PR PrimeRevenuePerspective

Dynamic Discounting Fundamentals:

What It Is, What It's Not and How it Works

An Early Payment Solution for Corporates

The popularity of early payment programs has been on the rise for some time – and for justifiable reasons. As supply chains become more global and more complex, slowdowns in payments between buyers and suppliers have emerged. Exacerbating this problem are widespread supply chain disruptions that are impacting virtually every industry as well as ongoing transformations that require significant liquidity.

The impacts of these challenges reach far and wide across the buyer/supplier ecosystem. On the supplier side, there is a dire need to improve cash flow. Slower payments, longer payment terms, and a long list of un/underfunded investment initiatives (e.g. infrastructure upgrades, workforce expansion, etc.) have put a spotlight on the need to get paid more quickly. Meanwhile, buyers are eager to stave off rising capex and opex costs.

Early payment programs offer buyers and suppliers a way to neutralize many of these impacts. One option is dynamic discounting. In this white paper, we will discuss what dynamic is (and is not), its benefits, how it works, and how it's evolving to better serve buyers and suppliers.

What is Dynamic Discounting?

Dynamic discounting is a B2B payment solution that enables buyers to pay suppliers early while simultaneously reducing the buyer's cost of goods sold (COGS). In exchange for paying suppliers early, the buyer receives a discount on the invoice being paid. "Dynamic" refers to the option to vary discounts based on how early the supplier gets paid. In most cases, the earlier a supplier payment is made, the higher the invoice is discounted.

Dynamic discounting is typically applied on an invoice-to-invoice basis. Buyers set the discount, while suppliers pick and choose which invoices to submit for early payment. By and large, dynamic discounting programs are self-funded - meaning buyers use their own balance sheet, or cash, to fund the program.

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How The Process Works

Invoice Upload

Supplier sends an invoice to the buyer as usual without any change to their normal process. Buyer approves and uploads invoice into B2B payments systems (or supplier, depending on procedural requirements).

Set Discount Rate

Buyer sets sliding scale discount based on how early an invoice is paid.

Supplier Early Payment

Supplier can elect for discounted early payment on selected invoices at any time (or, in some cases, set up automated early payments within available capacity). Once an invoice is selected, the buyer pays the invoice minus the agreed-upon discount.

The Benefits of Dynamic Discounting

Expands buyer margins. Dynamic discounting effectively reduces a buyer's COGS by discounting how much the buyer pays its suppliers. When applied across a meaningful portion of supplier spend, the buyer will see material improvements to profit margin.

Uses buyer funds with current liquidity. Many early payment program options require outside funding from financial institutions – and this third-party capital comes at a cost. Dynamic discounting does not. It is typically funded by a buyer's own uninvested cash.

Generates returns on idle cash. Companies are sitting on record levels of cash – about 45 percent more than they were five years ago. Dynamic discounting gives companies a way to earn a high-yield return on this liquidity. In many cases, the reductions in COGS are greater than the returns earned if this cash were held in an interest-bearing account.

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Accelerates and improves supplier cash flow. The ability for suppliers to get paid early at their own discretion is a powerful tool in helping suppliers improve cash flow. It gives suppliers a way to mitigate longer payment terms as well as provides faster on-demand access to cash. This cash can be used to fund time-sensitive business initiatives, navigate disruption and fluctuations in demand, and to grow the business.

Inclusive of smaller suppliers. Historically, smaller suppliers have been underserved by early payment programs – particularly those that require outside liquidity where funders are only willing to fund early payment transactions between a buyer and its largest suppliers. Because dynamic discounting is self-funded by the buyer, these limitations are removed and programs can cover suppliers of all sizes.

Traditional Dynamic Discounting versus PrimeRevenue

Historically, traditional dynamic discounting solutions have relied on exceedingly high discount rates. This has encouraged low participation among suppliers unwilling to sacrifice unjustifiably high discounts on their accounts receivables.

PrimeRevenue is changing the game. Our SurePay platform facilitates dynamic discounting programs that offer competitive, lower discount rates that are more in line with other early payment solutions like supply chain finance. This drives more suppliers to opt for earlier payment on more invoices. The result? Higher margins for buyers and improved cash flow for suppliers.

What Dynamic Discounting is NOT

There are a number of early payment options available to buyers (and suppliers) with many having similar characteristics. It's important to point out the differences between alternatives. Dynamic discounting is different from the following options:

Accounts Receivable Financing – Accounts receivable financing allows companies to receive early payment on their outstanding invoices. A company using accounts receivable financing commits some, or all, of its outstanding invoices to a funder for early payment, in return for a fee. It's different from dynamic discounting in several ways – it's typically not self-funded and initiated by the supplier. It's also not applied on an invoice-to-invoice basis.

Factoring – Considered a form of accounts receivable financing, factoring enables a supplier to sell its invoices to a factoring agent (in most cases, a financial institution) in return for earlier, partial payment. Suppliers initiate the arrangement without the buyer's involvement, and the arrangement is similar to a recourse loan. If the supplier is paid by the funder for an invoice that the buyer subsequently does not pay, the lender has recourse to claw back the funds. In contrast, dynamic discounting is a buyer-initiated program, does not require third-party funding, and all transactions are exclusively between the buyer and supplier.

Supply Chain Finance – Supply chain finance is a set of solutions that improve cash flow by allowing businesses to optimize supplier payment terms while offering suppliers the option to get paid early. Unlike dynamic discounting, programs are usually funded by a third-party. No invoice discounting takes place. Instead, suppliers are charged a nominal fee for invoices traded for early payment. Supply chain finance is typically deployed by buyers wishing to improve cash flow and working capital – not profit margin.

Static Early Pay Discounts – Static early payment programs are similar to dynamic discounting in that they're designed to reduce a buyer's COGS and suppliers receive early payment in exchange for a discount. However, unlike dynamic discounting, discounts are not variable according to how early a supplier wants to get paid.

Can Dynamic Discounting Be Used with Other Early Payment Programs?

Yes – dynamic discounting can be used with other forms of early payment. Increasingly, companies are leveraging both dynamic discounting and supply chain finance to improve cash flow across the buyer/ supplier ecosystem. This combination ensures a larger number of suppliers are eligible to receive early payment and provides greater flexibility in how early suppliers can get paid.

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PrimeRevenue SurePay –

An Easier, More Powerful Approach to Dynamic Discounting

PrimeRevenue's SurePay platform is the industry's first solution to consolidate and streamline all B2B payments onto a single platform. Using SurePay, buyers can facilitate both on-time and all forms of early payment – including dynamic discounting – through a single, easy-to-use solution.

SurePay removes the resource burdens associated with on-time and early payments. Because it automates the payment process, dynamic discounting programs are easy to execute and require minimal buyer involvement. It also gives suppliers visibility into payment status. That means fewer errors, fewer supplier payment inquiries, and fewer resources required to process payments.

Dynamic discounting programs are easy to execute and require minimal buyer involvement.

About PrimeRevenue As a pioneer in global B2B payments, the PrimeRevenue SurePay Platform connects the entire supply chain by improving working capital and automating digital payments. Thousands of companies around the world leverage one streamlined platform to increase payment visibility, enhance control, and improve cash flow. PrimeRevenue is headquartered in Atlanta, with offices in London, Prague, Hong Kong, and Melbourne. For more information, visit **www.primerevenue.com**.

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