OPTIMIZING YOUR RESTAURANT'S WORKING CAPITAL THROUGH EPAYABLES

A COMMERCIAL BANKING PERSPECTIVE

Citizens Commercial Banking®

In the past, restaurants were primarily considered a cash business, which heavily influenced the way owners and operators had to manage their working capital: revenues came in as cash and payables went out as checks. Today, more and more restaurants and their suppliers are transitioning to electronic methods of payment, which presents an opportunity for savvy restaurant owners and operators to evolve and improve their working capital management strategies.

THE SHIFT TO EPAYABLES

While a large portion of consumers have long since transitioned to paperless payments, businesses are now quickly catching up. A recent study found that among companies, "electronic accounts payable (EAP) spending is expected to rise about 14% per year to $110 billion by 2019".[1]

Because of this shift, the variety of cashless technologies available to both restaurant suppliers and purchasers is growing. In fact, a recent survey by the National Restaurant Association found that 25% of restaurant operators considered payment options to be the most important area of development for restaurant technology over the next five years.

Furthermore, 89% of organizations already using ePayables technologies have also transitioned to using plastic or virtual purchasing cards.[2] The most commonly cited reason for this two-pronged payables approach is that cards are used for smaller dollar amounts. Compared to organizations that only use plastic cards, organizations that use ePayables technologies in addition to cards report a 140% overall improvement in spending efficiency and effectiveness.[3]

Another major benefit of switching to electronic payment solutions from check payments is cost savings. On average, it costs $1.22 in manpower and incidental costs to process a paper check, whereas electronic payment processing can cost as little as 60¢.[4] Although a seemingly minor cost, in a high-volume environment the savings can be substantial.

While some operators may see the transition to ePayables as a multi-year process, a leading card company is encouraging restaurant businesses to commit to going cashless now and is offering incentives of up to $10,000 to business owners that commit to doing so.[5] What's more is that this company claims that by making this transition, "businesses could generate an additional $6.8 billion in revenue and save more than 186 million hours in labor" per year.[6]

Thanks to the increasing level of competition in this space, the quality of services and technologies being offered is rapidly improving. Operators can take advantage of multiple options and find the pricing, functionality and services that best meet their needs.

IMPROVE WORKING CAPITAL

For restaurant owners and operators, managing the timing of when cash leaves the business is key, especially considering the cash flow cycle for the restaurant industry turns faster than that of other industries: an average of 7 – 14 days compared to 30 – 60 days. Operators who pay via cards gain greater control over when cash leaves their businesses as cards provide a 30 – 45 day window during which they can pay their invoices without accruing any interest. Additionally, card payments also benefit restaurant vendors by allowing them to get paid sooner and more regularly.

These benefits are a few of the main factors that are helping to increase vendor acceptance of cards and ePayables. While it might sound counterintuitive, operators often assume that there is going to be strong pushback from their vendors at the idea of switching from check to card payments. In reality, over half of B2B suppliers are now willing to accept electronic payments.[7] Also, accepting ePayables is one way for suppliers to differentiate themselves in a crowded marketplace and become a preferred restaurant supplier.

BENEFITS BEYOND COST

Electronic and virtual payments also have several user benefits. Not only do they carry the additional benefit of being easier to track, validate and account for than paper checks or cash, but also they can generate rewards or cash rebates for operators depending on the service used.

For example, a restaurant issuing 100 checks per month at an average cost of $1.22 per check would spend $1,464 per year just to pay its invoices. If the average check value was $1,000, the average rebate (1.25%) on each virtual card transaction would be $12.50. By transitioning just 25% of transactions to virtual cards, this business could earn $3,750 a year in rebates, not only reducing costs but actually contributing money back into the bottom line.

And then there are risk management benefits. Shifting to an ePayables system can help reduce the risk of fraud: 75% of organizations that experience payment fraud are victims of check fraud.[8] Restaurant operators using virtual cards can provide single-use card information where the card limit matches the amount of the invoice being paid. No further banking information is exchanged and the card information is password-protected as an additional security measure. For example, Sweetgreen – the salad company with more than 60 stores nationwide – eliminated paper payments from its business in March. Company officials named "theft prevention and eliminating the cost of using armored cars as the reasons for the change".[9]

Ultimately, it's clear that the marketplace is shifting to paperless payment methods with increasing momentum. Restaurant owners and operators stand to gain a lot from doing so: better control over when capital leaves the business, cost savings, easy tracking and decreased risk of fraud. Now, the onus is on restaurant owners to carefully examine their current business models and determine when and where to implement these solutions to benefit their businesses.

Citizens Restaurant Finance

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[1] RPMG Research Corporation, 2015
[2] Ibid
[3] Ibid
[4] NACHA, 2017
[5] CNN Money, July 2017
[6] Ibid
[7] Ardent Partners, 2016
[8] AFP, July 2017
[9] Washington City Paper, June 2017