
# Interest Rate Impact on Supplier Early Payment

For several years now, companies of all sizes have benefited from artificially low interest rates. Whether you were an investment grade company or not, you could get cash at an unusually low rate. Recently, though, we've seen the tide turn on this trend. That level of access to cash has begun to dissipate within the last year as the Federal Reserve continues to raise interest rates. Just recently, interest rates jumped up by 75 basis points, the highest increase in decades, and interest rates will increase a few more times before the end of 2022.

These increases can affect all types of funding, regardless of what type of company you are, which leads many to ask, "What does this mean for our suppliers?"

As rates go up, there is a certain level of pushback that is expected. The entire supply chain has already been fighting against inflation, so there's a snowball effect taking place. Everything is getting more expensive regardless of whether you're purchasing to manufacture or to resell.

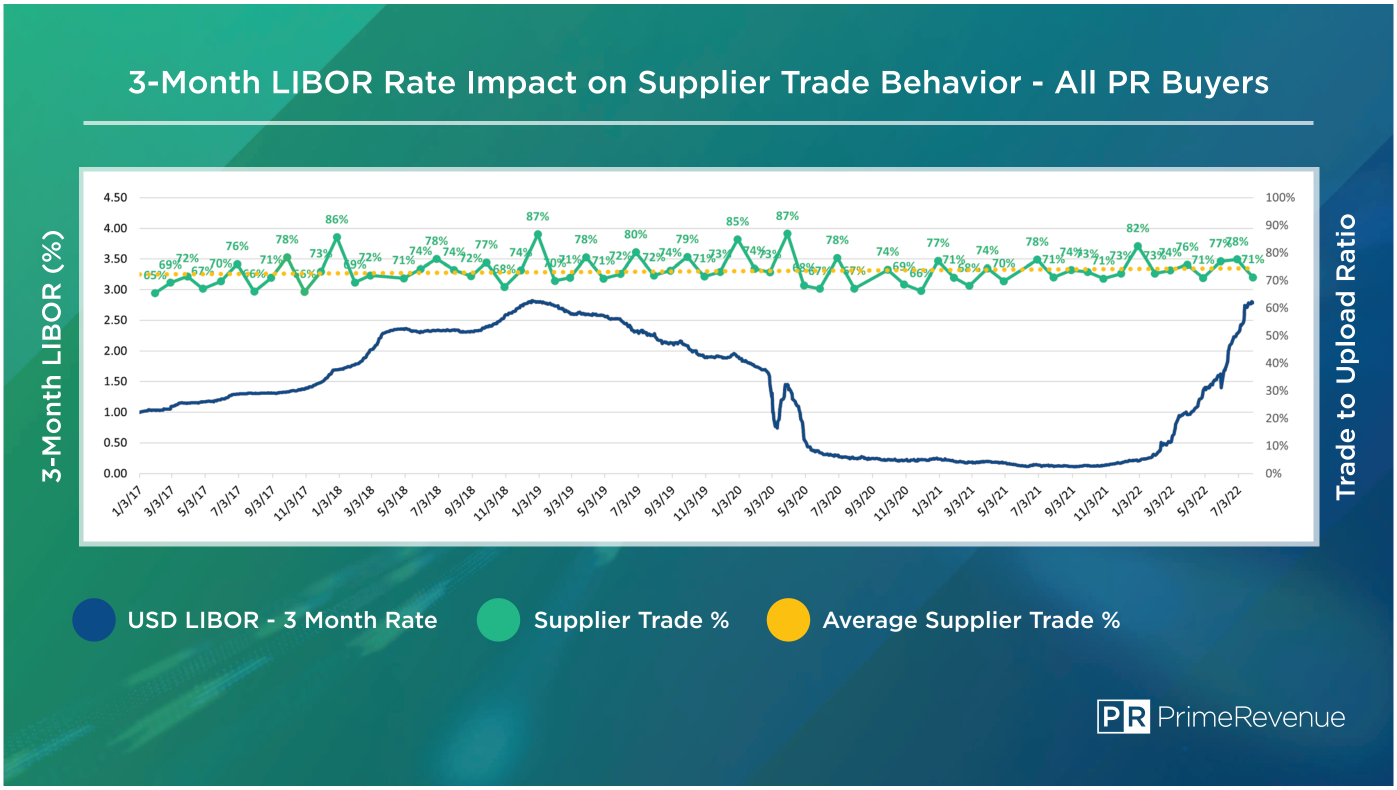
With all of this considered, the question remains if there are any funding options available that are not going to force suppliers to up their prices or push them out entirely. According to our data, there is: supply chain finance.

# Where Our Data Shows Consistency

Supply chain finance (SCF) is a means for buyers to pay their invoices at a later date while still providing faster access to cash for suppliers. A funder typically purchases a buyer's invoice for a nominal fee, extending the payment term for that buyer while paying the supplier before the invoice's maturation date. Afterwards, the buyer pays the bank the invoice amount directly.

This solution functions above and around the need for loans or debt, minimizing the impact that these heightened interest rates can have on them. Trends are showing that while other financing methods are becoming more expensive, SCF is a mechanism that will hold relatively steady. In fact, access to cash leveraged by SCF appears to be increasing.

We've found that interest rate increases have had zero impact on supplier trading behavior over the last 5+ years. Early payments have remained steady (~75+%) despite the base rate fluctuating between 0.1% and 2.75+%.



# Why SCF is Still a Great Solution

Every company has the need to finance their business at some point, whether it's through revolving credit facilities, asset-backed loans, business loans, or other mechanisms. For a smaller sub-investment grade company, SCF may actually be the best option available, though. As their rates increase at an exponentially faster pace than investment grade businesses, a smaller company is left having to pay a painful amount to keep themselves afloat, which can potentially make them inaccessible to their customers.

If that same company were to take the SCF route, they'd find that trading with supply chain finance doesn't falter as much. We've seen this in our supplier data, proving that SCF remains the cheapest source of liquidity for suppliers on an SCF program. Otherwise, suppliers would have reduced activity and moved to alternative options as interest rates increased.

For example, during the credit crisis of 2009, Electrical Components International (ECI) was a major supplier to Whirlpool, who was running a supply chain financing program with PrimeRevenue. ECI couldn't find funding anywhere else at the time and relied solely on SCF to keep their business from going bankrupt.

Many smaller suppliers may begin to find themselves in similar positions if interest rates continue to tick up and if we couple this with a recession. Cash has been so accessible over the last decade that many businesses are not prepared to start paying on the debt that they have accumulated. SCF provides a buoy for those who need the means to keep treading water.

As credit dries up, we are seeing an increase in businesses leveraging this funding solution. BCR Publishing Ltd. estimates that the corporate SCF market increased $1.8 trillion globally last year, an increase of 38% compared to 2020.

Buyers with recent inventory bulk are launching SCF programs to bridge the gap between their supply chain needs and extending their payment terms. For suppliers, this level of demand can mean a relatively cheap and consistent source of cash.

As we continue to monitor the interest changes, there are certain advantages to preemptively assessing the position of your business. Partnering with PrimeRevenue to participate in SCF won't hurt you now and can actually save you later. Reach out to our experienced and dedicated TEAM to learn more about SCF or investigate further on your own with our whitepaper: 7 Financial Metrics Strengthened by Supply Chain Finance.