Argyle Conversations

by Argyle Executive Forum[SM]

Embracing Supplier Financing

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[Scott Robbin]: Hi, Maex. Why don't you tell us a bit about your background and history in the invoice and payables space?

[Maex Ament]: Well, some might know me as the Most Remarkable Man in Accounts Payable. Yes, that gentleman who processed 10,000 invoices while rowing solo across the Atlantic. However, others may know me as the Chief Product Officer of Taulia - someone who realized that with a lot of hard work and a game-changing idea, we had the power to do something meaningful within the industry.

I've been heavily involved in the accounts payable space for almost 20 years and have had the opportunity to see how it has evolved, the challenges that arose and the natural progression of business solutions appearing in the market. In the beginning, the focus was on automating manual invoicing processes with solutions such as data capture and optical character recognition (OCR), which had a huge impact in the space. The next logical step was finding a way to have invoices approved faster and paid easier, which brought in a whole new set of technologies such as electronic invoicing and electronic payments, as well as overall operational efficiencies. Accounts Payable departments were no longer manually keying in paper invoices or spending hours on the phone answering payment status inquiries from suppliers. However, even though the invoices were being received and approved much earlier than ever before, the benefits of the new innovations stopped there. The invoices were still not being paid until the due date, leaving thousands and thousands of approved invoices sitting idle. I like to think of it like a credit card: there is no incentive to pay your credit card early, even if you have the cash on hand, so you naturally pay on the due date. This is what virtually all large organizations were doing, waiting to pay approved invoices until the due date because there was no incentive to pay early, and this is where I saw a huge opportunity.

Right. So what was the next step?

Having seen firsthand the needs of businesses change, we saw the gap in time from the invoice approval date to payment date as an opportunity to create value. This is where Dynamic Discounting comes into play - it's simple, approved invoices can be paid early in exchange for a discount. Companies with only a few suppliers could work out early payment discount programs on their own through one-off negotiations, but large organizations with thousands of suppliers could only achieve success through automating the process - this is where Taulia comes in.

Over the years, we have continued to expand our offering from Dynamic Discounting to the greater procure-to-pay space, offering everything from E-Invoicing to Supplier Self-Services, to ePayments and Rich Remittance. Each enhancement has allowed us to set up an environment that helps buyers strengthen their supplier relationships and also helps companies using Dynamic Discounting reach their full potential. We really see ourselves as the glue between corporate financial organizations and their supply chains.

What makes Taulia unique is that we were one of the first to recognize the opportunity to create value in the supply chain, and our real focus is, and will always remain, on creating a way to strengthen cash positions for both buyers and suppliers by offering early payment financing and making it as scalable as possible.

Historically, how had corporate financial organizations created value through their supply chain?

Back in the 1980's, interest rates peaked above 20%, so it made sense to hold onto your cash for as long as possible because it yielded such exceptional returns. In terms of creating value through the supply chain, all you had to do was extend payment terms as far out as possible, allowing you to earn interest on your idle cash for even longer. Naturally, this practice created a lot of tension with suppliers who prefer to get their payments sooner. Today, with idle cash earning near-zero returns, it no longer pays off to hold on to excess cash. More strategic organizations are now seeing that there are better ways to strengthen cash positions, in particular, through Dynamic Discounting.

So let's talk about Dynamic Discounting, since you mentioned that's why you founded Taulia. How has the current financial landscape influenced both buyers and suppliers to get on board with Dynamic Discounting?

The current financial market presents challenges for both buyers and their suppliers. Suppliers are struggling to secure sufficient capital to fund operations due to extended payment terms and strict bank lending requirements.

If they are able to access capital, either through the bank, by factoring receivables or putting operating expenses on credit cards, that capital is very expensive. Meanwhile, with cash earning such minimal returns, CFOs have been searching for alternative investment opportunities, often to no avail because there is so rarely a low-risk, high-return investment landscape.

This is where Dynamic Discounting comes into play because it addresses both of these challenges. Suppliers are able to access capital at a much more attractive rate, and CFOs are able to earn high returns through a risk-free investment opportunity in their supply chain - one of their most critical assets. That's why Dynamic Discounting is such a strong value proposition - it's a solution that has mutually beneficial incentives and results.

What has the response been, specifically from CFOs, in considering a Dynamic Discounting solution? Has there been any pushback?

The payables industry as a whole tends to be hesitant to new technologies and new ways of thinking. For years, the traditional philosophy of holding onto your cash for as long as possible was the most beneficial way for large organizations to operate. However, with interest rates as low as they are, it has been relatively easy to show the value in letting go of that mindset in this new financial climate. Innovative CFOs are looking at Dynamic Discounting as a risk-free, short-term investment opportunity and a way to earn high returns on excess liquidity. They realize that they would be paying these invoices anyways; why not pay early, and pay less?

The only challenge we have encountered is that some organizations still have sensitivity around stretching Days Payable Outstanding (DPO) as far out as possible, which is why we recently launched Taulia Enhanced Discounting, while allows organizations to use third-party financing to fund early payment programs, instead of using (or in combination with) their own cash. In other words, they can leave DPO untouched, or even extend it, while still capturing early payment discounts.

How does Taulia Enhanced Discounting work in comparison to traditional Supply Chain Finance (SCF)?

The basic concept is the same: use a third-party to fund early payments in order to receive a discount share without capital outlay or DPO impact. Traditional SCF programs with banks do work (we partner with Citi, for example), however they are less flexible and less scalable than Taulia Enhanced Discounting. The process of onboarding suppliers onto a SCF program is lengthy and expensive, so organizations with tens of thousands of suppliers typically only use SCF for their top 20-50 large-volume suppliers. The problem with this model is that the other 98% of suppliers that don't qualify for traditional SCF programs (the "long-tail") are generally those who are in need of capital the most and are the most willing to grant discounts (often at higher rates). With Taulia Enhanced Discounting, we enable third-party funding to address your entire supply chain - even those who typically aren't qualified for traditional bank-funded SCF programs.

With that in mind, what is the current landscape of traditional supply chain finance (SCF) looking like in comparison?

Traditional supply chain finance programs are still growing - having increased around 15x in the past four years. There are about 2,000 SCF programs in the world right now, however, they still only target a very small fraction of suppliers. Taulia Enhanced Discounting is a completely new concept. Corporate financial organizations have never had the option to extend the benefits they get through SCF to their entire supply chain, while still reaping the benefits of Dynamic Discounting. The difference is the impact of 25 suppliers, compared to say, 25,000 suppliers. And while spending with each one of those additional suppliers can be small, the sum is enormous. Being able to use third-party funding all the way down the supply chain is revolutionary and will open up tremendous opportunities for organizations to hold onto their cash, or use it for other strategic initiatives.

So do you view Taulia Enhanced Discounting as competitive or complementary to Dynamic Discounting and Supply Chain Finance?

We see Taulia Enhanced Discounting as a complementary offering to our other supplier finance products, including traditional Supply Chain Finance. There will still be cases where using bank funding for traditional SCF makes sense and cases where using your own cash for Dynamic Discounting makes sense. Taulia Enhanced Discounting is all about giving organizations the flexibility to completely customize a solution that serves their unique strategic objectives. Looking ahead, we see the ideal discounting program as a hybrid of these three solutions.

This paints a beautiful picture - one where suppliers always have the option to be paid early in exchange for a discount, and buyers always capture discounts, regardless of whether or not they are funding the early payment - thus, a solution that truly strengthens supplier relationships and optimizes the financial supply chain.

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BIO:

Markus (Maex) Ament

Markus, or Maex as he is known, is Chief Product Officer at Taulia, where he is responsible for driving Taulia's product and professional services strategy. Prior to co-founding Taulia, Maex was also a founding member of Ebydos, where he was instrumental in the conception and development of the Invoice Cockpit and Web Cycle solutions, which were eventually sold to ReadSoft in 2006. Maex joined ReadSoft as Chief Technology Officer and served on the board of ReadSoft US, as well as ReadSoft's SAP Labs and helped grow revenue by more than 70% at ReadSoft US. Maex began his career working for SAP, developing and deploying payment and banking solutions in the SAP Financials area. Maex also served as an angel investor and advisor in BayBrain/Snappr, a mobile start-up. While Maex considers work his biggest hobby, he also enjoys being with his family, traveling, snowboarding and scuba diving. Follow Maex on Twitter @maex242.