

Hidden treasure



In a volatile and uncertain economy, the supply chain is a company's secret weapon to put money to work, says **Drew Hofler**, senior manager, Financial Solutions, Ariba.

On the surface, saving money for a rainy day makes sense, and companies around the world are doing so in record numbers, sitting on several thousand billion dollars of cash, according to calculations by financial analysts. Balance sheets are as healthy as they have ever been, with the proportion of debt to equity at its lowest in at least 20 years, according to analysts at HSBC. It appears that this trend will continue, as large companies sell corporate bonds in an effort to increase their cash holdings.

The problem with this strategy is that companies want to hold cash as a hedge, but that cash is not earning a reasonable return. And when it comes to profitable, secure short-term investment vehicles, there aren't many options out there right now. Official interest rates in the US and UK are at, or close to, record lows, meaning the returns on cash are close to zero, providing a powerful incentive to use that money. Historically, government debt was seen as a safe haven for investors, but the eurozone sovereign debt crisis has changed all that. This led some investors to shun government bonds and load up on corporate debt, with the resulting demand leading to interest rates paid by companies to hit record lows.

Using cash to create value

Companies looking to maximise

their returns on otherwise idle cash would do better by thinking in terms of the value that cash can create. Cash that's hoarded in traditional, low-return liquidity vehicles is cash that's losing value and potentially creating risk. As the gap between low-quality and high-quality borrowers grows, more suppliers will experience cash flow problems. And many will ultimately fail, creating disruptions in the supply chain that can negatively impact operations. Buyers with cash on hand can head off such problems by investing their stash in their supply chain.

Every company has an interconnected web of buyers and suppliers. Smart companies can turn the transactions they make on a daily basis with their suppliers to their advantage. Here's how it works: in return for a discount, you can accelerate payments for approved invoices to key suppliers. You earn an immediate return on your cash. Your trading partners can use that cash to fund their daily business needs and ensure they can meet your ongoing demands.

Dynamic discounting

The process known as dynamic discounting is gaining popularity. On the Ariba Network, more than USD 4.5 million in discounts were captured in the past year. Buyers receiving these discounts saw average annual

returns of anywhere between 10% and 36% – far greater than the returns available through traditional liquidity investments. Getting buyers to agree to pay early and sellers to offer a discount might seem like an impossible task, but new technologies actually make it quite simple. Delivered in the cloud, such solutions provide buyers and sellers with all of the tools necessary to fully automate the process of offering, negotiating, and agreeing on early payment terms. Buyers can capture discounts at any point between invoice approval and the net due date and automatically present offers to lock them in. Suppliers can automatically accept offers or control the acceleration of payment on an ad-hoc basis, according to their needs.

Adopting a creative approach

“In today’s volatile economy, two things are crucial to the success of any organisation – collaboration and flexibility. This is particularly true when it comes to managing cash,” says Tom Piersa, vice president, procurement and supply chain management, Republic Services, Inc. Using Ariba’s technology and services, Republic Services was able to engage a significant number of its suppliers in a dynamic discount program that gave it visibility into its options for early payment, the ability to make more informed buying

decisions and allowed its suppliers to choose alternative payment terms that met their needs.

By creating an efficient and completely automated process for managing discounts, Republic gives its trading partners greater control over their cash accel-

that participates in an early discount program with a major sport equipment manufacturer, agrees. “We can get our invoices paid as quickly as four days – it’s like gold,” she says.

During difficult times, the tendency for most organisations is

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eration options and visibility into their payment status so that they could improve their planning and forecasting. “It makes sense for any buying organisations to do the best they can with their cash flow, and getting a discount does more for them than letting it sit in a low-interest-bearing account,” says Dana Gardner, principal analyst at Interarbor Solutions. “But for the suppliers, it gives them a chance to really analyse the fulfillment timing that best works to their advantage, and then incentivise using these discounts in ways that benefit them.” Joy Stoelting, studio manager for Big-Giant, a US design firm

to shore up costs and adopt a myopic approach to conducting business. This is not the way to pull through a market slowdown. As the perception of recession looms large, it is more important than ever for buyers and suppliers to work more closely together, share the economic burdens, and embrace innovative ways to ensure their mutual health. The supply base offers short-term investments with higher returns that are effectively risk free. Companies bold enough to embrace such an approach can successfully navigate today’s rough waters and sail smoothly once the economic storm passes. //