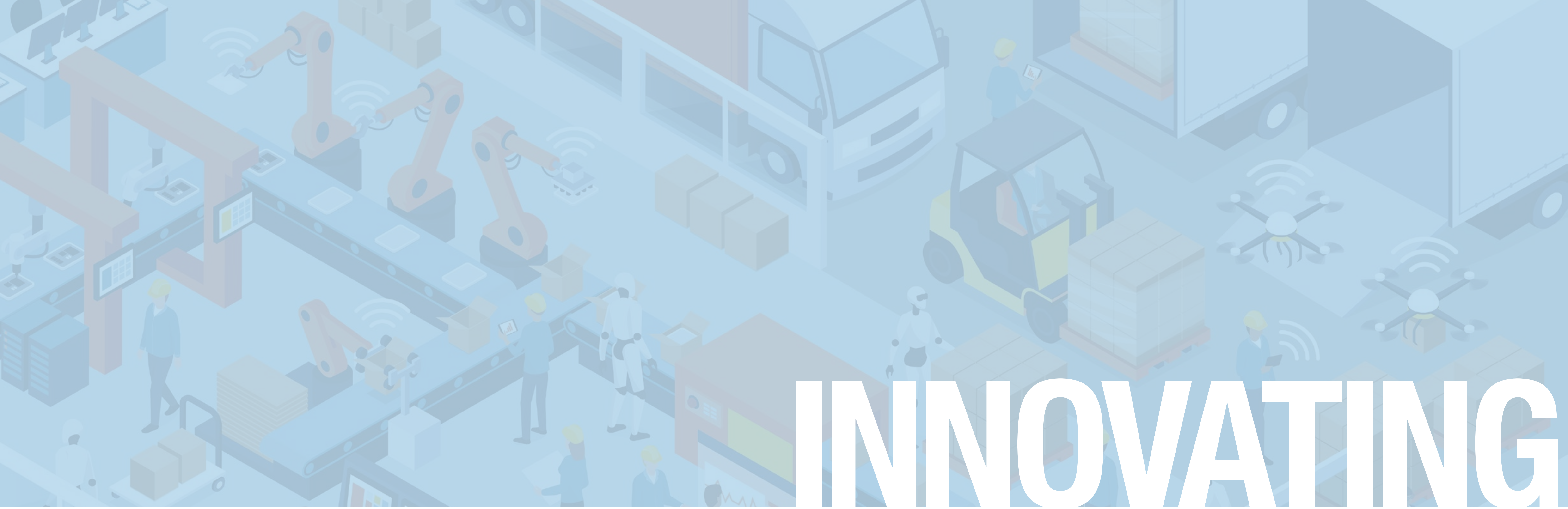

INNOVATING ORDER TO CASH PLAYBOOK

The Innovating Order To Cash Playbook: Putting Manufacturers And Distributors In Control Of Their Cash Flows, a PYMNTS and MSTS collaboration, highlights how innovations like order-to-cash solutions are changing manufacturing and enabling more seamless transactions between buyers and manufacturers.

PUTTING MANUFACTURERS AND DISTRIBUTORS IN CONTROL OF THEIR CASH FLOWS

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DECEMBER 2019

INNOVATING ORDER TO CASH
PLAYBOOK

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The Innovating Order To Cash Playbook was done in collaboration with MSTS, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

Businesses form relationships with hundreds — if not thousands — of partners over time. Each trading partnership consists of a delicate balance of inherent payables and receivables dynamics. Suppliers get paid, buyers are happy and manufacturers move products when things go well, but a cascading ripple effect is felt across the entire supply chain when frictions arise. A lack of timely visibility into those payment flows has serious consequences on distributors' cash flows, the ability to replenish inventory as needed and, ultimately, the ability to maintain productive and healthy trading partner dynamics.

This is particularly problematic for manufacturers that use distributors to get products into end users' hands, have their own ambitions to go direct and are tapping new channels to do so. Understanding and managing conventional buyer-supplier dynamics is a challenge itself — especially as commerce moves across borders and into new channels, forcing manufacturers and their wholesalers to adapt to new payment preferences. Legacy systems are becoming increasingly ill-equipped to accommodate this more dynamic and digital order-to-cash (O2C) cycle. Traditional invoicing, payment terms and credit relationships with buyer endpoints must move beyond the paper- and terms-based manual systems that were once good enough to get business done when these manufacturers go direct through online operations, for example.

Improving O2C requires that manufacturers, distributor partners and end users have more streamlined and transparent processes for dealing with this new dynamic flow of payments and the delivery of services. O2C involves the management of payment flows from the moment an order is received — in this case, by the manufacturer — and its invoice is created to when that invoice has been paid by the distributor or end user, in a direct-to-customer (D2C) model.

A new generation of O2C solutions is helping manufacturing firms and distributors operate in more efficient ways, leveraging technology and data to improve trading partner dynamics to unlock new payment flows and boost top-line growth. Technology- and data-optimized O2C flows can accelerate payments to manufacturers while giving distributors additional options through which to effectively manage their cash. Digital O2C processes can improve onboarding, too, and are particularly important as manufacturers go direct to new sets of buyers. They can also be used to establish purchasing controls, simplify payments initiation within pre-agreed terms, assist firms in adapting to and anticipating new purchasing flows and accelerate the journey from ordering from suppliers to paying them.

The new Innovating Order To Cash Playbook: Putting Manufacturers And Distributors In Control Of Their Cash Flows edition, a PYMNTS and MSTS collaboration, explores how innovations in outsourced receivables management — including Credit as a Service® (CaaS) solutions — can help businesses use integrations with receivables management, enterprise resource planning (ERP), point-of-sale (POS), customer relationship management (CRM) and eCommerce systems to focus on their expansion efforts, offload time-consuming processes such as underwriting and identifying credit risk. These integrations can essentially build and strengthen more seamless manufacturer, distributor and end-buyer relationships and enable omnichannel sales experiences.

The inaugural Playbook centers on cash flow challenges in the United States' $2.4 trillion manufacturing sector, which currently accounts for 11 percent of the nation's gross domestic product (GDP).[1] Recent data indicates U.S. manufacturing has been hit particularly hard by the ongoing trade war with China, with the Federal Reserve warning earlier this year that the sector had entered a "technical recession" during the first half of 2019.[2]

CaaS solutions can help these businesses better manage cash flows by extending risk-free lines of credit and automating manual AR processes. Improved cash flow means manufacturers can more easily pursue expansion plans and focus on reaching additional customers, efficiently building their products and transitioning into D2C sales apparatuses.

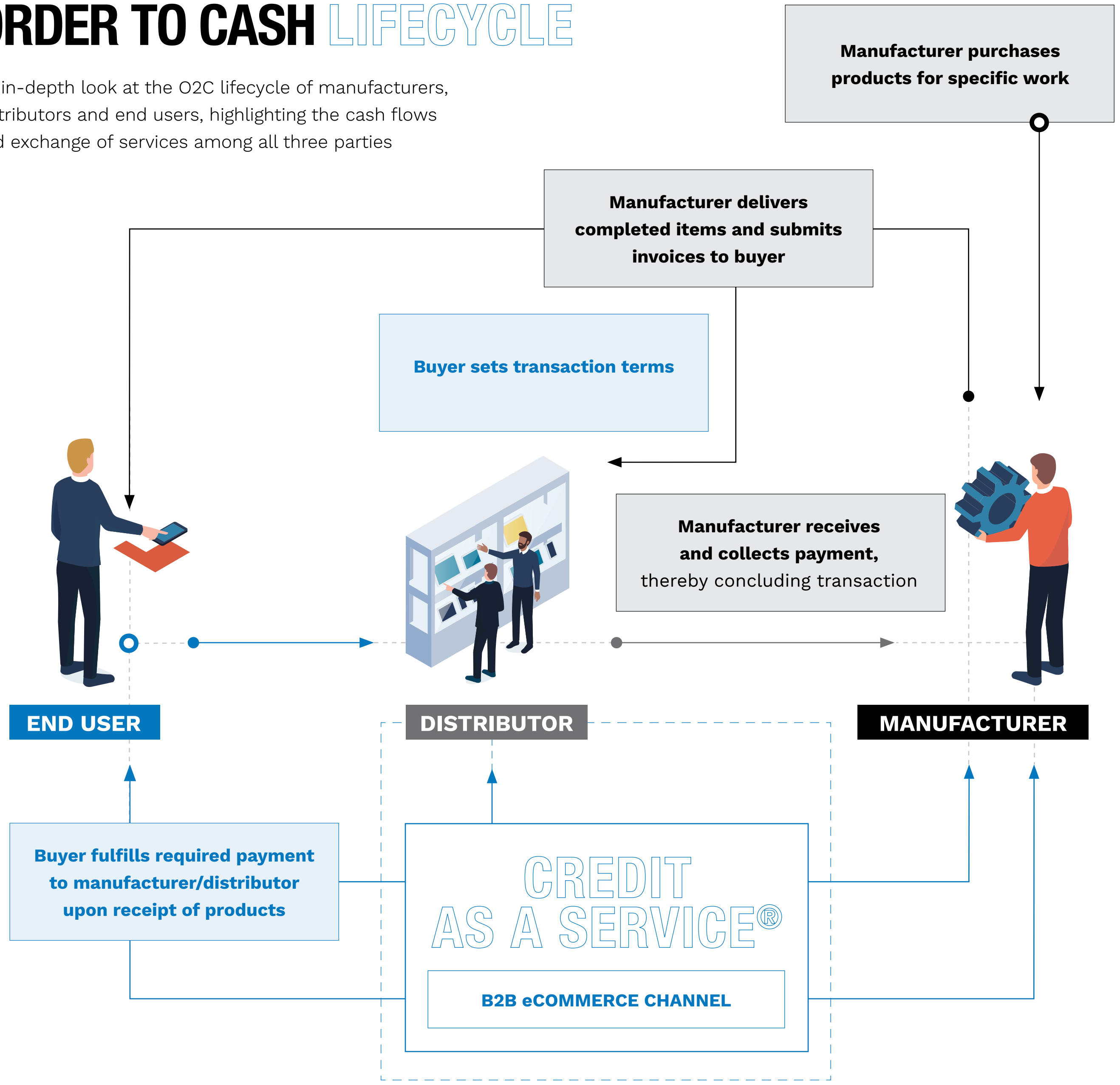
[1] Brown, A. The state of American manufacturing 2019. The American Society of Mechanical Engineers. 2019. https://www.asme.org/topics-resources/content/state-of-american-manufacturing-2019. Accessed December 2019.

[2] Long, H. U.S. manufacturing is in a 'technical recession.' How worried should we be? The Washington Post. 2019. https://www.washingtonpost.com/business/2019/07/25/us-manufacturing-is-technical-recession-how-worried-should-we-be/. Accessed December 2019.

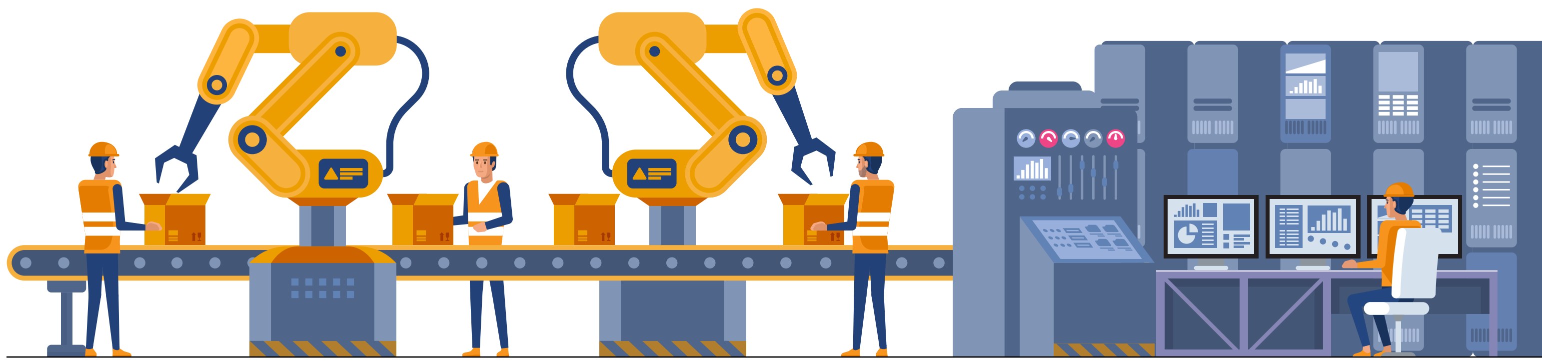
UNDERSTANDING THE MANUFACTURER-DISTRIBUTOR O2C LIFECYCLE

MANUFACTURER-DISTRIBUTOR ORDER TO CASH LIFECYCLE

An in-depth look at the O2C lifecycle of manufacturers, distributors and end users, highlighting the cash flows and exchange of services among all three parties



INTEGRATING O2C SOLUTIONS WITH CRM, eCOMMERCE, ERP AND OTHER BACK-END SYSTEMS CAN HELP MANUFACTURERS **BETTER UNDERSTAND THE NEEDS OF BUYERS.**



UPGRADING THE ONBOARDING PROCESS

The process by which manufacturers and distributors receive goods and payments in a timely fashion is vulnerable to frictions that can begin with onboarding. Each onboarded buyer must set its purchasing expectations, allowing sellers to assess how and when they will be paid. Each party must also ensure it is compliant with existing or applicable regulations.

Initial setup can become challenging if it relies heavily on manual processes. Manually entering buyers' onboarding data can be time-consuming and error-prone, and data-entry mistakes could result in invoices being delivered to the wrong parties, among other consequences. Adding to these headaches is the notoriously paper-based nature of invoices. PYMNTS' research shows 43.8 percent of invoices are still delivered via fax machine, and 72.4 percent arrive via postal mail.[3]

End users and distributors in the manufacturing space expect seamless payment experiences, though. This requires manufacturers to deliver consistent purchasing processes tailored to both parties' expectations, which can be challenging if they rely on paper-based onboarding and payment methods.

Implementing O2C solutions can alleviate many onboarding frictions, helping manufacturers quickly input data and set agreed-upon payment terms in their internal systems — without risking manual data-entry errors. Such offerings can also utilize back-end integrations to relieve manufacturers of common underwriting and credit challenges, enabling them to set specific terms, more easily track rebates and implement purchase controls for their customers. The solutions can improve manufacturers' working capital, too, allowing them to pursue growth opportunities and scale their operations.

Manufacturers are not the only ones to benefit from O2C solutions, however. Distributors also stand to gain from broader O2C adoption, since having these solutions in place can ensure timely product deliveries, optimize cash flows and promote greater control over their inventory and purchasing patterns.

[3] Why AP innovation stalls. PYMNTS.com. 2019. https://www.pymnts.com/accounts-payable/2019/ap-innovation-payments-automation/. Accessed December 2019.

EXECUTIVE INSIGHT

Which parts of the manufacturer-supplier supply chain are ripe for disruption? What kinds of tools and solutions help?

"Direct-to-customer is causing disruption between manufacturers, distributors and end customers as it's traditional for manufacturers to sell through distributors versus the end customer. This model creates complexity for manufacturers, as it restricts visibility to critical buyer insights. Manufacturers need data for sales, but they also need data for innovating their own products. Solutions like Credit as a Service create the transparency manufacturers need to inform their R&D, production and pricing strategies while still honoring the distributor fulfillment channel. CaaS also alleviates potential friction by managing the back-office processes that otherwise tend to distract from growth and scalability, like risk management, collections and payment application."

MARTHA SALINAS,
chief customer officer at msts

REDUCING MANUFACTURERS' DSO

Many end users and distributors delay payments to manufacturers to preserve cash. Some want to hang onto theirs because of delays in receiving payments from their own buyers, while others want to pay once the service terms have been completed. Still others may be feeling cash flow pinches due to softening business conditions or global trade dynamics that affect their operations. These delays create problems for manufacturers that are facing cash flow crunches themselves and can interfere with their ability to buy the materials needed to produce their products.

Late payments are common pain points in the U.S. manufacturing space. Ninety percent of manufacturers reported receiving late payments from their clients last year, the second-highest rate after that of their Mexican counterparts (94 percent). Larger companies reported taking an average of 56.7 days to make payments to their suppliers, leaving many to face lengthy periods of days sales outstanding (DSO) as they waited for payments to arrive.[4]

Outdated accounts payable (AP) practices also contribute to late payments to manufacturers and suppliers. Recent PYMNTS research found paper checks dominate the AP landscape, with a significant share of companies using them to pay invoices.[5] These paper-based methods can stall payment flows and lead to interruptions in supply chain operations.

Digital O2C offerings can be helpful because they establish more efficient ways to crack the credit and billing term frictions that hobble trading partner relationships. Robust O2C solutions enable CaaS options that pay manufacturers in two, seven, 14 or 30 days, depending on their settlement terms, while giving buyers — the end users or distributors — the opportunity to hold onto their cash for 30 to 60 days.

CaaS solutions are more than just a credit capability: They can also outsource invoicing and collection processes as well as manage receivables activities across a wide range of buyers, payment methods and channels. This frees manufacturers and distributors from having to manually tackle tasks like attempting to collect payments or matching invoices with purchase order numbers so they can instead focus their energies, resources and time on expanding their operations.

[4] Atradius report: Top US firms take longest time to pay B2B invoices in a decade. PYMNTS.com. 2018. https://www.pymnts.com/news/b2b-payments/2018/atradius-hackett-us-late-payments/. Accessed December 2019.

[5] Six payment methods ap departments like more than paper checks. PYMNTS.com. 2019. https://www.pymnts.com/accounts-payable/2019/six-payment-methods-ap-departments-like-more-than-paper-checks/. Accessed December 2019.

EXECUTIVE INSIGHT

What are some of the root causes that result in cash flow issues for suppliers? How can O2C solutions alleviate these pain points?

"Conforming to the unique requirements of each buyer's AP processes and systems is an issue for many sellers. Often sellers aren't aware of the requirements until invoices become past due. When the invoice doesn't match the buyer's required format or adhere to established purchase controls — such as purchase order number, unit number or contract pricing — often times the buyer will dispute the charge or simply not pay. Naturally, this leads to increased days sales outstanding and keeps the seller's working capital extended for a longer period.

A solution like Credit as a Service takes these pain points out of the process by tackling them during the buyer onboarding process. By instituting purchase controls during onboarding, and enforcing them at the point of sale, CaaS removes friction from the outset of the relationship. Integration with customer ERP solutions, which CaaS supports, provides additional benefit and further decreases friction by automating some or all of the buyer's AP process."

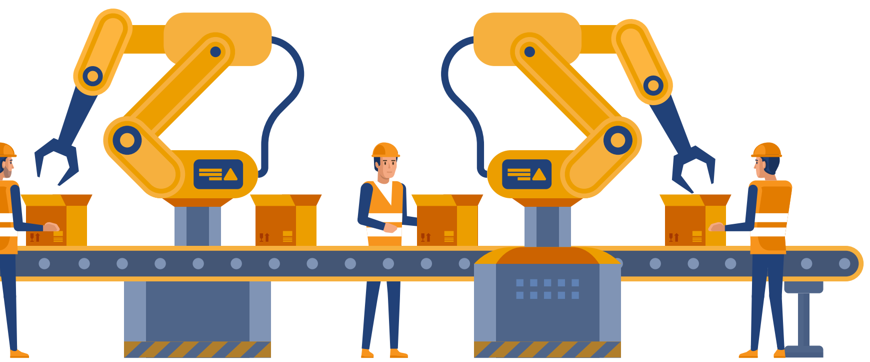
MARTHA SALINAS,
chief customer officer at msts

ADDING INTEGRATIONS AND AUTOMATION

O2C solutions are valuable for all businesses, particularly fast-growing ones. They are easily integrated into companies' existing back-end CRM and ERP systems and provide consolidated operational insights with real-time data analysis. This gives firms dynamic levels of visibility into their flows and inefficiencies to pinpoint opportunities for improvement.

On the other hand, end buyers and distributors can integrate O2C solutions with their AR systems to better understand transaction activities and examine whether manufacturers have delivered on their obligations. Having CRM tools available and integrated within O2C solutions can provide manufacturers with more seamless onboarding processes, reduce time to sale and improve customer share of wallet by sharing business intelligence with the internal system.

O2C products access single customer data sources once integrated. Those paired with CRM services can offer manufacturers the insights they need to identify additional growth opportunities and reach wider customer bases, which means the right integrations can help them truly focus on their expansion efforts.



CHECKLIST

O2C value adds for manufacturers

- [ ] Seamless, easy onboarding of new buyers for manufacturers
- [ ] Improved cash flows with enhanced access to credit lines
- [ ] Seamless integrations with various systems, including ERP, CRM and other business systems
- [ ] Access to dynamic pricing controls that provide individualized pricing for different customers
- [ ] Reduction in time and resources spent manually processing payments, matching invoices to purchase orders and on payment application
- [ ] Business intelligence tools to provide visibility into purchasing data
- [ ] Provide a consistent payment experience across all channels

EXECUTIVE INSIGHT

PYMNTS' research has shown that most invoices are paid by paper checks. How can O2C solutions help digitize manufacturing operations that have traditionally been paper-based?

Ideally, an O2C solution like Credit as a Service optimizes B2B payments by streamlining manual AR processes, increases time to cash and provides better control over working capital. Paper checks are not only incredibly manual, but also carry tangible costs. Estimates vary widely and can range from $4 to $31 to process. Inefficient payment processes can inhibit a company's ability to scale when days sales outstanding rises and working capital is tied up in receivables.

When a business enlists the help of CaaS, it becomes easier to digitally transform its payments process. Through the power of auto decisioning on credit lines, MSTS evaluates the application in real time and sends the buyer a decision in under 30 seconds for credit lines up to $250,000. Once approved, buyers move through the remaining account setup. Buyers can also request an increase to credit lines and integrate into legacy AP systems for seamless experiences, and sellers can ... set up purchase controls for role-based access to empower team members.

CURT KLUS,
chief financial officer at msts

ROCKET INDUSTRIAL ON CASH RECEIVABLE SOLUTIONS AND THEIR IMPORTANCE IN PACKAGING

The last thing any business needs or wants is cash flow problems, but this is a particularly prevalent concern for those in industries like industrial packaging, shipping or manufacturing. Late payments from clients can put a wrench in the entire operational process for distributors and manufacturers, which can lead to unacceptable time and money costs.

This makes cash receivable solutions critical and is why many manufacturers in these industries are turning to outside providers to better balance the books. Packaging solutions and distribution firm Rocket Industrial is one such provider utilizing O2C to help ensure timely payments from small and mid-sized clients, for example. Such solutions can ease financial burdens and create peace of mind, said Traci Leffel, the company's director of finance.

"I think it definitely drives sales," she said. "This allows [mid-sized clients] to pay over a period of time instead of coming up with a large sum of money all at once."

In a recent interview with PYMNTS, Leffel discussed the importance of such solutions in distribution and manufacturing — including how they are evolving as larger clients begin to ask for more automation throughout the process.

Keeping cash moving as payments fracture

Rocket Industrial works with both Fortune 500 companies and smaller clients. The former are largely able to build their own invoicing and AP software solutions that can seamlessly integrate with other payment portals to manage cash flows, Leffel explained. It is a slightly different story for smaller clients, which may need to look outside traditional financing methods.

That being said, larger companies come with their own challenges in this area — including term lengths or their expectations for the speed at which payments are approved or sent. Distributors must balance clients' needs against those of their partner vendors, many of which may not be willing to push terms to the length a client has requested.

"You don't want to be in a position where you're having to pay your bills much faster than you're getting cash in from your customer, so that's one challenge," Leffel said.

Cash flow, automation and innovation

Another potential frustration is that payments and their accompanying transactional data must now need to be sent much more quickly, and through a larger variety of digital channels and platforms. Relying on O2C solutions can help avert these problems and quickly resolve any discrepancies.

Leffel said the solutions have helped Rocket Industrial operate at a higher "sophistication level," which frees up resources to focus on other initiatives. She added that the company is looking to extend the benefits of O2C to smaller and mid-sized customers to ensure they can also enjoy more seamless experiences.

The need for such solutions is not likely to disappear soon, either. This means manufacturers will still need to search for partners that can keep them on the cutting edge as payment speeds increase and the need for payment solutions expands.

CREDIT TOOLS PROVIDE LANDSCAPING FIRMS WITH A FINANCIAL COMPASS

The global landscaping services market is on track to exceed $109.1 billion by 2025, projected to see a compound annual growth rate (CAGR) of 4 percent between 2018 and 2025. The anticipated growth rate in the U.S. alone is estimated to reach 3.4 percent during the same time frame.[6]

The industry's expansion has prompted some businesses to seek new growth opportunities for such moves of their own. One North American landscaping product supplier is turning to CaaS to expand its online purchasing experience with net 30 terms, for example. The company operates more than 700 businesses across the U.S. and Canada, selling outdoor patio, masonry and gardening materials to wholesale dealers who sell products to contractors.

Such landscaping businesses are often faced with cash flow issues, however. Delays in payments or deliveries can have ripple effects across the broader supply chain. Contractors are often required to pay for materials prior to installing them, for example, leaving much of their capital tied up between purchasing required products and being paid by their clients.

That is a problem the company is seeking to resolve by providing terms or trade credit directly to contractors. Extending net 30 terms ensures that these firms can complete their jobs and purchase the landscaping products they need before receiving payments from their clients, according to the company's division controller.

Providing contractors with the purchasing power to acquire necessary materials and quickly complete jobs was a top priority, he explained, adding that extending terms online creates optimal customer experiences that ultimately promote loyalty.

It was noted that having access to CaaS is particularly important for the firm, as it saves it from the hassle of collecting outstanding payments from contractors — something with which the supplier doesn't have experience or processes to support upon entering new markets. CaaS also allows the company to offer credit to contractors in markets where they have problems getting market share.

Credit as a Service works by quickly onboarding contractors at checkout on its eCommerce site. Contractors are then underwritten and able to purchase on terms within the same day. With outsourced AR resources, CaaS will also collect on behalf of companies so they can keep their working capital. This puts contractors on solid financial footing and helps companies avoid cash flow challenges.

CaaS can provide a valuable resource to more than 500,000 SMBs as the U.S. landscaping market expands, enabling them to scale operations without relying on their own working capital.[7]

[6] Author unknown. Global landscaping services industry. GlobalNewswire. 2019. https://www.globenewswire.com/news-release/2019/10/11/1928455/0/en/Global-Landscaping-Services-Industry.html. Accessed December 2019.

[7] Author unknown. Landscaping services industry in the US - market research report. IBISWorld. September 2019. https://www.ibisworld.com/united-states/market-research-reports/landscaping-services-industry/. Accessed December 2019.

CONCLUSION

Improving the flow of payments and access to cash flows will become only more important as the manufacturing space faces challenging conditions. O2C solutions could play a significant role in helping manufacturers and distributors fulfill their obligations while more effectively pursuing these goals. Manufacturers can deliver products and services without having to worry about issues with tracking and faster delivery of payments, for example, and distributors can focus on selling to their end customers. Both gain deeper understandings of their capital with O2C options in place and can worry less about how cash flows might affect their operations.

Adopting such solutions can free manufacturers' and distributors' time from the administrative tasks involved in AP, accounts receivable and onboarding, too. Both sides of a transaction can focus more on scaling their operations rather than onboarding and underwriting, which can now be outsourced through O2C integrations.

Manufacturers and distributors may face delays in their expansion efforts if they are uncertain how much capital they have on hand, but greater O2C adoption could remove some of the uncertainties related to when payments will be delivered. Manufacturers can instead focus on scaling their operations and finding opportunities to future-proof them. This could be the key to putting them on stable financial ground — especially as the sector transitions to a D2C model.

ABOUT

PYMNTS.com

PYMNTS.com 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.

msts

MSTS is a global B2B payment and credit solutions provider with 40 years of experience. It specializes in commercial transaction management, facilitating transactions for customers in over 190 countries and helping businesses reach new heights by entering new markets, expanding their footprints and globalizing their opportunities. Its high-performance culture has been the catalyst for continued success in the ever-changing world of technology.

MSTS is disrupting the global credit industry with Credit As A Service™ — a suite of applications and services that enables companies access to robust payment and credit solutions, sophisticated managed services and expert-driven integrations to power global commerce. MSTS embraces constant innovation with internal accelerators and technology investments to help businesses reach their full potential, while delivering a unique local touch that drives deeply into geo-specific business processes and payments.

We are interested in your feedback on this report. If you have questions, comments or would like to subscribe, please email us at feedback@pymnts.com.

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