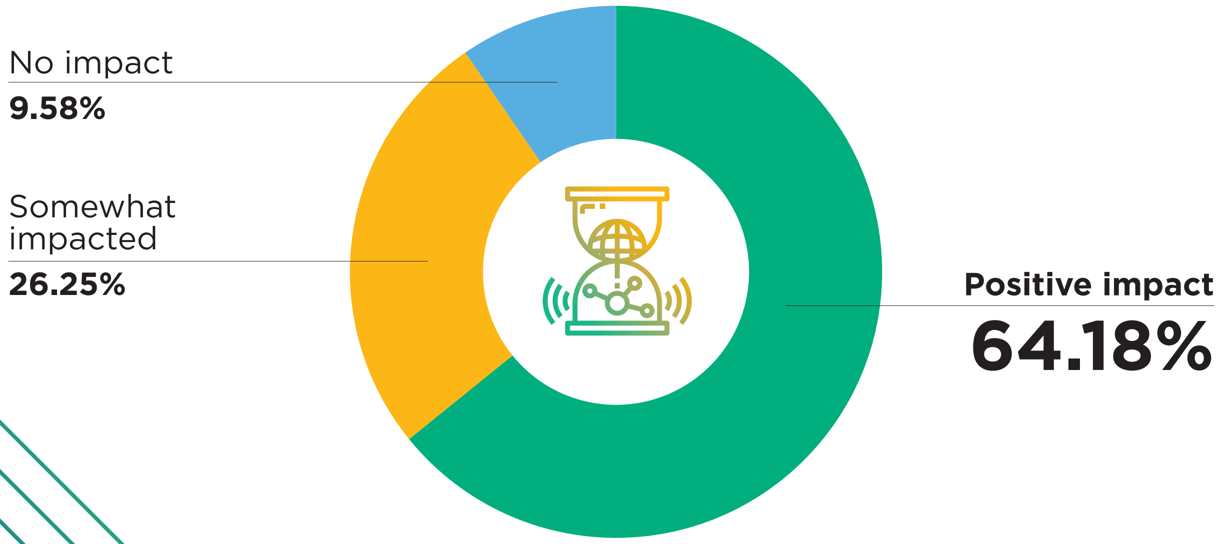
EARLY PAYMENT:

How much would your business be positively impacted if more of your customers offered early payment options?

Early payment programs like supply chain finance have been instrumental in helping many suppliers navigate their most important business challenges. To better understand the value early payment programs provide, we asked suppliers to what degree their business would be positively impacted if more of their customers offered early payment options.

The majority (64.2%) of respondents said their business would be positively impacted if they had more opportunities to participate in customer-led early payment programs. Of the remaining respondents, 26.3% reported their business would be somewhat impacted if more customers offered early payment options with only 9.6% indicating it would have no impact on their business.

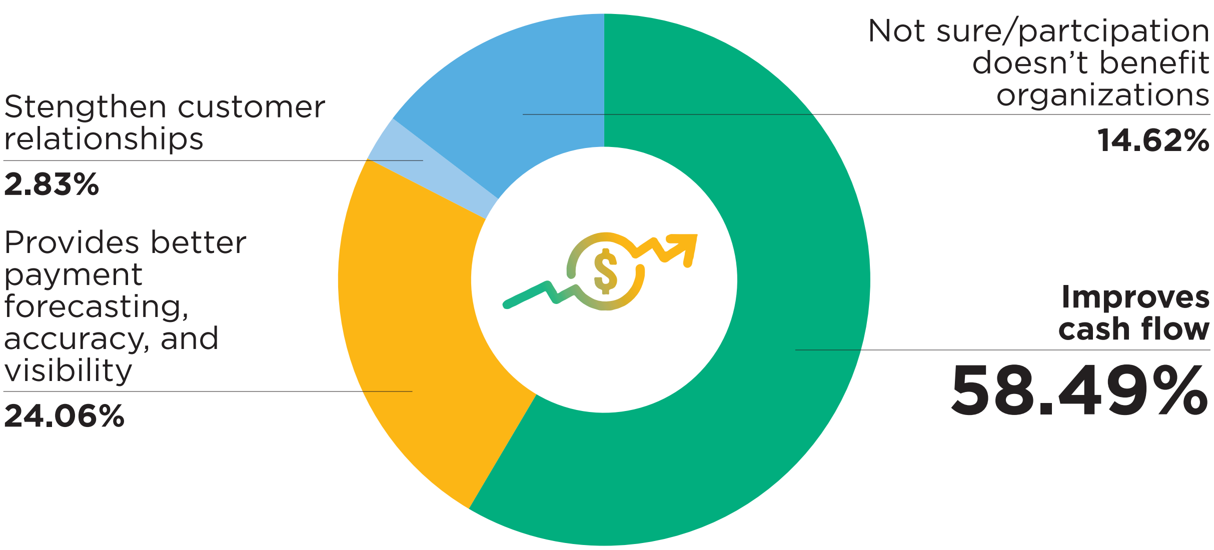
These numbers underscore how important early payment early payment programs are to suppliers – particularly during periods of economic volatility. They also illuminate an opportunity for buyers to implement and expand these programs so they can improve cash flow within their own organizations as well as help suppliers unlock much-needed liquidity.



Currently, how does participation in early payment programs like supply chain finance MOST benefit your organization?

Suppliers were asked how participation in early payment programs like supply chain finance most benefits their organization. Nearly 59% (58.5%) of suppliers believe improved cash flow is the most beneficial aspect of early payment programs, while 24.1% said better payment forecasting, accuracy and visibility was the greatest benefit. Just 2.8% reported stronger customer relationships as the greatest benefit, and 14.6% said they either weren't sure or thought participation didn't benefit their organization.

The results of this question highlight a few key takeaways for both suppliers and buyers expressing interest in early payment programs like supply chain finance. First is validation of the primary reasons most suppliers participate in such programs – to increase cash flow and to achieve better payment forecasting. Another takeaway is the opportunity for customers to leverage early program participation as a way to further fortify their supplier relationships. At a time when both buyers and suppliers need affordable access to working capital to handle economic volatility and disruption, early payment programs like supply chain finance are one way both parties can accomplish this goal. The last takeaway is the need to help suppliers optimize the value they receive from early payment program participation.



Throughout the remainder of 2023, the number of invoices our organization submits for early payment will likely...

Given the persistent business challenges facing most suppliers, we asked suppliers if they planned to adjust the number of invoices they submit for early payment. Of the suppliers surveyed, 26.3% expected the number of invoices to increase indicating they plan to increase their usage of early payment options like supply chain finance Nearly 38% (37.7%) of suppliers expected the number of invoices to remain the same since they already submitted most invoices for early payment. This also underscores consistent and strong demand for early payment options as these suppliers are either fully utilizing or approaching full utilization of their early payment program.

Another 27.6% felt the number of invoices would remain the same, although for different and unspecified reasons. Only 8.3% of those surveyed thought that the number of invoices would decrease.

Response results suggest a sizeable appetite for early payment among most suppliers – both for increasing current participation within existing customer-led programs and an appetite for new program participation opportunities.