Integrated and insightful: The future of receivables finance

Financing receivables is a fast, efficient way to release cash - but choosing the right provider matters.

Working capital for challenging times

These are turbulent times for the leadership of multinational enterprises. Just as the worst effects of the pandemic begin to recede, fresh challenges are emerging.

The IMF expects global growth to moderate from 5.9 in 2021 to 4.4 percent in 2022[1]. Increased energy prices and supply disruptions have resulted in the return of inflation in the United States and many other economies.

Navigating this uncertain landscape may call for caution - but also for a readiness to seize on opportunities for growth, whether organic, or through acquisitions.

Against this background, the corporate treasurer's responsibility to manage cash effectively is yet more significant. Liquidity is the key to success, whether to fund growth through an opportunistic acquisition or to provide a defense against uncertain trading conditions.

Using all the levers

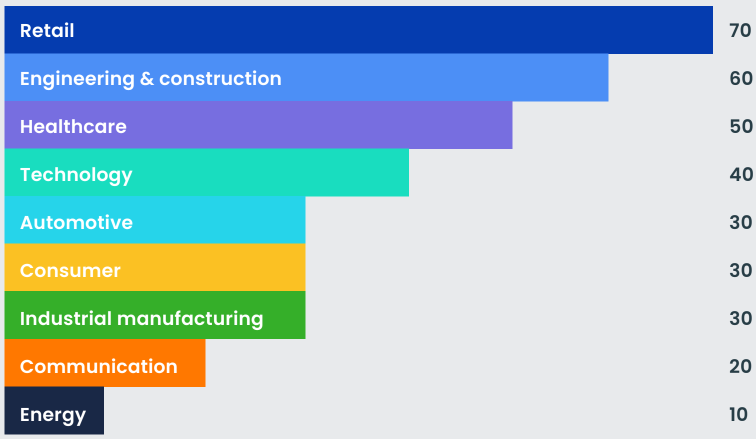
The savvy CFO was already tightening up on working capital during the latter days of the pandemic by stretching payment terms: Days Payable Outstanding (DPO) was up by 7% year-on-year in 2021, according to data from PwC[2].

This has a knock-on effect further down the supply chain: that same PwC study shows Days Sales Outstanding (DSO) was also up by 7% over the same period. Quite simply, companies have to wait longer to get paid. While the pandemic has been a major disruptor to global business, it certainly will not be the last, and continued uncertainty regarding cash flow can be highly damaging to working relationships.

Refusing to offer the longer credit terms demanded by more significant customers can put a business at a serious competitive disadvantage. The challenge for CFOs and treasurers is how to maintain liquidity when customers are paying later?

BPS improvement in ROIC through eliminating excess Working Capital

Globally, it is estimated that corporates have over **USD $1.3tr** net working capital trapped, predominantly in receivables. Release this, through a receivables finance program, would bring an industry average improvement of **30bps on ROIC**.



Source: PwC Working Capital Report

[1] Rising Caseloads, A Disrupted Recovery, and Higher Inflation, IMF, January 2022
[2] PWC Working Capital Study 21/22

Why receivables finance?

Accounts Receivable (AR) finance is one way to square this circle. An AR financing program can unlock working capital, reduce days of sales outstanding (DSO) and shorten the cash conversion cycle.

Traditional AR financing frees up cash by allowing businesses to sell invoices to funders (usually banks or other financial institutions) for early payment. It's a crucial lever for reducing DSO and lessens the impact of lengthier payment terms imposed by customers.

Moreover, Net Working Capital (NWC) is now widely considered to be one of the most useful return levers for CFOs, and by managing and financing receivables in an effective manner it has been estimated that a CFO should expect to see an industry average improvement of 30bps on Return on Invested Capital (ROIC).

It's no surprise, then, that use of AR financing is growing. Data from the trade body FCI suggests a global factoring and receivable finance industry volume of around US$ 3 trillion[3]. This means that some form of receivables finance covers more than 15% of international trade.

The Taulia difference

Not all AR finance is the same. While a corporation's primary banking provider was often the first port of call in the past, the market is changing. Companies like Taulia offer receivables financing as part of a modern Working Capital Management platform that gives a panoramic view of all the working capital levers available to a CFO or treasurer to effectively manage their NWC position, not just AR. This new breed of AR finance is very different from its predecessors.

Many older receivables finance offerings come with built-in drawbacks: They often require multiple bilateral Receivables Purchase Agreement (RPA) documents, with different ones for each funder; They may be limited in terms of the range of funding available, and they can be difficult to administer - many bank programs are administered on a spreadsheet rather than on an integrated platform.

Fortunately, today's treasurer has a broader choice of providers than ever before. Taulia's receivables finance program:

1. Can be an effective tool in releasing cash
2. Often costs less than traditional bank lending
3. Requires just one agreement to open up a wide market of liquidity, rather than multiple agreements with several banks
4. Does not affect the company balance sheet, if properly structured
5. Is integrated with a best-of-breed Working Capital Management platform, which offers clear visibility of incoming and outgoing cash across the organization

Before committing to a receivables finance program, then, it pays to be sure that you're getting the best possible solution. Let's dive a little deeper into some of those points.

[3] Global Factoring Statistics, FCI, 2020

1 A fast, effective way to release cash

There are times when releasing cash quickly can change how investors and other stakeholders view a company. For example, at the end of an accounting period, the ability to boost cash without carrying additional borrowing on the balance sheet can be a game-changer.

Accessing the cash locked up in Accounts Receivable is a way to boost liquidity fast. Rather than awaiting payment for invoices, a company can make full use of all its assets (current and owed) whenever it wants.

2 A wider range of funders

Often, the first port of call for receivables finance is the company's primary banking provider. Yet existing limits can prevent the AR finance program from reaching its full potential. With little competition for the business, there's scant incentive to offer the best rates.

With Taulia, corporates have access to multiple funders for a diversity of funding sources and the best available rates. Taulia has a network of local and international funders with an appetite for a wide range of assets.

We work seamlessly with relationship banks, second-tier and non-bank FIs to open up new and enhanced liquidity sources to provide the greatest availability of capital at the most competitive price in each jurisdiction.

AR finance in action

A water company bills its clients after the clients receive their water. The water company's accounts receivable department records the money owed for unpaid invoices as an asset on the balance sheet as it waits for customers to pay.

If the water company needs a working capital boost, AR finance would enable them to borrow money against the value of their accounts receivable (or, more likely, against a portion of their accounts receivable).

This would allow them to start to use the money they know they will be receiving when outstanding invoices are settled, when they can then settle their accounts receivable agreement.

3 A single agreement

In the past, one drawback of using multiple funders for an AR finance program was complexity. Having numerous bilateral agreements and individual agreements with different banks is, at best, cumbersome and, at worst, a significant drain on time and resources.

Treasury teams must keep track of all the requirements and covenants those agreements contain, which might lead to accidental conflicts, resulting in errors or terms violations.

Taulia's AR Financing solution requires just one agreement while still offering access to financing from multiple banks or other funders. The manual 'overhead' is lower, reconciliation becomes more manageable, and the potential for errors or conflicts is significantly reduced.

4 Kind to the balance sheet

Hitting key metrics, especially at the end of a fiscal period, is a career-enhancing achievement for treasurers and CFOs alike. Companies that outperform can access capital at more favorable rates. Carrying too much debt on the balance sheet can change the picture for the worse.

Taulia offers True Sale Receivables Finance, taking ownership of the assets rather than lending against them, so the AR Financing program doesn't appear as debt on the company balance sheet.

5 Integrated and Insightful

A receivables financing program that has been built up with multiple banks won't offer a comprehensive view of the cash-to-cash cycle. Data is often buried in spreadsheets and can't easily be viewed as part of the whole working capital position of the organization.

By contrast, Taulia's platform offers an integrated view of payables, inventory, and receivables across the business, supporting more informed decision-making. Receivables finance is just one part of the working capital picture. Only by seeing it alongside other working capital 'levers' can a company properly control its cash position.

For example, liquidity raised through a receivables finance program can be used to fund a dynamic discounting program, offering early payment to suppliers in return for a discount, reducing the cost of goods sold (COGS)—this form of 'treasury arbitrage' contributes directly to the company bottom line.

Looking to the future

While we have looked at AR Financing as a tool to release cash to deal with unpredictable market conditions, there's no need to wait for hard times to consider using this important working capital lever. Economic shocks come and go, but the need to optimize working capital is a constant.

Companies that get this right typically have better financial performance overall. A Boston Consulting Group study[4] found that the better a company's net working capital (NWC), the better its return on capital employed —an increasingly important measure of how efficiently companies utilize their invested capital.

AR Financing is one of the fastest ways to improve NWC and one of the easiest to implement - *if* the right provider and platform are selected.

Where older AR financing solutions came with caveats, the new generation of AR Financing offers a fast, effective, and trouble-free route to optimizing working capital without impacting the balance sheet.

[4] Boost Business Resilience by Improving Net Working Capital, Boston Consulting Group, 2019

Time to talk to Taulia

When you are ready to release the cash in your accounts receivable, talk to Taulia. We can outperform banks on efficiency and other fintechs on scale because we have access to deep global liquidity reserves and risk appetites that are broader than those of legacy institutions.

And, with our best-in-class platform delivering sophisticated, flexible, and efficient capital allocation – whatever your needs – we provide a tailor-made solution to your financing requirements.

Further information

Accounts Receivable (AR) Financing Solution | Taulia Supplier