SupplierPay: What Does it Mean for the American Economy?

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When President Obama announced the SupplierPay initiative in July, the news was met with little fanfare. The White House put out a statement—which media outlets largely repurposed without taking a closer look at the potential impact of the pledge. The news cycle soldiered on.

It's understandable: "supply chain" and "invoices" aren't the sexiest of topics. And while it'd be easy to dismiss the initiative, which encourages large corporations to pay their small business suppliers earlier, as a trivial public relations move—it'd also be wrong.

The idea of paying suppliers faster is actually not a new one. In 1999, the U.S. Government enacted the "Prompt Payment" rule, mandating that the Executive branch of government pay its suppliers within a certain period of time. In 2011, Obama launched the Quick Pay initiative, which, "requires federal agencies to speed up payments to small business contractors, with the goal of paying within 15 days," according to the White House. This was another step in the right direction, but it didn't do much for businesses that don't sell to the government.

Then came SupplierPay this month, which is modeled after Quick Pay. President Obama met behind closed doors on Friday with executives from some of America's largest corporations, including Apple, Toyota, and Coca-Cola, to encourage them to pay suppliers earlier.

"For the larger companies, joining SupplierPay demonstrates a recognition that a healthy supply chain is good for business," said the White House in a statement. "For the small business suppliers, benefiting from SupplierPay means having more capital to invest in new opportunities, new equipment, and new hiring."

Europe has been ahead of the curve on this issue: In 2012, British Prime Minister David Cameron announced a partnership with more than 35 of England's largest companies to offer supply chain finance as a way to support those companies' suppliers.

"In the current climate, viable businesses can struggle to get the finance they need to grow—this scheme will not only help them secure finance and support cash flow, but will help secure supply chains for some of our biggest companies," Cameron said at the time. "It can be a win-win, with large companies and small suppliers both benefiting from this innovative scheme."

It's a win for the economy, as well. A recent study found that in Britain, in 2012, £199 billion (the equivalent of $333 billion) would have been injected into the British economy if suppliers were paid in 30 days, instead of the average 58.

So why should we care whether small businesses in America have the option to be paid early? The U.S. has 23 million small businesses and they help provide for around 55% of the nation's jobs, according to the Small Business Association. When these companies fail, there are fewer job providers, which hurts our economy.

It's too early to tell what the impact of this White House initiative will be. While more needs to be done for small businesses, it is encouraging that the upper echelon of government have recognized the importance of working with large corporations on issue. The question is whether this SupplierPay initiative will jolt businesses into action, or simply fade into political memory. Ideally, businesses will see this as an opportunity to revolutionize their relationships with suppliers.

After all, just think: the U.S. has a GDP about 7 times the size of the British GDP. If faster payments could inject $333 billion into the British economy, how big of an impact could early payments have on the American economy?

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