

Optimizing Accounts Payable in an Economic Downturn

Working capital strategies to drive your business forward

In an economic downturn — with working capital at a premium — freeing up trapped funds may be critical to meeting payroll, production and other day-to-day needs. Accounts payable can be an effective place to start.

Given the inefficiency of checks, it's vital to determine the optimal way to pay each supplier — whether it be supply chain finance, purchasing card, virtual card or ACH. Implementing these payment methods can help you cut costs, create float, generate new revenue streams and reduce manual work. This not only boosts your working capital, but it can also accelerate cash to suppliers who may be financially vulnerable during a slowdown.

While this may seem daunting, banks can actually do the hard work of analyzing a client's spending data, recommending the best way to pay each recipient, and offering an integrated "payments continuum" that bundles many electronic payment methods into a single, easy-to-use solution. Banks can also take the lead in persuading suppliers to move away from checks and accept these electronic methods.

Let's take a deeper look at how and when to use each part of the payments continuum.

Supply chain finance (SCF)

Also known as payables or vendor finance, SCF enables vendors to get paid faster by submitting invoices directly to the buyer's bank. The bank then pays the supplier a discounted amount once the buyer confirms the invoice, and the buyer pays the bank at the original payment term. This solution is best suited to situations where the supplier can take advantage of the buyer's stronger credit rating to reduce its cost of funds. Buyer benefits include the ability to significantly extend Days Payable Outstanding (DPO), a key measure of working-capital health.

SCF can take on increased importance in an economic downturn, and banks and government agencies are actively stepping in to support SCF liquidity. In the U.S., the Export-Import Bank (ExIm) has temporarily expanded its SCF guarantee program. As of March 25, 2020, ExIm has waived the requirement that 50% of suppliers be small businesses, as defined by the U.S. Small Business Administration. ExIm also now supports intercompany sales to buyers' foreign affiliates, and there is discussion about expanding ExIm's guarantee from 90% of the invoice value to 100%. These changes are designed to entice banks to extend more SCF to U.S. exporters.¹

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SCF in focus

Types of spend

- Strategic international and domestic suppliers

Benefits

- DPO extension
- Cost-of-goods sold reduction
- Enhanced supplier relationships

Virtual card

Switching invoiced spend for card-accepting suppliers to virtual card can cut costs, generate rebate revenue and extend DPO out to 55 days. Virtual card is like a commercial card without the physical plastic, and clients can trigger payments via batch, one-off requests or enterprise resource software. It can be ideal for procuring goods, services and travel while offering better spending data than checks, plus greater security since every transaction gets its own unique account number.

Purchasing card

Clients can get many of the same working capital benefits—extra float and rebate revenue, with less cost—by switching non-invoiced spend to purchasing card. Nearly 70% of suppliers already accept purchasing card, potentially making this an opportunity to get fast results.²

Here are some strategies for converting these suppliers away from checks:

- Reduce payment terms for card recipients
- Make card the preferred payment method in contracts and RFPs
- Create “preferred vendor” status for suppliers who accept card

Paymode-X® Connect

This business-to-business ACH network offers integration with more than 415,000 network suppliers and growing. With Paymode-X Connect—unlike standard ACH—buyers don’t need to obtain and store their suppliers’ sensitive bank account information. Paymode-X Connect lets clients use any type of file format, and it seamlessly integrates with many enterprise software systems.

With secure supplier onboarding and access to the robust supplier network, it’s possible to begin reaping these benefits quickly.

Conclusion

Optimizing accounts payable by analyzing spending data and implementing an integrated payments continuum is a best practice regardless of the economic cycle. It takes on new levels of strategic importance during a downturn, since the working capital benefits can be significant. Many suppliers already accept card, so it’s possible to quickly realize these benefits. Banks can help by diving deep into your data, identifying the optimal way to pay each supplier and persuading suppliers to move away from checks. Contact your BofA relationship manager anytime. We’re here to help.

Virtual card in focus

Types of spend

- Invoiced spend

Benefits

- DPO extension
- Financial incentives
- Reduced fraud
- Data reconciliation

Purchasing card in focus

Types of spend

- Non-invoiced spend

Benefits

- DPO extension
- Financial incentives
- Reduced costs
- Data consolidation

Paymode-X Connect in focus

Types of spend

- Invoiced spend for non-card suppliers

Benefits

- Secure supplier on-boarding
- Reduced costs
- Data consolidation



¹Export-Import Bank of the United States Fact Sheet, “EXIM temporarily expands supply chain financing guarantee program,” March 25, 2020.

²NAPCP and Accenture Supplier Acceptance of P-Card and ePayables.

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