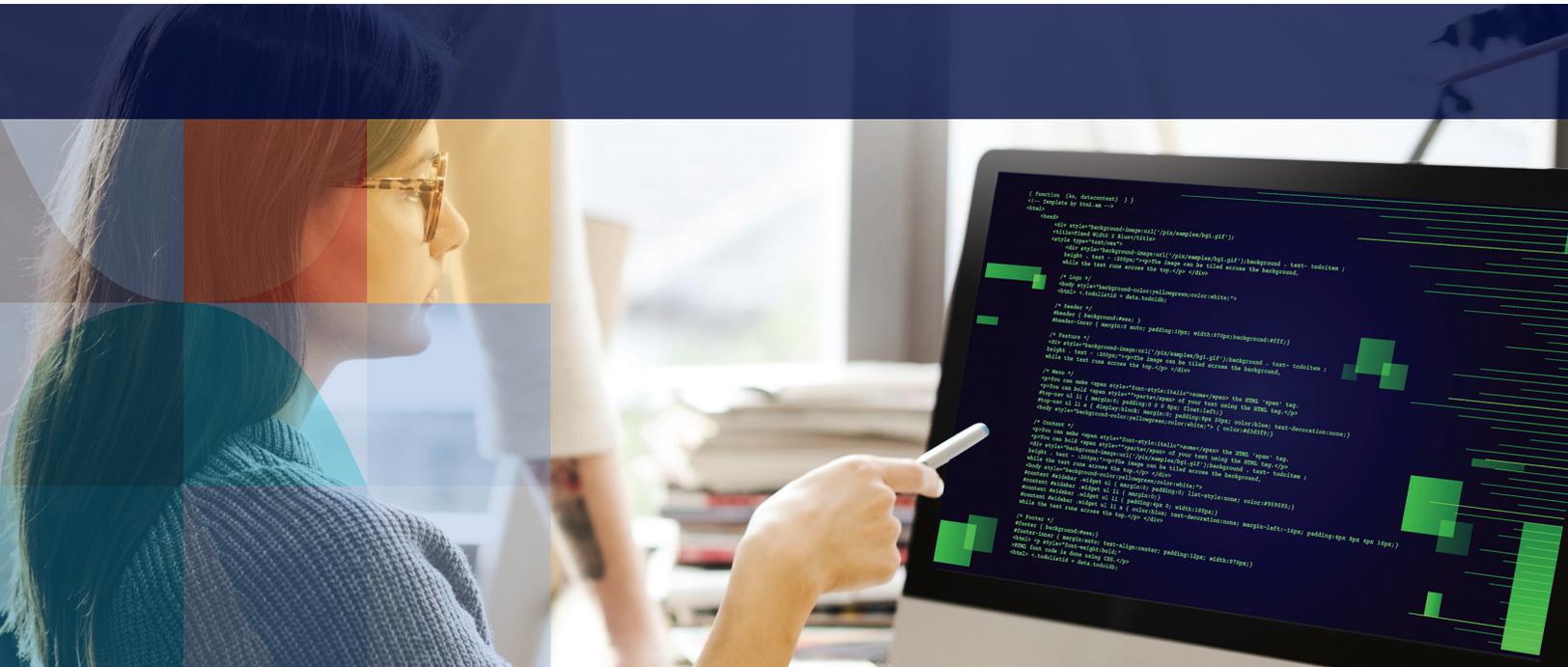


Decoding Dynamic Discounting

Written by:
Manoj Bhat



As the business world moves toward consumer-centric, technology-driven products and services, organizations are rethinking their traditional practices — from day-to-day work processes and customer service to vendor relationships. A new methodology, dynamic discounting, is disrupting accounts payable processes, with the potential to completely change the way vendors and buyers interact.

Traditionally, vendors have used standard payment terms with an early payment discount (EPD), such as a 2/10 net 30 trade credit where buyers receive a 2% discount for a payment made within 10 days.

Dynamic discounting is more collaborative. Using a set of tools, buyers and vendors establish a sliding scale for discounts based on the date of payment — the earlier the payment, the greater the discount. The negotiation occurs in real time, in place of traditional paper-based communication, enabling significant time and cost savings.

How does dynamic discounting work?

Dynamic discounting requires a certain maturity of the procure-to-pay (P2P) process. Even with the most advanced electronic invoicing and wire payments, a buyer organization still needs to go one step further to realize the full benefits of dynamic discounting — automation.

Your accounts payable department is ready to use dynamic discounting if:

- You receive most of your invoices electronically
- You are able to process payment transmissions in 10 days or less
- You are a member of a supplier network



Automating the entire P2P cycle (from receipt to payment) to enable dynamic discounting can help buyers reduce spend, improve cash flow and strengthen vendor relationships.

According to The Institute of Finance and Management and The Accounts Payable Network:

- Only 37% of companies actively pursue discounts
- One-third of companies do not have a discount policy in place*

As discount terms become more common for Fortune 2000 companies, buyers need to do the following in order to enable stress-free, seamless dynamic discounting processes:

- 1. Undergo vendor negotiations:** Buyers will need to work with suppliers to reach an agreement for offering dynamic discounts/establishing a sliding scale for discounts.
- 2. Use a vendor network/portal:** Dynamic discounting requires two-way communication best established via an interface to accounts payable or by joining vendor networks such as Ariba. This is dependent on vendors being on the same network as the buyer.

- 3. Streamline accounts payable:** To drive EPDs, a buyer needs to streamline all accounts payable processes — from receipt through approvals, posting and payment. This means establishing electronic invoicing, workflow-driven approvals and automated clearing house (ACH) payments.

Like many transformational initiatives for P2P, dynamic discounting improves not only processes but also the bottom line.

NTT DATA Services can help

Using our proprietary workflow engine, NTT DATA Business Process Management Suite, we can help ensure you're not missing any available discounts or opportunities to increase your business value. The suite uses innovative technologies to get you the discounts you need. It includes:

- **A skill-based workflow:** Invoices with available discounts are flagged in the system and then routed to subject matter experts for a fast turnaround. The resulting coding, exception resolution and posting improves invoice visibility in the system, which is critical to making discounts work.

Cost of unused discounts

“42% of purchases available for discount are unused, resulting in a missed opportunity to reduce the working capital requirement equivalent to \$2.8 million dollars.”**

— APQC research

- **Customer portal reporting:** Specific lifecycle reports on priority invoices are available on the customer portal to ensure that payments (manual or ACH) are made within the payment terms.
- **Optical character recognition (OCR):** Enabled with OCR capability, our Business Process Management Suite helps flag on-invoice discounted payment terms, as well as vendors who are likely to offer discounted payment terms (based on vendor master/historic terms) but have not mentioned it on the invoice.

* The Accounts Payable Certification Study Manual. The Institute of Finance and Management and The Accounts Payable Network. Available to members only.

** Dynamic Discounts: What are you waiting for? APQC Open Standards Benchmarking research. July 1, 2011.

<https://www.apqc.org/knowledge-base/documents/dynamic-discounts-what-are-you-waiting>



Implement dynamic discounting in three steps.

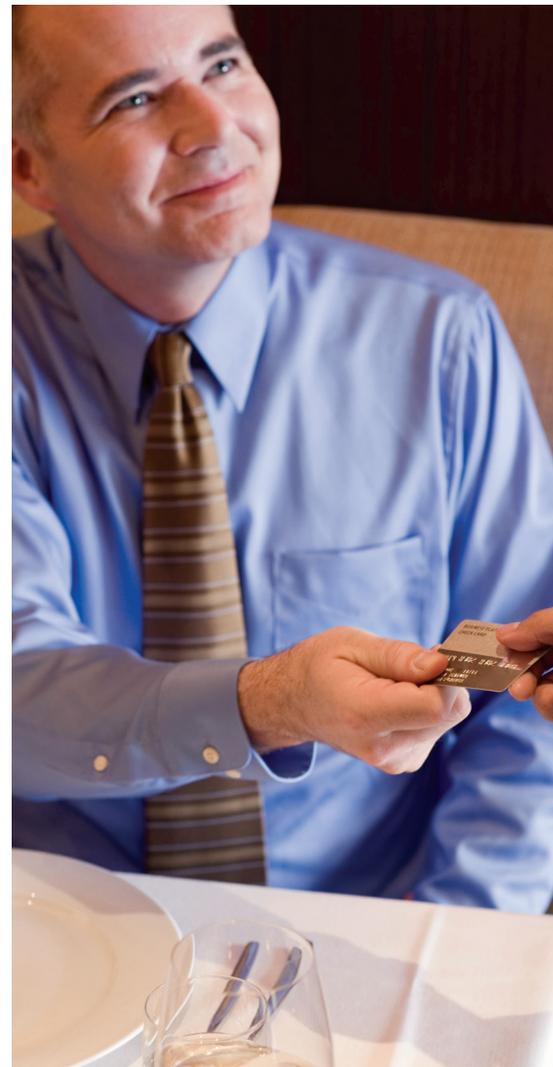
We recommend you start your dynamic discounting journey by optimizing the use of traditional EPDs to build a business case for further change management and then assessing your entire P2P cycle to develop comprehensive automation processes.

You can then engage vendor networks for dynamic discounting and begin negotiations before fully implementing the new process through an end-to-end, integrated payment model.

Whether you are rethinking your accounts payable practices or just want to make sure you are not missing available discounts, NTT DATA can help. Our innovative tools and solutions transform accounts payable processes and increase business value.

About the author

Manoj Bhat is a solution architect for NTT DATA Business Process Outsourcing Services with over 10 years of experience transforming finance and accounting departments for clients in the U.S., Europe and India.



Visit www.nttdataservices.com to learn more.

NTT DATA partners with clients to navigate the modern complexities of business and technology, delivering the insights, solutions and outcomes that matter most. We're a top 10 global IT services and consulting provider that wraps deep industry expertise around a comprehensive portfolio of infrastructure, applications and business process services.

NTT DATA