AI Driven Dynamic Discounting

Dynamic discounting and early payments to suppliers can offer many benefits to companies. These techniques enable businesses to optimize cash flows by offering early payment discounts to suppliers in exchange for prompt payment. This can be through the use of a company's own cashflow augmented and optionally, with 3rd party funding to support cyclical use of treasury funds.

Here's how it can benefit your business:

Improved use of treasury funds
Dynamic discounting enables buyers to generate yields on treasury funds by encouraging suppliers to accept early payment at a discounted rate.

Improved product availability and reduced inventories
Strengthening supplier relationships as a condition of access to early payment can also reduce the risk of supply disruptions and ensure timely deliveries. This improvement in reliability can also help reduce inventory safety stock by up 10%.

Process inefficiency at the Buyer
Enabling access to early payments reduces the risk of supplier payments affecting product availability due to issues with the buyer's payments processing
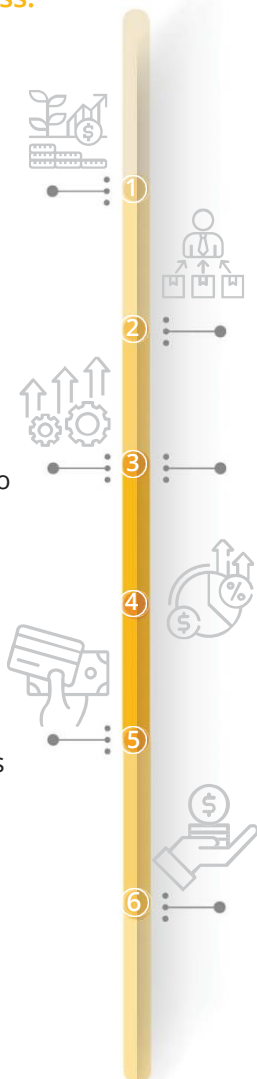
Supplier relationship enhancement
Offering early payment demonstrates buyer's commitment to strong supplier relationships. By providing an opportunity for suppliers to receive early payment, buyers can improve their cash flow as well. This can lead to more favourable terms, increased supplier loyalty, and potential access to better pricing or preferential treatment in the future.

Margins
By leveraging early payment buyers may negotiate lower purchase prices or obtain better terms from suppliers who are more inclined to offer discounts in exchange for faster payments. This can result in direct cost savings on purchases, leading to improved profitability for buyers.

Supplier cash flow problems
By providing access to early payments, buyers can mitigate potential supply chain disruptions caused by cash flow problems faced by suppliers. Strengthening the supplier base and ensuring their financial stability can minimize the risk of disruptions in the production or delivery of goods and services

It's important to note that while dynamic discounting can bring significant benefits, it should be implemented strategically and in line with a company's cash flow requirements, financial policies, and supplier relationships. Analysing the costs and benefits, and developing a comprehensive strategy are crucial steps to effectively leveraging dynamic discounting. To assist these assessments, below are high level financial business cases for traditional dynamic discounting and next generation dynamic discounting using AI and Supply Chain Finance.

Financial Business Case
Traditional Dynamic Discounting

Treasury Funds and Yield

Dynamic discounting can generate a yield on excess treasury funds. These yields can reduce significantly depending on the tenor applicable for the discount. A typical model is based at a 2.5% early payment discount i.e. 30% annualised, although that yield reduces to 15% for an invoice with 60 day tenor.

However, the cyclical availability of funds for a dynamic discounting programme at the buyer may be reduced due to the buyers own capital investments and dividend payments.

Low Supplier Take-up

The impact of high discount rates can be low supplier takeup which reduces the overall business case for dynamic discounting. Modelled in our example at 10% supplier takeup.

Margins

Dynamic discounting models are often incorporated as a default into supplier systems resulting in the discount being applied to all invoices by accounts receivables teams at suppliers. As a result of this consistent application of a discount, suppliers may increase cost prices reducing buyer margins. Margin reduction modelled in our example at 1% per month i.e. 12% FY.

Operating Costs

Depending on suppliers' use of dynamic discounting e.g. all or some invoices, accounts payables will drive additional administrative costs at the Buyer. Modelled at 5k per month approx. 1 FTE

Dynamic Discounting Example

The following is an illustration based on the modelling assumptions described above.

Payables- Annual	**600,000,000**
Discount rate annualised	30%
Payables-Monthly	**50,000,000**
No of periods	1
Supplier Takeup	10%
Available to Discount	5,000,000
Discount Rate	2.50%
Yield Monthly	**125,000**
Margins	
Impact on margins	1.00%
Margin Impact	50,000
Cost of Funds	
Internal cost of capital -annual	3%
Monthly %	0.25%
Cost of funds-Monthly	12,500
Summary per month	
Yield Monthly	**125,000**
Less	
Cost of funds-Monthly	12,500
Operating Costs	5,000
Gross benefit per month	57,500
Net Benefit per month	**52,500**
Annualised	**630,000**

Financial Business Case
Dynamic Discounting with AI and SCF

Dynamic Discounting with AI and SCF

Dynamic discounting, with a corporate using its own treasury funds, augmented by 3rd party capital can generate a significantly more positive outcome for the corporate and suppliers.

Treasury Funds and Yield

Treasury funds can be deployed cyclically as required with no min/max commitments as funds are augmented by 3rd party funders. The discount is applied over the full tenor of the transaction rather than diminished through e.g. 2.5% discount for 90 day advance.

High Supplier Take-up

The impact of competitive discount rates and an easy to use drawdown mechanism is typically high supplier take-up which increases the overall business case for dynamic discounting.

Margins

As a result of ease of use, high levels of optionality on whether to take a discount on a per invoice basis, the competitiveness of the cost of funds, and dislocations between the finance and buying function at a per transaction level, the discount typically does not result in a reduction in margins.

Modelled at 0%.

Operating Costs

The operating costs reflect the cost of the lower costs of an automated platform.

Dynamic Discounting Example

The following is an illustration based on the modelling assumptions with an AI driven dynamic discounting Supply Chain Finance Programme

Annual Payables	600,000,000
Discount rate annualised	8%
Monthly Payables	50,000,000
No of periods	3
Supplier Take-up	40%
Monthly discounted	20,000,000
Discount Rate	0.67%
Yield Cumulative	400,000
Summary per month	
Yield Monthly	400,000
Less	
Operating Costs (0.08% per	50,000
Net benefit per month	350,000
Internal cost of capital -annual	3%
Annualised	4,200,000

Traditional Dynamic Discounting

As highlighted, traditional DD, has significant disadvantage's, not least that the overall yield generated from a supplier payments programme can be low compared with the effort of supplier engagement etc.
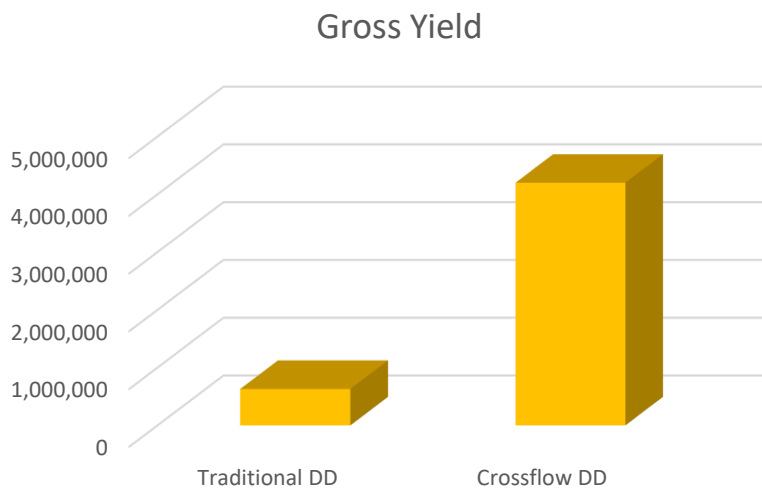
Crossflow AI Driven Dynamic Discounting

Crossflow DD, is next level DD, and is operated discretely, as funders are not disclosed, and even if they were, funding rates are competitive whilst providing a new gateway for suppliers to access early payments to support their working capital.

AI incorporated within Crossflow ensures the competitiveness of funding for the programme, which in turn drives high user take-up. This is augmented by the ease of use of the Crossflow service.

Ultimately, funders are generating a yield based on their participation so if as an example, a corporate funded the entire programme in this illustration, they would generate 4.2m of yield through a 60m funding commitment. However, if they wanted to participate cyclically to the tune of 30m average they would still generate 2.1m, over three times that which can be achieved with traditional DD.

The further supporting factors for Crossflow DD, are its ease of integration to both the buyers and suppliers' operations, and its global scalability, enabled through its legal framework.

Comparison	Traditional DD	Crossflow DD
Gross Yield	630,000	4,200,000

Gross Yield

For further information on making AI driven dynamic discounting work for you contact Crossflow:

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