Dynamic Discount Management
Moving Toward Mainstream

Q2 2013

Benefits of Dynamic Discounting
Reasons for Missed Discounts
Dynamic Discounting Management Tools
Building Blocks of Invoice Automation and Discount Management
Dynamic Discounting Solution Providers

Underwritten in part by

PayStream Advisors

ARIBA
An SAP Company
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Executive Summary

Early-payment discounts – the old math-class calculation of “if Company A buys $100 of merchandise from Company B on terms of 2/10, net 30, what will Company A pay for the merchandise if it pays one week after purchase?” – seemed destined for the history books. The “Company A”s of the world simply couldn’t process their invoices by hand fast enough to beat that “all-or-nothing” 10-day deadline. And the “Company B”s of the world stopped offering them because customers were taking discounts to which they weren’t entitled.

Leveraging the operational efficiencies of electronic invoicing and automated payables, Dynamic Discount Management (DDM), the use of sliding scale or negotiated terms to optimize cash management, has breathed new life into this once moribund practice.

A quarter of Accounts Payable practitioners surveyed by PayStream Advisors in November 2012 report that they are capturing 100 percent of offered discounts. Most companies are taking at least some. More than 90 percent of Accounts Payable practitioners in PayStream Advisors’ most recent automation survey ranked DDM as a priority, with almost 40 percent listing it as a high priority, see Figure 1.

Figure 1
Interest in Capturing Discounts
Capturing early payment discounts is a growing priority for most companies.
PayStream Advisors has developed this Technology Insight report titled *Dynamic Discount Management: Moving Toward Mainstream*, as a resource for organizations actively exploring dynamic discounting solutions. To compliment this report, PayStream also published the Dynamic Discount Management Implementation Guide. Both the report and the guide are among many resources available in PayStream’s research library at [www.paystreamadvisors.com](http://www.paystreamadvisors.com)

The *Dynamic Discount Management: Moving Toward Mainstream* report is based on the results of PayStream’s Q4 2012 Dynamic Discount Management survey of over 200 accounts payable and procurement professionals at U.S. based enterprises. Based on the number of survey respondents, PayStream believes that the survey has a confidence level of +/- 5 percent.
Opportunities in Payables

Tell a CFO that your zippy new software solution increases control and visibility of spend, and you might raise an eyebrow. Offer a risk-free return of 12-36 percent or higher on available cash . . . now you’ve got their attention.

With returns like that, it should come as no surprise that dynamic discounting, trade financing, and buyer-initiated (push) payments have elevated accounts payable automation from an AP, IT and operations issue, to a strategic priority for Treasurers and Chief Financial Officers.

Dynamic Discount Management allows companies to invest their cash safely at rates that can significantly exceed returns from many other traditional investments, including the S&P 500, capital purchases, and even gold. Many payables departments with paper invoices or decentralized receipts suffer from lengthy approval and payment cycles which prevent them from optimizing their financial gain from discounts.

Figure 2

Interest in Discount Capture

While interest in capturing discounts is high, many companies are unable to capture discounts offered by suppliers.
The potential rewards for early supplier payments are great. Even the standard discount of 2 percent for payment within 10 days translates to an annual percentage rate of almost 37 percent. And yet, only about 25 percent of the companies PayStream surveyed were able to capture all discounts offered, see Figure 2. The reasons most often given for failure to take an early payment discount were lengthy approval cycles and lost or missing invoices – both problems commonly associated with manual payment processes and paper invoices, see Figure 3. Despite these clear advantages, challenges remain.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lengthy Approval Cycles</td>
<td>27%</td>
</tr>
<tr>
<td>Large Number of Exceptions</td>
<td>13%</td>
</tr>
<tr>
<td>Missing Information on Invoices</td>
<td>8%</td>
</tr>
<tr>
<td>Lost or Missing Invoices</td>
<td>21%</td>
</tr>
<tr>
<td>Decentralized Invoice Receipt</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
</tr>
</tbody>
</table>

Figure 3

Reasons for Late Payments and Missed Discounts

Lengthy approval cycles ranks as the top reason for late payments and missed discounts.
What is Dynamic Discount Management?

Dynamic Discounting harnesses the power of electronic invoicing and the cloud to enable buyers and suppliers to propose discount terms that change. Instead of the former static practice of offering a “2%, 10, net 30” discount, dynamic discounting might include offering discounts on a sliding scale that can change daily or even hourly depending upon both parties’ needs. A more recent innovation opens discounts to competitive bids and invites banks and third-party funders to participate. Enabling participants to make the best deal for themselves creates a “win-win” for all parties.

**Sliding Scale Discounts**

The technology of most Dynamic Discounting solutions provides a user-friendly interface that brings buyers and sellers together and enables both sides of each transaction to benefit by capitalizing on early payment discounts on a much larger scale than was previously possible. There are two key differences between this type of dynamic discounting and traditional static terms:

1. Sliding Scale Discounts decrease with the passage of time.
2. With discounts spread over 30 days, virtually all invoices paid in 29 days or less are eligible for a discount.

Dynamic discounts allow early payment offers on all approved invoices awaiting payment. This becomes especially powerful for invoices that are approved quickly such as those generated directly from a purchase order and those originating electronically via EDI, vendor portal, or eInvoicing network.

Automated solutions are collaborative to varying degrees, allowing both buyers and sellers to come to mutually agreeable discount terms quickly and efficiently. This discount can offer buyers a double digit APR while at the same time satisfying suppliers’ immediate need for cash.

Funding for sliding scale dynamic discounts usually comes from a buyer’s working capital, although banks, auctions and third parties are becoming more involved as word of available returns and relatively low risk spreads. Early payments can be lucrative for large buyers since the typical interest rates underlying the discounts are much higher than the buyer’s cost of capital for risk-free investments such as certificates of deposit.

**Third Party Financing**

DDM solutions also enable buyers to access an alternative early payment funding source – third party financing. Depending on liquidity requirements, all Dynamic Discount Management solutions aim to improve the buyer’s bottom line, while Third Party Financing can be used to free up working capital.
Third Party Finance solutions come in three types:

1. **Supply Chain Finance** provided by a bank or other financial lenders allows payers to use other capital sources to pay suppliers before the due date.

2. **Receivables Trading** allows sellers to place their accounts receivable in the open market for purchase by hedge funds and private lenders.

3. **Market-Based Price Discovery** is an auction-based type of receivables trading.

1. **Supply Chain Finance**

   Some buying organizations may want to limit the amount of working capital they invest. Supply Chain Finance (SCF) is typically used to enable an extension of payment terms by a large buying organization, which results in a one-time improvement in working capital. SCF provides suppliers with access to financing at attractive rates, which reduces a buyer’s supply chain risk.

   From an accounting standpoint, not much changes for the buying organization, as the bank advances early payment, “buying” the receivable from the supplier. The buying organization then makes payment to the bank, instead of the supplier. In certain industries such as retail and heavy manufacturing, SCF is an important source of capital to fund the supply chain, providing access to early funds at a rate close to the buyer’s cost of capital. SCF enables suppliers to reduce their Days Sales Outstanding (DSO) without resorting to more expensive financing options such as factoring and asset-based lending. Due to its higher legal and process requirements, SCF is mostly deployed only for larger suppliers, and may not be as well suited for suppliers of all sizes, as is Dynamic Discounting.

2. **Receivables Trading**

   Receivables trading enable suppliers to trade their approved receivables for cash in an exchange platform. The exchange houses all the transaction history and buyer/supplier information and facilitates the matching of a supplier interested in early payment with a willing lender. In an exchange similar to factoring, the lender advances the supplier funds before the due date and takes payment assignment from the buyer, who pays the lender before the due date.

   The buying organization must approve the invoice and trade payable to be traded before any transactions take place. Upon approval, the buyer can either guarantee payment of an invoice (similar to factoring), or agree to make payments to the intermediate lender. The arbitrage opportunity between large buying organizations and their smaller suppliers makes these vehicles popular for organizations that may not want to use their own capital to fund trade payables. Third party supplier financing solutions position buyers to partner with innovative banks and other lenders to support their supply chains, allowing buyers to retain if not extend, their (DPO).
3. Market-Based Price Discovery

Market-Based Price Discovery is an auction-based type of receivables trading. In this scenario buyers can award early payment to suppliers that bid a discount that meets the buyer’s specific return parameters. Suppliers compete for shares of an early payment cash pool, each according to their own need, with various discount rates being established online. Like all Dynamic Discount Management solutions only approved invoices are eligible for the program. Market-Based Price Discovery provides the treasury organization a low-risk investment option with returns typically higher than other investment vehicles.
Working Capital and Payables

DDM solutions provide early settlement opportunities that serve the cash management needs of buyers and suppliers. DDM provides suppliers with liquidity and buyers with a low-risk, high yield, short-term investment opportunity. While discounts were historically driven by suppliers as an incentive to secure early payment, enhanced visibility into invoice status via automation and collaborative networks are turning the tables and enabling buyer organizations to proactively propose early settlement discounts to suppliers. Third-party financing enables buyers to extend their payment terms through the injection of third-party capital without adversely affecting supplier relations. Suppliers gain additional cash liquidity and stronger balance sheet positions.

Invoice Approval Cycle Times

For many buyers, timely invoice approval was not a priority prior to the availability of DDM tools. Faster approvals didn’t necessarily lead to accelerated payments. In fact, during the recent financial downturn, extending payment cycles allowed many large buying organizations to improve their liquidity. Successful DDM depends upon fast invoice processing – ideally less than 14 days. Since only approved invoices can be used for DDM to work, the volume and number of invoices awaiting payment is the critical ingredient to unlocking DDM opportunities.

Electronic Processes Drive Supplier Interest

Most companies list supplier resistance as the biggest obstacle to implementing DDM. eInvoice automation that makes the solution easy for the supplier to benefit can help overcome that obstacle. Many solutions offer self-service supplier portals integrated with DDM, which provides valuable services to both suppliers and buyers. Since DDM solutions generally accelerate the exchange of information between trading partners and provide improved visibility and control over financial transactions, suppliers’ ability to upload, view and track invoices in real time as they make their way through a buyer’s workflow process, improves the visibility and control they have over AR processes.

Suppliers receive notification immediately upon completion of a buyer’s payables approval process, allowing them to monitor and assess receivables in real time. For the buyer, this translates into a reduction in resources required to resolve discrepancies and respond to inquiries. Both buyers and sellers receive payment data and remittance detail electronically facilitating reconciliation of payables and receivables. In particular, companies holding excess liquidity will find dynamic discounting attractive, as it presents an opportunity to make short term, risk-free investments in their own supply chain at rates superior to most other investments. A dynamic discounting solution will also result in a reduction of AP in the short term but with a lower spend due to discounts earned. Seventy-two percent of companies surveyed cited lower processing costs as a major benefit.
of implementing a DDM solution. Typical savings can range from $1 million to $5 million per billion dollars in annual spend discounted.

Electronic payments, the final step in a fully-automated purchase-to-pay solution, are critical to dynamic discounting, because they accelerate the payment cycle and provide the fraud protection and control required to capitalize on the various discount opportunities discussed below, see Figure 4. ePayments can also significantly lower processing costs by removing the need for printing and mailing checks. Less paper reduces opportunities for fraud. Supplier notification and vendor self-service options reduce the number of supplier inquiries and exceptions. Online search and retrieval tools aid in payment verification and collaborative dispute resolution, as well as compliance with all regulatory requirements.

Enhanced visibility into the timing and amount of payments aids in superior cash flow forecasting capability for suppliers while delivering better cash liquidity and stronger balance sheet positions for suppliers without relying on high cost financing alternatives. Buyers can extend payment terms; suppliers can accelerate cash conversion cycles.

Despite the benefits associated with electronic payments, many companies still issue payments via paper checks. This cumbersome manual-based process
impacts the number of discounts captured since it slows the invoice process time resulting in late payments and missed discounts, see Figure 5 for the primary reasons companies do not use electronic payments.

**Figure 5**  
*Primary Reason Companies do not Use Electronic Payments*

Supplier resistance is the number one reason companies do not utilize ePayments.
What Should I Do Next?

DDM generally works well if there is a strong vision and alignment around process improvement. To achieve the long-term value of DDM, organizations need to adopt a strategy involving both procurement and finance, and therefore initiatives should be approached at an enterprise level. DDM initiatives need a strong framework to ensure that programs are approached on a strategic basis which bridges the supply chain, accounts payable and finance functions. PayStream’s analysts have introduced such a framework to help enterprises implement “integrated” DDM and maximize its benefits. When considering DDM, there are a number of features that are valuable to consider, including:

**Dynamic Discounting Management Tools**

**Discount configuration** – flexibility to configure and change discount schemes at various levels, globally for all suppliers, for specific supplier tiers and even at the individual supplier level.

**Discount control** – ability for buyers to specify which invoices will be made available for discounting based on working capital needs and the dates on which these invoices can be discounted.

**Payables portal** – suppliers can log into the portal and view invoices that can be discounted and evaluate the associated financing fees and timing.

**Auction and trading platform** – usually a web exchange where suppliers discount or trade specific invoices.

**Accounting integration** – this tool accounts for the integration and posting of payments, discounts such as changes to Cost of Goods Sold, General Ledger entries to buyers’ ERP and accounting systems.

**Remittance management** – sending the remittance information to suppliers via the portal in a format of their choice so they can easily transfer the remittance advices into their receivables systems.
Reporting & Analysis

When selecting a discounting solution, it is important to consider the strategic as well as tactical capabilities. Just as good inputs are required up front, it is important to consider the outputs, specifically the analytics and reporting capabilities on the back end that will provide visibility to buyers and suppliers and provide decision makers with the tools they need to optimize cash management.

**Standard reports** – most discounting solutions provide a suite of standard reports bundled with their systems that enable authorized users to perform simple and advanced searches to generate reports that provide visibility across transactions to buyers and suppliers.

**Custom reports** – ability to generate ad hoc reports and save the queries as templates.

**Business intelligence** – information gleaned from the procure-to-pay process can be used not only to comply with regulatory requirements but also to provide valuable data for strategic spend analysis.
PayStream Advisors has created the Discount Management Implementation Guide called “The Eight Building Blocks of Invoice Automation and Discount Management” to help enterprises see the big picture, make their business cases and plan their implementation.

### Figure 6

**Eight Building Blocks of Invoice Automation and Discount Management**

A strategic framework to bridge supply chain, accounts payable and finance functions.

<table>
<thead>
<tr>
<th>P2P Vision</th>
<th>P2P Strategy</th>
<th>Supplier Interaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>Goals</td>
<td>Collaboration Goals</td>
</tr>
<tr>
<td>Cross-functional Alignment</td>
<td>Measurements</td>
<td>Segmentation Planning</td>
</tr>
<tr>
<td>Value Proposition</td>
<td>Automation Roadmap</td>
<td>Communications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Incentives/Disincentives</td>
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</table>

<table>
<thead>
<tr>
<th>P2P Processes</th>
<th>8 Building Blocks of Invoice Automation</th>
<th>Culture / Change Management</th>
</tr>
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<tbody>
<tr>
<td>Invoice Visibility Accruals</td>
<td>Goals</td>
<td>Inter-departmental Synergy</td>
</tr>
<tr>
<td>Cash Conversion Cycle</td>
<td>Measurements</td>
<td>Shared Goals/Risks</td>
</tr>
<tr>
<td>Processing Efficiency</td>
<td>Automation Roadmap</td>
<td>IT Resources</td>
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<tr>
<td>Stakeholder-Oriented</td>
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<td>Training</td>
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</table>

<table>
<thead>
<tr>
<th>P2P Information</th>
<th>P2P Technology</th>
<th>P2P Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency Metrics</td>
<td>Imaging Workflow</td>
<td>SaaS Delivery</td>
</tr>
<tr>
<td>Benchmarking Data</td>
<td>eInvoice Applications</td>
<td>Invoice Networks</td>
</tr>
<tr>
<td>Dashboards</td>
<td>Architecture</td>
<td>Supplier On-boarding</td>
</tr>
<tr>
<td>Payment Scheduling</td>
<td>Integration with ERP</td>
<td>Discount Management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd Party PCards, ePayment</td>
</tr>
</tbody>
</table>

1. **Purchase-to-Pay Vision**
   - a. Leadership and senior management buy-in
   - b. Cross-functional alignment and support
   - c. Clear understanding of the value proposition

2. **Purchase-to-Pay Strategy**
   - a. Clear and concise discount management strategy
   - b. Multi-year automation roadmap
   - c. Documented metrics to measure progress
3. Supplier Interaction
   a. Defining buyer-supplier collaboration goals
   b. Vendor segmentation and adoption planning
   c. Supplier communication and recruitment strategy
   d. Payment and discount terms configuration
   e. Incentives/penalties to drive supplier behavior

4. Culture and Change Management
   a. Inter-departmental collaboration and shared risk/goals
   b. IT resource allocation and training
   c. Incentive compensation based on goals achieved
   d. Cash management flexibility

5. Process Management
   a. Enhanced invoice visibility and accurate accruals
   b. Cash conversion cycle and DPO goals
   c. Improving processing efficiencies and accelerating approval cycles

6. Purchase-to-Pay Information
   a. Identifying efficiency metrics that need to be improved
   b. Leveraging external benchmarking data
   c. Visibility across transactions and access to data dashboards

7. Automation Technology
   a. Front-end imaging and approval workflow solutions
   b. Electronic invoice submission and receipt applications
   c. Seamless integration with ERP and accounting systems

8. Value-Added Services
   a. Multiple delivery models including hosted and SaaS
   b. Supplier recruitment and on-boarding
   c. Availability of third-party credit and financing
The above framework can be used for internal education and debate in developing the Discount Management vision and strategies. It can then be the basis of an assessment of the enterprise's current and required capabilities, to help understand its current position and future strategy.
Ariba

Ariba, an SAP company, makes business commerce as easy as consumer commerce, with software solutions that enable organizations to buy, sell and manage cash in a networked economy. More than 100,000 companies around the world, including more than 80 percent of the Fortune 1000, use the Ariba Commerce Cloud to transact more than $400 billion in business annually.

Ariba Discount Professional™ has helped clients maximize the benefits of Dynamic Discounting since 2003. It is part of the Ariba Collaborative Finance Solutions suite that spans the Procure-to-Pay process from smart invoicing and paper invoice conversion to integrated electronic payment and working capital management. These solutions support global e-invoicing in more than 70 currencies as well as digital signature authentication, VAT/tax compliance and data archiving.

Website  www.ariba.com

Founded  1996

Headquarters  Sunnyvale, CA

Other Locations  40 offices in 21 countries, including North and South America, Europe, Asia/Pacific and Australia

Employees  2,432

Revenues  Quarter end 6/30/2012: $131.5 million ($443.8 million for FY 2011)

Customers  1 million + trading partners

End Users  4.5 million+

Annual Transaction Volume  >$400 billion +

Industry Segments  Consumer goods, distribution, financial services, healthcare and pharmaceutical, manufacturing, oil and gas, public sector, publishing, retail, services, telecom, utilities, among others.

Key Accounts  Key clients are market leaders in target verticals. A small sample includes AstraZeneca, Bank of America, Entergy, GlaxoSmithKline.

Partners / Resellers
IBM, ScanOne, Logica, TrustWeaver, Hubspan, and Microsoft. BPO providers Genpact and Accenture. Bank reseller Wells Fargo. The Receivables Exchange for receivables financing.

Solution Overview

Ariba Discount Professional™ is a full-suite dynamic discount platform that allows buyers and suppliers to collaborate in both automatic and/or ad-hoc dynamic discounts. The solution has enabled clients to maximize the benefits of Dynamic Discount Management (DDM) since 2003. Fully integrated into the Ariba Collaborative Finance Solutions Suite, Ariba Discount Professional™ allows clients to earn high returns on available cash by offering suppliers a variety of discount options customized for each client’s business needs. Trading partners can connect and collaborate over multiple business processes, giving full visibility to both sides into order and invoice status, payment timing and fulfillment, and early payment opportunities.

SAP’s acquisition of Ariba in late 2012 made Ariba Discount Professional™ SAP’s only native DDM solution. Ariba Discount Professional™ will be fully integrated into the SAP suite of solutions and be part of the joint Ariba/SAP roadmap for ongoing innovation. These innovations will still be available to all Ariba Network customers, regardless of platform.

Supplier Recruitment

Good results for suppliers translate into great results for buyers. Ariba’s RapidRamp accelerated supplier onboarding methodology is part of the standard solution package. Ariba has over 500 global employees dedicated to supplier recruitment and enablement. Over 1 million trading partners around the world are already part of the network.

Ariba’s Working Capital Management services team begins working for clients as soon as the contract is signed. Given that most companies do not have the time, expertise or resources to actively manage a dynamic discounting or payment terms initiative, Ariba’s managed services team helps clients define a clear strategy, and then employs Ariba’s Rapid Ramp™ methodology to actively drive supplier onboarding and discount participation, so that many of the client’s suppliers are signed up and ready to participate in dynamic discounting from the moment the system is live. Once live, the supplier interface allows suppliers to see all their buyers on one screen through one log-in, and their ability to easily navigate their discount options is a key recruiting tool for Ariba Discount Professional™.

Electronic Invoicing

Ariba Invoice Automation and Ariba Invoice Professional solutions are also available to customers on the Ariba Network. Ariba smart invoicing features the
most advanced validation rules available, driving straight-through processing rates to more than 98 percent of invoices processed through the Network. Errant invoices are returned to the supplier before entering the organization. This accelerates the processing of valid PO and non-PO invoices before invoices post to ERP/back office systems. The solution also performs automated, detailed PO-line level matching on any invoice using 80+ user-configurable business rules with no coding required.

Both suppliers and buyers have full visibility into invoice approval status and payment timing. This visibility, combined with the solution’s ability to contain an unlimited number of discount options, enables all network participants to better forecast their cash flow and adjust the dynamic discounting to meet their business cash needs.

**Dynamic Discounting**

Ariba Discount Professional™ enables clients to take advantage of a variety of discount options customized to fit a client’s specific business needs. The solution offers suppliers many attractive options beyond traditional discounts, including a sliding scale of discounts depending upon the time of payment. The solution supports both automatic and ad-hoc Dynamic Discounts, allowing for both recurring and one-time-only discount capabilities. The system has flexibility through Ariba Receivables Financing to allow suppliers to receive early payments from third parties in addition to the buyer-funded model of Ariba Discount Professional™.

A key differentiator of the solution is that it allows suppliers the ability to automatically accept early payment offers or review those on an-ad hoc basis and select specific invoices to be paid on specific days. Suppliers can also initiate discount offers and propose counter-offers. Suppliers who would like to proactively manage their cash flow can use Ariba’s proprietary Cash Flow Optimizer to input cash flow need and discount parameters and have the system recommend various options on how best to meet those needs with the approved invoices waiting for them.

**Reporting and Analytics**

Ariba’s e-invoicing solution’s reporting functionality includes operational and analytical capabilities and extensive search functionality. Ad hoc reporting allows prioritization of invoice processing to maximize discount savings potential. Users can manipulate available data through an intuitive pivot table drag-and-drop interface. Ariba also allows for data export to third-party reporting tools such as Crystal Reports for further analysis. The Ariba reporting/analytics tool is optimized for B2B and source-to-settle processes and allows customization of report templates to meet each customer’s reporting needs.
Cash Management

The solution enables buyers to turn their receivables management into a profit center, receiving returns on their cash that far exceed bank money market accounts and other traditional methods of managing cash. Suppliers can use the solution’s Cash Optimizer to recommend the discounts to offer based on their cash flow needs. The ultimate decision, of course, rests with the buyer.

Ariba’s flexible solution configuration options accommodate requirements for customers no matter how large or small. Global companies with many different back office systems and document types, thousands of suppliers, and billions of dollars in annual spend, in a variety of currencies can use the system as well as smaller companies currently doing business with a few suppliers in a single country. Virtually any ERP or back office system works with Ariba Discount Professional™, being built on the Ariba Network™ which will continue to be ERP agnostic.

Pricing and Implementation

The implementation process is very straightforward. The buyer connects to the Ariba Network via one of the company’s many methods, and then configures to send and receive one message type. Ariba Discount Professional™ can be up and running in as little as a week or two; average implementation time is six weeks. The primary factors that affect this timeline are the availability of client IT resources, whether or not the client is already a member of the Ariba Network, and any other solutions they may be implementing. New customers purchasing Discount Pro as a standalone solution can usually be up and running in a week. Customers who have already installed adapters to connect their ERPs to the Ariba Network can receive Ariba Discount Professional™ by receiving one new message type to be configured and tested.

Ariba’s RapidRamp team provides support and training tutorials and webinars, along with comprehensive documentation that covers all aspects of the product. Response centers in North America, Europe, and Asia Pacific offer global, round-the-clock support by phone, e-mail, or through Ariba Connect. The Ariba Connect customer portal has been recognized as one of “The Ten Best Web Support Sites” by the Association of Web Support professionals. All this is available with Ariba Discount Professional™ for a fee structure that can include annual subscription fees, gain share, or a combination of the two.
A rapidly growing North American retail chain with thousands of stores across the United States and Canada was plagued with a problem common to many organizations: how to process invoices more efficiently. Too much time and effort was involved in the manual processing of paper invoices, especially in the tracking of supplier inquiries into invoice and payment status. Delays in the invoice processing cycle also prevented this retailer from capturing many early payment discounts.

Expanding early payment discounts was a major objective, as the returns on cash from alternate short-term investments were at historic lows. This proved a strong incentive to move from paper invoice processing to e-invoicing, and the retailer chose Ariba.

With Ariba smart invoicing, the retailer can process invoices in a few days. Invoice errors are automatically detected upon receipt, and returned to suppliers for correction and re-submission before processing. This efficient process, together with a web portal that provides suppliers with invoice and payment status, virtually eliminated supplier inquiry calls into accounts payable.

An even greater benefit comes from the ability to manage cash better. By processing electronic invoices in a matter of days with Ariba, the retailer is able to capture all existing early payment discounts. Ariba Discount Professional, an on-demand application delivered through the Ariba Commerce Cloud, takes this one step further, enabling “dynamic discounting” with new groups of suppliers that don’t offer standing discount terms. The retailer can define which suppliers it will target for early payment discount offers, and set rates of return on these discounts. These suppliers can choose to accept an automatic dynamic discount in exchange for early payment on all invoices, or selectively accept ad-hoc dynamic discounts on specific invoices, all on a sliding scale that gradually reduces the discount amount up to the invoice due date.

The ability to gain access to cash without incurring debt, and to reduce Days Sales Outstanding (DSO), makes dynamic discounting appealing to many of the retailer’s suppliers. Before implementing Ariba Discount Professional, only one percent of the retailer’s suppliers offered early payment discounts. Once the retailer deployed the Ariba application, more than 19% of targeted suppliers signed up for a discount program in just seven months.

For the retailer, increasing the returns on short-term cash is a boon to the business. The double-digit cash returns, in some cases above 30 percent, just can’t be earned with any other investment. With aggregate discounts savings tracking at .28% of spend, the retailer is on track to save $2.8 million from early payment discounts for every $1 billion in spend.
Conclusion

With more than 90 percent of practitioners saying Dynamic Discount Management is a priority (up from 80 percent a year ago), DDM is rapidly moving into the mainstream. The potential for high, risk-free returns and the opportunity cost of failing to act is driving some companies to implement DDM first, and use the proceeds to pay for other AP process improvements. Unlike operational improvements, DDM in all of its forms, has a proven appeal to the C-Suite, and really drives home the benefits of AP Automation.

Research suggests that recent innovations, such as buyer-suggested discounts, are being positively received, even among suppliers not previously known for offering early payment discounts. And, in general, the growing perception of dynamic discounting as a cash management tool is replacing the old entitlement mentality, creating a more amicable and sustainable collaborative environment with less opportunity for misunderstandings and claiming of unearned discounts.

The trend toward Dynamic Discount Management is accelerating and PayStream predicts this trend will become more pronounced as the marketplace becomes more aware of the strategic benefits.
About PayStream Advisors

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the web at www.paystreamadvisors.com.