WHITE PAPER

Who really wins when SMEs extend trade credit?

Overview

Extending trade credit is a common business practice across the globe — 39% of B2B sales in the United Kingdom are made on credit[1]. Often easier to obtain than bank credit, offering payment on extended terms can improve customer relationships and may lead to increases in purchases.

Despite its widespread use, credit management is rarely considered a core business function and investments in people and infrastructure are made accordingly[2]. Sidelining credit programs may come at serious cost — 50,000 small businesses in the UK close every year due to cash flow problems[3].

In this whitepaper, we will explore the credit landscape in Western Europe today, and consider ways to use innovative new credit programs to decrease costs, mitigate risk and increase sales for business-to-business enterprises in the future.

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[1]https://group.atradius.com/publications/payment-practices-barometer-uk-2018.html

[2]https://core.ac.uk/download/pdf/156784956.pdf

[3]https://businessadvice.co.uk/tax-and-admin/invoicing/average-small-business-owed-late-payments/

Reasons why sellers offer trade credit

When sellers offer trade credit, they send a signal to buyers that they are financially sound. Payment on terms also gives buyers an opportunity to receive and inspect purchased goods before payment is due. In turn, sellers can offer discounts to buyers for paying invoices early.

When buyers pay early, they signal to the seller that they are financially sound. This information exchange can be used to determine future credit terms.

The deep relationships between buyers and sellers combined with transaction histories allow sellers to offer trade credit at a lower cost to buyers than bank financing. Buyers may buy more on trade credit than they would if paying in cash, and sellers can lengthen payment terms to effectively reduce the price of goods sold. Additionally, many small businesses depend on trade credit in order to scale and grow.

Risks of Extending Trade Credit

Offering trade credit does not come without risk. According to Atradius, 41.8% of B2B invoices in Western Europe are past due, and almost half (48.7%) of invoices in Great Britain are past due[4]. Small businesses in the UK are owed an average of £24,841[5].

One cause of delinquent payments: big firms who intentionally delay payment to capture float or support their own business interests. This behaviour can have devastating consequences for SMEs. For example, a 30-day delay in payment by Wal-Mart decreases capex for a Wal-Mart supplier by 1.2%[6].

Small businesses employ almost half of the workforce in the UK, and economic growth depends on their success. Unfortunately, almost 60% of all UK businesses felt the effects of unpaid invoices in 2018. Nearly 20% delayed payments to their own suppliers due to late payments, and 13% reported lost revenue[7].

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[4]https://group.atradius.com/publications/payment-practices-barometer-uk-2018.html

[5]https://www.xero.com/blog/2018/11/cash-mountain/

[6]https://drive.google.com/file/d/1HpWQR7ueDB6gWXSUyyZF-44ywnby18UJ/view

[7]https://group.atradius.com/publications/payment-practices-barometer-uk-2018.html

Trade Credit Insurance

SMEs in Western Europe frequently purchase trade credit insurance to protect themselves from non-payment. Trade credit insurance for most enterprises ranges from 0.15% to 0.3% of insurable turnover[8]. However, these rates may rise as the trade credit insurance industry faces pressure from changes in the risk landscape and increasingly volatile markets[9].

Despite the safety net trade credit insurance can provide, policies are often rife with exclusions and limitations that can make navigating the policy difficult and time consuming. Foreign accounts are typically not covered, and policies may include per loss deductibles in additional to annual deductibles.

For SMEs who want to offer trade credit to customers and enjoy some of the protections provided by trade credit insurance, without the red tape, TreviPay is an important tool.

TreviPay is a B2B payments alternative that marries traditional B2B credit processes with today's digital advancements for a frictionless purchase experience.

TreviPay Solution

TreviPay extends white label credit to buyers on behalf of sellers. The cloud-based solution offers instant onboarding and automatic credit underwriting up to £190,000. TreviPay owns the receivables and the associated risk. SMEs receive payment from TreviPay in as little as 48 hours. TreviPay makes it easy for buyers to make purchases and sellers to receive guaranteed payment.

In a region where half of all B2B invoices are past due, TreviPay can have an immediate impact on cash flow. Moreover, TreviPay reduces costs from billing errors and allows sellers to mitigate risk without purchasing complicated trade credit insurance.

[8]https://rowlands-hames.co.uk/how-much-does-credit-insurance-cost/

[9]https://www.globalbankingandfinance.com/credit-insurance-industry-to-face-biggest-challenges-for-a-decade-in-2019-tinubu-square-predicts/

How TreviPay Works

TreviPay easily integrates with eCommerce platforms and ERPs to allow for online invoicing at checkout, an important factor in Great Britain where 73% of B2B businesses already use e-invoicing, the highest rate in Western Europe. Two-thirds of respondents to an Atradius study believed online invoicing led to faster payment[10].

TreviPay isn't exclusive to eCommerce. Omni-channel sellers can use TreviPay to consolidate purchase data across all available buying channels. Analysing all buyer behaviour in one place allows sellers to discover actionable insights to increase sales. For example, suppliers can implement dynamic pricing or suggest new products based on past purchases.

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The Payment Flow

Step 1

Buyer Qualification & Onboarding

An easy, transparent, real-time process.

Step 2

Omni-channel Supported Transactions

For purchases from an eCommerce site, a marketplace, through a salesperson, in-store or through a customer support representative.

Step 3

Authorization

TreviPay's technology will approve it based on the customer's available credit and validate it's the correct contract price.

Step 4

Settlement

TreviPay pays the supplier less the transaction fee based on the settlement terms with that supplier.

Step 5

Billing & Invoicing

TreviPay then invoices the buyer based on contract terms. Daily, weekly, bi-monthly or monthly invoices can be produced.

Step 6

Buyer Payment

The buyer pays TreviPay on its agreed terms for the supplier.

[10]https://group.atradius.com/publications/payment-practices-barometer-uk-2018.html

About TreviPay

TreviPay is a global B2B payments company, facilitating $6 billion in transactions per year in 18 currencies for customers in more than 27 countries. We specialize in payment and credit management for B2B companies across the globe, setting the stage for the future of omni-channel B2B payments by extending terms, handling invoicing and managing collections.

Contact Bryan Glazier to discover how your organisation can benefit from TreviPay.

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