Supply Chain Finance Empowers Small Businesses

Maintaining steady cash flow is one of the toughest jobs that small business owners face. Since most small businesses operate on very tight budgets, they normally can't afford to deal with unwelcome financial surprises. Unfortunately late payments, equipment breakdowns, unexpected fees and taxes, and any number of other cash flow issues are a natural part of doing business.

One of the most powerful tools offered by financial institutions like Fifo Capital to help SMEs to tackle these kinds of cash flow interruptions is supply chain finance. More than any other kind of financing, it allows businesses to stabilise not only their own financial situation, but potentially also that of their partners, all while freeing up additional capital for growth.

Improved supplier stability

Serious cash flow interruptions can lead to production delays, quality issues, and ultimately a business' failure. When businesses try to protect their own cash flow by delaying outgoing payments, those struggling businesses often become your own suppliers. Those supplier issues can then lead to more trouble for your own business, and create even more unforeseen cash flow problems. Businesses need strong suppliers to succeed, which makes it their business to protect the interests of those suppliers.

Supply chain finance makes it easy to pay suppliers on-time by allowing businesses to draw from a separate investor-furnished credit fund. If a supplier is dealing with a cash flow issue, they can even request early payment in exchange for a negotiated discount. This allows businesses to ensure that suppliers have the financial stability they need to consistently provide top-notch service. Best of all, this support allows businesses to support suppliers without making financial sacrifices of their own.

The ability to defer outgoing payments as needed

SMEs can also use supply chain finance to directly deal with their own cash flow issues. Since outgoing payments aren't made directly from your business' own accounts, they don't immediately cut into your budget when invoices come due. In the event of a cash flow interruption, those funds can be applied to manage the problem, while the balance on your credit fund can be paid off at a later date.

Stronger business credit profiles

Beyond the direct benefit of having more stable cash flow, supply chain finance also gives businesses a major long-term benefit. To access other financing tools, particularly major loans to pursue large-scale expansion, businesses need a strong credit profile. This credit profile isn't as simple as a private credit score. Instead of simply evaluating your credit history, it uses your credit history, general information about your business, and your relationships with suppliers and financial institution to create a much more comprehensive picture of your business.

Using a third party credit fund means you'll likely always be able to make outgoing payments on time. This protects your contractual relationships, and, over time, helps to strengthen your credit profile.

Educating Clients about Supply Chain Finance

In addition to offering supply chain finance to their own suppliers, businesses can benefit greatly from suggesting its use to their own clients. Not only does it help to ensure that payments are made in a timely fashion, it can also have a major impact on a business' cash conversion cycle, potentially freeing up large amounts of capital.

A business' cash conversion cycle (CCC) is equal to the delay between the time that an investment is made, and the return on that investment is collected. For example, a business might need a total of 100 days to order supplies, produce its deliverables, deliver to clients, and collect payment. Without the use of any financing, the CCC is 100 days. If that business negotiates 30 day payment terms with its suppliers, and uses supply chain finance to defer payment another 60 days, the CCC drops to just 10 days.

At this point, the business has a lot to gain by convincing their clients to offer them supply chain financing as well. If they can negotiate with clients to have payments made 11 days early, the CCC drops to -1, meaning that they now receive the return on their investment before they need to pay off the costs associated with that revenue. All of the capital that was previously used to cover these expenses is now freed up for other uses, such as driving growth.

Of course, businesses whose clients refuse to use supply chain finance aren't necessarily out of luck. Other financing tools, like invoice financing, can similarly shorten a business' cash conversion cycle. By learning about, and sensibly applying financing options like these, businesses can do much to stabilise their businesses, and to become more competitive within their industries.

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