3 Levers To Pull To Drive Working Capital Improvement

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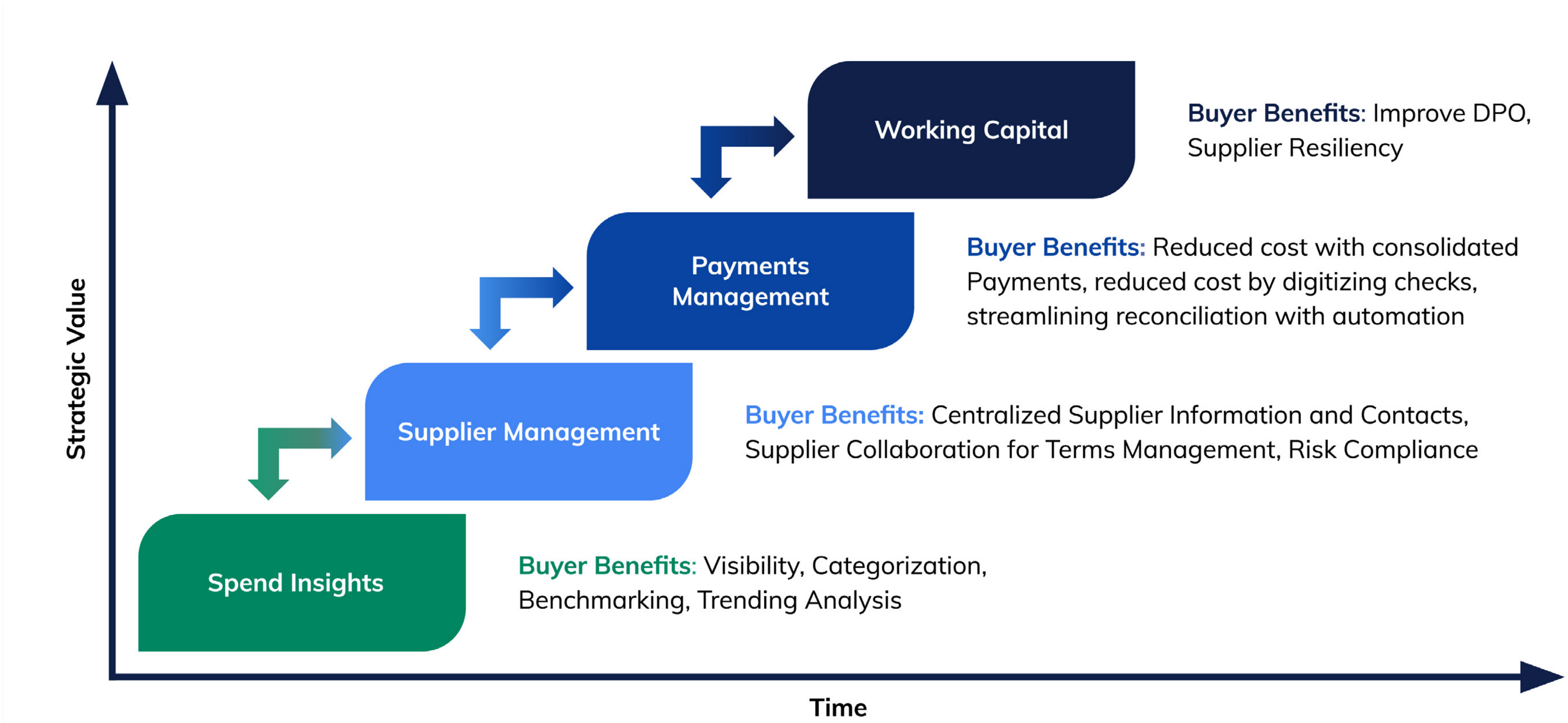
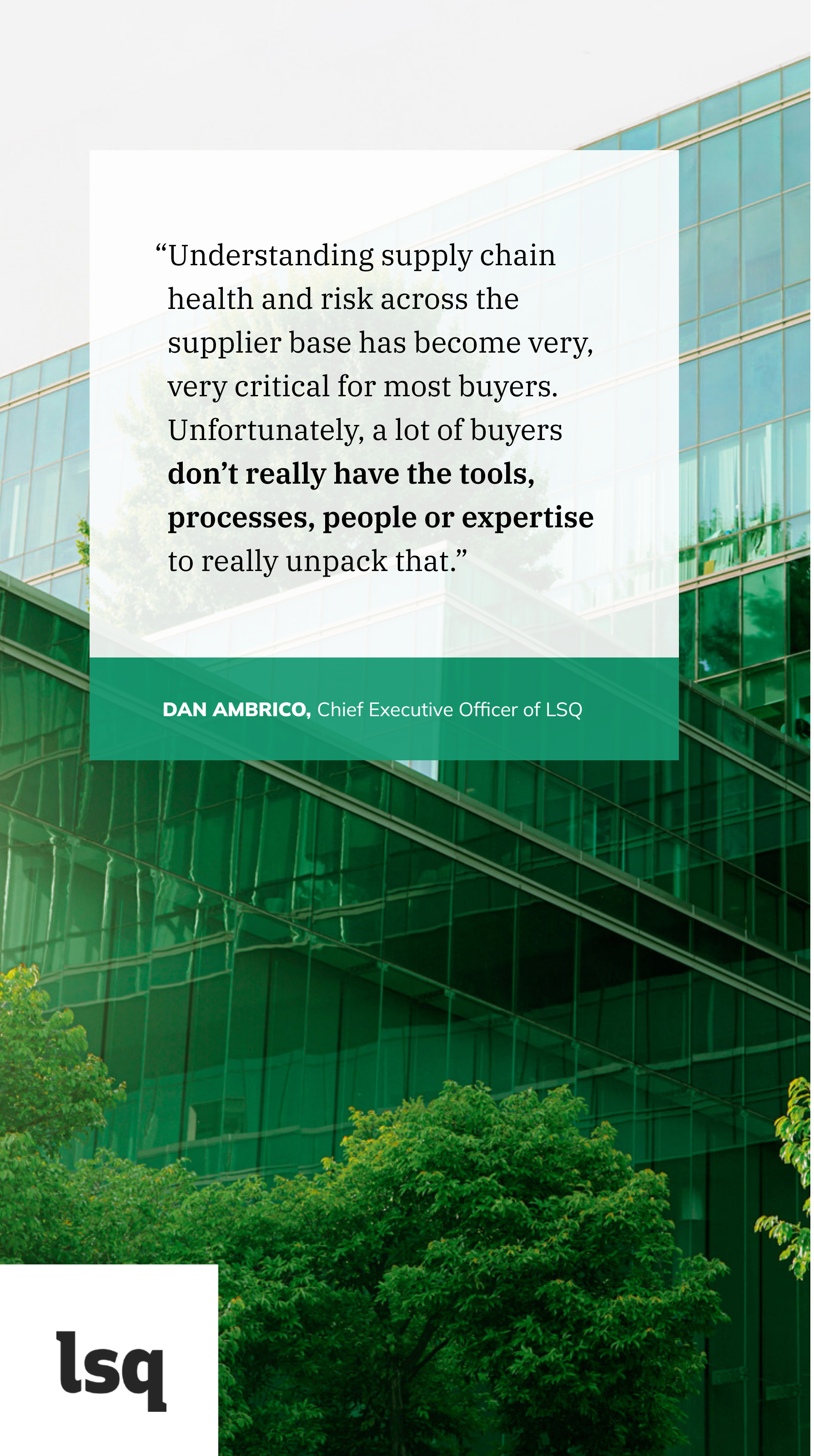
Companies have different priorities for the timing of a payment depending on their role in a business transaction. Suppliers generally want payment as soon as possible, while buyers typically want to hold on to their funds as long as they can.

Buyers need to balance two things: the need to effectively manage working capital and the need to maintain a diverse and reliable supply chain.

By using three flexible "levers" to pay suppliers early or on time while still maintaining working capital when necessary, companies can reduce risk in their supply chain and improve their supplier relationships while achieving greater control over their working capital. This playbook will explore how using supplier management, supply chain finance and payments management helps businesses optimize their working capital, drive process efficiency and strengthen supply chain health.

Maturity Journey for Optimized Working Capital Management





"Understanding supply chain health and risk across the supplier base has become very, very critical for most buyers. Unfortunately, a lot of buyers **don't really have the tools, processes, people or expertise** to really unpack that."

DAN AMBRICO, Chief Executive Officer of LSQ

Whether they're mid-market companies or large enterprises, buyers are hugely dependent on how their suppliers perform and whether those suppliers can serve them. Strong relationships with suppliers also help buyers (of all sizes) outperform competitors and build their businesses.

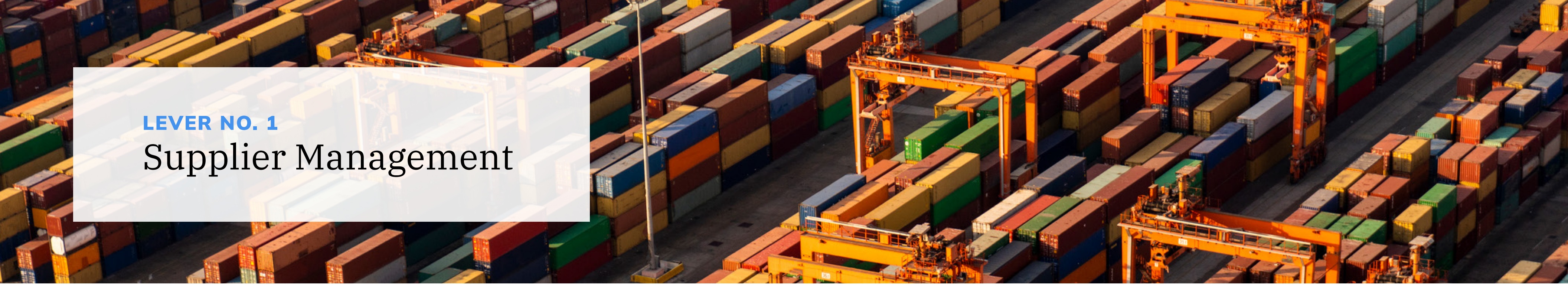
Consequently, "understanding supply chain health and risk across the supplier base has become very, very critical for most buyers," said Dan Ambrico, Chief Executive Officer of LSQ. "Unfortunately, a lot of buyers don't really have the tools, processes, people or expertise to really unpack that."

It's also become critical for buyers — most especially companies with less than ideal credit profiles — to focus on optimizing their working capital.

Since borrowing costs for sub-investment grade companies have increased substantially in recent years, those companies not paying close attention to working capital are leaving money on the table in more ways than one.

> **"Not only is it costing you more, but investors and shareholders are also penalizing you as a company because you're not efficient with your cash and how you manage your cash."**
> **RICHARD LEE,** Chief Operating Officer of LSQ

How companies manage their cash depends on unique considerations, however — such as any seasonality in the business. Meeting companies' changing cash flow needs ultimately requires them to use flexible working capital solutions that offer various levers they can pull.



Buyers need a way to understand their existing suppliers, their payment terms, their financial strength, and the size of their commercial relationship in comparison to others in order to truly identify opportunities to get better terms, optimize working capital and strengthen supplier resiliency.

Buyers' payment terms need to fit their business relationships appropriately. And buyers that don't know the makeup of terms across their supplier base can't address any mismatches.

Buyers may have unnecessarily tight terms with suppliers, for example, which requires those buyers to have more working capital on hand to maintain those supplier relationships. Alternatively, buyers may have different terms with the same supplier across different regions — which is inefficient — or have discount opportunities across a supplier cohort they're not taking advantage of. Without an effective way to view and manage supplier information, resolving this fragmentation is next to impossible.

Addressing such issues is not a one-and-done internal effort, but rather a collaborative long-term strategy.

> **"If you're not actively collaborating with your suppliers, then you're missing an opportunity to engage those suppliers, strengthen those relationships and improve resiliency across your supplier base."**
> **VIKAS SHAH**, Chief Revenue Officer of LSQ

Taking a collaborative and more holistic approach to supplier management — one that involves addressing suppliers' working capital needs, rather than focusing exclusively on the benefit of working capital to the buyer — requires companies to maintain and assess high-integrity information on their supplier base.

Buyers need a strong supplier management foundation to assess data points around suppliers' prices, volume, relationship history, and financial profile as they make terms management decisions designed to support positive long-term outcomes.

LEVER NO. 2

Payments Management

Optimizing payments, increasing supplier visibility and embracing automation help buyers achieve new efficiencies across the entire payments process.

Deploying a modern payments management solution unlocks a lot of automation potential — and resulting efficiencies — for buyers, driving both cost reductions and margin improvements.

> **"We're giving the suppliers a lot more visibility into their receivables against that buyer and into all the outstanding invoices so they can know when they are getting approved and when they are going to get paid. We're giving the supplier a lot of choice and flexibility in terms of how they want to get paid from the buyer across different payment methods and when they want to get paid, essentially giving the supplier the ability to manage their own cash flow and set their own terms."**
>
> **VIKAS SHAH**, Chief Revenue Officer of LSQ

That approach gives buyers a unique opportunity to optimize payments.

Traditionally, a buyer might spend a lot of money paying suppliers through different payment methods, for example, which is not efficient. With a payments management solution, on the other hand, a buyer can streamline payments and unlock operational efficiencies through payments automation while simultaneously offering visibility, flexibility and choice to the supplier community.

And since automation eliminates a significant amount of redundant and manual payments work for buyers, using a modern payments management solution can potentially give buyers an opportunity to redeploy payments resources into more strategic projects.

LEVER NO. 3

Supply Chain Finance

With scalable platforms and a third-party flexible funder ecosystem, buyers can hold on to their cash longer by offering early payment to suppliers — thereby reducing burden on liquidity for themselves and for their suppliers.

Supply chain finance can make it possible for buyers to optimize working capital without simply extending payment terms (potentially to suppliers' detriment).

Through supply chain finance, buyers can offer early payment to suppliers. Pulling the supply chain finance lever — to whatever degree suits buyers' needs, with suppliers of all sizes — allows buyers to support their suppliers' financial stability, reducing their own risk and strengthening their supply chain in the process.

With a "pay later" supply chain financing solution, buyers can even hold on to supplier payments longer without implementing a terms extension.

> **"LSQ steps in and makes sure that the supplier actually gets paid early or on terms while simultaneously giving the buyer additional working capital against that invoice or that amount due to that supplier."**
> **VIKAS SHAH**, Chief Revenue Officer of LSQ

"That gives the buyer utmost flexibility and choice in terms of how they want to manage their working capital, and it's available on-demand technology and data in a very seamless user experience," Shah said.

Using supply chain financing also equips buyers with the tools and processes to understand how their suppliers are doing and what their supplier base looks like — giving them greater insight to assess risks and answer important supply chain questions.

CONCLUSION

A modern approach to working capital improvement

Companies can reduce risk in their supply chain and improve their supplier relationships while achieving greater control over their working capital, but it takes a solution that can support a modern approach.

“The traditional options of solving for working capital are very manual, cumbersome and paper-intensive, but the future of working capital is all based on data, technology and credit,” Shah said. “LSQ delivers the combination of technology, data and credit that companies need to unlock working capital, improve supply chain resiliency and build competitive advantage for their businesses — all of which are mission-critical priorities for a lot of buyers.”

LSQ is a market leader and pioneer in working capital finance and payments solutions. Learn more about taking control with the leading working capital platform, contact us.

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LSQ is a market leader and pioneer in working capital finance and payments solutions. For more than 25 years, LSQ has leveraged innovative technology, credit and risk expertise, and proprietary data that empowers thousands of businesses to optimize their working capital, automate and accelerate payments, manage collections, and mitigate risk. Every year, we accelerate billions of dollars in payments to businesses and their suppliers through our LSQ FastTrack platform to help them obtain the funds they need to grow and thrive. LSQ is headquartered in Orlando, Florida.

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