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June 2023

Better Working Capital With B2B Spend Management

Embedded Finance Tracker® Series

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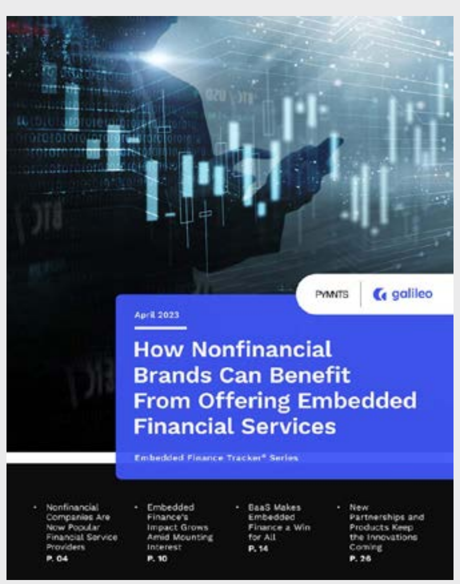
Read the previous edition



APRIL 2023

Embedded Finance Tracker® Series

What's Inside

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Acknowledgment

The Embedded Finance Tracker® Series is produced in collaboration with Galileo, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

Need to Know

Businesses Need Help Navigating Cash Flow

A troubled economy continues to take its toll on small to mid-sized businesses (SMBs), with only half of small business banking customers now considered financially healthy. Of the remainder, half are cash- or capital-constrained, and half are financially vulnerable. As a result, businesses are trying everything they can think of to stay afloat.

With six in 10 small businesses saying inflation is the biggest factor impacting their financial health, 11% are trying to lower business costs in response, according to a PYMNTS survey. Nearly one-third say the most important action they took to counter inflation was increasing their own prices. However, nearly two-thirds of SMBs in another study are setting their sights on cutting costs related to business-to-business (B2B) purchases in the coming year.

Businesses have been bracing for a recession and are looking for help navigating the challenges it brings.

38%

Portion of firms in professional services that have increased prices due to inflation

25%

Share of small businesses considered cash-constrained

25%

Portion of small businesses considered financially vulnerable

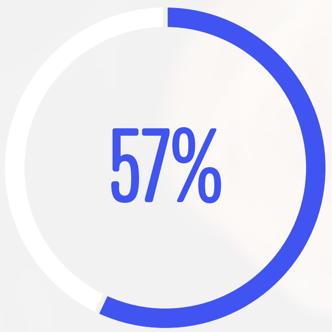
Need to Know

Late payments are adding to cash flow challenges.

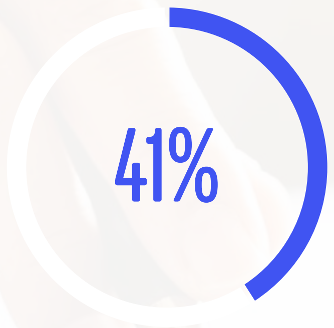
Adding to the stress created by the confluence of inflation, the drop in consumer spending and the increased cost of financing, many businesses face delays in processing receivables. Approximately 20% of businesses in the world are paid for invoices 90 days or more after issuance, and around 75% of SMBs recently expressed cash flow concerns related to overdue payments.

In some cases, tighter capital situations are revealing underlying vulnerabilities in cash flow management. Around one-third of SMB owners cited lack of access to business credit and critical financial products as exacerbating cash flow problems, and 70% said they were relying on personal credit cards to cover business expenses.

Lower cash reserves are revealing underlying vulnerabilities in SMBs' cash flow management.



Share of SMBs that currently say cash flow management is a problem



Portion of SMBs that said cash flow management was a problem pre-pandemic

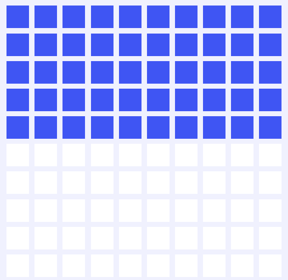
Need to Know

Companies know they need better tech.

More firms are seeking technological solutions to help deal with liquidity and cash flow. In 2020, almost 47% of surveyed executives had no plans to use advanced technology for liquidity management. That percentage has now fallen to just under 35%. During the same time, the portion of executives confident in their firms' cash and liquidity management capabilities fell from almost 85% to just under 80%.

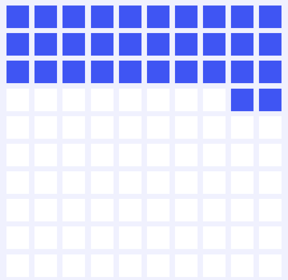
Almost half of organizations plan to focus on liquidity management in the next year. Thirty-two percent said their focus over that period will be cost-containment measures related to areas such as vendor contracts and staffing costs. Another 21% said they will focus on receivables, inventory and payables, while 16% are concerned with managing liquidity risk via better forecasting and tracking of cash flow.

Companies are looking to technology to save them from cash and liquidity management shortcomings.



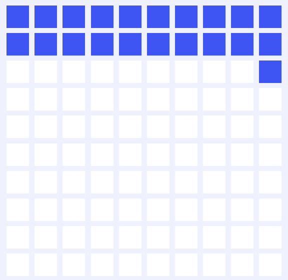
50%

Share of organizations planning to focus on liquidity management in the next year



32%

Portion of organizations focusing on cost containment



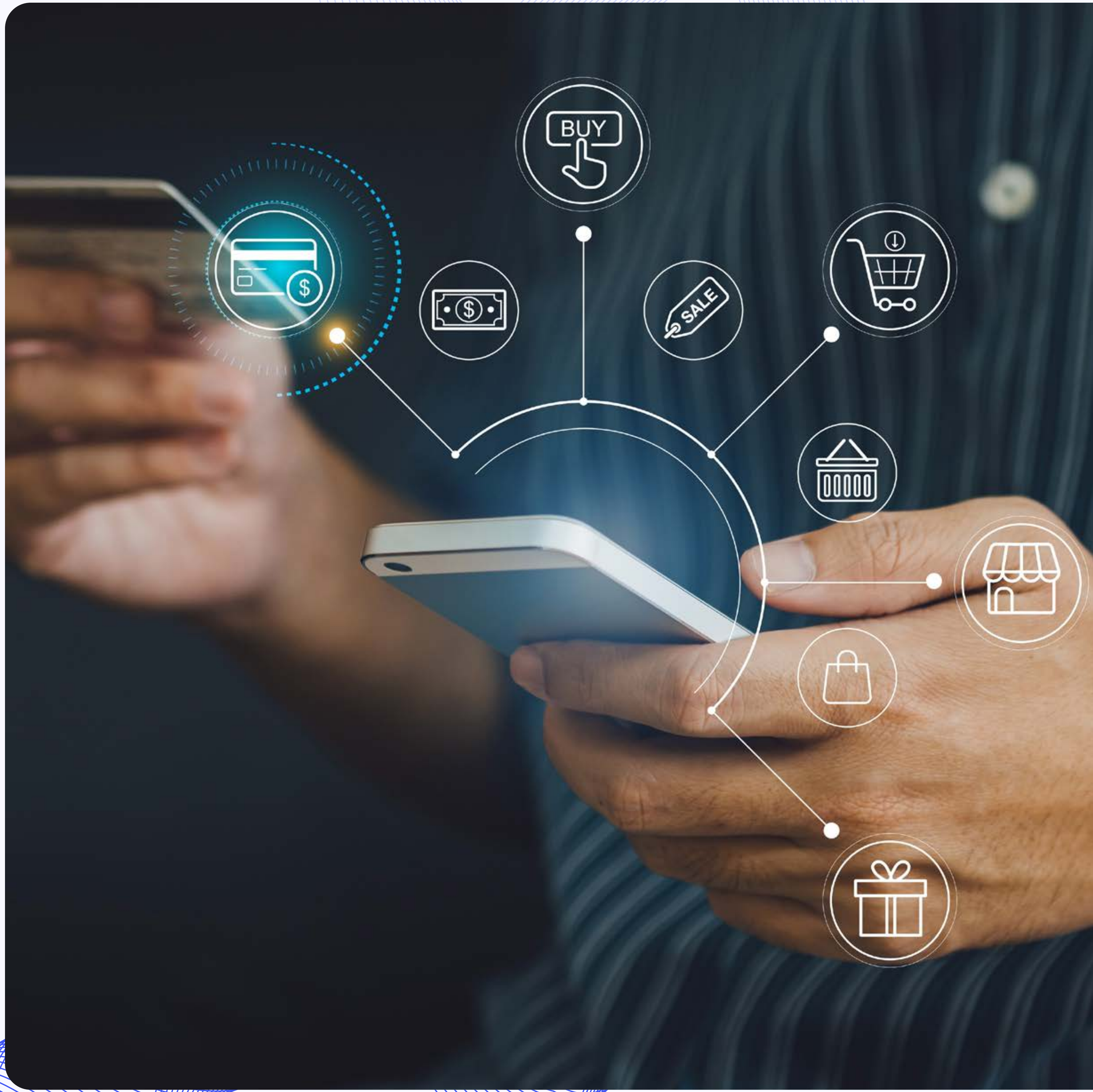
21%

Share of organizations focusing on working capital

News and Trends

SMBs Turn to Nontraditional Capital Solutions

Only 26% of Main Street SMBs surveyed said they can access the equivalent of 60 days' revenue, while 17% have no source of emergency funding. Forty percent of businesses said they rely on credit cards for emergency funding, and almost 31% said they use personal credit cards for business expenses. As loans from big banks become harder to find, 75% of SMBs say they are most likely to turn to digital-only banks for loans.



News and Trends

Late payments eat up resources as well

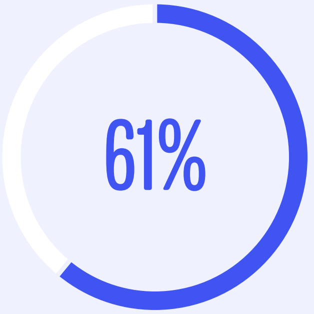
The cost to businesses of late payments is more than just dollars and cents. A recent study showed that, on average, European businesses are spending 29% of the working year just chasing down late payments. Forty percent of European businesses say they spend 10 hours or more every week pursuing those payments.

The annual cost to the European economy of late payments is estimated to be around €275 billion, or approximately $295.5 billion. That is more than the annual gross domestic product (GDP) of the entire nation of Finland.

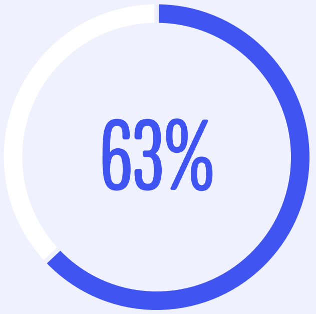
News and Trends

SMBs face procurement challenges

SMBs are looking for ways to cut procurement expenses, and 61% of surveyed companies said they will try to reduce costs related to B2B purchases in the coming year. At the same time, business owners are also seeking greater efficiency in their procurement processes. Thirty percent of respondents said that supply chain disruptions are still a problem and pose the greatest challenge to their businesses, compared to 39% who cited the potential for a recession and 63% who cited inflation.



Share of surveyed businesses that said they will look to reduce B2B purchase costs in the next year



Portion of surveyed businesses that said inflation is the biggest challenge they face

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PYMNTS Intelligence

Technology Is Yielding Better Working Capital Results

Businesses have turned to a number of potential solutions to address cash flow. In the United States, 60% of SMBs in one study said they have implemented real-time payments solutions to reduce the turn-around time between incoming and outgoing payments. In addition, another study found that 81% of healthcare companies and 67% of finance and insurance businesses have plans to invest in real-time payments.

Companies are also backing up faster payments capabilities with the software and hardware needed to keep them running smoothly. Forty-eight percent of CFOs said their companies have invested in digitized working capital programs, and 77% of companies that made such investments reported improvements as a result.

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PYMNTS Intelligence

Companies want solutions that address everything

Businesses are increasingly looking for all-in-one platforms — centralized digital systems that incorporate accounts receivable (AR) and accounts payable (AP) into a single interface. Sixty-seven percent of those expressing interest in an all-in-one AR/AP solution said they would be at least somewhat likely to accept transaction fees of 1% or less. Forty-one percent said the same if transaction fees were below 2%.

This willingness to pay for such solutions may make sense in relation to overall cost savings. Forty-one percent of SMBs reported high costs already associated with B2B payments, and 28% cited cash flow visibility as a problem in both AP and AR processes.

Most SMBs would be willing to pay more for platforms that handle both AP and AR

67%

Portion of SMBs at least somewhat likely to pay 1% transaction fees for an all-in-one solution

41%

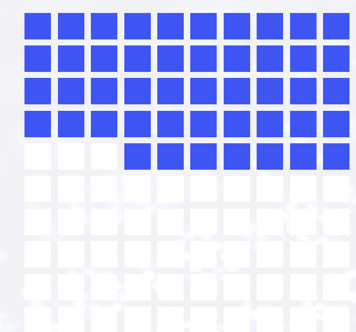
Share of SMBs at least somewhat likely to pay 2% transaction fees for an all-in-one solution

PYMNTS Intelligence

Automation streamlines and reduces errors

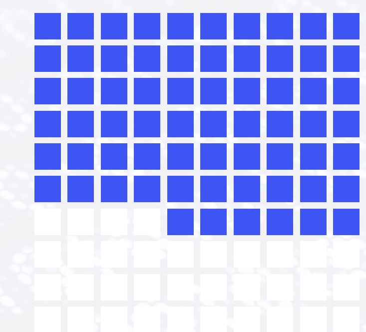
There are clear advantages to automation, as it not only keeps better track of accounts but also speeds processes, thereby driving significant efficiencies — and often even direct savings. While less than half of all surveyed software-as-a-service (SaaS) companies reported receiving early payment discounts from suppliers, two-thirds of those with non-payroll spend management said the same.

Another survey of companies investing in AP automation showed that 98% will improve the speed of AP processes. There are other benefits as well. For example, 91% will be able to pay vendors in their local currencies following automation, and 90% are expected to see better payments visibility and transparency.



47%

Portion of all SaaS companies that received early payment discounts



in the past year

66%

Share of SaaS companies employing AP automation that received early payment discounts in the past year

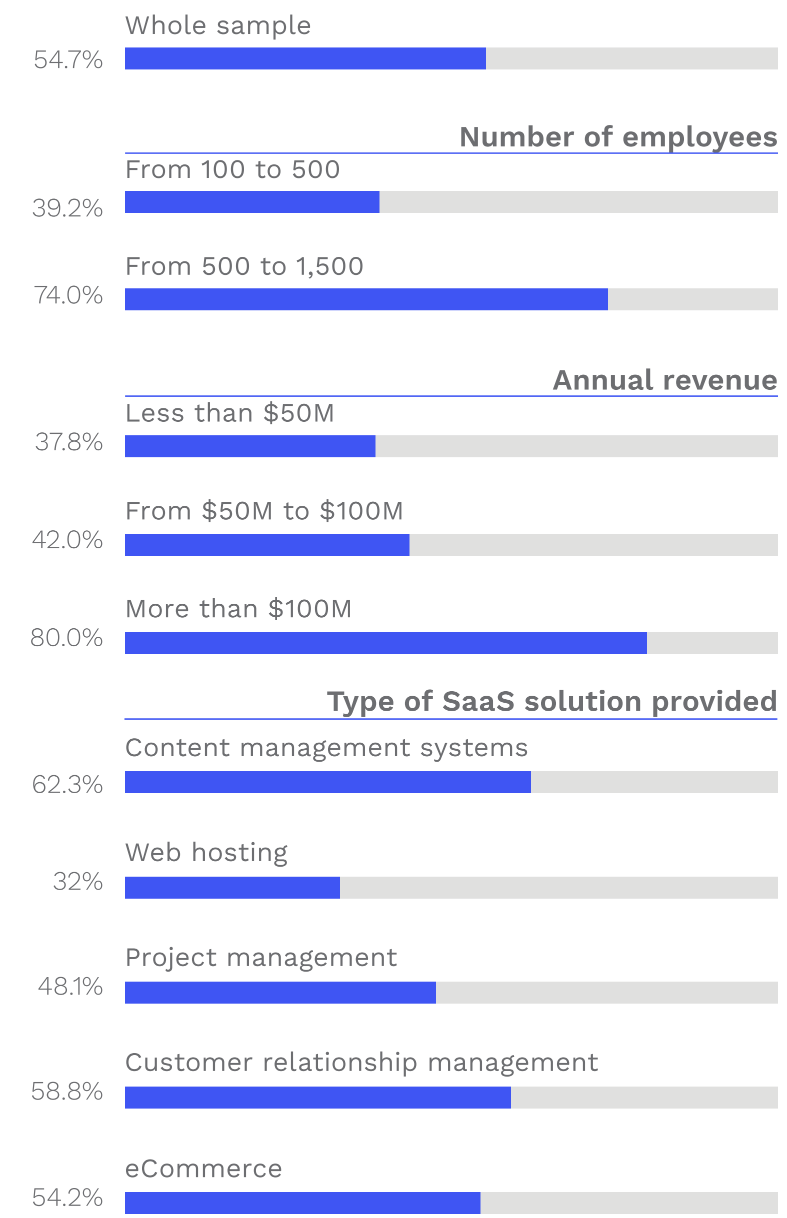
Chart of the Month

Larger Firms Are Already More Invested in Automation

Larger firms are likelier to employ automation in their non-payroll spend management. Among surveyed SaaS firms in a recent PYMNTS study, 55% overall use automated systems to manage non-payroll spending. However, only 40% of firms with 100 to 500 employees use automation, compared to 74% of firms with 500 to 1,500 employees. In the same vein, companies with annual revenue of more than $100 million were around twice as likely to use automation as companies making less than $100 million.

SaaS firms' interest in automating non-payroll spend management

Share of SaaS firms already using an automated system to manage non-payroll spending, by business demographic



Source: PYMNTS
The Financial Performance Quandary, September 2022
N = 225: Complete responses, fielded May 18, 2022 – June 6, 2022

Insider POV

Automation and Timing: The Benefits of Investing in a Down Economy

ISAAC ITZKOWITZ
Founder and CEO

globalrewards

"Instead of saying, 'Now's the time to look at automating your process,' 'Now's the time to build the technology that you need when the market comes roaring back,' people are very much scared. ... I think when the economy is down and people are not spending is your time to build."

PYMNTS interviews Isaac Itzkowitz, founder and CEO at Global Rewards, about the current economy's impact on cash flow and how companies can watch their bottom lines while still planning for the future.

Current economic conditions have almost everyone concerned about cash flow, regardless of whether they have problems with it. Itzkowitz said he has perhaps encountered only a single client in the past 90 days for whom cash flow is not a priority. However, that does not necessarily mean that all those businesses are struggling. Rather, expectations that they will need to have cash on hand to weather economic uncertainty are driving many companies to tighten their belts. Itzkowitz said this is reflected in how little has been invested by venture capital and private equity firms so far this year.

Insider POV

Transparency and visibility in spend management is a core part of ensuring that companies are getting the most out of their cash flows. Some companies may be focused primarily on future goals if they are just starting out or building further. For those that are sustaining, however, the bottom line is king, Itzkowitz said. Squeezing even a few percentage points out of cash flow can make a big difference in the long term. At the same time, scaling back or cutting costs is not always the best way to get there. In fact, economic downturns are often the best time to be building and looking for opportunity.

Investing in technology can be a challenge for smaller firms but is often even more beneficial than for larger firms. Itzkowitz said that habit and cash flow may impede some smaller companies from investing in automation or other technology. If a process is not obviously broken, a small business is particularly unlikely to try to change it because it simply has too many other things that feel like bigger priorities. However, implementation may be easier and the resulting savings may be more impactful for those small businesses. A smaller business may have only a single person affected by automation, but automation can also multiply the effectiveness of that one person in an outsized way.

Automation simplifies or eliminates frustrating steps without adding complexity. Following the outbreak of the pandemic and the move to remote work, it became more obvious how much time and effort was wasted on processes such as chasing down employee receipts, Itzkowitz said. Companies take no more joy out of harassing employees than employees do out of repeatedly being asked for their receipts. Firms are also faced with few options to incentivize, such as locking down company cards, that do not interfere with employees doing their jobs. Automation removes friction from reconciling and takes work hours out of the equation.

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Insider POV

Spend management technology is becoming table stakes in every industry. In the past few years, all types of industries have seen significant moves toward automation. Even industries that had been long dependent on archaic processes began to learn about application programming interfaces (APIs) and systems integration. As that becomes more common, it will be a real line item for businesses across the board. What was "gravy on the top" is going to become essential. Itzkowitz said he does not know whether it is true that every company will become a payments company, but there will be automation to put into every single component of how a company runs.

A down economy is the time to prepare for the eventual comeback.

A tight economy calls for better spend management, regardless of cash situation.

Smaller firms may actually have more to gain from automation.

Spend management technology is becoming table stakes across industries.

Companies to Watch

Providers Prioritizing Spend Management for Clients

Fyle

Mueller dotKonnect (MdK) has partnered with Fyle Inc. to provide the backbone for automated expense reporting and credit card reconciliation for businesses of all sizes. The comprehensive spend solution incorporates analytics with management software.

OneStream

Corporate performance management solution provider OneStream is working with Coupa to automate and streamline business spend management. The resulting platform will be designed to scale easily for different clients as well as accommodate growth.

Payhawk

British FinTech PayHawk recently launched a spend forecasting and management guide intended to help its clients increase their financial awareness and make financial decisions. The guide covers challenges, obstacles and strategies for accurate forecasting.

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What's Next

Business Spend Management Market Value to Double by 2030

The value of the global business spend management market is expected to more than double in less than a decade. The market's value in 2023 sits at $21.08 billion, but it is expected to reach $46.42 billion by 2030, exhibiting a compound annual growth rate of 11.9% over the forecast period of 2022 to 2030. The projected growth is based on factors such as increased adoption of cloud-based artificial intelligence (AI) solutions as well as interest in optimizing supply chain management using speed analytics.

"Companies have long been aware of the financial benefits of increasing efficiencies around B2B payments and improving cash flow management — though actually accomplishing those goals has been quite difficult, historically. But now, firms of all sizes have access to an unprecedented array of tools that leverage digitization and automation to help them optimize those processes — thereby reaping direct financial savings and more valuable time to devote to managing and growing their business."

AARON BRIGHT
Head of B2B

galileo

About

PYMNTS

PYMNTS is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

galileo

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