



# RETHINKING

Working Capital Management  
and Payments

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*A new model for optimizing your cash  
and mitigating supply-chain risk*



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**In a world that's changing rapidly and unpredictably, smart finance leaders set their businesses up for success by investing in processes and systems that enable agility. These initiatives allow their organizations to not only react to rapidly-shifting market conditions but also to get ahead and invest when the time is right.**

Achieving this agility requires updating the processes that maximize capital and mitigate risk. Today, with yields on cash hovering near record lows and supplier health a top concern for every executive in the boardroom, optimizing working capital and payments is a key initiative for every strategic CFO. But fragmented processes and misaligned objectives have kept working capital and payments programs from delivering on their potential.

This guide provides a new operating model and best practices to address these challenges. It is designed for any finance leader who wants to support stability today while setting their business up to thrive in the years ahead.





# WORKING CAPITAL OPTIMIZATION AND PAYMENTS: **WHAT'S NOT WORKING**

Modern working capital strategies—from Early Payment Discounts (EPD) to Supply Chain Financing (SCF)—allow businesses to preserve cash if needed or earn higher yields on excess cash. These strategies can also help struggling suppliers with liquidity challenges.

Despite their promise, these strategies have rarely delivered their full value. The lack of a holistic and connected system across Treasury, AP, Procurement, suppliers, IT, and banks has made it challenging to put these strategies into action.



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# FOUR REASONS

## Why Working Capital Optimization and Payments Strategies Don't Work



01

### Lost Profitability from Early Payment Discount (EPD) Programs

With Treasury rates at record lows and many treasury departments looking for short-term investments for excess cash, early payment discounts often offer the best ROI on cash—typically 12% to 18% APR.

That is an incredible yield, especially today. But operational complexity makes it difficult to tap into this ROI. Without a comprehensive system to make EPD offers to suppliers in need at the right time and then accelerate invoice processing, EPD programs are hampered by low supplier adoption, and mismatch between offers and suppliers who need help with liquidity.

## 02

### Missed Opportunities to Extend Days Payable Outstanding (DPO)

Digital payment strategies can help organizations extend DPO to address their own liquidity challenges. Virtual cards, Supply Chain Financing (SCF), and optimizing payment timing can extend DPO and improve cash flow.

But many organizations are missing out on these opportunities. Before selecting a strategy to extend the timing of cash outflow to a supplier, it's important to identify the suppliers that can be paid through v card or SCF. Optimizing DPO requires understanding the payment terms in supplier contracts, supplier needs, and collaboration with the AP team to use the right payment processes at the right time with each supplier.

Virtual cards and SCF can provide struggling suppliers with much-needed liquidity. But most providers of SCF do not enable programs for smaller suppliers due to their own operational concerns, cutting out the suppliers most likely to need help with liquidity in these uncertain times.

## 03

### Heightened Supply-Chain Risk Due to Lack of Early Visibility into Supplier Health

In order to reduce the risk of supply-chain breakdown due to supplier cash-flow issues, you need a comprehensive view of supplier health. By seeing if suppliers tap into EPD or SCF programs, you can fill out the picture of supplier financial risk and get ahead of problems by offering help.

Most Finance and Procurement leaders do not yet have a system that enables them to include supplier financial-health monitoring managed by Procurement to identify suppliers in need of early payment discounts.

# THE IMPORTANCE OF SUPPLIER ADOPTION

The best digital payment and working capital strategies fail to deliver value when suppliers do not adopt them. By integrating early-payment discounts, supply chain financing, and v-card programs into the flow of everyday transactions, and providing choice and flexibility to suppliers, companies can increase supplier adoption. For instance, incorporating virtual cards and/or early-payment-discount offers into purchase orders increases supplier adoption.

## 04



## Operational Complexity of Payments Impacts DPO and Hinders Profitability

In an ideal world, AP teams are equipped and motivated to easily pay suppliers at the right time based on what is best for the business and for suppliers' health, not just when an invoice arrives.

The reality is that AP teams often struggle with inefficiency and focus on getting payments out the door, without the time, resources, or systems in place to optimize payment timing in order to manage DPO and deliver on EPD programs. Slow AP and payments processes defeat EPD benefits since these processes can take 30 days or more for AP to approve and pay invoices—even if the supplier agrees to provide a discount for a payment within 10 days. Many AP teams simply pay invoices in the order in which they're approved instead of checking contract payment terms for the latest date at which a payment can be made—thereby losing the benefit of extending DPO.

# Business Spend Management


## MAKES WORKING CAPITAL WORK

The solution to breaking through long-standing siloed approaches to payments, AP, procurement, and working capital optimization is deploying a comprehensive **Business Spend Management (BSM)** strategy across the company complemented by a BSM platform that connects all processes in one place. By integrating all aspects of spend and buy-side cash flow, from procurement to payments to working capital optimization, BSM takes a holistic approach to how companies source, procure, expense, invoice, and pay for the goods and services that make their business run.

Modern BSM platforms offer seamless integrations not only with existing ERP systems but also with suppliers and banking partners. With these groups working together in one system, there is great potential to free up cash while supporting struggling suppliers.

### Benefits of Payment and Working Capital Management Strategies Integrated with BSM

- **Bottom-Line Impact:** Improve Profitability from Use of Early-Payment Discounts
- **Improve Cash Flow:** Enhance Liquidity by Extending DPO
- **Reduce Supply Chain Risk:** Combat Risk with Visibility into Supplier Health and Effective Programs for Helping Suppliers
- **Increase Efficiency and Savings:** Stop Chronic Inefficiency of Transactional Payments Processing



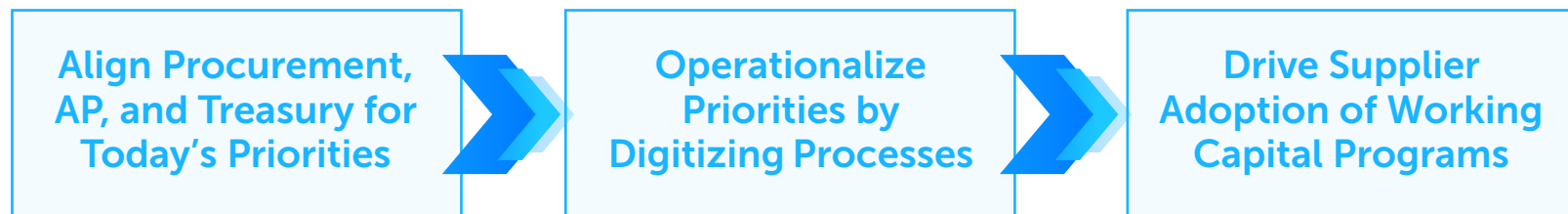
In the current environment with many businesses operating remotely, suppliers are more likely to adopt digital programs.

This is an ideal time to put working capital and payments strategies into action.

## A New Operating Model to Address **SUPPLY CHAIN RISK AND OPTIMIZE WORKING CAPITAL**

To fully leverage payments in order to ensure business agility and supplier health, organizations need a new BSM-based operating model. With BSM, you can digitize each step of the process, from getting the right payment terms in supplier contracts to effectively managing payments, running early payment discount programs, virtual cards, and other working capital programs. Embedding collaboration across teams throughout the end-to-end process makes it possible to get the full benefit out of modern payment programs and free up cash to increase business agility.

The following approaches will drive ROI and improve business agility:





## Align Procurement, AP, and Treasury for Today's Priorities

Align Procurement,  
AP, and Treasury for  
Today's Priorities

Operationalize  
Priorities by  
Digitizing Processes

Drive Supplier  
Adoption of Working  
Capital Programs



Teams across your organization may be working in siloes with conflicting objectives. Align processes and goals to get the most value out of working capital and payment programs:

- Balance supplier risk management and treasury goals to identify at-risk suppliers and reduce time to pay for them while extending DPO for other suppliers.
- Drive standardization of payment terms across supplier negotiations and contracts to make it easier to manage DPO.
- Hold cash longer by improving agility in payments, moving from weekly or biweekly matches to anytime payments.
- Prioritize supplier adoption of early-payment discount programs to improve return on treasury cash.
- Accelerate liquidity to suppliers, leverage card-billing cycles to hold cash, and increase card rebates by removing any operational roadblocks to broader use of cards.

## Operationalize Priorities by Digitizing Processes



Manual working capital optimization and payment processes make it challenging to achieve value. Digitize these processes to make it easy to run a modern working capital program:

- Digitize the entire source-to-settle process with a simple, easy-to-use platform to address common goals.
- Give all parties access to objective assessments of supplier financial health, letting teams efficiently target liquidity to at-risk suppliers.
- Give AP teams visibility into payment terms and opportunities to realize early payments in the context of their day-to-day tasks.
- Cut out manual steps and bespoke integrations between P2P platforms, P-Cards, and banks for payments and reconciliations with a platform that's pre-integrated with banks.
- Integrate virtual cards into your P2P processes to automate expense coding by AP, approvals, and card reconciliation.

Align Procurement,  
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## Drive Supplier Adoption of Working Capital Programs



Even the best working capital program will fail to deliver value if suppliers do not adopt your processes and systems. Make driving supplier adoption a key goal of your working capital programs:

- Work with suppliers to drive adoption by offering the means that are most accessible to them (SMS and email-based solutions for small suppliers and cXML integrations for large suppliers).
- Integrate strategies like virtual cards, EPD, and SCF directly into spend-transaction flow to continually drive adoption.
- Participate in a network to identify suppliers most likely to accept virtual cards or participate in programs such as early-payment discounting.
- Use KPIs and peer benchmarks to monitor adoption and operational efficiency, and drive ongoing improvements.

AP cycle times at companies without strong digital initiatives may be longer than 10 days (and EPD offers to pay within 10 days aren't acted upon).



# THE FUTURE VALUE OF WORKING CAPITAL OPTIMIZATION **INTEGRATED WITH BSM**

Finance leaders are taking steps to increase agility by ensuring healthy cash flow and mitigating supplier risk. Leaders have adopted comprehensive BSM strategies and technologies to improve operational processes for managing suppliers, spend transactions, payments, and working capital across the entire supply chain.

**By making these changes, businesses build the resilience to weather today's economic conditions and thrive in the years ahead.**



## About Coupa Software

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