



The New Corporate Cash Environment

Understanding Impacts on Financial Supply Chain and Cash Management

Alan Cohen, SAP Ariba

Craig Jeffery, Strategic Treasurer

Scott Pezza, SAP Ariba

Tuesday, March 20th, 2018

11:00 AM EST

Today's Presenters

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   



Craig Jeffery, CCM, FLMI

Founder & Managing Partner
Strategic Treasurer

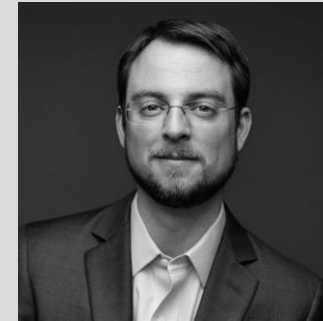
Craig Jeffery formed Strategic Treasurer LLC in 2004 to provide corporate, educational, and government entities direct access to comprehensive and current assistance with their treasury and financial process needs. His 20+ years of financial and treasury experience as a practitioner and as a consultant have uniquely qualified him to help organizations craft realistic goals and achieve significant benefits quickly.



Alan Cohen

VP Payments & Financing Strategy
SAP Ariba

Alan has over 20 years of Payments and Working Capital experience as a practitioner, consultant, and banker. In his current role, he leads the Payments and Financing strategy for SAP Ariba. Previously, Alan led Coca-Cola Enterprises to become one of the first to benefit from dynamic discounting. At JPMorgan, he helped companies outline their strategies, governance plan, and value creation models to benefit from payables automation and optimize payables working capital.



Scott Pezza

Director, Emerging Technologies & Financial Supply Chain Research
SAP Ariba

As part of SAP Ariba's Digital Transformation Organization, Scott researches, compiles, and shares best practice information to help customers get the most out of their investments. Covering emerging technologies and the financial supply chain, his research helps inform strategic planning, performance measurement, and program execution. He has spent the past 17 years in the B2B Technology space, in roles ranging from software development and support to research and consulting.



- ➔ **Introduction: Today's Cash Environment**
 - Tax Rate Structure
 - Rising Interest Rates
 - Implications
- ➔ **Working Capital Management: Areas of Focus**
 - Organizational Alignment
 - Communication
 - Payment Terms
- ➔ **Working Capital Optimization in the Supply Chain**
 - Payment Terms
 - Dynamic Discounting
 - Traditional Supply Chain Financing
 - The Advantages of Technology
- ➔ **Key Takeaways & Final Thoughts**

Today's Cash Environment

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

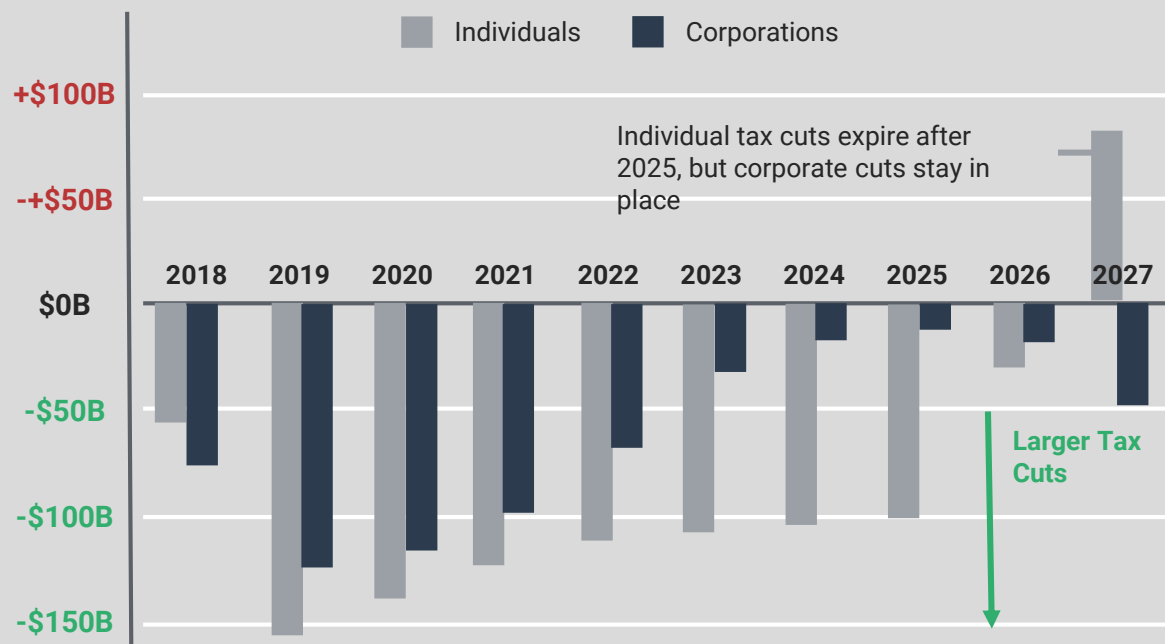
Tax Reform in the Spotlight

- The US tax reform reduces corporate tax rates from 35% to 21%.
- The new tax reform no longer taxes foreign profit brought back into the US, encouraging large businesses to bring their profits back to the United States to reinvest.

Economic Sentiment is High

- A majority of banks and corporates expect GDP in their headquartered country to increase in the next year.
- Economic growth for 2017 was 3.6%, a higher rate than initially predicted. Projected growth for 2018 is 3.9%. (World Bank)

Tax Bill's Impact on Individuals' and Corporations' Tax Bills¹



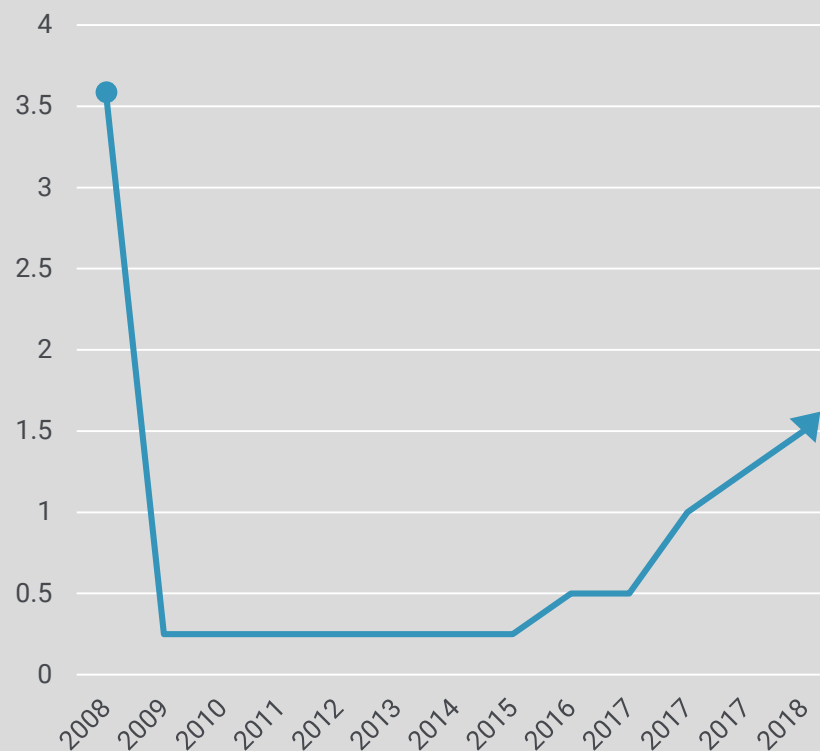
Today's Cash Environment

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

Rising Rates Will Impact Investment Decisions.

- Interest rates have been near zero for the past few years.
- This has caused corporate borrowing to increase and firms to alter their mix of debt/equity to take on more debt.
- However, as the economy progresses, most banks and corporates expect interest rates to begin rising.
- This will again impact how corporations manage their mix of debt and equity and their capital structure.
- This will have the largest impact on small firms that already face high borrowing rates and may have their availability of capital further reduced.

Approximate US Federal Interest Rate (%)²



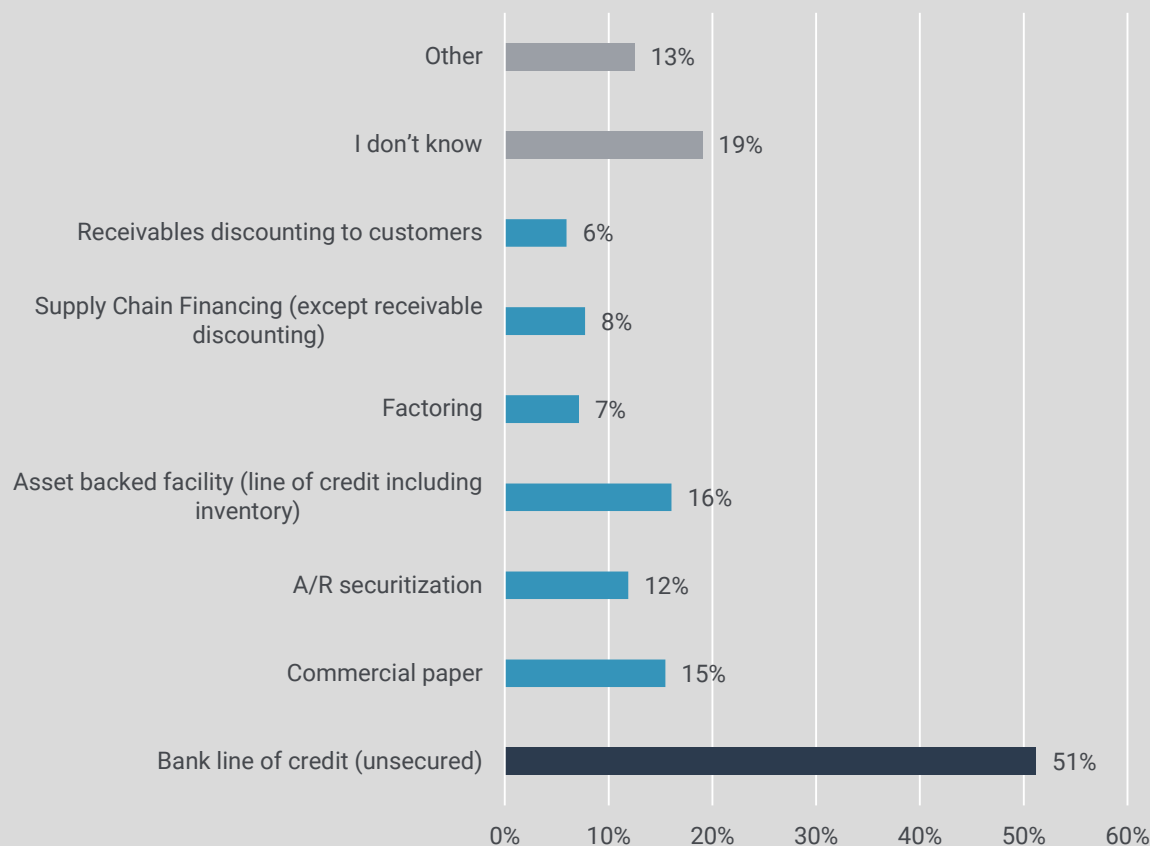
Today's Cash Environment: Implications

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

Working Capital Focus:

- With rising interest rates, companies will be looking for more cost-effective ways to borrow capital and process payments.
- Increased cash flow from the tax reform will provide companies with a greater ability to invest funds and take on capital expenditures.
- Many firms have indicated that enhancing working capital will be a primary focus for targeted spend.

Which of the following are you currently using to finance working capital? (Select all that apply)³



Today's Cash Environment: Implications

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

The Current Cash Environment has Different Implications for Large vs. Small Organizations

Large Global Buyers



High Levels of Debt. Previously low interest rates have caused borrowing to increase, leaving large global buyers in great amounts of debt.



Increased Capital. There will be more capital available for investments, expenditures, etc., particularly in the United States.



Money Movements. Primarily large companies can now repatriate cash into the United States, increasing their available capital and stimulating the economy.

Small Suppliers



Rising Rates. Borrowing will become more expensive as interest rates increase.



Delayed Payment. It will be increasingly difficult for suppliers to get paid on time since buyers will likely seek to delay payment.



Difficult to Find Funding. Banks will become more risk-averse, therefore making it difficult for small suppliers to obtain funding.

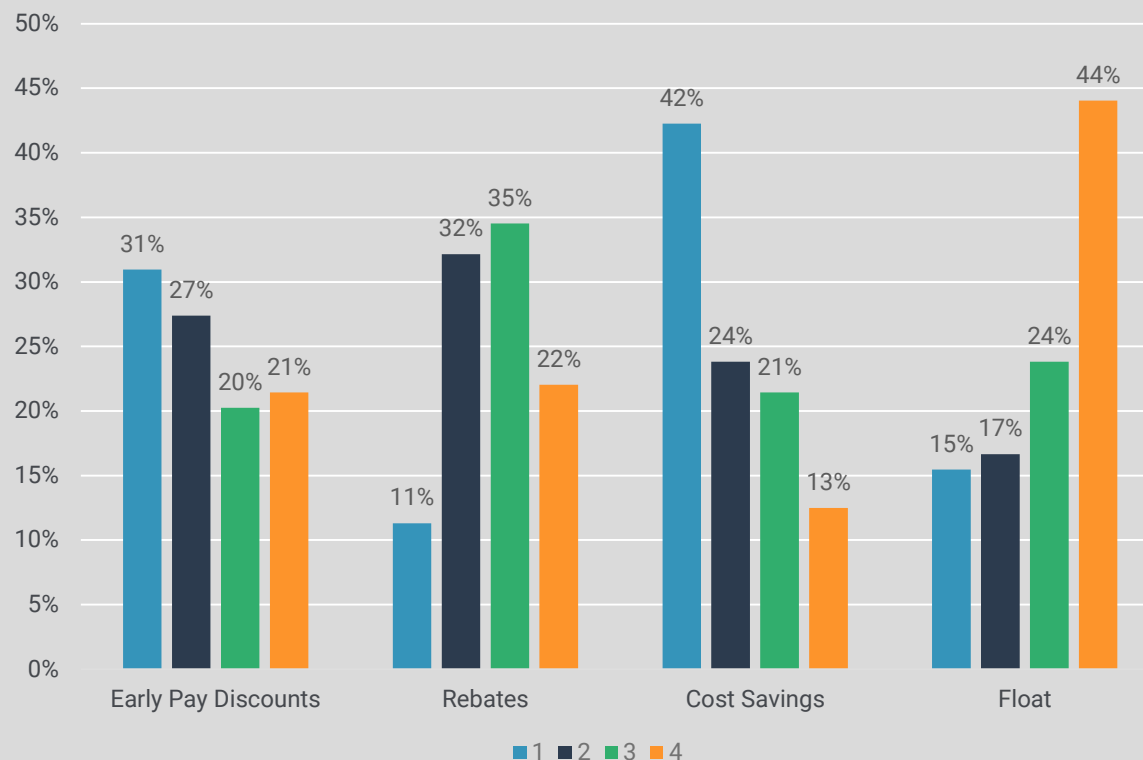
Today's Cash Environment: The Supply Chain

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

Financial Supply Chain

- Efficiency is a top driver for working capital operations.
- The financial supply chain will be a main focus for investment opportunities as increases in efficiency increase profitability.
- Automation, integration, and STP will influence decision-making.
- Over 50% of organizations have less than 6 people in treasury. Overworked staff need technology to drive efficiency.

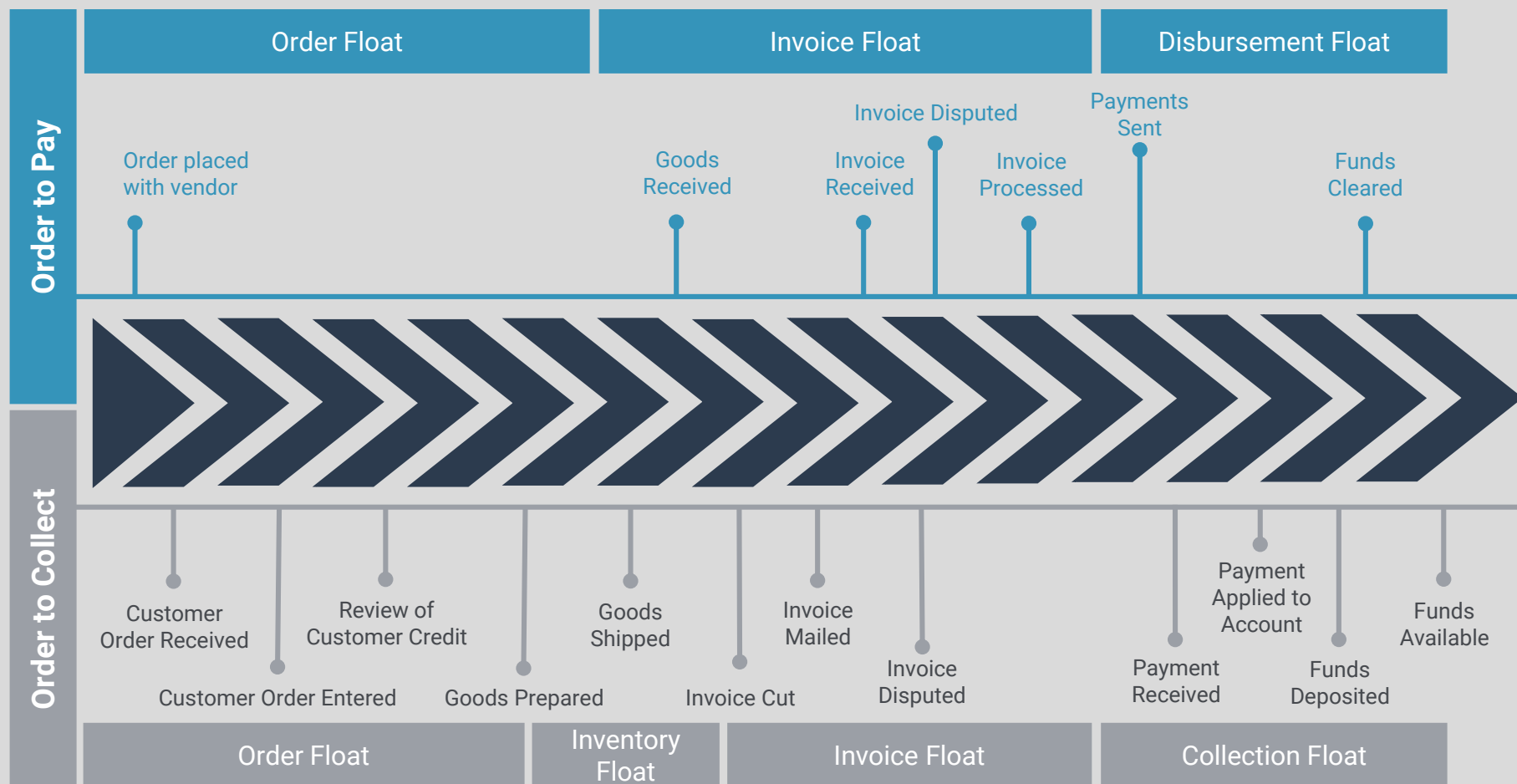
Rank the following elements by priority in your cash optimization strategy. (1 = highly prioritized). Each option may only be selected once.⁴



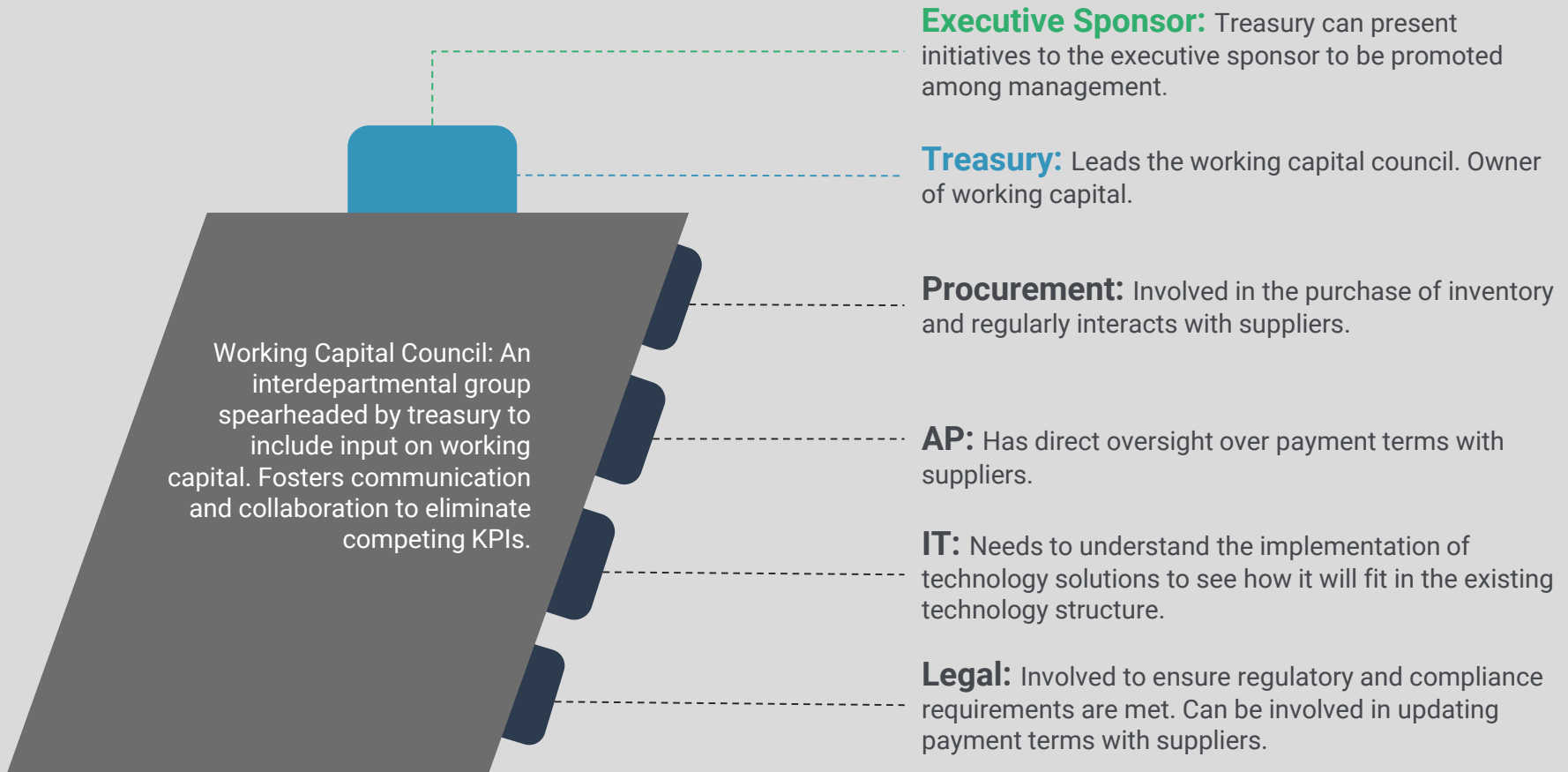
Today's Cash Environment: The Supply Chain

Connect on StrategicTreasurer.com   

Cash Conversion Cycle: Standard Workflows



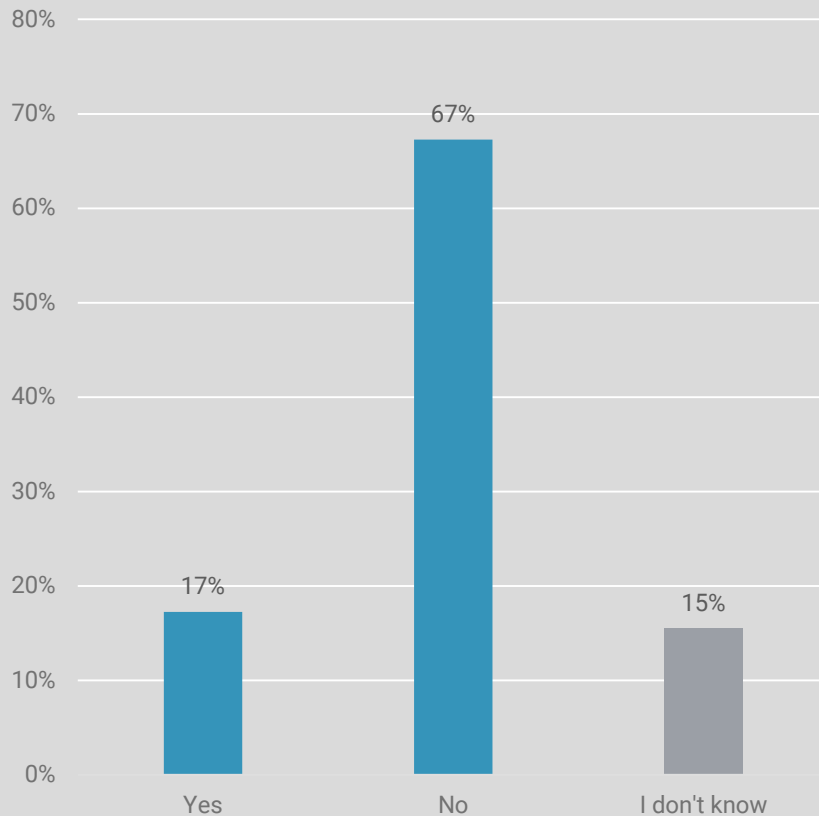
Forming a Working Capital Council



Best Practices: Communication

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

Do you have a working capital council or committee?⁵



Treasury's Goals:



Streamline Communication

Both internally and externally, maintain the most direct method of communication. This includes streamlining invoices and checks to decrease the amount of time in transit.



Have Defined Roles

A working capital council can be essential for defining roles. Each person should know what they are responsible for, as well as who they report to or can contact for different aspects of supply chain management.



Utilize Technology

Treasury technology can increase efficiency of communication by streamlining bank account management, business sectors, and invoicing. Treasury technology can enable treasury to have more clarity in communication across the board.

Best Practices: Payment Timing

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

Payment timing impacts a supplier's cashflow, operations, and profitability

Pay in Advance

- Internally funded (dynamic discounting)
- externally funded (supply chain finance)
- Cards may be used for rebates

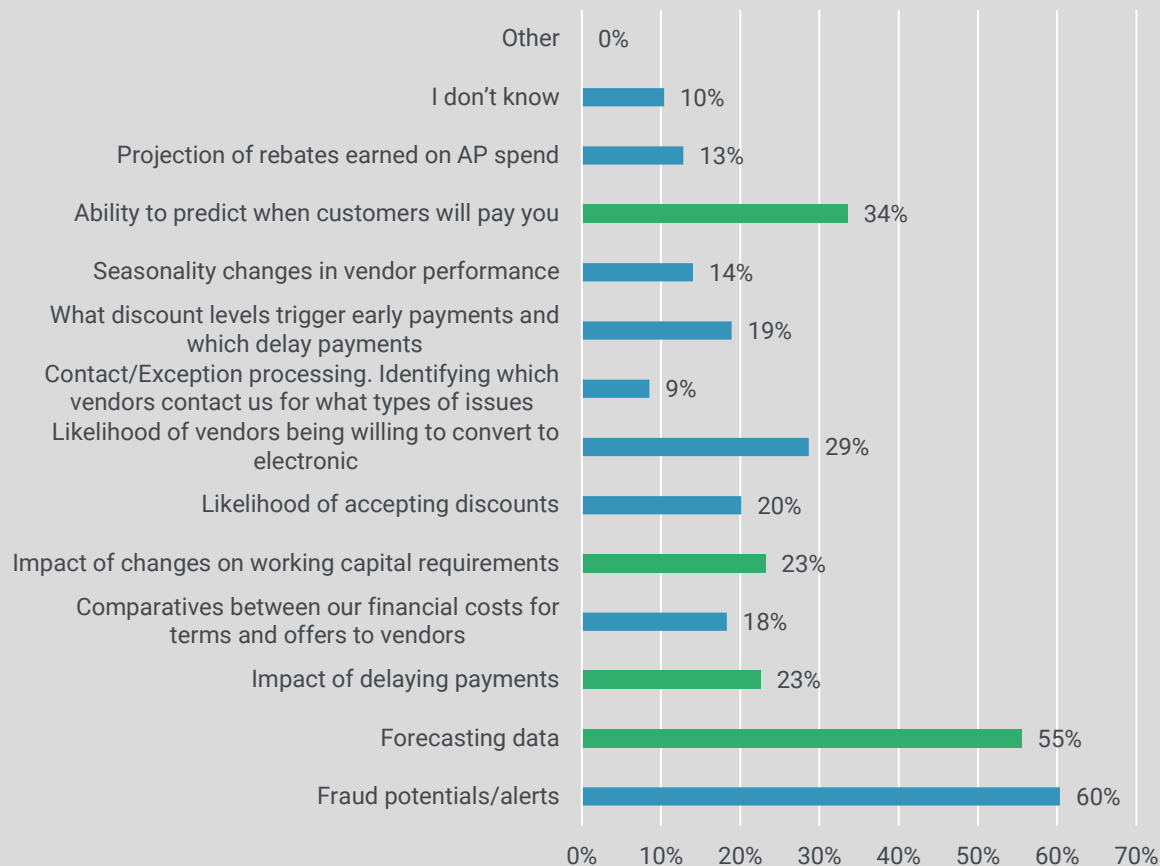
Pay at Maturity

- Typically self-funded
- No DPO extensions/reductions – this is simply meeting the standard, agreed-upon payment terms.

Payment Terms Extension

- Strategic or programmatic
- Typically NOT self-funded... banks pay suppliers early on buyers behalf

Corporates: What payment analytics information do you find appealing or important? (Select all that apply)⁶



Best Practices: Working Capital Optimization

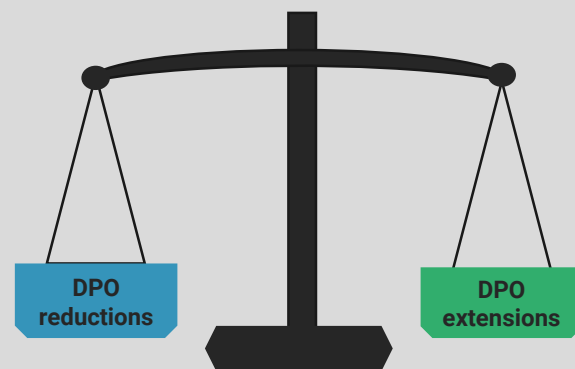
Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

Working Capital Management Optimization

- Goal: Not to increase or reduce, but to optimize.
- Too much money in the supply chain is an issue as it becomes unavailable for use in other areas
- This can be a loss of potential investment opportunities
- Financial Supply Chain solutions can help improve functionality and streamline the cash conversion cycle.
- Using electronic or technological functionalities can eliminate the time it takes to do manual tasks and workflows.
- Electronic capabilities can free up cash to take advantage of early payment discounts or other investment areas.

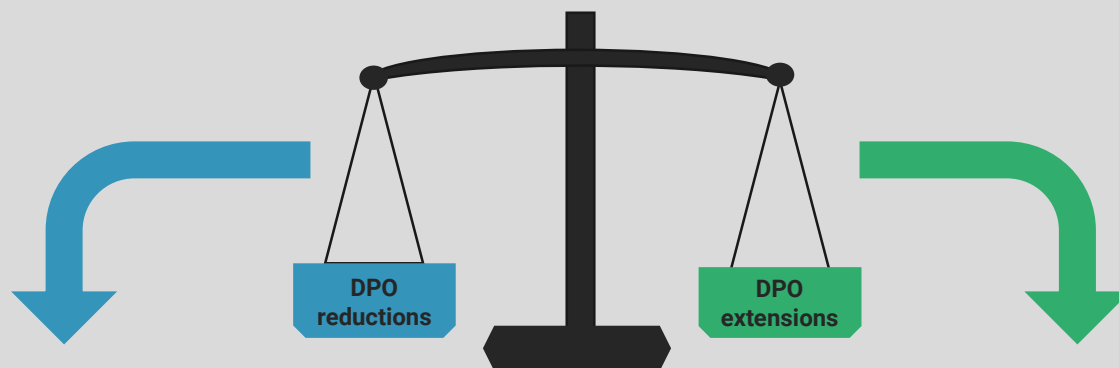
Ways to Optimize Working Capital- Payables

- Taking advantage of discounts
- Extending payment terms
- Leveraging technology to streamline workflows



Best Practices: Payment Terms

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   



Discounts

(Reducing DPO to achieve savings)

- Taking discounts offered by suppliers to save money
- Allows firms to use their own cash reserves to pay suppliers early in exchange for discounts.
- Discounts made available through early payments are competitive with returns available through other investment options.
- The discount must offset the money that could be made through investing a delayed payment.



Payment Term Extensions

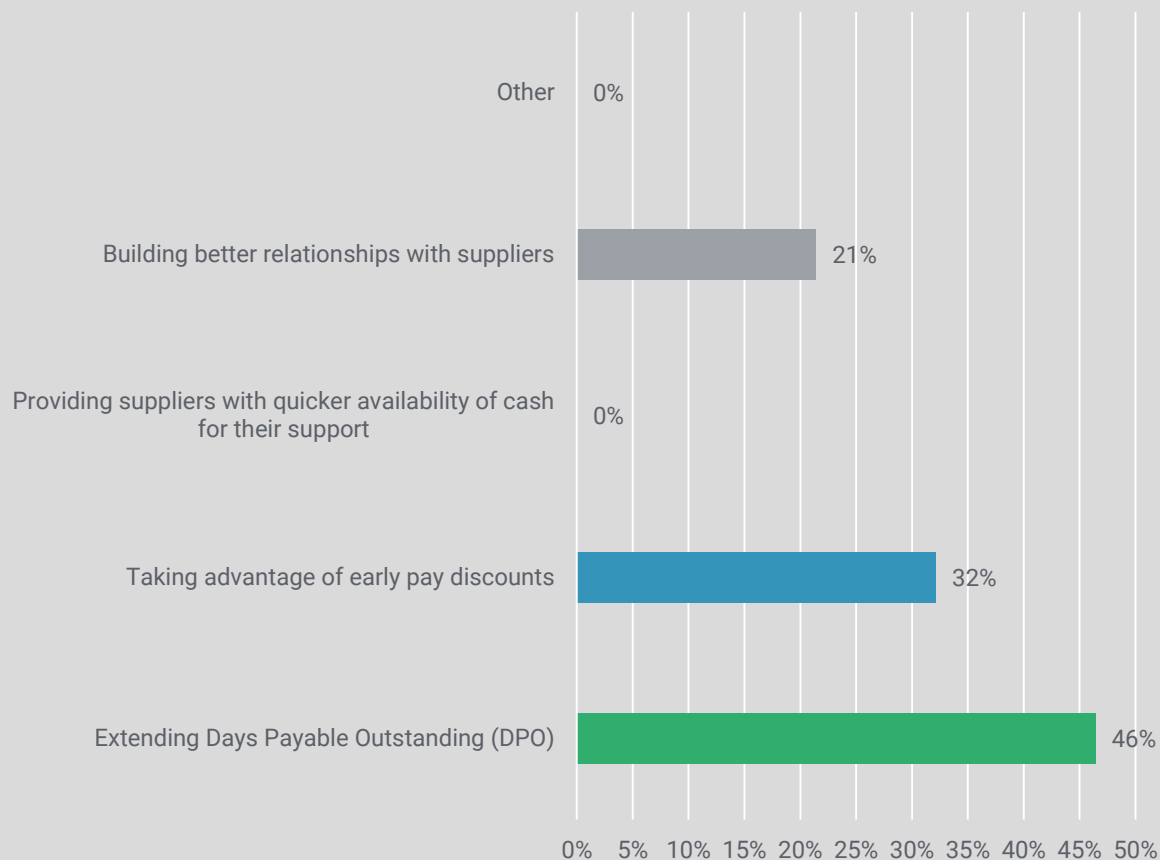
(Extending DPO to increase earnings)

- Firms leverage their credit rating to extend DPO, while providing affordable financing to suppliers
- By holding onto their cash longer, firms can make short-term investments to generate more capital.
- Generally, banks pay suppliers early on behalf of the buyer.
- Money made in investing a delayed payment must offset the money that could have been saved through discounts.

Negotiating Payment Terms

- 32% of buyers are motivated by early pay discounts
- 46% of buyers are motivated by extended DPO
- Historically, payment term extensions have been the most common motivation for buyers to renegotiate terms.
- However, both options can be wise for a business, depending on their overall goals and investment strategies
- Treasury technology can often guide the process of negotiating payment terms.

Buyers: Generally, what is your firm's motivation for renegotiating payment terms with suppliers?⁷



Best Practice: Payment Terms

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

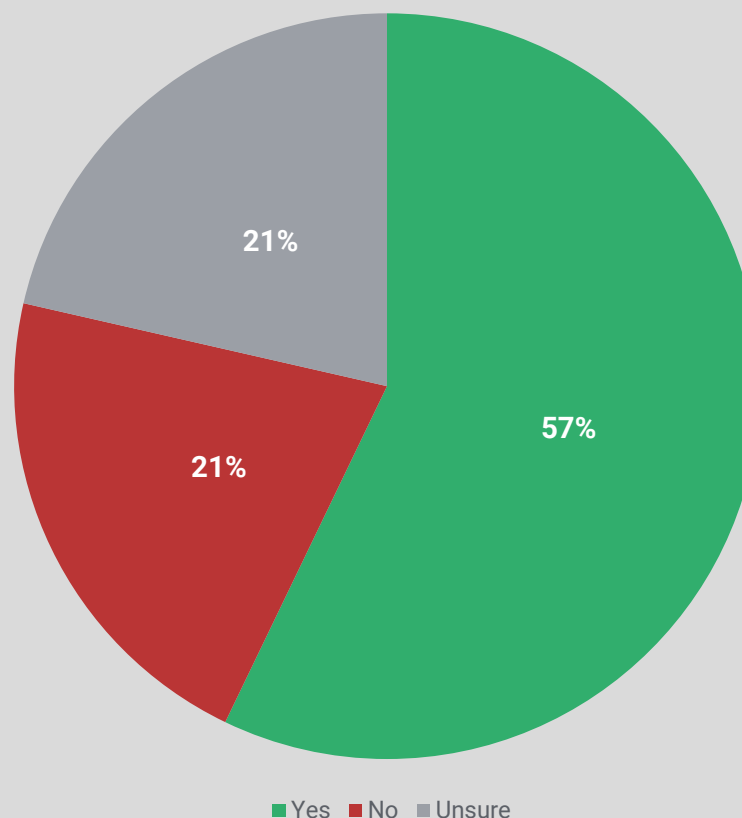
Better Returns on Cash

- Discounting can deliver better returns than playing float.
- Many suppliers are willing to offer large discounts in order to be paid early.
- In many cases, these discounts are more profitable than any interest earned by extending payment terms.

Targeted Spend for Discounting

- Target total spend, strategic and non-strategic
- Strong compliance and exception request process
- A majority of buyers are willing to invest more in the supply chain in exchange for a discount on goods.

Buyers: Do you have excess/available cash on hand that you'd be willing to invest in your supply chain if it meant earning a return or discount on goods purchased?⁸

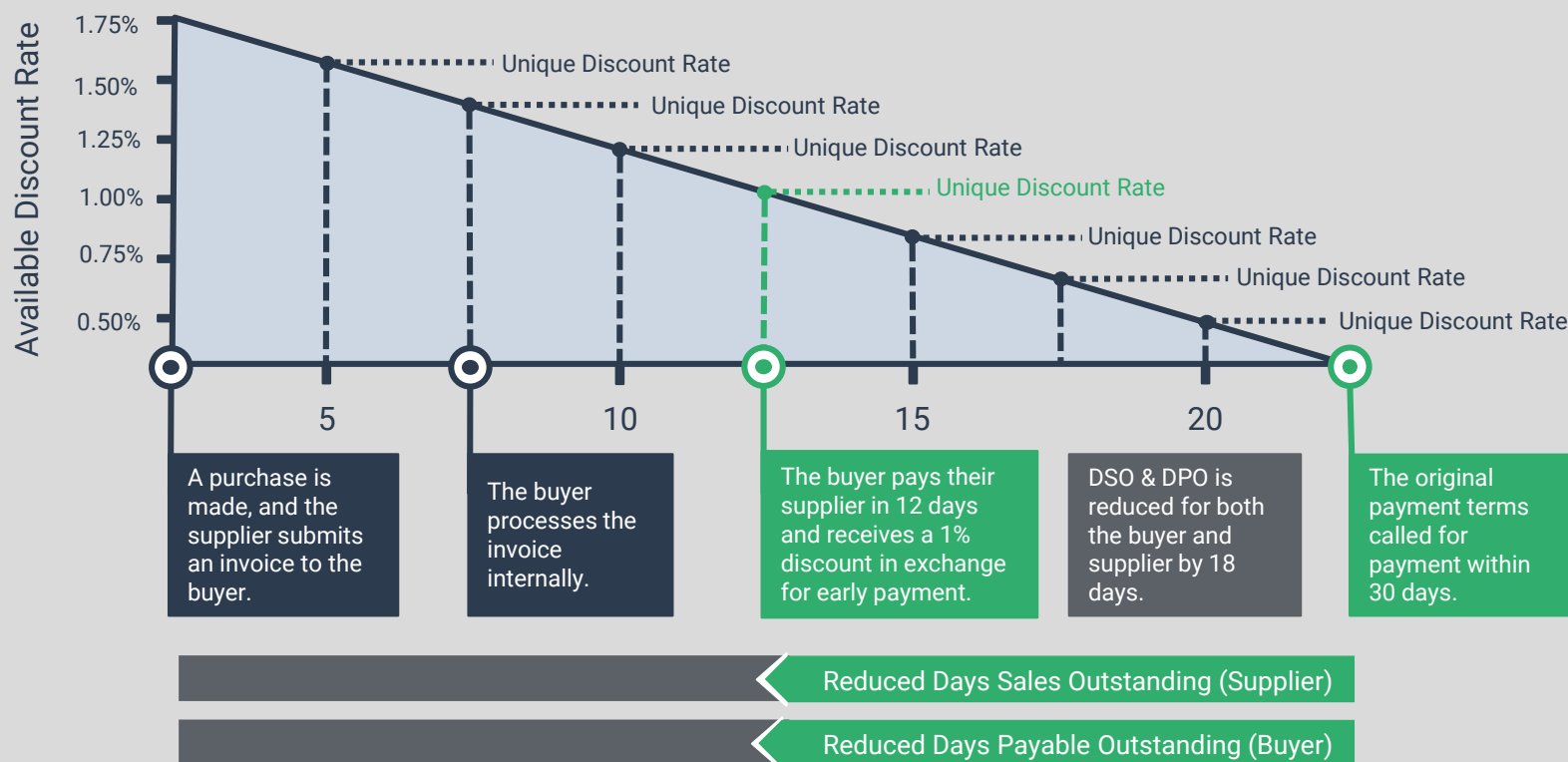


Cash Flow Optimization: Dynamic Discounting

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

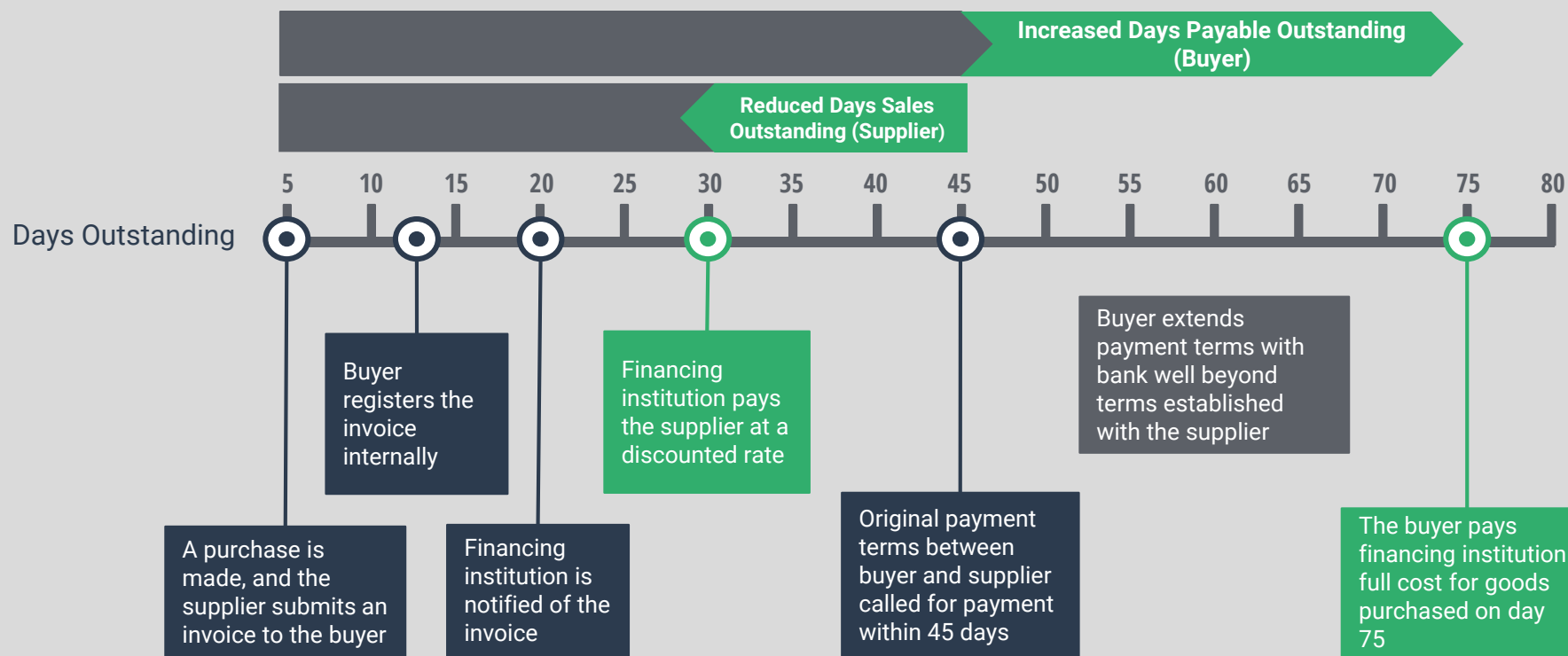
Dynamic Discounting

- Dynamic Discounting allows buyers to use their own available cash reserves to pay suppliers early.
- In exchange for early payment, suppliers provide buyers with a discount on the total purchase price. Through early-pay discounts, buyers can achieve rates of return on cash that outperforms returns available elsewhere in the market.
- Suppliers are given access to cash much sooner than under standard payment terms. For instance, they may have access on day 5 or 10 instead of day 30. There is no need for a 3rd party funder.



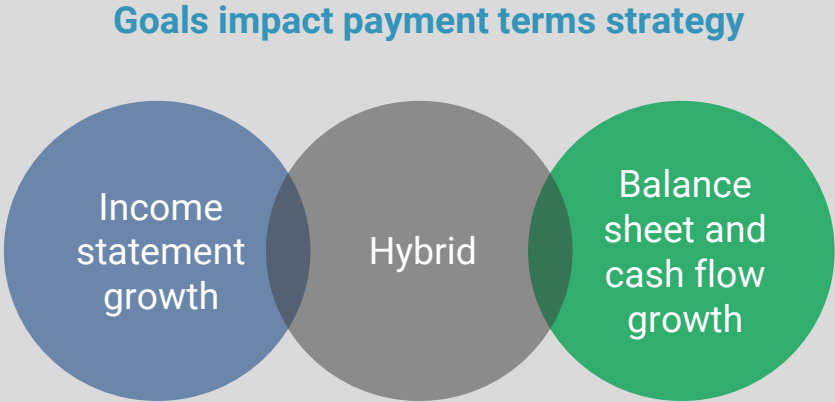
Traditional Supply Chain Finance

- Allows buyers to extend their DPO and hold onto cash for longer, while also ensuring that suppliers have early and affordable access to capital
- Suppliers can leverage the superior credit rating of buyers to get access to funds early.
- Banks will pay suppliers early on behalf of the buyer, and the buyer repays the bank at a later date.
- Firms that hold onto their cash for longer can make short term investments to generate interest or pay off other cash outflows.

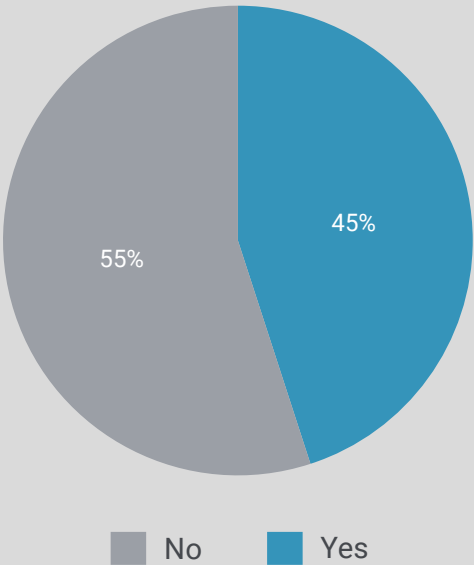


Payment Terms Strategy Aligned to Company Goals

-  **Growth:**
Entering new markets, mergers and acquisitions, rapid growth in an existing market
-  **Innovation:**
Increase R&D spending, focus on product/service enhancements
-  **Financial:**
Pay down debt, margin expansion, employee benefits

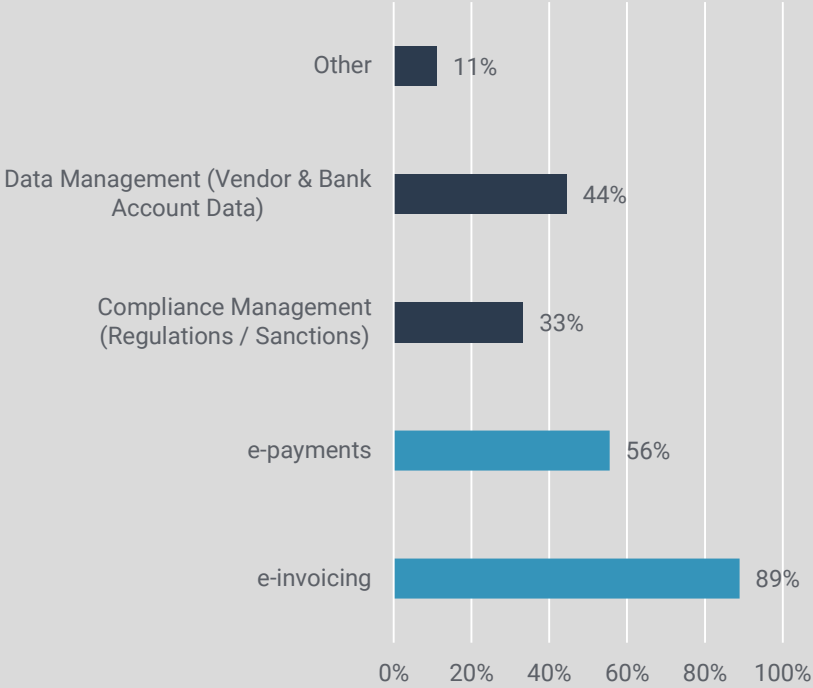


Does your SCF solution offer expanded functionalities/additional services? (i.e. e-payments, e-invoicing, etc.)⁹



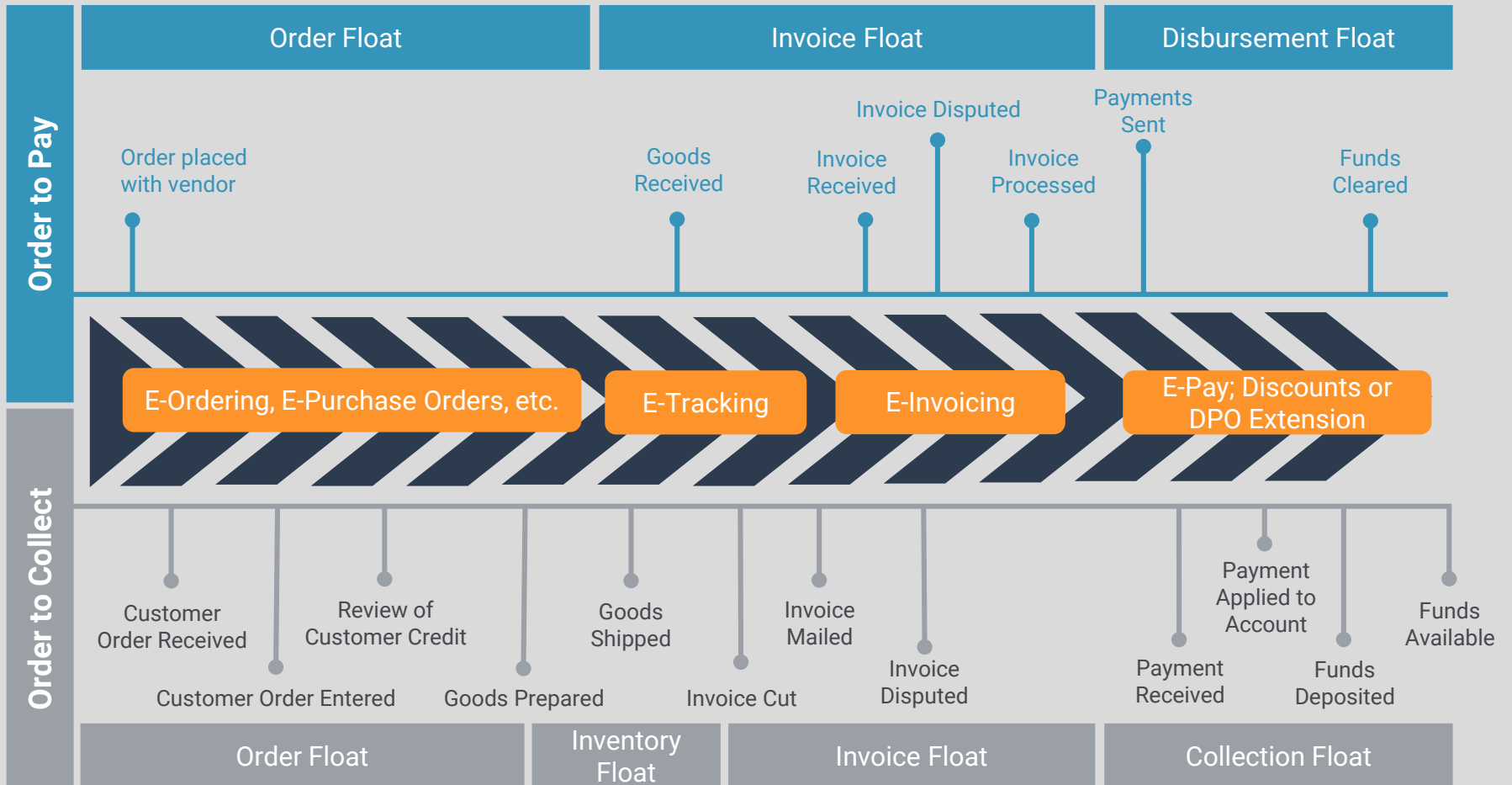
Extended Functionalities. Many Financial Supply Chain solutions offer “add-on” capabilities such as e-payments, e-invoicing, etc. that create additional value and efficiencies for organizations.

What expanded functionalities/additional services are offered?¹⁰



Electronic Modifications. Using automated functionalities can reduce errors and eliminate much of the time it takes to complete tasks manually, such as invoice entry/payment generation.

Cash Conversion Cycle: Opportunity Areas

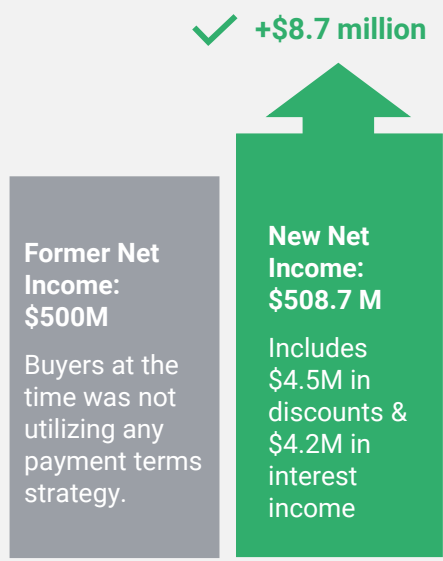


Best Practices: Payment Terms

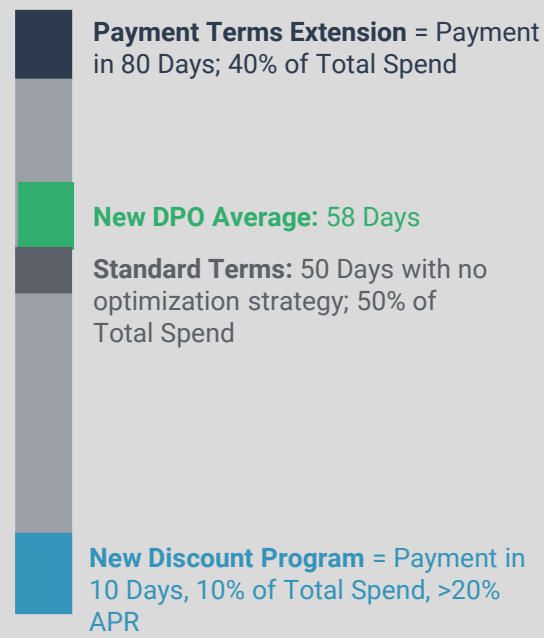
Example: Buyer with \$3B Annual Spend

	Income Statement	Balance Sheet	Cash Flow Statement
Early Pay Discounts	↑	↓	↓
Extending Pay Terms	↑	↑	↑

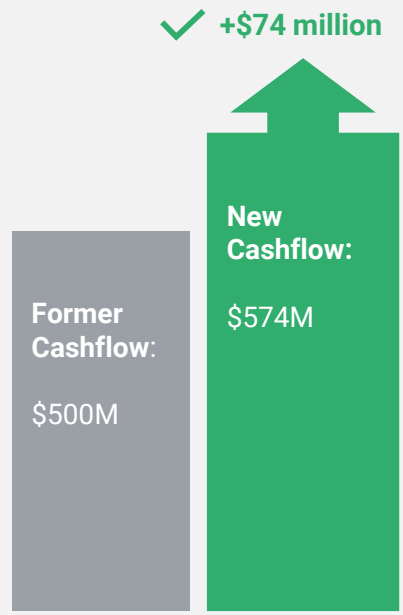
Income Statement Impact



Balance Sheet & DPO Impact



Cashflow Impact



Final Thoughts

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

 Key Considerations	 What can we do now?	 Helpful Tips for Treasury
<ul style="list-style-type: none"> Alignment to company strategy 	<ul style="list-style-type: none"> Determine purpose: R&D, organic growth, M&A, etc. 	<ul style="list-style-type: none"> Outcomes matter more than metrics
<ul style="list-style-type: none"> Organizational will and alignment 	<ul style="list-style-type: none"> Hold stakeholder alignment meeting 	<ul style="list-style-type: none"> Invite the stakeholders Agenda outline with meeting purpose and goal
<ul style="list-style-type: none"> Defining goals and timeline 	<ul style="list-style-type: none"> Force rank goals and project timeline 	<ul style="list-style-type: none"> Provide goals and timeline for leaders to debate
<ul style="list-style-type: none"> Executive sponsorship 	<ul style="list-style-type: none"> Establish governance structure 	<ul style="list-style-type: none"> Ensure 1 clear owner Identify strong project team
<ul style="list-style-type: none"> Estimating value 	<ul style="list-style-type: none"> Provide estimate of value potential 	<ul style="list-style-type: none"> Align to financial statements
<ul style="list-style-type: none"> Requirements for success 	<ul style="list-style-type: none"> Define objectives, strategies, and tactics 	<ul style="list-style-type: none"> Share linkage between upstream/downstream processes and functions

Contact Information

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

Speaker Contacts



Craig Jeffery

*Managing Partner
Strategic Treasurer*

Email: craig@strategictreasurer.com
Direct: +1 678.466-2222



Alan Cohen

*VP Payments & Financing Strategy
SAP Ariba*

Email: alan.cohen@sap.com
Direct: : +1 770.624-6163



Scott Pezza

*Director, Emerging Technology & Financial
Supply Chain Research*

SAP Ariba

Email: scott.pezza@sap.com
Direct: +1 978.833-4397

Want to learn more? Download our eBook!



For treasurers looking to gain the most out of their financial supply chains through the optimization of working capital.

Works Cited

Connect on [StrategicTreasurer.com](https://www.StrategicTreasurer.com)   

Works Cited

1. Joint Committee on Taxation, Washington Post
2. TradingEconomics.com, Federal Reserve
3. 2017 B2B Payments and Working Capital Management Survey, Strategic Treasurer, Sponsored by Bottomline Technologies and Bank of America Merrill Lynch
4. 2017 B2B Payments and Working Capital Management Survey, Strategic Treasurer, Sponsored by Bottomline Technologies and Bank of America Merrill Lynch
5. 2017 B2B Payments and Working Capital Management Survey, Strategic Treasurer, Sponsored by Bottomline Technologies and Bank of America Merrill Lynch
6. 2017 B2B Payments and Working Capital Management Survey, Strategic Treasurer, Sponsored by Bottomline Technologies and Bank of America Merrill Lynch
7. 2017 Strategic Treasurer Supply Chain Finance Survey
8. 2017 Strategic Treasurer Supply Chain Finance Survey
9. 2017 Strategic Treasurer Supply Chain Finance Survey
10. 2017 Strategic Treasurer Supply Chain Finance Survey