SAP response to Supply Chain Financing Review Position Paper – March 2020

SAP would like to thank the Australian Small Business and Family Enterprise Ombudsman (ASBEFO) for the opportunity to provide our feedback on its Supply Chain Financing Review Position Paper (the Paper).

This submission provides our perspective on the issues that can impact supplier payment times, SAP’s Ariba Discount Management tool that uses dynamic discounting, and SAP’s small business payment terms policy.

Issues that can impact payment times to small businesses

On time payment is particularly important where the supplier is a small business as predictable cash flows are important for efficient operations. Payment delays can have a material impact on the running of the business. For this reason, there has justifiably been a focus on payment terms and on time payment of invoices.

It is also important to note that payment of an invoice is the last step in the procurement process. This process includes onboarding suppliers, giving them a clear and concise way to do interactions, defining the way to invoice, ensuring valid invoices, and internal approvals. A failure in any part of this process can result in a delay in payment to the small business.

If a procurement process is not managed well, it can become hugely disruptive to both buyers and suppliers. Even if the buyer has the best of intentions and fair payment terms, if one of these steps fail there can be a delay in payment times.

This can lead to small businesses spending valuable time chasing up late payments and buyers devoting resources to resolving disputes.

How SAP helps address these impacts on small business payment times

SAP’s services enable a streamlined and simplified invoice approval and payment process.

Our solutions cover all operational procurement processes, including purchase requisitioning, order processing, invoice processing, order confirmation, and operational contract management. It enables a simpler process for collecting and checking invoices, verifying them against preconfigured business rules, and handling exceptions to allow an increase in process efficiency, and to help eliminate data-entry errors and duplicate invoices.

Simply put, SAP software allows buyers to process invoices faster, and suppliers to share reliable, approved invoices that are ready for payment.

SAP acknowledges that even where these systems are in place, it is still reliant on buyers to offer fair payment terms and to operate within those terms.

How SAP helps small businesses and larger businesses negotiate early payments

The Paper has sought feedback on the practices in industry for the provision of supply chain financing. As acknowledged by the Paper, supply chain financing covers different methodologies and practices, some of which include third party financing.
In addition to streamlining and simplifying the procurement process, our SAP Ariba platform, also offers functionality called Discount Management. This allows buyers and suppliers to negotiate discounts for early payments, but it does not involve any third-party financing. This product would fall under the Paper’s definition of ‘Dynamic Discounting’.

Discount Management allows the buyer to set discounts in return for earlier payments. It can be automated to be at set thresholds at different payment times. For example:

- 2% discount to be paid in 10 days, 20 days earlier than a standard 30 day term; and
- 3% discount to be paid in 5 days, 25 days earlier than a standard 30 day term.

These discounts will be set by the buyer, having regard to factors they consider relevant which may include the buyer’s own Internal Rate of Return or internal capital investment hurdles.

Suppliers can either accept the discount or propose a lower discount. The functionality also allows suppliers to see all outstanding transactions across all their buyers and choose which payments it wants to discount, giving suppliers more control. If they have unusual costs in a month, the tool lets suppliers accelerate payments to help cash flow.

Discount Management is entirely optional for both parties – the supplier does not need to accept the discounts if they are happy to be paid according to the normal payment terms. It is also party neutral; there is no informational or data advantage presented to either the buyers or suppliers.

**SAP as a buyer of small business products and services**

Finally, as a buyer of goods and services from small and medium enterprises, SAP uses the Australian Bureau of Statistics (ABS) definition of small and medium business (<200 employees) to set payment terms. As a result, all small and medium business with less than 200 employees are offered 30-day payment terms.