PR PrimeRevenue**Perspective**

Supply Chain Finance and Dynamic Discounting:

When and how to use the two solutions together

As a leading trade finance solution provider, PrimeRevenue offers multiple ways for companies to improve their financial health – including dynamic discounting and supply chain finance.

A common question for companies exploring trade finance options is which solution to implement. But the choice to use supply chain finance or dynamic discounting doesn't have to be an either/or decision.

In fact, supply chain finance and dynamic discounting can work very well together when implemented with the right provider. PrimeRevenue offers both solutions on a single platform, allowing buyers to seamlessly toggle between supply chain finance (third-party funded or self-funded), dynamic discounting, or a combination of the above. With two attractive early payment options that can run simultaneously, buyers can strengthen the balance sheet and accelerate payment for a larger number of suppliers.

Dynamic Discounting and Supply Chain Finance Defined

DYNAMIC DISCOUNTING

Dynamic discounting is a solution that can help to enhance a buyers profitability by reducing its Cost of Goods Sold (COGS). Dynamic discounting gives buyers the flexibility to choose how and when to pay their suppliers in exchange for a reduced price on the goods and/or services purchased.

The "dynamic" component refers to the option to vary the discounts based on the dates of payment to suppliers. In most cases, the earlier the payment is made, the greater the discount.

Dynamic discounting is typically applied on an invoice-by-invoice basis, with the discount generally expressed as a percentage of the face value of the invoice. Buyers generally use their own balance sheet, or excess cash, to "fund" the program and generate the purchasing discounts, thereby hoping to generate a greater return on those funds than if they were held in an interest-bearing account.

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SUPPLY CHAIN FINANCE

Supply chain finance (SCF), also referred to as reverse factoring or approved payables finance, is a set of solutions that enhance cash flow by allowing buyers to optimize supplier payment terms.

This solution allows the buyer to pay later and hold onto its cash for longer, reducing its working capital and improving its cash flow and return on capital.

Supplier have the option to receive early payment as soon as invoices are approved in return for a nominal finance charge. This frees up cash that would otherwise be trapped in the supply chain without negatively impacting the balance sheet for both buyers and suppliers.

These programs are typically funded by a third party such as a financial institution.

When to Use Each Solution

There is no doubt that each solution provides tangible benefits for the buyer. From improving operational efficiencies to injecting additional security into the supply chain, both supply chain finance and dynamic discounting solution can be an excellent option to help buyers improve the business.

DYNAMIC DISCOUNTING:

- When you have excess cash you would like to put to work to gain early payment discounts that decrease COGS, improve margins, and earn a high yield return on liquidity.
- If you have suppliers that you wish to support with early payment that are ineligible for third-party funded supply chain finance or not willing to extend payment terms.
- If your existing static discounts for early payment do not provide sufficient flexibility to you or your suppliers, or are not capturing the full potential discounts.

SUPPLY CHAIN FINANCE:

- If you are looking to hold onto cash for longer, improve working capital and increase DPO through payment terms optimization.
- If you would like to utilize third-party funding to offer your suppliers early payment.
- If you have a strong credit rating you'd like to allow your suppliers to leverage to access lower-cost capital than they would be able to secure on their own.

Dynamic Discounting and Supply Chain Finance: Two Ways to Strengthen Business Performance

While the advantages of each solution may differ for the buyer, the benefit to suppliers is the same: flexible early payment. Whether you implement a supply chain finance solution or a dynamic discounting solution, suppliers can choose early payment at any time based on their unique needs.

Fortunately, the decision to implement dynamic discounting or supply chain finance doesn't have to be an either or choice. PrimeRevenue delivers a single platform that can facilitate both programs simultaneously. By leveraging both supply chain finance and dynamic discounting, buyers and suppliers can fully leverage the power of trade finance to make transformational improvements to cash flow and profitability.