CLOSE THE CASH GAP AND OPTIMIZE WORKING CAPITAL

Learn how to help streamline your financial operations for better cash flow

TABLE OF CONTENTS

A SMART APPROACH TO MANAGING WORKING CAPITAL

Working capital plays an important role in the health and efficiency of your financial operations. **An effective working capital management system can help businesses cover their financial obligations and boost their earnings.**

To seize opportunities for future growth, businesses should understand the nuts and bolts of working capital as well as the potential roadblocks that may stand in their way. New tools and strategies, including virtual credit cards and advanced payment services, can help businesses optimize their financial operations and provide data insights that may improve working capital management.

Learn more about the challenges of working capital and key tactics to help improve cash flow so you can invest and grow.

EXPLORE THIS E-BOOK TO LEARN MORE

UNDERSTANDING WORKING CAPITAL

What is working capital?

Working capital is the difference between a company's **current assets** and its **current liabilities**.

Current assets: All company assets that are expected to be conveniently sold, consumed or used through standard business operations.

- Cash
- Accounts receivable
- Inventories of raw materials and finished goods

Current liabilities: A company's short-term financial obligations.

- Accounts payable
- Short-term debt
- Dividends payable

HOW TO CALCULATE WORKING CAPITAL

There are many ways to calculate working capital. Here's one:

Current assets

– Current liabilities

Working capital

UNDERSTANDING WORKING CAPITAL (CONTINUED)

Why does working capital matter?

If a company has positive working capital, then it has the potential to grow. If a company's current assets are less than its current liabilities, it may struggle to pay back creditors today and achieve growth tomorrow.

Did you know?

Even healthy companies may experience periods of negative working capital when unexpected expenses pop up.

What is the difference between working capital and cash flow?

Working capital can provide a snapshot of a company's current financial health and let you know if it can cover its short-term obligations. **Cash flow** shows how much money is coming in and can offer insight into the potential for future growth.

UNDERSTANDING CASH FLOW

What is cash flow?

Cash flow is the net amount of cash and cash equivalents transferred into and out of a business.

Why does cash flow matter?

Cash flow is a measure of liquidity, which provides financial flexibility. Cash flow can be positive or negative.

Positive cash flow indicates that a company's liquid assets are increasing, enabling it to meet its many objectives, such as:

- Settle debts
- Reinvest in its business
- Return money to shareholders
- Pay expenses
- Overcome future financial challenges

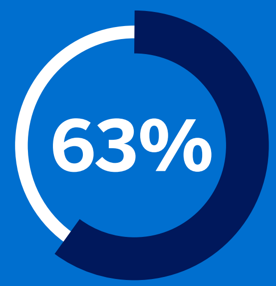
CURRENT CHALLENGES

In today's environment, business finances are affected by several factors, including:[1]

Inflation

Expensive financing

Supply chain issues



of surveyed respondents said **inflation posed the greatest challenge** to their small or mid-sized business.[2]

UNDERSTANDING CASH FLOW

(CONTINUED)

How are working capital and cash flow related?

Adequate working capital requires monitoring a company's assets and liabilities to maintain sufficient cash flow. When working capital is well managed, operating cash flows are stronger and can enable companies to invest in the future.

Did you know?

Having sufficient cash on hand can allow you to increase spending, which may help fuel future growth when the right opportunity arises.[3]

UNDERSTANDING CASH GAPS

Things happen, and even well-managed working capital can be susceptible to cash flow gaps. The key is to have smart strategies and plans in place to help minimize the gap and enable growth.

What is a cash gap?

The cash gap is the **number of days from when you pay** for things like materials and inventory to **when you receive payment for the goods and services you have sold**. The more days in between, the larger your cash flow gap is.

Businesses of all sizes can be vulnerable to gaps in cash flow.

57% of small businesses surveyed say cash flow management is a problem for their business.[4]

Only 26% of small businesses report having access to enough funding to stay open for more than 60 days in the event of a cash flow shortfall.[5]

34% of financial institutions say working capital management is a problem area for their corporate clients when paying their suppliers.[6]

UNDERSTANDING CASH GAPS
(CONTINUED)

Why do businesses struggle with cash gaps?

Small and mid-size business cash flow problems are primarily being triggered by inflation and late payments.[7]

According to a survey, **47 percent of small businesses report being concerned about the lack of foresight into payment receipt**.[8] Outdated payment processes can also make it harder to manage cash flow. When surveyed, small businesses reported being most concerned about:

1. Late payments
2. Reconciliation
3. Lack of integration with other systems
4. Long receipt times[9]

Nearly **1 in 5** companies around the world reported that payments are now commonly received **90 days or more past due.**[10]

Did you know?

Days Sales Outstanding (DSO) is the average number of days it takes businesses to convert sales on credit into cash. When DSO goes beyond contract terms, it can contribute to the cash gap.

WAYS TO OPTIMIZE WORKING CAPITAL

To help your business grow, it makes sense to close cash gaps and boost your working capital — but your strategy depends on whether you are a buyer or a supplier of goods and services.

1

Practices for Suppliers: Get Paid Sooner

On-time payments can help your business stay liquid to handle unexpected expenses and invest in opportunities. Consider these strategies to streamline payments:

- Send invoices as early as possible
- Offer multiple payment options
- Automate accounts receivable (AR) processes
- Automate accounts payable (AP) processes

Decrease the average age of inventory

Having too much inventory, without the sales to offset it, may tie up your cash flow. **A "just in time" inventory stock model can help keep more cash on hand.**

Did you know?

Having sufficient cash on hand can allow you to increase spending, which may help fuel future growth when the right opportunity arises.[11]

WAYS TO OPTIMIZE WORKING CAPITAL (CONTINUED)

2

Practices for Buyers: Leverage Float Time

Float time is the period between writing a check and when it is cashed. Increasing float time can help buyers of goods and services boost working capital by increasing **days payable outstanding (DPO)**.

DPO is the average time it takes a company to pay its bills and invoices. The higher your DPO, the more cash on hand you have to work with at any given time.

Using a corporate credit card also allows you to float payments to your suppliers. Suppliers are paid on time, while buyers gain extra time before the payment comes due. The float period allows you to increase DPO and use your cash more efficiently.

WAYS TO OPTIMIZE WORKING CAPITAL (CONTINUED)

3

Practices for Everyone: Digitize Payments

Virtual and corporate cards help smooth cash flow for both buyers and suppliers. Cardholders gain access to additional working capital from their bank, while suppliers can be paid more quickly to improve their own cash flow.[12] In addition to improving speed, digital payments can make transactions more predictable and secure.[13] This predictability can help companies manage working capital and use their cash more efficiently.

Virtual cards can also mimic traditional corporate cards, streamlining payments by eliminating the need for separate purchasing cards. Companies can tailor virtual cards for specific purposes to better manage cash flow and ensure that expenses are allocated correctly.[14]

Did you know?

Using the same system for both domestic and international payments can simplify cash flow tracking and management.[15]

BENEFITS OF USING VIRTUAL OR CORPORATE CARDS

With corporate cards, businesses can have more flexibility to reinvest their cash for growth. The perks for suppliers and buyers create win-win opportunities for managing working capital.

Card benefits for suppliers and buyers

- **Payment flexibility:** Suppliers can be paid more quickly to boost cash flow. Meanwhile, buyers can pay on time and still access flexible or extended billing periods. When surveyed, 79 percent of B2B buyers who use a credit card to make company purchases agreed their company uses credit cards as a working capital tool.[16,17]

- **Reduced fraud:** Virtual cards reduce the risk for fraud relative to ACH and paper checks. According to industry experts, ACH payments were subject to attempted or actual fraud far more often than virtual cards.[18]

- **Improved customer satisfaction:** By offering B2B buyers their preferred payment options, suppliers can keep customers happy and create opportunities to boost business. A full 70 percent of marketplaces surveyed expect their vendor relationships to improve as they innovate their AP platforms.[19]

For more help creating frictionless customer experiences in B2B, see our checklist of best practices

BENEFITS OF USING VIRTUAL OR CORPORATE CARDS (CONTINUED)

Accepting cards: Benefits for suppliers

More data insights: As the number of electronic payments increases, more businesses may be able to benefit from the enhanced data attached to these transactions. When it comes to AR systems, 68 percent of B2B vendors surveyed believe automated customer data management will help drive growth.[20]

Faster payments: With card acceptance, suppliers can get paid faster. This can keep cash flowing into the business to use as needed — without burdening their customers' DPO. That means an optimized working capital opportunity for everyone.

Simplified reconciliation: Suppliers can lighten their internal workload with easier payment reconciliation. In fact, **46 percent of businesses surveyed reported receiving unusable remittance information.** The time saved could be a game changer.[21]

BENEFITS OF USING VIRTUAL OR CORPORATE CARDS (CONTINUED)

Using cards: Benefits for buyers

Early payment discounts: When suppliers offer early payment discounts on invoices, credit cards can allow buyers to take advantage of this option — without letting go of capital immediately. Buyers can use payment flexibility to manage their DPO more effectively.

Greater spend potential: Buyers can have the freedom to make large purchases without drying up cash on hand. In an unstable economy, businesses with less access to cash can use virtual cards to meet their financing needs. Doing so can better position companies for growth.[22]

Enhanced expense control: Buyers can tailor corporate cards for specific uses to better monitor spending up front. Assigning cards to expense categories and building limits into the cards can provide greater control before the money is actually spent.[23]

BENEFITS OF PAYMENTS AUTOMATION

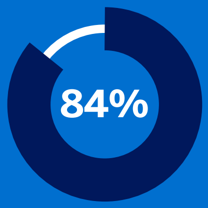
Digital payment tools can help streamline overall financial operations. By providing real-time payments as well as automation of AR and AP operations, technology can provide immediate insight into cash flow for better working capital management.

These insights are in high demand in financial departments, with 96 percent of CFOs saying that improvements to AR and AP are an important step in creating a healthy balance sheet.[24]

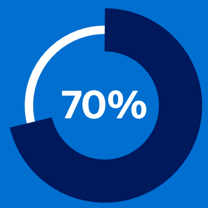
In particular, 26 percent of businesses cite cash flow visibility as a problem in AR and AP processes[25] — an issue they plan to solve with automation.

Learn more about AR Automation in this short video.

CFOs recognize the value of automating their financial operations, and these changes will directly impact B2B operations.



84% of CFOs surveyed say digitized systems improved working capital management.[26]



70% of CFOs surveyed are currently working to automate AR or AP operations.[27]

Forecasts predict that 4 in 5 B2B transactions will be supported by software.[28]

IS YOUR BUSINESS READY TO OPTIMIZE ITS WORKING CAPITAL?

From accepting cards to embracing automation, there are several smart strategies you can use to make sure that your working capital supports your business goals. With the right tools in place, you can pave the way for your company's long-term financial health, operational success and continued growth — all while accommodating your buyers' payment needs.

When you're ready to begin your journey — or when you need a partner along the way — American Express is here to help. We offer innovative financial automation solutions that can help you optimize working capital and grow your business.

For more insights into improving working capital and updates about the B2B landscape, check out Business Class for Merchants.

CONTACT AMERICAN EXPRESS FOR A CONSULTATION.

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