

SAP Solution Brief

SAP Ariba Payables | Supply Chain Finance Capability

Increase Free Cash Flow and Optimize Working Capital with Supply Chain Finance





Increase free cash flow and fortify your financial supply chain

The supply chain finance capability of SAP® Ariba® solutions is designed to complement your payables-based working capital objectives. It helps **unlock working capital and increase cash flow** by enabling you to extend payment terms to your suppliers while providing the option for them to get paid early.

Increase free cash flow and fortify your financial supply chain

This is not a “one-size-fits-all” solution. You have options with our supply chain finance capability that let you balance your organization’s cash management and working capital goals with the needs of your supply chain.

With our solution, you can support different payment-term strategies for different groups of suppliers, lower the costs of goods and services, and reduce your supply chain liquidity risk.

And, since the solution is available on a global, multifunder platform, you can extend the reach of a supply chain finance program to your global supply chain.

Whether you want to increase your free cash flow, accelerate payments to suppliers, offer a lower-cost financing alternative for suppliers, mitigate potential risks, or lower costs across the physical and financial supply chain, supply chain finance offers valuable global capabilities.



What is supply chain finance?

In today's global economy, companies are under pressure to unlock working capital trapped in their physical and financial supply chains. The supply chain finance capability of SAP Ariba solutions effectively supports strategic payment-term extension initiatives while also providing options for your suppliers to get paid early. By leveraging your lower cost of capital, the solution offers your suppliers access to low-cost cash flow on demand from one or more third-party funders.

With supply chain finance, your suppliers can access third-party cash to get paid early in exchange for a small fee based on your cost of capital. Suppliers can do this with the click of a button inside their Ariba Network account at any time after you have approved their invoice.

This occurs without your involvement, and it does not negatively impact your days payable outstanding (DPO).

Whether the supplier chooses to accelerate payment or not, at the invoice due date you simply remit payment as you normally would. The payment goes to the supplier if it has not been accelerated, or to the third-party funder if the supplier did accelerate payment.

The bottom line is this: supply chain finance allows you to pay later and improve your DPO while your supplier gets paid earlier from a third party to improve its days sales outstanding (DSO) – all at the same time.

What is supply chain finance?

Enable mutually beneficial supply chain finance

Improve your credit rating and strengthen the bottom line

Reduce risk, inefficiency, and complexity

Define and execute a payables-based working capital strategy

Get suppliers on board and enabled effectively

An open, simple, and smart solution for your financial supply chain



Enable mutually beneficial supply chain finance

All companies pay close attention to their cash flow and working capital, especially during challenging economic times. But as buyers and suppliers pursue strategies to optimize their working capital, the levers to achieve their goals often conflict. Buyers want to hold on to cash and extend payment terms to increase their DPO. Conversely, suppliers want to get paid sooner and lower their DSO.

Supply chain finance can bridge this gap with a collaborative working capital approach that benefits both parties. By getting paid early through a third party, your suppliers can lower their DSO with no impact to your DPO. Because the third-party funder bases its fee on your strong credit rating, your suppliers typically pay less than

they would on their own through credit lines, revolvers, factoring, or other financial alternatives. And, since this represents a true sale of the receivable, your suppliers can avoid incurring any balance sheet debt. They are simply converting their receivables assets into cash.

Meanwhile, with supply chain finance, you can extend payment terms and increase your overall DPO, which helps your financial performance. The net effect for buyers is increased free cash flow, while suppliers get paid sooner and often borrow at a lower rate based on their buyer's credit rating.

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Improve your credit rating and strengthen the bottom line

Your company is ultimately valued on the liquidity it can generate. Supply chain finance supports this financial objective by helping increase DPO and thus generating free cash flow from assets. With greater free cash flow, you can fund many strategic investments without taking on debt or tapping into credit lines.

The solution gives you tools for improving cash flow by extending your DPO to industry standards or better, far exceeding your ability to increase revenue. For example, extending US\$1 billion in

spending by 15 days yields, on average, more than \$40 million in improved cash flow. This increase in free cash flow is significant because this is how the market values your company – which in turn grabs the attention of your executive leadership.

Increasing your operating cash flow can also help to improve your credit ratings over time – and can lead to a reduction in financing costs or increased flexibility related to credit capacity.

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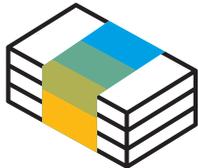
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Extend DPO to increase free cash flow.



Reduce risk, inefficiency, and complexity

Gone are the days of relying on a single banking relationship to service your critical supply chain finance needs. Today, global supply chains have become more complex, and there's a growing awareness that one weak link can have potentially catastrophic effects on the entire supply chain. In response, trading partners are forging tighter relationships.

Because supply chain finance programs are by nature not committed credit, there is the risk of funders withdrawing financing at any time. Our supply chain finance approach decreases this risk through a multifunder platform. You get

an open, flexible platform with more than 60 global funding sources. Should existing funders change their policies and remove or cap liquidity, you can quickly tap in to additional funders to fill the gap with no disruption to your suppliers.

Supply chain finance also allows you to choose the banking partners to fund all or a portion of your program. You can stick with your primary relationship banks, choose other funders, or use your own cash.

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Choose banking partners to fund all or a portion of your **supply chain finance program.**



Define and execute a payables-based working capital strategy

A successful supply chain finance program requires an informed and intelligent supplier payment-terms strategy. Most solutions, however, provide only a supplier financing tool, without the deep expertise and broad services to help make it successful.

Supply chain finance includes tools and a dedicated services team to help you define and execute a working capital strategy that best fits your needs. As part of the deployment, we work with you to analyze all your spending and payment terms and recommend a strategy to optimize your working capital goals. In addition, the solution gives you access to valuable global spending data and detailed market intelligence, so you can refine your supply chain finance program and maximize your results.

With decades of experience, our global consulting services team actively engages with you throughout your supply chain finance initiative to support your program's execution and success. Aided by our expertise, you can plan and execute a successful payment-terms strategy that measures and tracks results. This is invaluable for closely monitoring your targeted cash-flow objectives.

Based on your objectives, our program provides reliable, actionable information so you can make more-informed and strategic decisions, whether you are looking to optimize working capital, reduce costs, or eliminate risks.

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Crucial to any supply chain finance program is an effective supplier onboarding process. Our global supplier onboarding team, consisting of more than 400 professionals, is available to you and your suppliers in multiple languages. Combining industry-leading technology and expertise, we onboard your suppliers quickly and actively help them navigate the process.

Our onboarding process includes engaging and introducing your suppliers to supply chain finance across the globe. They receive individual and hands-on training by local experts.

If group training, on-demand videos, and Webcasts are requested during onboarding, we provide these resources to you. You can also educate your suppliers on the value of supply chain finance through case studies and a benefits calculator.

The enablement and onboarding program for supply chain finance can scale to reach out to thousands of suppliers in more than 70 countries. Using best practices supported by SAP, our services team and tools enable you to quickly target and enroll suppliers to meet your objectives.

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You and your suppliers benefit from the simplicity of accessing supply chain finance through Ariba Network. With SAP Ariba solutions, you have a single platform that handles all your supply chain finance needs and intelligently scales to meet your broader financial supply chain objectives.

As part of an integrated suite of financial supply chain solutions, our supply chain finance capability helps you optimize your cash flow by extending supplier payment terms while simultaneously providing early-payment options to your suppliers. Through an industry-leading multifunder platform, you can choose from more than 60 funding sources or bring your current banking partners to cover your program.

Our global consulting and supplier enablement expert services help you develop an effective supply chain finance strategy based on your objectives. The solution also provides you with the real-time data needed to make informed decisions.

The supply chain finance capability of SAP Ariba solutions offers a collaborative platform that bridges the gap between you and your suppliers, improving both their DSO and your DPO. That's a win-win approach that delivers bottom-line benefits to both trading partners.

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Summary

As part of a comprehensive financial supply chain solution suite, supply chain finance helps you optimize your cash flow by extending supplier payment terms while simultaneously providing alternate financing options for suppliers to get paid early. With this solution, you benefit from a single, global, multifunder platform to offer your suppliers a way to accelerate their cash flow at low cost and on demand.

Objectives

- Unlock working capital from your payables
- Tailor payment-term strategies to different suppliers
- Reduce your supply chain liquidity risk

Solution

- Supply chain finance using Ariba® Network
- Design and implementation of the supply chain finance mix to meet your requirements
- Supplier onboarding and enablement with local supply chain finance experts

Benefits

- Reduced supply chain costs thanks to low-cost funding
- Improved cash flow without increasing debt
- Instant access to more than 60 funding sources with a multifunder, multicurrency model
- Help for scaling payment-term extension programs
- Less supply chain risk
- Expertise to streamline supplier onboarding, with global reach in multiple languages

Learn more

To find out more, call your SAP® Ariba solutions representative today or learn more about our financial supply chain management solutions [online](#).



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