

SharedServicesLink.com Presents

Dynamic Discounting - a Better Way to do business?



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We've all heard of working capital optimisation, but what can it really mean for your business? With the launch of Taulia Enhanced Discounting, we examine the practical effects and benefits it can bring to your business –beyond simply cost savings. At sharedserviceslink, over the past year or so, we've seen an explosion in the market's interest in working capital optimisation, and a significant increase in the number of solution providers expanding into this area. There has been a particular interest in dynamic discounting as an alternative way of financing your supply chain. But what makes dynamic discounting different? Is it just another way of saving money or can it really have a wider impact on other aspects of your business?

The Driving Force Behind Innovation

The global financial crisis burnt many companies, and in turn caused them to take a good look at how they were doing business.

The larger organisations with cash reserves were no longer able to rely on the high interest rates to generate revenue, and so became much more careful with the way they were spending. For the smaller organisations, this had the knock-on effect of slowing down their cash flow and therefore rate of growth. In other words, the market stagnated.

It was time for affected companies to leverage their second greatest strength, after their own products and services – their business relationships.

As solutions such as supply chain financing, factoring and dynamic discounting became available, those organisations could begin to take a more analytical and strategic look at their entire supply chain.

The Challenge with Traditional Solutions

However, each of these solutions, despite their benefits, comes with pitfalls.

Traditional supply chain financing involves the supplier of goods selling its outstanding invoices to a third party funder, usually a bank. This solves the supplier's cash flow issues, and the bank, which may offer more generous payment terms to the buyer, then owns the buyer's dept. However the bank's involvement is dependent on the credit-worthiness of each party, meaning that it is usually only a viable solution for more established suppliers, sending over high volume, high cost invoices.

Similarly, factoring provides a financial 'quick win' to the supplier – by selling their accounts receivables to a third party, usually not a bank, they can satisfy their immediate financial needs, for example, staffing costs. For companies that have a financial need and are finding it tough to secure financing by other means, due to the stricter lending requirements of today's economy, factoring might seem a good idea to free up the resource you would allocate to collections to more front-end business activities. But in the longer term, this actually translates into a significant decrease in control and flexibility. Factoring often usually comes at a higher cost than most loans and the factoring partner can even govern who you do and don't do business with, based on the buyer's credit history.

Dynamic discounting, the least risky option of the three, is where buyers set an APR for early payments and agree to pay their invoices early in exchange for a discount. The rate of the discount is dependent on a sliding scale, i.e. the earlier the buyer pays, the greater the discount. However, dynamic discounting can negatively impact your DPO (days payable outstanding).

A second challenge with this line-up is exactly that – it's a line-up, not a joined-up approach. Having to take a different approach for different types of suppliers is costly, both financially and from a time perspective.



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There Had to Be a Better Way

At sharedserviceslink, we're a tough audience to impress, but from our experience of talking to Taulia customers, Taulia Enhanced Discounting (TED) is an innovative way for companies to address the needs of their entire supply chain.

So what is TED? Basically, it's a flexible financing option that allows buyers to accelerate early payments to their suppliers using the liquidity available to them from a third party. Now on the platform, buyers can capture discounts on early payments – either with their own cash (Dynamic Discounting) or third-party cash (Taulia Enhanced Discounting) – from any supplier, regardless of size or geographic location. In other words, it combines the benefits of dynamic discounting with a supply chain finance programme to allow uninterrupted financing.

And how does it work? In a few short steps:

1. Through Taulia's web-hosted portal, the supplier selects to be paid early in exchange for a discount on the invoice
2. The supplier is then paid on the selected date using third-party funds
3. The buyer of the goods pays the full invoice amount on the due date
4. ...And then receives a share of the discount from Taulia.

"As the industry continues to move towards flexible financing options, we are focused on developing offerings that help organizations become more profitable, while providing the opportunity to customize the financing program that fits their individual business needs," said Bertram Meyer, CEO of Taulia. "By combining Dynamic Discounting with Supply Chain Finance, both buyers, and their suppliers benefit greatly."

In addition, because Taulia collects all relevant and necessary contact and banking information from suppliers during the onboarding process, there are no additional costs or actions required to provide suppliers with these financing options.

Unlocking the Value in Your Supply Chain

So what are the benefits that Taulia's clients are realising from using the solution?

For the buyers, they are seeing a direct impact on their bottom line, as they are now able to capture discounts on all invoices. This in turn has improved their balance sheet treatment due to the cash remaining on the books. And finally, the transparency and uninterrupted availability of the solution has significantly strengthened their relationships with their suppliers.

For the suppliers, the key benefit has been on their working capital. They are now able to plan their fiscal future with much more clarity and confidence.

But why believe us? See for yourself how companies such as Coca-Cola Bottling Co. Consolidated, Hallmark, Pfizer, TELUS and Warner Brothers are all benefiting from Taulia's innovations.

For more information, contact Taulia through Taulia.com/TED

