

Capital through invoice discounting

Invoice discounting platforms allow enterprises to make early payments to their suppliers at a discount

Over the last six months, businesses globally have been forced to navigate through uncharted terrain, where managing working capital has become critical for survival; this was followed by the biggest economic slump – brought on by the Covid-19 pandemic – since the Great Depression. In India, a recent Atradius report stated that over 55 per cent of large enterprises delayed supplier payments against pending invoices. The outbreak also exposed many inadequacies and inefficiencies in supply chains, such as archaic manual processes, long and delayed payment cycles, poor risk mitigation and weakened cashflows resulting in broken supply chains – a situation that has become even more aggravated in recent times.

However, on a positive note, the pandemic has fuelled digital adoption in supply chains which had been severely impacted operationally and financially. Businesses, earlier resistant to change, have now realised that digital adoption could have cushioned the Covid-19 impact.

Solutions that helped businesses

In order to ease cashflows in supply chains, large enterprises have to bridge cashflow gaps and create payment certainty. One way this can be done is by using invoice discounting platforms such as ours, which allows large enterprises to make early payments to their suppliers at a mutually negotiated discount using technology. With payments being deployed the same day, the cycle of liquidity begins once again with relative ease and minimal disruption, while taking advantage of the following benefits:

- ♦ Non-disruption of supply chain cycles. It's tough for suppliers to secure working capital funds from banks or financial institutions; they are, therefore, forced to source funds from the market at exceptionally high rates. Alternatively, they can request for early payments on certain unpaid invoices, simply by offering a discount. The latter seems a more viable option, as they get on-demand payments, thus fuelling their cashflows.
- ♦ Creation of economic activity. Instead of keeping funds idle, large enterprises can deploy them towards unpaid supplier payments. This, in turn, has an exponential effect, when looked at from a macro-economic point of view, wherein they inject liquidity in the supply chain ecosystem.
- ♦ Value erosion. The value associated with all unpaid invoices is low and, in order to ensure it stays intact, funds should be made available to



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SMEs/suppliers. This is possible when buyers or large enterprises make payments towards their unpaid invoices thereby ensuring the value of the money being paid is higher.

- ♦ High level of supply chain activity. Availability of working capital funds leads suppliers to fulfil their orders at a faster pace which, in turn, increases the overall activity in the ecosystem and fuels the economy.

Based on these benefits, it is evident that early payment of invoices through invoice discounting platforms helps SMEs to manage their working capital, make informed decisions and minimise the inevitable disruption caused by late payments. A recent survey reveals that nearly 34 per cent of SMEs are willing to take early payments in order to overcome gaps in their cash flows. This demand has ushered in the necessary automation, innovation and disruption for outdated manual systems.

Observations and predictions

The year 2020 has witnessed a massive surge in the adoption of digital payments technologies by businesses and consumers alike. However, access to working capital remained a challenge, hitting the overall macro economy hard.

As businesses gradually got back on their feet from July onwards, there has been a reduction in traditional payment methods, such as cash and cheques (reduction by 3 per cent in retail cheque payments). Migrating to digital platforms has helped them automate their payments functionality, right from creating and sending digital invoices and accepting payments. Thus, it is evident that businesses which weren't willing to switch to digital mediums earlier due to inertia, have now been forced to implement new automation methods.

As we get gear up towards a new year, I am sure that this wave of embracing digitisation and automation platforms for businesses will continue. A recent Cisco India SMB Digital Maturity Study 2020 highlights that 68 per cent of Indian SMBs seek to digitally transform and introduce new products and services, differentiate themselves from the competition and grow, while 60 per cent recognise that competition is transforming and they must keep pace. The study also states that digitalisation of small and medium businesses (SMBs) could add up to \$216 billion to India's GDP by 2024, thereby contributing to the country's economic recovery post-Covid-19. ♦

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