PayStream ADVISORS

2015 AP and Working Capital Report

Capturing Game-Changing Savings with Working Capital Tools

Q2 2015 | Featuring insights on...

- Current Market Trends in Working Capital Software Usage
- Dynamic Discounting Management
- Supply Chain Financing
- Electronic Payments Optimization
- The Perfect Payment Index
- A Leading Working Capital Solution Provider

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Introduction

Capturing early payment discounts is a top goal for any Accounts Payable (AP) department, as it ultimately grants organizations huge returns on cash. However, if the department is still using manual AP processes, the resulting slow approval times and invoice processing errors keep this goal from becoming an achievable aspiration. The inability to capture what is effectively free money is a very frustrating dilemma for organizations, causing many to simply give up on the idea.

Organizations that rely upon antiquated AP processes hurt more than themselves—they also deeply impact their suppliers. If a company is unable to approve and pay invoices quickly, suppliers experience slower cash flow, which further disrupts the supply chain. Suppliers may also be reluctant to continue business relationships with buyers who cannot pay on time, and as a result, those organizations could potentially lose important segments of their valuable supplier base.

Fortunately, today's organizations can use working capital software to increase discount capture while also alleviating AP pains around invoice approval and payment. Dynamic discounting, supply chain financing, and other working capital applications free up cash flow and strengthen the supply chain, ultimately improving supplier relationships and increasing a company's bottom line.

PayStream Advisors' 2015 AP and Working Capital report offers a guide for organizations actively exploring working capital solutions. This report explores market trends and illustrates the relevance and applicability of working capital solutions such as dynamic discounting platforms, supply chain financing, and electronic payment methods. Also included is a profile of one of the current leading working capital solution providers.

Working Capital in AP

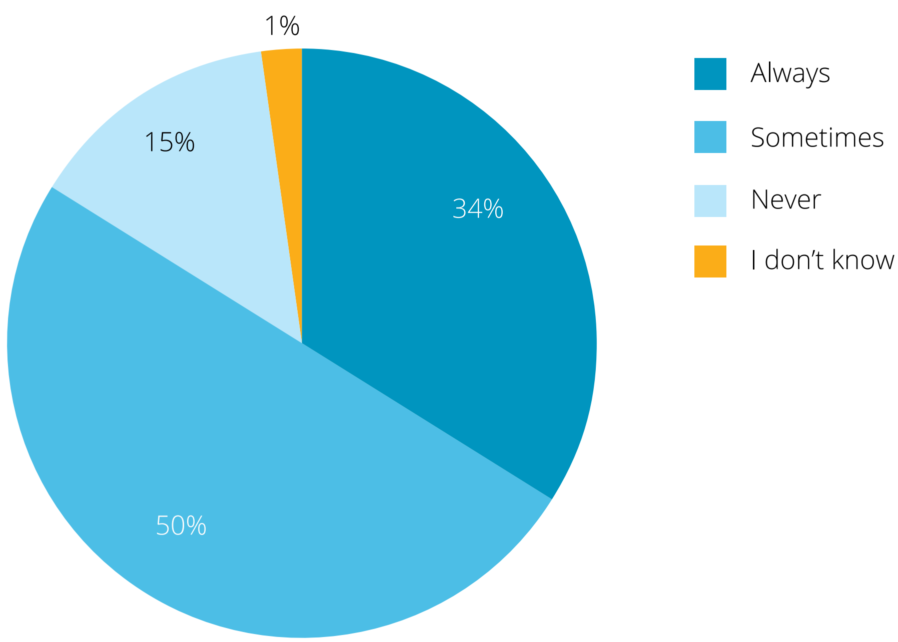
PayStream Advisors surveyed over 200 individuals employed in a variety of industries, and compiled data to reflect current attitudes towards early payment discount capture and working capital solutions. One of the most important findings of this research shows that discount management software adoption among organizations has grown dramatically from 2014 to 2015.

Early payment discounts, traditionally given under the standard discount terms of "2% 10, net 30," are common offerings among suppliers trying to incentivize their buyers to pay invoices faster. These buyers should need little encouragement to participate in early payment programs, as capturing discounts is one of the simplest ways to increase savings for organizations. However, most organizations are only able to capture discounts some of the time, see Figure 1.

Figure 1

Half of Organizations Can Only Capture Discounts Sometimes

"How often is your organization able to capture early payment discounts available?"

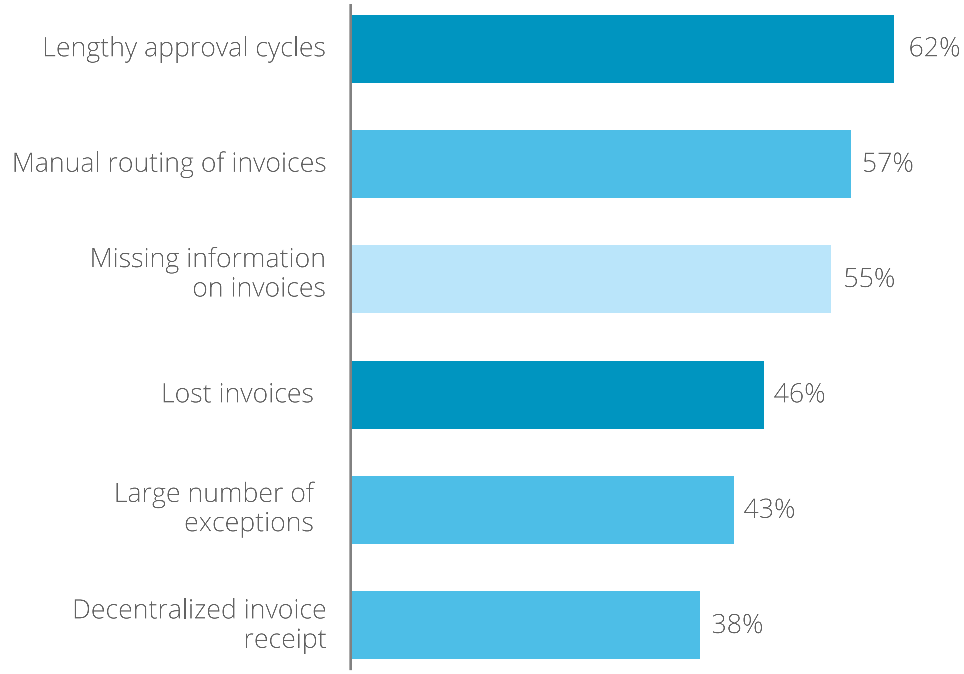


There are many problems that lead to late invoice payments and missed discounts. Organizations report that the greatest reasons for these issues are lengthy approval cycles, manual routing of invoices, and missing information on invoices, see Figure 2.

Figure 2

AP Problems Result in Missed Discounts

"What are the top three problems that lead to late payments and missed discounts at your organization?"



Implementing invoice receipt automation, such as scan and capture solutions and eInvoicing portals, greatly cuts down on approval times and increases the AP department's ability to capture early payment discounts. These returns increase when receipt automation is leveraged with a robust invoice workflow automation system. However, innovative organizations recognize that to always capture all the possible savings, as well as improve the health and success of their supplier base, they need to take their automation goals a step further.

Savings that result from invoice automation alone are miniscule when compared to the huge returns possible with dynamic discounting. Dynamic Discount Management (DDM) and other working capital strategies allow companies to invest their cash safely at rates that can significantly exceed returns from many other traditional investments. PayStream has found that it is possible to achieve annual returns as high as 36 percent on available cash.

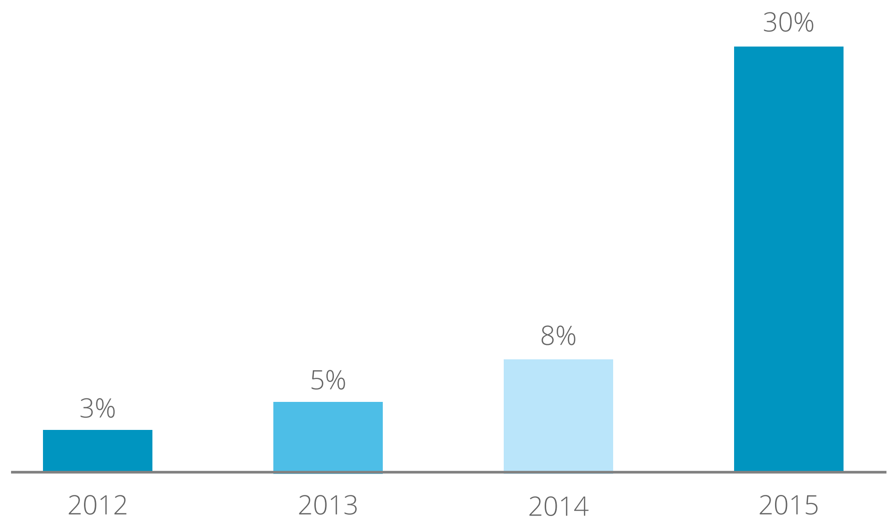
These high returns make the adoption of dynamic discounting, supply chain financing, and electronic payments more than just an interesting supplementary investment to tack on to AP automation—it becomes a strategic necessity for competitive advantage.

Fortunately, research shows that organizations are recognizing the importance of working capital tools. DDM adoption has grown steadily from 2012 to 2014, but in the last year, it has increased by a much greater amount, see Figure 3.

Figure 3

Percentage of Organizations Using DDM Each Year

"Are you currently using a Dynamic Discounting Solution?"



Thus far in 2015, 30 percent of organizations are using DDM. PayStream Advisors attributes this 22 percent increase in usage to a number of factors, including the enhanced ease-of-use and accessibility of these solutions, the affordable nature of cloud-based technology, and improved capabilities for suppliers.

The organizations that have yet to adopt working capital solutions are most likely hampered by a lack of education within the market. The following section offers a guide to the uses, applicability, and benefits of DDM software.

Working Capital in DDM

Dynamic Discounting Management is a technology that leverages the speed and efficiency of AP automation to unlock cash flow for both buyers and suppliers. Instead of using static discount terms, such as "2% 10, net 30", DDM solutions offer invoice discounts based on variable rates. These early payment discounts decrease as payment deadlines approach, enabling buyers and suppliers to set and select discounts according to their own business and financial requirements.

There are a few different Dynamic Discounting terms models. Sliding-scale discounting is a commonly-used method that offers automatic discounts on a pre-defined set of invoices, starting high but decreasing as the invoice due date approaches. While discount schemes of this nature are effective, they rely on buyer-set APRs that are fixed for the duration of the terms window. Other Dynamic Discounting strategies offer a more collaborative approach that takes into account suppliers' financial needs, giving them a hand into how APRs and terms are set.

Dynamic Discount Management solutions go beyond simple early-payment discounts—they are designed to reveal and capture every possible savings opportunity. They enhance the discount capture process by offering a transparent and accessible tool to view discount terms and upcoming due dates at any time within the terms window. DDM also gives comprehensive control to suppliers, providing them with interactive tools and platforms that enable them to designate which invoices are eligible for discounts and for what type of discount.

Because Dynamic Discounting is only applicable to approved invoices awaiting payment, the speed at which invoices are received, routed, and approved by AP is vital for capturing savings. Electronically received invoices optimize this process, as does invoice workflow automation. DDM and other working capital applications are built into or can be leveraged with most electronic invoice management solutions on the market today.

Despite the benefits of DDM software, some buying organizations still hesitate to use these solutions because they fear they won't have the cash flow to consistently offer discounts to their suppliers. Fortunately, today's DDM and working capital solution providers offer many funding possibilities, ensuring that a company's budget does not affect their ability to capture savings. In addition, some DDM providers have sophisticated working capital management tools to help predict and manage any impact to Days Payable Outstanding.

Working Capital in SCF

Funding for dynamic discounts traditionally comes from a buyer's capital, but supply chain financing (SCF) opens payments to competitive bids and invites banks and third-party funders to participate. Third-party participation, such as from hedge funds, is growing as word spreads of its available returns and relatively low risk.

Early payments can be lucrative for large suppliers who have cash flow needs. The discount rates associated with early payments are generally lower than the finance rates of short-term loans. Cash-strapped buyers who have other priorities—such as a monthly revolve—or those who are unable to budget their DPO, generally split the returns from a DDM solution, while third parties get a very short-term (under 56 days) return well over 100 basis points.

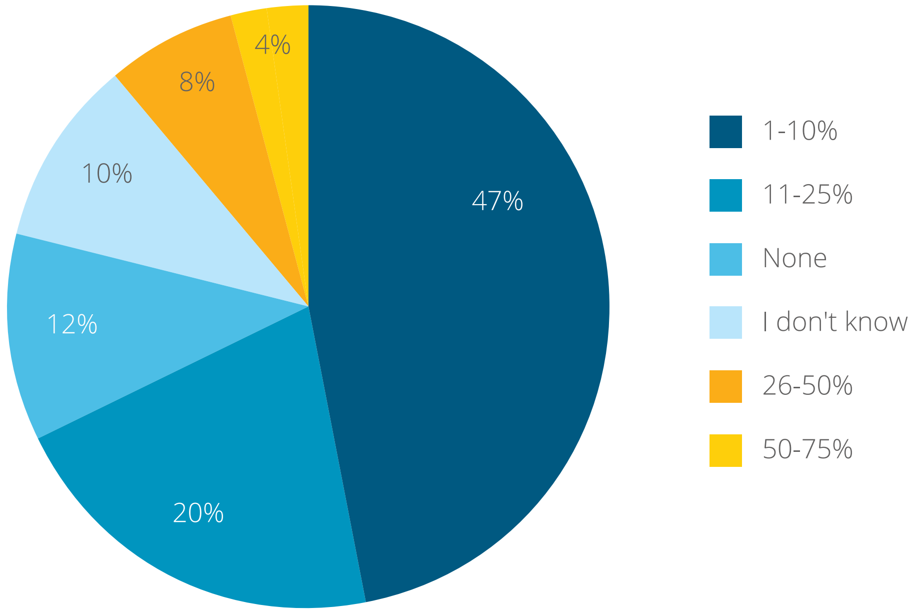
Supply chain financing may come from the working capital applications in invoice automation software, and can often be funded by the buyer, a third party, or both. SCF can also be used through supplementary working capital platforms that may be leveraged with existing systems.

Currently, most organizations report that only 1 to 10 percent of their suppliers offer an early payment discount, see Figure 4. PayStream attributes this low rate to suppliers' experience of often receiving late payments from their buyers. However, because of the ability to leverage SCF and gain quick returns, more buying organizations are urging their suppliers to adopt DDM technology.

Figure 4

Most Organizations Report Only 1-10 Percent of Their Suppliers Offer an Early Payment Discount

"What percentage of your suppliers offer you an early payment discount?"



Because of SCF solutions, suppliers once again find it profitable to offer early payment discounts. As these solutions and financing options become more advanced and accessible, more suppliers are expected to participate. In addition, because of recent regulatory changes that have made it more difficult for banks to loan to businesses outside the Global 2000, supplier participation in DDM and SCF initiatives is expected to increase even further. Suppliers are learning the benefits of DDM solutions over other options: Dynamic Discounting does not entail debt, requires no documentation, and is easy to access.

Working capital tools accelerate the exchange of information between trading partners, provide improved visibility into the status of invoices, and bring more control over financial transactions—all of which promotes higher supplier participation. These tools can be accessed easily through free self-service eInvoicing portals or with add-on solutions that integrate seamlessly with existing invoice automation systems. In addition, supplementary working capital marketplaces are appealing to suppliers for their collaborative design and multi-party control.

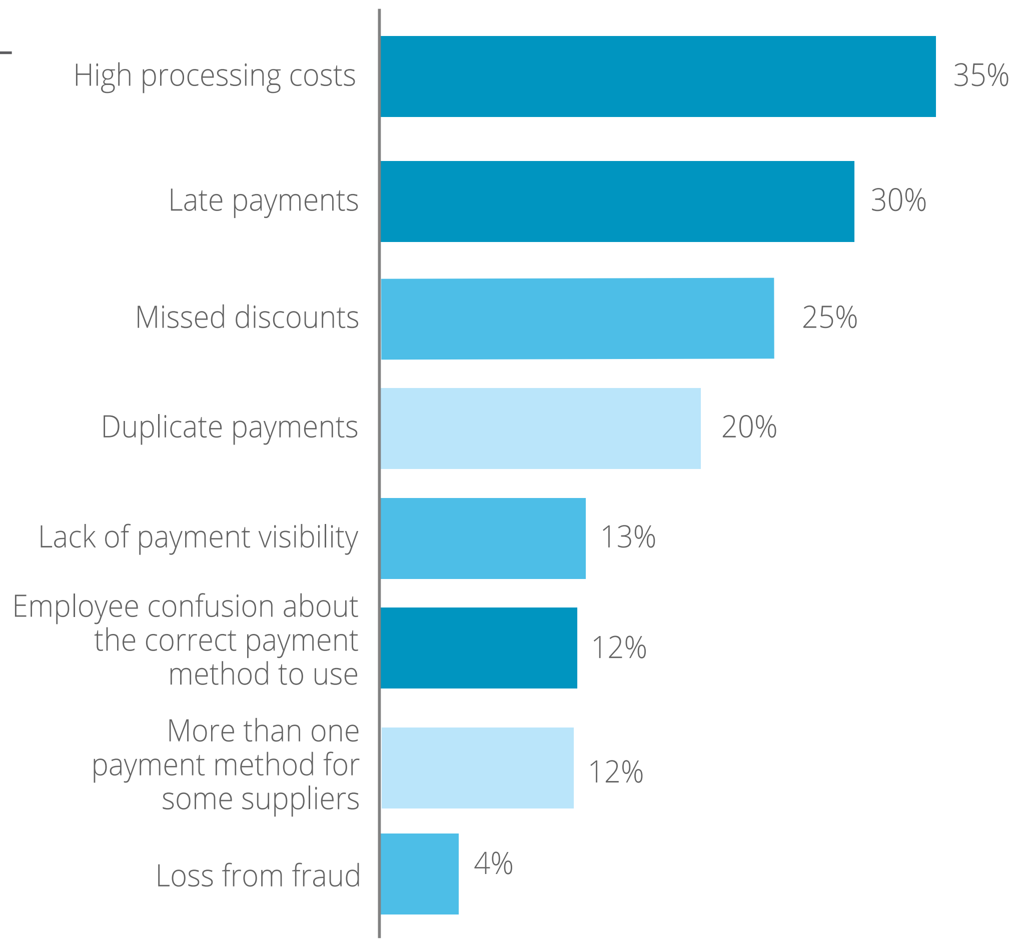
Working Capital in Electronic Payments

The final tools for a robust working capital strategy and an optimized supply chain are electronic payments and an electronic payments program. Payment management is very important to the success of many areas of an organization, especially the ability to capture discounts. Surveyed organizations reported that missed discounts are among the greatest pains they experience in their payment management process, see Figure 5.

Figure 5

Missed Discounts Pose Big Problems in Payment Management

"What are the top three greatest challenges your organization faces in the payment management process?"



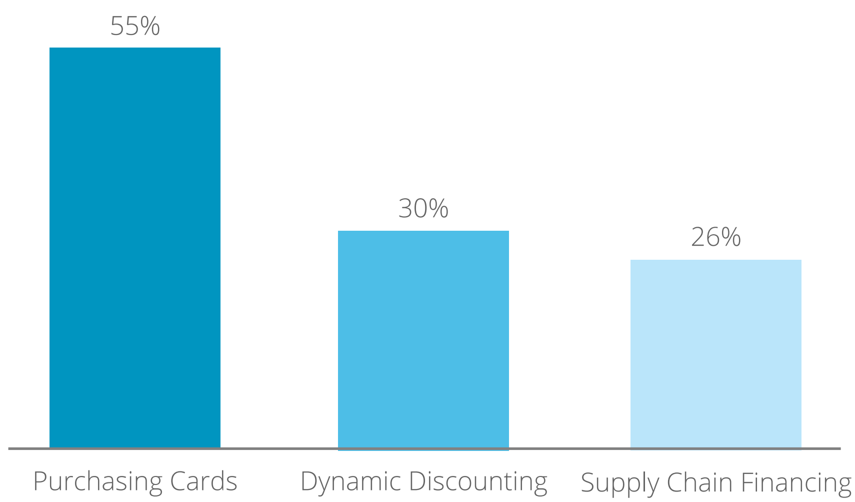
Efficient payment management and discount capture are closely related, and innovative organizations recognize the importance of strengthening this relationship through electronic payment solutions. ePayment solutions are critical to dynamic discounting for many reasons, including an accelerated payment cycle and the elimination of costs associated with printing and mailing checks. When an organization mails a check to pay an invoice, several days are lost in mail delivery, thus delaying the payment and minimizing the early payment discount opportunity. With a card payment, on the other hand, the invoice is paid and the discount is captured on the same day. Electronic payments give organizations back the days that check payments take away, increasing savings as they reduce payment cycle times.

Electronic payments come in a variety of different forms, including commercial cards (P-cards, One Cards, Fleet Cards, and Ghost Cards), Virtual Accounts (VA), Automated Clearing House (ACH), and wire transfers. Purchasing cards (P-cards) are one of the most common—and easiest to implement—forms of electronic payments, and they are especially useful for organizations looking for savings opportunities. When asked about their methods for achieving rebates, most organizations reported that they use purchasing cards, see Figure 6.

Figure 6

Purchasing Cards Are the Most Widely Used Method for Capturing Discounts

"Which of the following methods does your company use to achieve discounts?"



Although P-cards are more widely used, Virtual Accounts are also among the most effective payment methods for enhancing working capital programs. Virtual Accounts, or Virtual Card Accounts (sometimes called Single-Use Accounts) are payment card numbers issued by a bank under a card network and are used to settle invoices after approval. In 2014, Virtual Account payments became the fastestgrowing segment of the ePayments landscape. With Virtual Cards suppliers may initiate the payment either via virtual terminal or as a direct deposit into a bank account, along with an electronic notification of the deposit.

Virtual Account payments allow buyers to time payments and take advantage of early payment discounts. They also provide cost savings, revenue generation, and security features not available with typical P-card payments. With a Virtual Card Account, a buyer can potentially "triple-dip": they can gain early payment discounts, earn card volume rebates, and take advantage of the grace period between purchase and monthly statement dates.

ePayment solutions also have benefits in other AP and supplier-related functions, such as vendor self-service options, collaborative dispute resolution, quick delivery of remittance information, and assistance with compliance and auditing.

Optimizing the Supply Chain With the Perfect Payment Index

An electronic payment is a vital finance tool for increasing working capital and capturing discounts. However, the road to success in these areas requires that organizations formulate a plan to optimize their payment terms and maximize results. Building a strategy with a variety of payment methods also enables organizations to satisfy the diverse needs of their suppliers.

Organizations that optimize their payments process can be defined as "Perfect Payers." To help other organizations become Perfect Payers, PayStream has built a tool called the Perfect Payment Index (PPI). This tool illuminates weak spots in existing processes so that organizations can restructure their payment management strategies. The ultimate goal is to give buyers the ability to make a perfect payment—one that is made on time, uses the cheapest payment method possible, and achieves the highest possible discount.

Tables 1 & 2

The Perfect Payment Index

Perfect Payment Index (PPI)™
% on time • % paid electronically • % of discount potential captured
95% • 95% • 95% = 85.7%
The PPI strives to balance the payment efficiency and working capital needs of buyers and suppliers

The Perfect Payment Index™

	Company				
Payment Discounts / Incentives	**1**	**2**	**3**	**4**	**Average**
% Paid on Time (< 60 Days)	92%	92%	93%	91%	92%
% Paid Electronically (ACH or Card)	55%	52%	39%	68%	53%
% of Potential Discounts Captured	32%	76%	26%	74%	45%
Perfect Payment Index	16.2%	36.4%	9.4%	45.8%	27.0%

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The Road Map to an Optimized Supply Chain

Dynamic Discounting, Supply Chain Financing, and ePayments are the three greatest strategies to create more savings and a healthier supply chain among organizations. The road map to using these tools successfully is as follows:

1. **Automate AP**: This is the foundation of true P2P success and process efficiency. Organizations should start by exploring invoice receipt and capture solutions (mailroom services, eInvoicing, OCR-data capture, validation, coding, etc.) and then compliment these with a strong workflow automation suite (routing, 2- and 3-way matching, non-PO support, escalation, reminders, etc.). The ability to capture discounts begins with the ability to process invoices electronically, transparently, and quickly.

2. **Unlock Available Discounts:** When organizations implement a DDM solution, it opens up the possibilities for savings. This software brings transparency and ease-of-use to the AP process, and when suppliers see how this tool ensures consistent early payments, they will offer more discounts.

3. **Increase Cash Flow with SCF**: Even with a DDM solution, buyers do not always have the funds to properly support early payments on every invoice. SCF broadens the potential of DDM by optimizing cash flow, encouraging supplier participation, and reducing risk in supply chain operations.

4. **Implement ePayments Functionality:** Electronic payments, especially Virtual Accounts, allow organizations to pay their invoices faster and with less risk. Suppliers will be more enthusiastic about business relationships and offering discounts when assured a swift payment. In addition, electronic payments allow organizations to look deeply into their payment management processes and optimize future operations.

5. **Use the Perfect Payment Index:** Using the Perfect Payment Index is the most important step in developing a payment strategy that produces perfect payments every time. It not only brings transparency to a payment management program's strengths and weaknesses, it also allows organizations to create tiered payment timelines for their suppliers that incentivize cooperation and increase cash flow.

Conclusion

PayStream has found that with Dynamic Discounting and working capital solutions, the returns on purchases can total as much as 1 to 5 million dollars on every 1 billion in spend. In addition, the software is beneficial to suppliers and supply chain health. Any company that hopes to strengthen their supplier base and increase their bottom line should carefully evaluate potential solutions.

To aid those organizations in their search, the following profile showcases the diverse working capital and AP offerings of one of the market's leading working capital solution providers.

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C2FO

C2FO is an early payment solution that allows suppliers to name their own rate for accelerated payment in a live, bid/ask environment. The C2FO marketplace is driven by a supplier pull model in which suppliers control their rates and options. Buyers achieve their desired objectives (e.g., discounts and APRs), while their suppliers offer rates that align with the specific cash needs they have throughout the year.

In a real-time working capital marketplace, both parties benefit: suppliers base offers for accelerated payment against their alternative cost of borrowing, allowing buyers to realize returns higher than those achieved in short-term investment markets. Marketplaces take into account the supply and demand dynamics of both parties, resulting in an optimal return for each. Corporations are able to generate a good yield on their cash (such as a 5-7% APR), and they de-risk their supply chain. In addition, suppliers can access the liquidity they need at a rate on par with or below where they could borrow. C2FO boasts an average delivery of 22 days of early payment to suppliers. C2FO is Collaborative Cash Flow Optimization.

Since its first transaction in May 2010, C2FO has consistently enabled collaborative wins between buyers and suppliers, delivering billions in working capital and millions of days of accelerated payment across the globe. The platform has a wide variety of buyer verticals, and C2FO suppliers represent virtually every industry and size demographic.

Founded	2008
Headquarters	Fairway, Kansas
Other Locations	Seattle, London, Amsterdam
Number of Employees	100-150
Number of Customers	30,000+
Target Verticals	Retail, Transportation, Automotive, Aerospace, Technology, Manufacturing, Healthcare
Partners/Resellers	Fifth Third Bank, KPMG UK
Awards/Recognitions	Ingram's Magazine's Best Companies To Work For (2014); Global Finance's 2014 and 2015 List of Innovators; 2015 OnFinance Top 100

Solution Functionality

C2FO is a cloud-based SaaS solution. It is a web-based platform that can be accessed from any web-browser and from any mobile device. The platform is ERP-agnostic and seamlessly integrates with buyers' existing process frameworks and AP systems.

C2FO is a global platform, available in any jurisdiction. C2FO allows suppliers to make an offer in APR or discount across any currency, and the company works with clients to adhere to appropriate local requirements. Additionally, the C2FO marketplace allows for a cross-over effect where a single supplier can access early payment on invoices from multiple buyers within a single platform.

C2FO administers and operates its dynamic discounting program in a straightforward, private, and secure manner; there are no outside parties involved and no changes to the payment process between buyers and suppliers. C2FO securely handles multiple sources of data with a series of robust and easy-to-plug software modules.

C2FO has a robust supplier onboarding team that is dedicated to supplier participation and client results. 30 percent of the company's employees are full-time Supplier Relationship Managers (SRM). This team provides suppliers with 24/7 global, multi-lingual coverage via phone, web chat, email, and webinars.

eInvoicing Integration

C2FO works seamlessly with any electronic invoicing solution.

Working Capital Services

C2FO enables companies to name their own rate for working capital. The C2FO platform allows both buyers and suppliers to manage and achieve their unique goals. For buyers, these include (but are not limited to) setting a target APR and a minimum APR threshold, automatic withholding of reserve percentages, the ability to customize APR settings for individual suppliers, and the ability to easily adjust the amount of cash available for early payment and when that "cash pool" is replenished. C2FO also includes advanced buyer settings to flexibly manage working capital metrics.

From suppliers, C2FO allows each company to select their desired APR or discount rate for early payment, choose which invoices they wish to receive early payment on, and adjust how often they request early payment without any ongoing contracts or risk-based underwriting. Suppliers are onboarded with a single click, requiring no documentation or signatures to participate.

Once a supplier's early payment offer is accepted, the invoice date and amount are automatically updated in the buyer's AP system. The buyer's existing AP and invoicing processes are then used to pay the invoice early.

Reporting and Analytics

Every C2FO market participant can download files on demand that show invoice-level detail on all their market activity. C2FO also provides an in-application dashboard that allows users to view real-time key metrics within any given date range. For buyers, these metrics include early payment awarded, awarded income, additional income opportunities, DPE (Days Paid Early), and APR. For suppliers, metrics include awarded early payment, discount total, DPE, and new pay date.

Additionally, the platform offers buyers more detailed reporting that includes participation by segment, total loaded AP, crossover analysis, and more. All reporting capabilities allow organizations to gain deeper AP and supply-chain insights and discover opportunities for optimizing their working capital.

Implementation and Pricing

C2FO assigns a dedicated Implementation Project Manager (IPM) to align the program with the client's business processes and goals. Formal training materials and documentation are delivered to each client through various methods, including one-on-one, on-site classroom, virtual, and web-based training programs. C2FO implementation generally takes 6-10 weeks. Buyers are also assigned a dedicated Account Manager to manage program performance.

The user interface offers several support options for suppliers, including a self-help video, a downloadable Quick Reference Guide, and a Live Chat feature for users' questions. Suppliers can also reach the C2FO support team via a toll-free support number or suppliersupport@c2fo.com.

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.