Dynamic Discounting

Building a resilient and sustainable supply chain

SAP Taulia

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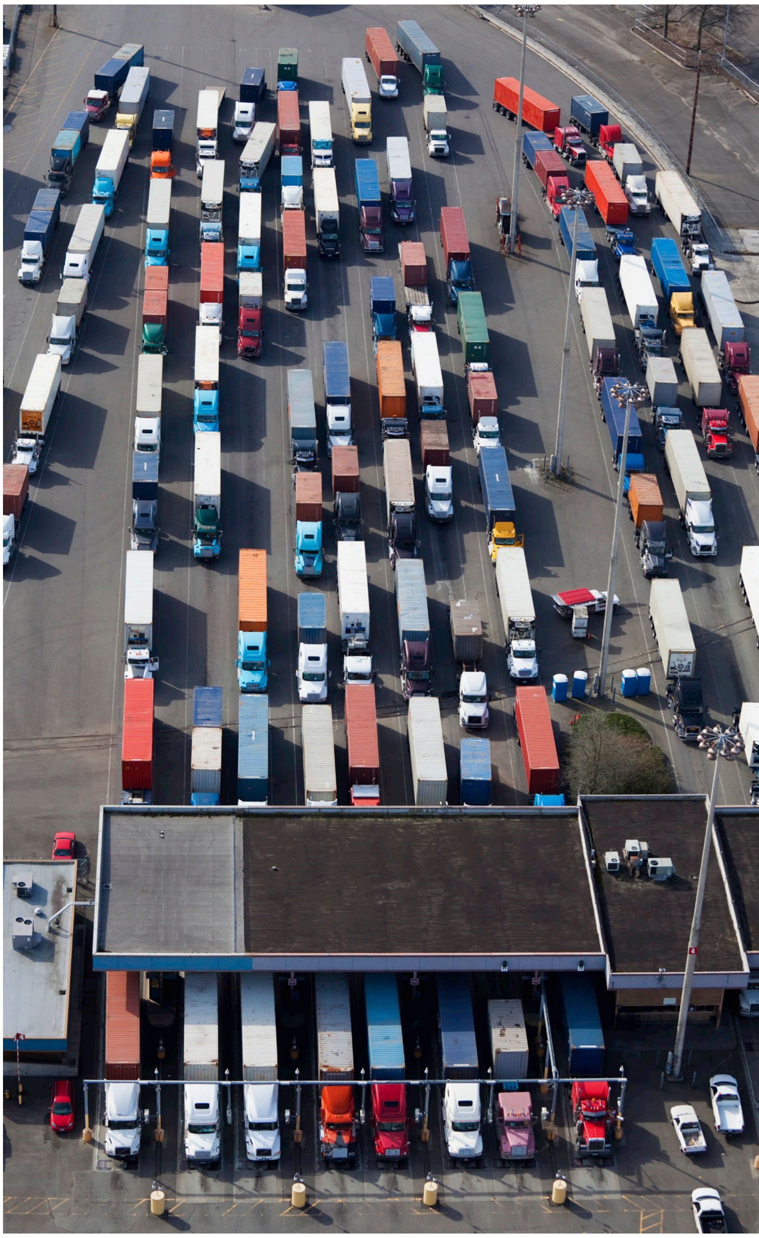
Supplier financing is in demand

The events of the last few years have exposed global supply chains' strategic value, and also their fragility. This has caused finance executives to consider more closely the weak points in their supply chains, the impact of their procurement policies, and the damage that late payments are causing to their respective supply chain networks.

Against a backdrop of difficult macroeconomic conditions and geopolitical uncertainties, suppliers are facing myriad challenges. Many are struggling to access traditional lending – and while central banks began reducing interest rates in 2024, the rate cutting cycle has proved slower than many had expected.

And as SAP Taulia's 2024/25 Supplier Survey revealed, more than half of suppliers are being paid late by their customers on average, disrupting cash flow and hindering companies' growth ambitions. Given the pressures of today's environment, it's no surprise that almost two thirds (63%) of respondents were interested in taking early payments.

Meanwhile, the risk of supply chain disruption and raw material shortages remains considerable, not least because of the impact of geopolitical uncertainty and macroeconomic headwinds.
In light of these pressures, companies around the world are taking steps to support the financial health of their suppliers by providing early payment in an easy, flexible and balanced way.



Dynamic Discounting in uncertain times

In this market, the ability to support suppliers with early payments can make the difference between meeting customer demand and experiencing costly stock outages.

As such, tools like Dynamic Discounting have much to offer. Dynamic Discounting allows buyers to inject cash into the supply chain when needed, thereby supporting suppliers with early payments, while also achieving a return on excess cash. In addition, Dynamic Discounting is flexible enough to be used alongside other working capital solutions, such as Supply Chain Finance and Virtual Cards.

As technology continues to digitize and integrate supply chains, the hurdles and bottlenecks that have previously limited dynamic collaboration between buyers and suppliers on a large scale are falling away. The time is ripe for Dynamic Discounting programs that meet suppliers' working capital needs, while enabling buyers to earn yield on their excess cash.

51%

of suppliers are paid late by their customers on average

63%

are interested in taking early payments

SAP Taulia Supplier Survey 2024/25

What is Dynamic Discounting?

Dynamic Discounting allows suppliers to receive early payment on individual invoices in exchange for a discount.

Suppliers can choose which invoices to discount and how soon they want to receive payment. The size of the discount varies depending on how early the invoice is paid: the sooner the supplier requests early payment, the greater the discount will be.

While Dynamic Discounting has many similarities to a Supply Chain Finance program, a key difference is that in Dynamic Discounting, the cash for payment of the invoice is not financed by a bank but is usually paid out of the buyer's cash surplus.

The benefits of Dynamic Discounting include the following:

- The supplier has control over which invoices to discount and how soon they will receive payment.
- Suppliers typically have access to cash at a lower effective rate than they can access with bank lending.
- The buyer gets a risk-free yield on surplus cash, strengthens their supply chain, and automates a holistic discounting process for accounts payable.

By using Dynamic Discounting, suppliers can access a source of financing that helps them navigate market stresses, cash flow gaps, and seasonal variations. They can also increase the predictability of their customer payments and improve their working capital metrics.

Driving operating costs down

In today's environment, businesses are continuing to focus on driving down operating costs, and again, Dynamic Discounting can help companies achieve this.

While inflation rates have subsided from the peaks seen in 2022, inflation continues to present a challenge for some markets. In the United Kingdom, for example, the consumer prices index rose to 3.6% in June, significantly ahead of the Bank of England's target of 2%. In the US, meanwhile, the 12-month inflation rate reached 2.7% in June. Meanwhile, geopolitical and regulatory challenges are exerting upward pressure on costs.

Dynamic discounting can help companies manage costs in two ways:

- The automated discount program at the heart of the system, which is accounted for as a reduction in procurement costs, directly reduces the cost of goods sold.
- An efficient Dynamic Discounting program should also result in more efficient processes, fewer supplier queries, and a reduction in manual work, thereby reducing operating costs for procurement and accounts payable.

Success factors for Dynamic Discounting

In this rapidly evolving landscape, industries are learning that in order to build resilience and agility, they need to view their relationships with suppliers through the same lens as their customer relationships.

This means investing in digital tools and simplified user journeys that enable companies to connect with suppliers and reduce manual supply chain processes. It also means extending the benefits of early payment programs to the entire supplier base, rather than focusing narrowly on a small number of larger suppliers.

Maximizing supplier uptake

Where supplier finance and Dynamic Discounting programs are concerned, older systems tended to be less accessible to smaller suppliers, not least because of the barrier presented by complicated onboarding and manual invoicing processes. Limited engagement with suppliers can likewise reduce the scale and effectiveness of these programs for buyers.

In order to provide the most value for the company and its suppliers, a Dynamic Discounting program needs to be made accessible to suppliers of all sizes. To achieve this, companies need to invest in systems that put suppliers' needs first.

- **Transparency and Integration.** First and foremost, this should include a free-to-use portal that provides transparency across the broader supply chain and integrates the workflows of buyers and suppliers.

- **Supplier Outreach and Onboarding.** Some providers rely on archaic processes with lengthy onboarding tools, while others charge suppliers for onboarding. An effective outreach methodology requires the resources and experience to support at scale.

- **Supplier Data.** Each supplier has unique financial needs, depending on their business model and payment terms, so a comprehensive view of all supplier data is essential. This gives suppliers the analytics and insights they need to improve their processes and take control of their cash flows.

> “We saw at least a 2.5x ROI over and above making investment decisions on our cash, borrowing in the market, including spending money on the program itself.”
>
> Francois Coetzee, Project, Bank and Cash Manager, Sasol

Buy-in from the right teams at the right level

The critical success factors for a Dynamic Discounting program also include cross-functional engagement across the buyer's firm and buy-in at the executive level. Activities like inventory management, supply chain management, and working capital management impact many systems and functions across the business, so process improvements may be needed to fully benefit from solutions like Dynamic Discounting. For example, inefficient processes in accounts payable can delay the acceleration of cash flow for suppliers.

Clear collaboration and communication are also needed between procurement, IT, accounts payable, finance, and treasury to ensure an effective framework for Dynamic Discounting.

Competing KPIs

A particular challenge that requires engagement and collaboration is the need to navigate competing key performance indicators (KPIs) held by different departments. For example, finance or treasury may struggle with the concept of releasing cash flow early to gain discounts.

To address this, stakeholders should be engaged early to make sure the relevant departments are aligned on the metrics and benefits of a Dynamic Discounting program. The most successful programs will also include a business champion at the executive level, from procurement to finance, to support this process and build alignment between different divisions.

Self-funded Early Payments: The business case

Dynamic Discounting provides an attractive opportunity for supply chain investment. As such, it's important to have a clear understanding of the business case.

On a day-to-day basis, smaller suppliers can obtain accelerated working capital in a more automated way – and at a lower cost – than they can using traditional financing options.

As such, one of the essential benefits for buyers is the ability to improve suppliers' financial health, strengthen supplier relationships, and thereby improve the resilience and sustainability of the overall supply chain.

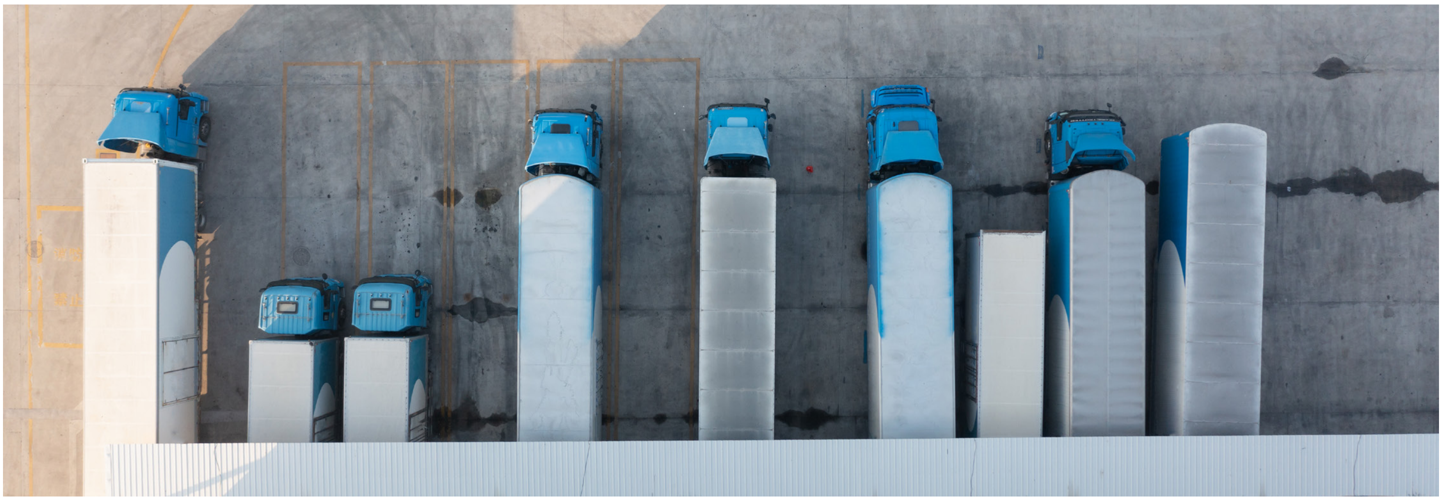
Return on excess cash

Dynamic Discounting is particularly attractive to buyers with excess cash, as it offers the opportunity to attract a higher effective yield than most traditional low-risk investments. Crucially, this involves acceleration of an existing obligation, which means the yield is risk-free.

The most advanced systems are driven by artificial intelligence, which finds the right balance between the cash flow objectives of both supplier and buyer, and yield certainty. For buyers, the stability and predictability of returns from their system can compare favorably to the uncertain and volatile yields that often arise from auction-based discounting or supplier finance programs.

With a predictable, higher return on excess cash – and a system that can engage the full spectrum of suppliers – Dynamic Discounting can often generate a self-funding cash flow. This cash can be used to fund the initial investment in technology that can integrate supply chain analytics, inventory management, and a range of finance tools.

More broadly, the cash flow from a longer-term Dynamic Discounting program offers the potential to fund ongoing investment in new and broader supply chain logistics and finance technology.



Building for the future

Digitization and advanced data applications are rapidly transforming supply chain management. Many companies are replacing outdated legacy systems with more scalable and integrated solutions to help them manage working capital, eliminate errors, and improve processes that directly impact profitability.

For this, companies need solutions that are fit for the future. In particular, they should be looking for providers that offer:

- **ERP integration.** Older systems and processes cannot achieve the efficiency needed in modern supply chain management. Today, companies need access to holistic supply chain solutions that offer deep integration with their ERP systems, minimizing disruption and eliminating lengthy implementation processes.

- **Scalability.** Modern platforms should enable companies to reach not just their 20 largest suppliers, but the long tail of hundreds or even thousands of suppliers.

- **Supplier Enrollment.** Modern Dynamic Discounting programs include rapid onboarding models that allow suppliers to enroll in as little as 90 seconds, helping businesses maximize supplier participation.

- **Flexibility.** Programs that offer a flexible funding model enable the buyer to switch seamlessly between Dynamic Discounting and third-party funded Supply Chain Finance programs. This can help companies navigate seasonal peaks and troughs and respond to unexpected liquidity constraints.

- **Actionable Insights.** By harnessing AI-driven analytics, businesses can unlock powerful insights that help them anticipate risks and optimize their working capital. For example, predictive analytics can give the buyer a realistic picture of the return that a program is expected to generate before it begins.

- **Deep Partnership.** A supply chain technology provider should provide guidance at every stage of the implementation process and develop tailored strategies that help businesses achieve their goals.

Meeting tomorrow's challenges, today
Building a healthy and flexible supply chain has never been more important, so it's no surprise that more firms are adding Dynamic Discounting to their supply chain and working capital management toolbox.

A successful program requires a partner with deep ERP integration, access to a large network of suppliers, and the technology needed to balance the goals of both buyer and supplier. For example, SAP Taulia offers a comprehensive set of working capital management tools seamlessly embedded into the SAP Business Suite.

Whether the priority is supplier health, achieving yield on excess cash, or reducing the cost of goods, today's systems and processes need to be ready for tomorrow's challenges. With this in mind, having a technology provider that's focused on streamlining, automating, and integrating the entire supply chain will continue to be a strategic advantage.

Get in touch today to discuss how SAP Taulia's holistic suite of working capital management tools – including Dynamic Discounting – can help you achieve your goals.

Bring out your best.