



## 3 Reasons Why Small Businesses are Turning to Instant Payments to Improve Cash Flow



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Limited resources often force small business owners to take on seemingly endless responsibilities, including administrative tasks and financial management, that have little to do with growing the core business. Cash flow management typically is the most critical of these responsibilities – cash flow complications are **one of the top reasons small businesses fail** – and the most vexing.

These problems can arise in myriad ways – unpaid invoices, slow payment methods, elongated payment terms, etc. – but the result is a lack of liquidity that can leave entrepreneurs struggling with key business operations such as maintaining inventory, paying bills, repaying loans, or making critical repairs.

Thankfully, instant payments offer small business owners a remedy that can address many common cash flow management impediments. Here's how:

### *Improved cash access*

Traditional payment systems have clearing and settling times varying from two to five days, which delays a payment's settlement and the transaction's reflection in the business's financial records and ability to use their cash. Even electronic payments can take numerous days to clear, especially over weekends and bank holidays. Waiting for payments to be processed can create cash flow challenges for small businesses. Owners might face delays in receiving the proceeds from their sales, impacting their capacity to restock inventory, pay their suppliers or invest their funds.

Instant payments are received and settled on a 24/7 basis, with a business owner having immediate access to cash from the payment. A confirmation of funds is provided, and the funds cannot be recalled, giving small to medium-sized businesses (SMBs) peace of mind, and real-time insight into their finances. Owners can then make informed decisions and manage liquidity effectively because they know precisely how much capital they have access to at a given moment. In fact, according to a **recent study** by PYMNTS, over half of surveyed

companies cited better cash flow management as a benefit of instant payments.

With instant payments, SMBs are in a stronger position to maintain inventory levels and seize growth opportunities on a tight schedule. Small businesses can receive payments from customers promptly and settle bills with suppliers without the need to wait for traditional banking hours. This is crucial for day-to-day operations, especially when payment delays can disrupt customer and supplier relationships.

#### *Enhancements to payroll processing*

With payroll being a core business expense, businesses typically need to plan and transfer funds in advance to cover payroll expenses on payday. With instant payments for payroll, small businesses can eliminate the need to pre-fund their payroll days in advance. Employers can fund their payroll with their payroll provider on the actual pay date, preventing delays and potential credit extensions.

Earned Wage Access (EWA) is a growing employer benefit providing employees access to a portion of their earned wages before the regular payday. This new way of being paid can be especially helpful for employees facing financial emergencies or unexpected expenses. The benefit is shown to improve employee satisfaction, productivity, and retention, with **one study** finding that EWA improved employee tenure rates by 63 percent.

#### *Improvements to supplier funding and customer reimbursement*

More than half of small business suppliers would prefer to **receive payments through faster channels**. Instant payments result in quicker access to funds from customer purchases and supplier credits. Paying promptly is beneficial when negotiating discounts with suppliers for early payments.

Processing customer refunds or reimbursements through traditional methods can be time-consuming and costly. Small businesses can promptly reimburse customers for returns or resolve issues by leveraging instant payments. Quicker returns processing boosts customer satisfaction, building trust and loyalty.

This new way to pay has many benefits for SMBs. Instant payments provide a real-time confirmation, which reduces the amount of time a business owner needs to spend on bookkeeping. Every minute a small business owner spends on bookkeeping, they're not focusing on growth and marketing opportunities that could help their business flourish. Those owners adopting instant payments are less likely to chase late invoices and play cash flow jenga and can spend more time strategizing and strengthening their core business.

Some business owners already have access to make an instant payment via their small business banking portal, and we encourage all to begin to experiment with sending an instant payment. It can be for an emergency payment or your everyday supplier payments to get familiar with the instant payment process as a business owner. The immediate payment confirmation, no recall/irrevocable, 24/7 availability and messaging capabilities provide business owners with the peace of mind that their payment was received.

***About the author:** Cheryl Gurz is the Vice President of RTP® Product Management and is tasked with driving product adoption and usage of The Clearing House's RTP network by U.S. financial institutions and their customers. She advises clients on RTP topics, best practices and market trends.*

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