



## Dynamic discounting and e-invoicing: Unlock the most value with your implementation approach

*The adoption of e-invoicing offers multiple benefits including lower costs, higher accuracy, greater productivity and reduced cycle times giving greater visibility.*

*Dynamic discounting options, including C2FO Marketplace Discounting, also have advantages, most prominently, considerable cost savings from incremental discounts and expedited access to capital for suppliers.*

*The real question isn't which system has a better benefit for your business. The question is, should your business need to implement e-invoicing before you generate value from Marketplace Discounting?*

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For businesses like yours who are considering e-invoicing, your top goal is automating the Accounts Payable process. Most of you are likely receiving invoices from suppliers in several different ways, and e-invoicing gives you the ability to reduce the number of various sources and formats and receive invoices in a single, standard method.

The “concept” is relatively simple. Your suppliers, instead of sending a paper invoice, or emailing a PDF can now just submit an invoice “file” or send an invoice via an Online portal where there is a single connection to your AP System. It sounds simple.

In reality, it’s not simple. It’s a process change. Not only for you, the buyer, but also for your suppliers. It would be easy for your suppliers if you were the only client they did business with, but that’s not reality. Moving your suppliers to an electronic process should be simple, but the challenge is that your suppliers have hundreds if not

thousands of customers asking them to change not only the way they submit an invoice but the way they generate an invoice. Each of their customers, in turn, has varying data requirements.

Now, I am not here to bash e-invoicing. I believe in it and the value it brings. However, the process change required is not a minor hill to climb. It’s a mountain that requires time, patience and a significant number of resources on both sides to be successful. Technology continues to advance rapidly in this area, and it is improving, so all is not dark and gloomy or impossible. There are countless success stories of organizations who have implemented and generated value from e-invoicing.

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The topic of this article is the “connection” between e-invoicing and a dynamic discounting option. The reason I am focused on this topic is that we continually hear organizations tell us “we want to move forward with C2FO Marketplace Discounting. However, we need to automate our AP process. Therefore, we’re going to implement e-invoicing first”.

I would ask “Why?”

## How C2FO Marketplace Discounting offers significant value even if your AP process is not fully automated

There is a belief that a dynamic discounting option only works if the AP process is fully automated. I would argue this is not the case. I would tell you that AP Automation enhances the value of your discounting option, but it is not a requirement.

What’s fundamentally important for any type of dynamic discounting option is payment terms and the invoice receipt to approval cycle time. AP Automation helps improve the latter and will increase the value of a dynamic discounting program, but again, it’s not a requirement.

Let’s examine why using examples with an e-invoicing program and C2FO Marketplace Discounting.

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Let’s say your organization is evaluating e-invoicing to reduce the manual data entry process as your organization processes over 500,000 invoices annually that equate to \$3B-\$4B in annual spend. Supplier A has net 45 day payment terms. Supplier A submits an invoice for \$1M and sends to you via email as a PDF on March 1st (payment terms will have that invoice pay on April 15).

This supplier is a PO-based supplier, so AP receives the invoices, manually enters the invoice into the AP system on March 10th. The invoice matches the PO (2-way match is successful). Now the invoice is sitting in the AP system awaiting the actual Goods Receipt process to occur. This process takes two weeks, and now the 3-way match process is successful (March 24th).

The invoice is now fully “approved” and is awaiting actual payment term maturity so it can be processed in the payment process and paid. There is no Marketplace Discounting program in place, and therefore, your organization is missing out on an opportunity of Supplier A potentially offering an incremental discount to get paid at some point between March 24 and April 15 (~20 days of opportunity).

From an operational perspective, a focus on e-invoicing will help you standardize your process, reduce the manual effort required to process this invoice, and provide greater visibility of those liabilities within the finance organization.

Beyond that, the value is minimal unless there is collaboration between Procurement and Treasury on optimizing working capital within the overall supply chain.

## The value gained by launching Marketplace Discounting first

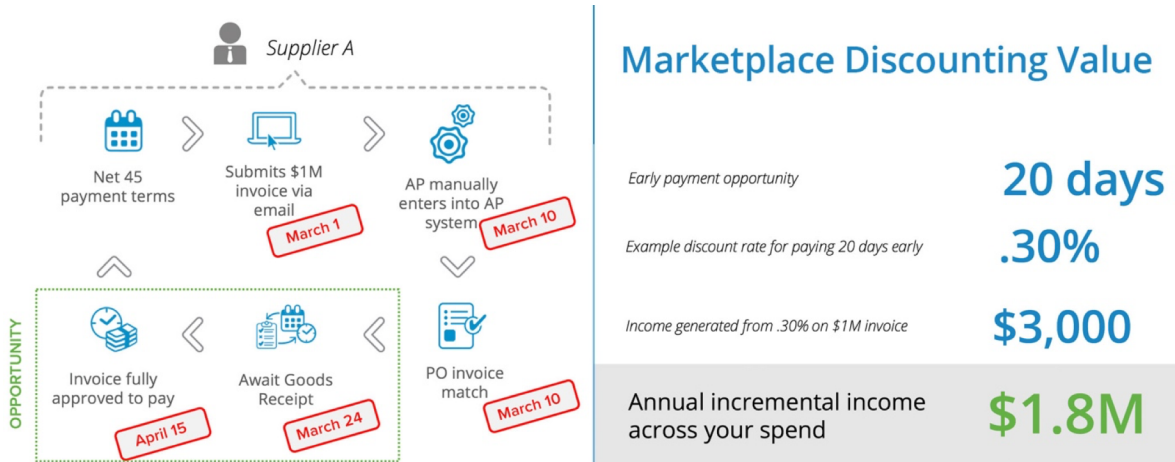
Marketplace Discounting from C2FO is one of several effective strategies, and one that delivers significant value – both to your organization in a direct reduction in Cost of Goods Sold or expenses, and in delivering high yields. It also helps your suppliers who are looking for better sources of working capital.

So, what is the value your organization missed with this approach? Let’s compare approaches.



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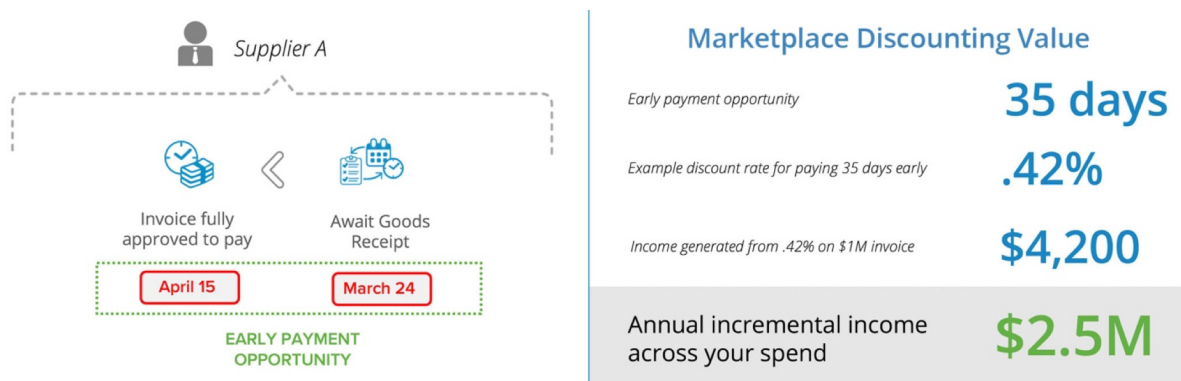
**Example 1: Implementation of Marketplace Discounting first nets ~\$1,800,000 annually in discounts to fund your e-invoicing process change**



Supplier A has an invoice for \$1M to be paid on April 15. That invoice now sits in your AP System as “approved” and today is March 24th. If you were a C2FO client, Supplier A could use our platform to make an offer to you to get paid early. Our market average for ~20 days early payment is a ~0.30% discount (~7.0% APR). You would receive a 0.30% discount ( $\$1M \times 0.30\% = \$3,000$ ) in this case by paying the supplier 20 days early.

Simple math shows that if you averaged a 0.30% discount across your entire spend (using \$3B with 20% of that spend offering discounts), paying ~20 days early, a program would generate ~\$1,800,000 annually in discounts.

**Example 2: Build on that value later with both Marketplace Discounting and e-invoicing in place**



To further the example and discussion, let’s say that you implemented e-invoicing and your process improved creating a larger window of early payment for your suppliers. Let’s say the window of opportunity increased from 20 days to 35 days (you’ve reduced your invoice receipt and approval time from 25 days to 10 days).

Again, if you were a C2FO client, Supplier A could use our platform to make an offer to you to get paid early. However, the time of that opportunity has increased from 20 days to 35 days. Our market average for ~35 days early payment is a ~0.42% discount (again at a 7.0% APR). You would receive a 0.42% discount ( $\$1M \times 0.42\% = \$4,200$ ) in this case by paying the supplier 35 days early.

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Using simple math, if you average a 0.42% discount across your entire spend (using \$3B with 20% of that spend offering discounts) paying ~35 days early, a program will generate ~\$2,500,000 annually in discounts; a 40% increase in annual discount revenue.

That \$1.8M goes a long way to pay for process improvement technology like e-invoicing and the increase of \$700K annually, later, with both programs in place, would be a significant incentive for your organization to make the process change happen quickly and efficiently.

As you can see, Marketplace Discounting will deliver significant value even with a manual AP process. An automated AP process only increases the value that Marketplace Discounting delivers because it increases the window of opportunity for a supplier to get paid early.

## Marketplace Discounting still offers value even when you have shorter payment terms

If you're in an environment where you have shorter payment terms, say 30 days, and it takes you 25 days to approve an invoice, then Marketplace Discounting is something you might want to do secondary to automation and process improvement. We have clients that have implemented Marketplace Discounting in an environment like the above and use the incremental discount opportunity as the incentive and measure for process improvement. Based on what we see regarding DPO, payment terms for most organizations are longer than 30 days on average, and the AP process averages a lot less than 25 days. Again, there is a window of opportunity for Marketplace Discounting.

## Summary: from a process perspective, e-invoicing and Marketplace Discounting are truly apples and oranges

Here's why: **e-invoicing**

- Requires process changes for both you and your suppliers.
- From your perspective, the process will be around how invoices are received, validated and management of exceptions. There is a benefit from the process improvement. However, it still requires change management.
- For your suppliers, this process change requires multiple resources to be involved including:
  - The team responsible for creating invoices.
  - Their IT organization to assist in the development of the data interface, which becomes even more complex if the new process will send PO's to you electronically on top of you sending invoices to them.
  - And, likely their Account Management team who manages your relationship as this involves a relationship change (how they receive and process PO's, how they create/submit invoices, etc.)
  - You will also need to have the people responsible for AR involved because they'll need to make sure that any invoice exceptions are communicated to them and resolved quickly.

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## C2FO Marketplace Discounting

- No process change required for you or your suppliers.
  - Does not change the way you receive and process supplier invoices.
  - Your suppliers are not changing anything either. Your supplier now has a Marketplace Discounting option to consider from a cash management, working capital perspective.
  - From a resource perspective, the only people involved in Marketplace Discounting, are those people responsible for cash management and those who approve discounts on the invoices paid early.
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*Chad Bruffey, C2FO Managing Director, has more than 20 years' experience providing global companies with expertise in financial process and system improvements. At C2FO, he plays a key role in finding opportunities for businesses to improve their long- and short-term working capital strategies with risk-free cash management options.*

*Prior to C2FO, Chad served as head of Commercial Operations for Tungsten Network (formerly OB10), an industry leading e-invoicing/Supplier Network provider. While there, he worked with Finance, Procurement and Shared Services executives from large, global organizations to help automate their Invoice to Pay process. Chad has also held leadership roles with a leading P2P Platform provider and market leader in AP Automation/Workflow for Oracle and SAP.*

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