The Changing Contours Of B2B Payment Trends: Pre- & Post-COVID

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The Preview

The onset of Covid-19 has impacted people's lives in manners unheard of in any humanitarian crisis in the recent past. The impact has been widespread, spanning both the personal and professional lives of people worldwide.

Businesses have seen supply chain disruptions of unimaginable magnitude. The disruption that originated from China in February 2020, followed by the global shutdown, exposed multiple vulnerabilities in business strategies and supply chain everywhere in the world. To keep the show running and address desired supply chain goals, businesses had to find contemporary ways to meet them.

In its present form, the global supply chain is still evolving to defy the disruptive forces that Covid brought along and might continue to in the future. As we continue to reel under multiple waves of Covid, international supply chain normalisation looks years away, whereas the domestic supply chain disruptions normalised relatively quickly.

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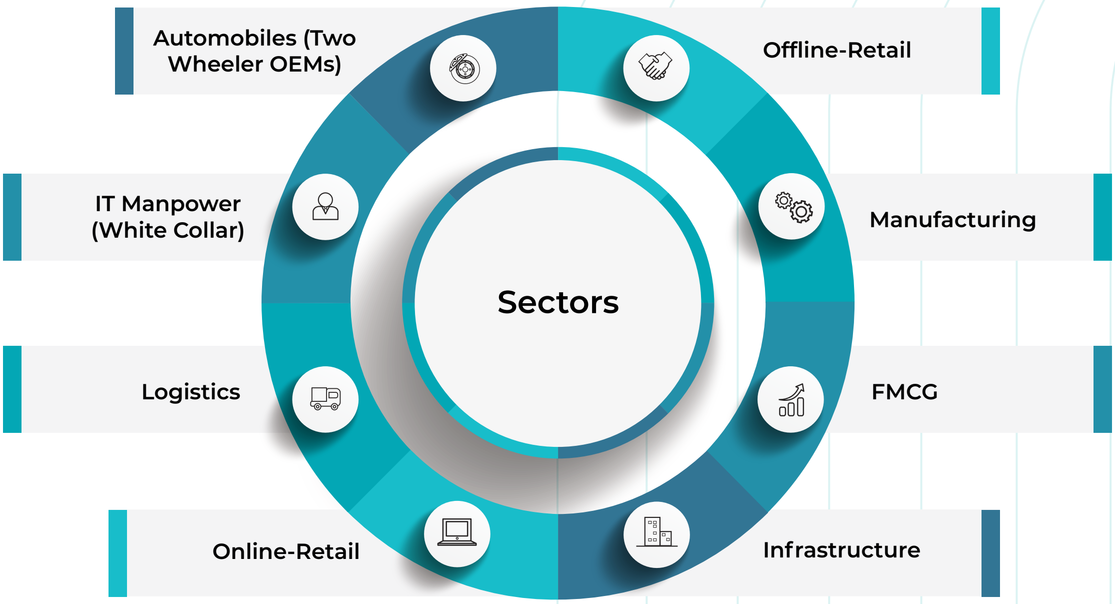
The KredX Analysis

At KredX, when we did a deep dive into the trends in supply chain financing on our platform during the pre-Covid and post-Covid eras, it shed some light on a few interesting insights. For this analysis, the pre-Covid age pertains to the period up to 29 February 2020, and the post-Covid starts from 01 March 2020.

The analysis has been categorised broadly under eight industry segments- Offline-Retail, Manufacturing, FMCG, Infrastructure, Online-Retail, Logistics, IT Manpower (White Collar), and Automobiles (Two Wheeler OEMs).



COVID-19: Industries Most Impacted

One clear trend that stands out from our analysis is that payment terms have deteriorated significantly, except for two segments. We could see that the pandemic has led to longer payment delays, more or less, across every industry. Pre-pandemic, on average, an enterprise waited for 66 days before an invoice was paid by the counterparty. The average waiting period for payment to complete gradually increased to 68 days in the following year.

However, the extent of deterioration is different across every segment. Different industries have experienced disruptions at various stages of the supply chain.

The analysis we conducted looking into these eight sectors revealed that the pandemic has impacted each industry differently.

Offline-Retail

As we see, the most significantly impacted segment was the Offline-Retail where the payment terms increased from 66 days in the pre-Covid era to around 149 days in the post-Covid.

Multiple lockdowns and shifts in consumer preferences to online channels necessitated by Covid led to this deterioration of payment terms. However, a significant part of this can also be attributed to a major Retail giant which delayed payments because of the financial crisis caused by several lockdowns.

Manufacturing

Manufacturing was another segment that has seen vendor payment tenure getting extended.

With limited scope for work from home, migration of labour compounded the problems for manufacturing entities. Coupled with extremely tight credit norms followed by banks and financial institutions in the post-Covid era, vendor payment which averaged around 53 days in the pre-Covid era, extended to 65 days in post-Covid era.

FMCG

Among the other segments which saw a stretched payment cycle include FMCG and Infrastructure.

The pandemic and its subsequent variants have compelled distributors from diverse markets to restock their stores once every week with higher-order volume irrespective of delayed payment terms. Simultaneously, it also impacted farm production, transport and logistics, food processing and demand. In the FMCG segment, the invoice payment days averaged 84 days in the pre-Covid era, which increased to 97 days in the post-Covid era.

Infrastructure

Similarly, in the Infrastructure segment the payment terms stretched from 82 days to 98 days in the pre and post-Covid era.

Owing to COVID-19, 65% of the total infrastructural development plans were delayed that had definite timelines for completion. Due to Covid-induced lockdowns all over the country, there were constant delays in the process of land acquisition and payment terms, among other challenges.

COVID-19: Industries Least Impacted

Online-Retail & Logistics

The payment terms in the Online-Retail and Logistics segment remained largely unaffected.

The pandemic has already turned an exploding trend and convenience of online shopping into a booming industry. With the year-after-year growth, the online revenue increase has been twice, which might continue in the post-quarantine world as the trending movement will be intact even after the retail businesses reopen entirely.

Whereas both these segments witnessed a slight increase in payment terms, the increase was only marginal. Online-Retail saw an increase from 42 to 44 days, and Logistics saw an increase from 40 to 44 days in the pre and post-Covid era, respectively.

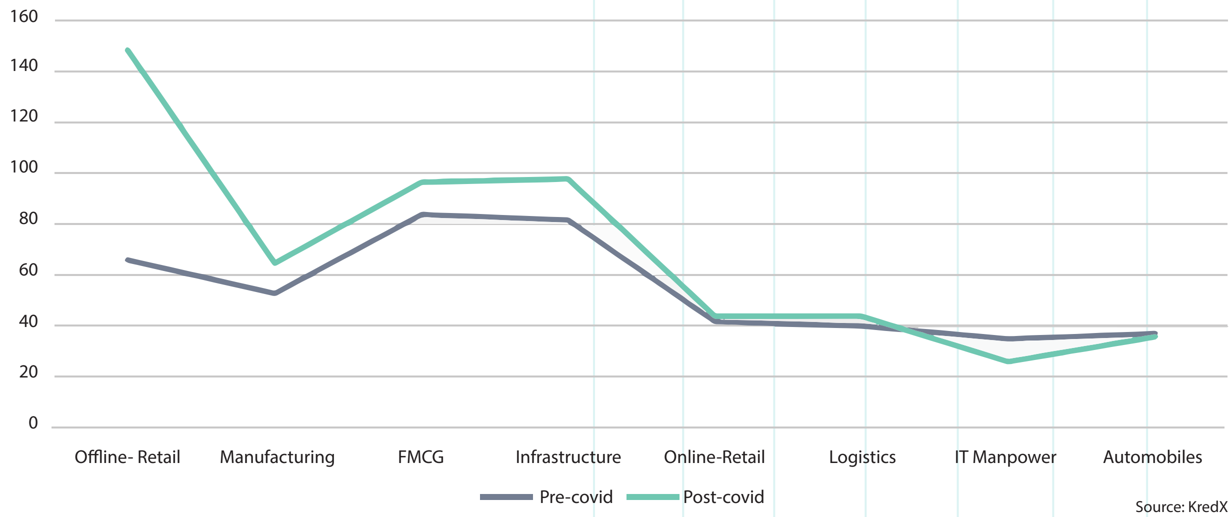
IT & Automobiles

Two segments that actually saw an improvement in payment terms in the post-Covid era are IT Manpower (White Collar) and Automobiles (Two-Wheeler OEMs).

35 Days — IT Manpower — 26 Days

37 Days — Automobile segment — 36 Days

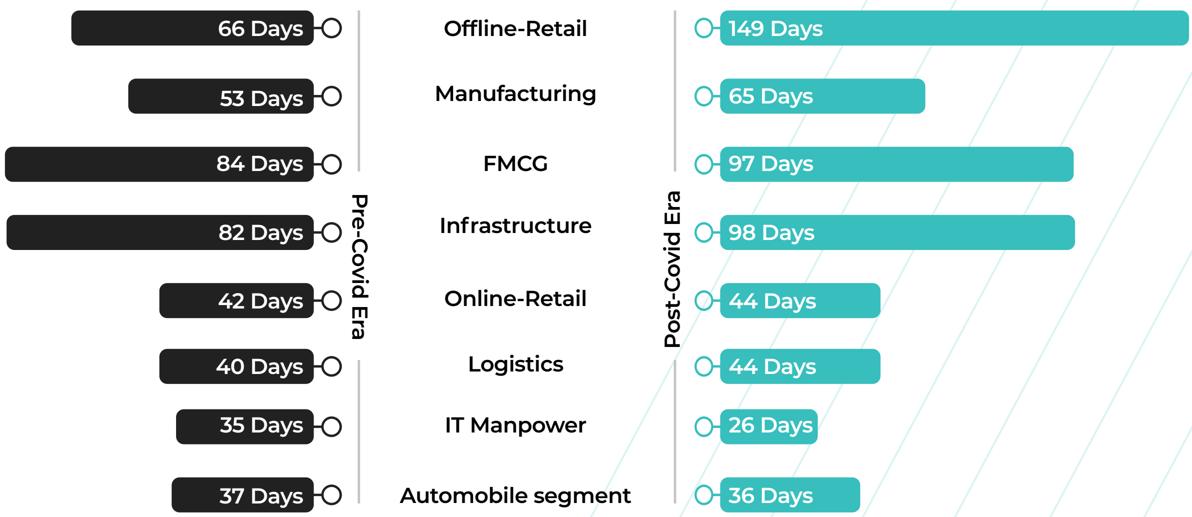
With most businesses focusing on automation and preferring online mode of delivery for goods/services, IT Manpower segment witnessed improvement in the payment cycle from the Enterprises. The average payment days improved from 35 to 26 in the pre and post-Covid era. The Automobile segment saw a minor improvement from 37 to 36 days in pre and post-Covid era, respectively.



Source: KredX

The Way Forward

Covid led disruption in the supply chain hit businesses really hard. The traditional delivery model was questioned and the need for automation was widely recognised.



With Covid showing no sign of abating anytime soon, companies are expediting the adoption of technology for both conducting regular business and facilitating delivery of goods/services. Accordingly, in 2022, we see two clear trends gaining prominence. One, the digitisation trend will continue its momentum and two, online and doorstep/contactless delivery will be increasingly adopted by businesses.

Based on these two trends, the segments which we see as clear winners include IT Manpower, Online-Retail and Logistics. Whereas Online-Retail is just a sub-segment of the larger platform business, we expect all platform businesses – B2C, B2B, D2C - to do well in the current year.

The existing players in these segments will continue to grow and the new players will enter with new service offerings. IT Manpower being the major facilitator of platform businesses will reap the direct benefits of the growth in platform businesses. Similarly, on account of its strong linkage with platform businesses as well as increasing customer preference for doorstep/contactless delivery for goods even from traditional businesses, the Logistics segment too will continue to flourish.

Conclusion

The delay in payments due to the pandemic has also largely exacerbated the conditions of MSMEs in India that were gradually finding their way out of the demonetisation wave. In businesses such as offline retail, longer payment periods have widened the working capital gap by disturbing their cash flow cycle, leaving the sector at a difficult point with no signs of growth. This has put added pressure on small scale businesses to seek external support financially via different avenues to remain afloat.

With India moving towards a cashless economy, the cash-driven MSMEs need to understand the significance of digitalisation and adopt tech-driven solutions to manage their payment terms. Digital transformation has touched every inch of the supply chain, and payment terms are no exception.

Shifting to the trendsetting digital movement has helped businesses simplify payment processing, sending automated invoices free of errors and on schedules. Companies post the pandemic, including those who struggled with their payment terms, need to capitalise on B2B payment trends by assessing the cost-benefit and operational efficiency it can now bring to their tables.