



True dynamic discounting from C2FO

How real-time collaboration of buyers and suppliers increases profit and accelerates cash flow

OVERVIEW

This white paper contrasts collaborative cash flow optimization through market-based price discovery with linear and static discounting, showing how buyers and suppliers benefit from a global exchange for working capital.

1 The value of time and timing introduces collaborative cash flow optimization as a cash management solution uniquely fitted to today's economic climate.

2 Why a market for working capital? Shows how true dynamic discounting with real-time price discovery works for buyers and suppliers while being easy to implement.

3 Supplier adoption and participation addresses concerns about supply-chain participation and discusses how an effective Supplier Relationship Management team leads to best-in-class supplier satisfaction.

4 Superior model analyzes the limitations of non-market-based approaches versus true dynamic discounting.

5 What makes a working capital market work? Examines the leadership, financial and technical expertise that support successful collaborative cash flow optimization.

Your business can provide cash



Optimal Yield



Your suppliers need cash



Optimal Rate

Everyone knows that efficient markets are good for business.

Mutually beneficial interactions are the life-blood of business. Collaborative Cash Flow Optimization (C2FO) looks to enhance the value of such interactions with a collaborative market approach to benefit both buyers and suppliers.

1

The value of time and timing

The partnership between buyer and supplier exists in an arena of competing needs. Determining when payment will be made often puts the two sides in direct competition. Suppliers want to be paid as soon as possible; buyers prefer to hold onto cash as long as they can. The challenge is to determine a time frame and pricing that will work for both groups.

Since the early days of commerce terms have been negotiated to adjust timing for mutual benefit. Early payments are often discounted: buyers pay less on invoices and suppliers get their money faster. It seems simple.

Today cash makes up a higher percentage of corporate assets than at any time in recent history.

It's not simple. The timing of any short-term decision today occurs in a context of long-standing uncertainty about tomorrow. The 2008 financial crisis continues to reverberate, despite recovery. Credit remains tight, foreign competition is fierce, and unemployment remains high relative to corporate profits. Companies have responded to global economic uncertainty by stockpiling cash—a 60% increase for the Fortune 1000 since 2008. Today cash still makes up a higher percentage of corporate assets than at any time in recent history. As corporate treasurers manage this surplus at a time of low interest rates, it is easy to utilize traditional investment vehicles, especially because there are so few compelling safe investment options. As interest rates start to rise and there is hints of "normalizing," this strategy is evolving, with an increased focus on creating a meaningful return on the cash surplus while maintaining a no-risk investment profile.

Making time pay

Although protecting assets and ensuring ready access to cash are important objectives, some companies have begun to draw a more distinctive line between operating funds and strategic funds, managing the former much as they always have and looking for ways to earn more on the latter. Increasingly, even companies with less cash on hand recognize that deploying it early to current liabilities such as Payables can generate income, with the added benefit of strengthening the supply chain.

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Until recently, negotiating early payments on invoices was limited to static and sliding-scale discounting. In 2010 C2FO, a truly “dynamic” concept emerged based on the principle that a real-time market creates more efficient transactions than buyers and suppliers can create for themselves, with their respective needs so often at odds. C2FO offers a unique model of market-based true dynamic discounting.

2

Why a market for working capital?

Collaborative cash flow optimization (C2FO) is a complex name for a concept that is, in fact, simple: a 24/7 market in which buyers and suppliers dynamically price the value for early cash flow delivery, negotiating rates for accelerated payment in real time. Buyers set their optimal rate of return on deployed cash for their C2FO market, suppliers set their desired rate for early payment, and the live market determines an accurate price for working capital within the unique ranges established by the buyer and the supplier, creating a win for both parties.

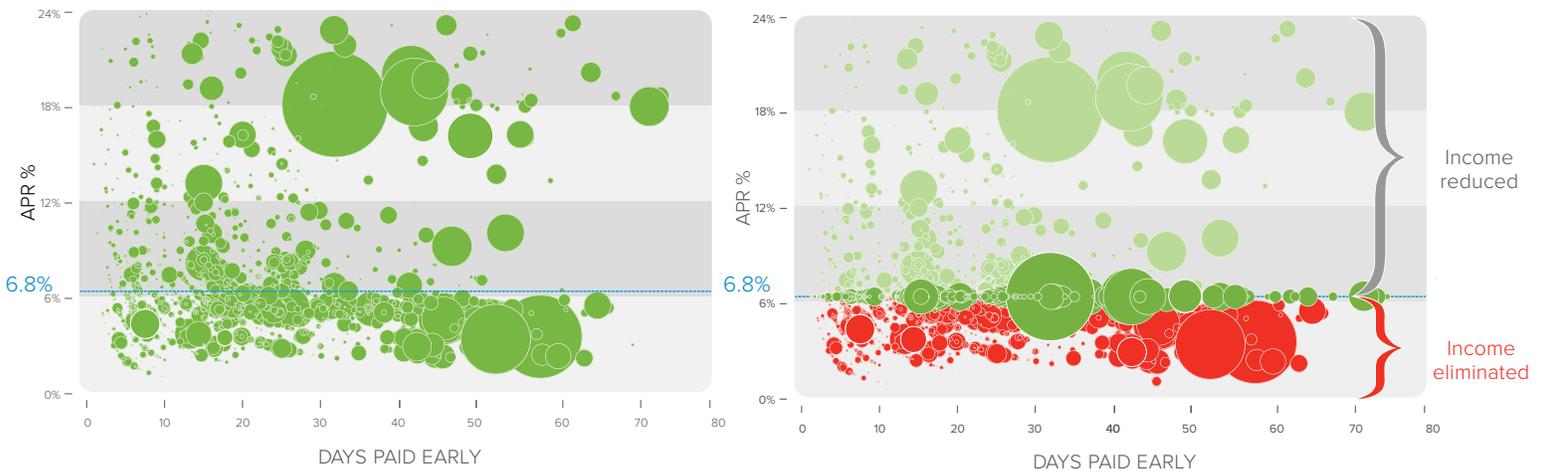
The first collaborative working capital market of this kind, C2FO, allows variable and discrete awarding of cash flow through early payment of discounted invoices. The resulting reduction in Cost Of Goods Sold increases Gross Profit for buyers, while the flexibility and immediate rewards drive supplier participation and satisfaction at far higher levels than other discount programs or do-it-yourself models.

...a real-time market creates more efficient transactions than buyers and suppliers can create for themselves...

What differentiates true dynamic discounting with a live market from other discounting solutions?

EFFICIENCY

Markets are more efficient than dictated sliding-scale pricing structures or corporate calling efforts. Suppliers have different funding costs and availability of working capital and their cash needs vary over time, so their early-payment discount offers vary as well. C2FO's market-based early-payment structure is designed to help suppliers participate and manage their offers to correlate with their unique costs and the timing of their needs for working capital. Compared to a linear model, this results in a wide spread of offers from many unique suppliers. The C2FO market blends suppliers' variable offers allowing buyers to achieve the desired APR on their cash. On average, C2FO's market-based price discovery creates 4.5 times the income of non-market-based sliding-scale products. A graphical representation of actual data from linear discounting vs. C2FO's market-based model shows income generated per supplier:



On average, the C2FO market-based price discovery creates 4.5 times the income of non-market-based sliding-scale products and awards early payment to more suppliers.

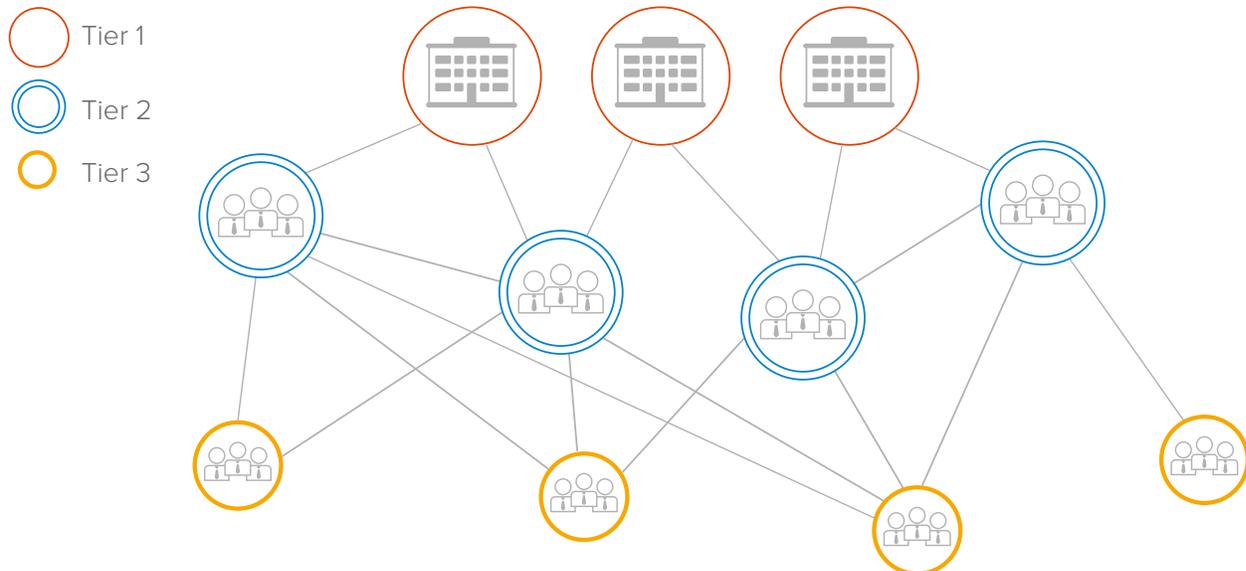
Using live market data, these graphs represent the difference between non-market-based income generation and C2FO market income generation. Both charts average a 6.8% APR return, but the C2FO market captures more volume and more income because of the patented utility-based pricing model. Bubble size represents amount of income generated per supplier offer. The graphs show different representations of the same market.

EASE OF IMPLEMENTATION A change in financial processes usually requires a major commitment of IT resources. Most discounting solutions demand extensive paperwork and documentation. The C2FO model simplifies this. Within 8 weeks buyers can be up and running, with minimal IT involvement. Suppliers can register and be ready for their first market in a matter of minutes. There is no change in process or increased effort for AP resources.

SCALE The C2FO Market is global and operates 24/7/365. Buyers worldwide set their desired APR for early payment on selected invoices. Suppliers around the world can make discount offers at any time, at a price they determine through the C2FO live market, with immediate notification of offer status. This negotiation occurs daily, as buyers and suppliers use the market to collaborate on price discovery.

A market like C2FO allows second-tier and third-tier suppliers to participate as well.

Liquidity needs do not stop at the first tier of the supply chain, and they are possibly most pervasive in the second-and third-tier level of suppliers. The C2FO market allows multiple levels of the supply chain to benefit from the liquidity being provided to the market. All suppliers have the ability to use the market with their own suppliers, and so on. This vertical supplier demand within the supply chain increases participation from Tier 1 suppliers, drives liquidity down to Tier 2 and Tier 3 suppliers, and significantly enhances vendor financial health. No other discounting model has this capability.



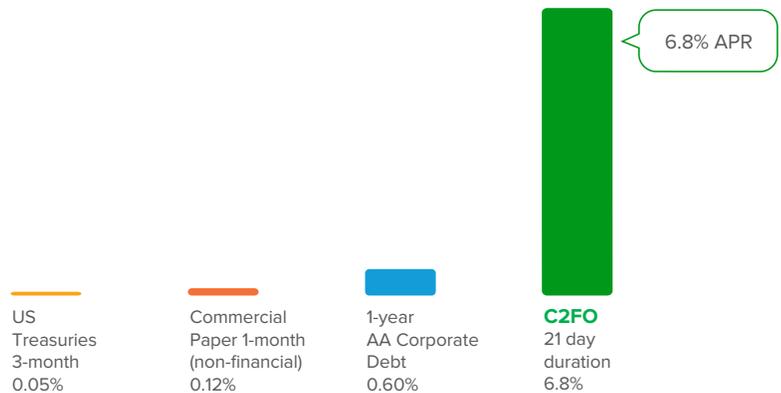
OPTIONALITY A solution like C2FO depends on a free-market ethos. Incentives are there, but it's up to suppliers to take advantage of them. Suppliers control if and when they participate. Registering as a Market Member doesn't commit a supplier to anything.

When major corporations bring thousands of suppliers with them into a live market like C2FO, large volumes of suppliers are able to participate through a transparent, technology-enabled solution, infusing cash flow through multiple levels of the supply chain.

NO-RISK RETURN With short-term investments offering chronically low yields, cash management options often seem stuck between the rock of accepting small gains of a few basis points and the hard place of accepting more risk for higher returns. A conventional, keep-cash-on-the-books mindset makes paying invoices early seem counterintuitive, but it's hard for intuition to argue with zero risk, higher yield returns. The difference can be dramatic. As to risk, buyers aren't speculating with this cash, but simply optimizing payments that will be made anyway. The most obvious advantage of market-based price discovery is its formidable one-two punch of low risk and high reward — a combination all too rare in a volatile economic climate.

21 DAY AVERAGE YIELDS

Among low-risk options, collaborative cash flow optimization leaves other short-term instruments far behind, as we see in this recent yield comparison:



For companies where the accounts payable function is viewed primarily as overhead, C2FO is a fresh and welcome shift in thinking. The idea of Payables as an income-generator takes the questionable practice of equating cash on the books with financial health and replaces it with a strategic view of cash management, looking to increase profit while simultaneously improving the buyer's relationship to suppliers and strengthening the buyer's supply chain and thus the buyer's strength as well.

3

Supplier adoption & participation

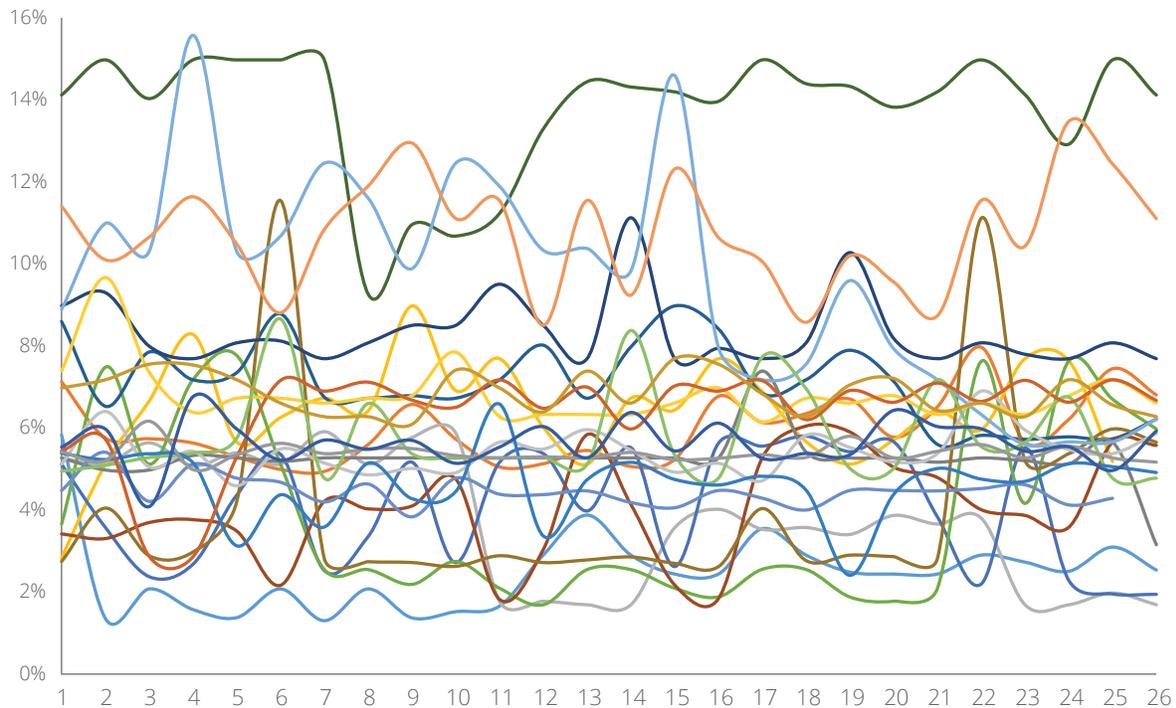
A market depends on both buyer and seller participation. Traditionally, suppliers have been wary of buyers' cost-reduction strategies, especially if they have experience dealing with static discounting or other third-party financing. However, suppliers use C2FO as an alternative source of working capital and do not perceive it as a reduction in their sales. Any perception to the contrary is addressed during the quick and simple supplier onboarding process.

C2FO's dedicated Supplier Relationship Management (SRM) team is an in-house team with a simple mission: help suppliers benefit from C2FO. The team is comprised of full-time, experienced finance professionals and empowered by a streamlined, user-friendly registration process: no disclosures, filings, or paper documents required. Using e-mail, webinars, chat and online support, direct mail, and one-on-one personal contacts, this team presents supplier decision-makers with the information they need to compare C2FO against the supplier's current alternative funding options. C2FO credits a vast, satisfied customer base with its high Net Promoter Score (comparable with world-class technology companies) and outstanding supplier recommendation rating. Both of these ratings make a compelling case to new suppliers, and the SRM team helps buyers close the deal.

The SRM team also helps suppliers evaluate their options and understand how to take advantage of the C2FO market. For many suppliers it can be more than a matter of hard numbers. Paying a bank rate on working capital that covers only 70-80% of receivables may not be ideal, but if this is what suppliers are used to, they may need help in seeing the value of reduced borrowing costs and earlier access to cash. Thousands of suppliers recognize participating in C2FO is a much more attractive alternative than existing financing options. The SRM team's financial expertise can broaden the picture and deepen supplier understanding, helping them make an informed decision on how and when to utilize C2FO.

As a resource available for C2FO Market Members, the SRM team helps suppliers determine their best use of the market. Some suppliers may participate only to optimize cash flow during key reporting periods. Others embrace daily participation and pricing, continually refining their working capital positions. Every supplier's need for cash is different.

UNIQUE SUPPLIER APR OFFER TRENDS



Here we see a sampling of accepted supplier offers at various market closes over time. Each line represents a different supplier. Broken lines represent suppliers who make occasional offers, based on cash flow needs of the moment. Continuous lines suggest ongoing, active participation in the market. Line amplitude reflects the wide variability of accepted offers. Thus, C2FO captures the dynamic cost of working capital throughout a supplier's fiscal year.

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Superior model

Using C2FO as an example, the table on the following page compares market-based price discovery with other discounting and funding options:

Criteria	C2FO	Supply Chain Financing	Purchasing Cards	Sliding Scale / Dynamic Discounting	Static Discounts
Earnings Impact	Increases gross profit, EBITDA, and EPS.	No P&L impact. Terms extensions drive one-time cash increase and DPO enhancement	Limited. Typically 1-2% rebate on small volume	Increases in gross profit, EBITDA, and EPS, limited by narrow range of program parameters and rates	Earnings diminish as suppliers incorporate the discount cost into future negotiations
Discount Income Generation	Utility-based pricing model produces more discount income by discovering the unique early payment discount rate for each supplier	None	None	One-size-fits-all rate for all suppliers drives limited uptake. No visibility to seasonal supplier demand.	Value erodes quickly as suppliers reflect the cost of the discount in the original invoice price.
Supplier Participation & Onboarding	30%+ Participation Includes comprehensive marketing and Supplier Support team to onboard suppliers.	5-15% supplier participation Buyers required to drive terms extensions and onboard suppliers	Limited to card network and price prohibitive.	2%-10% supplier participation Supplier recruitment fees vary per solution provider.	No supplier onboarding Enterprise-wide availability Supplier pushback
Supplier Depth	All supplier sizes participate. Multiple levels of the supply chain.	Large, Tier 1 suppliers that are able to sell receivables	Small suppliers First level suppliers only	Tier 1 suppliers E-invoicing suppliers only	First level suppliers only
Ease of Implementation	Easy via file transfer or ERP configuration. Typically 6-10 weeks	ERP integration required. Typically 12 – 24 weeks	File integration required or bank centric integration	ERP integration usually required.	Relatively easy to deploy, but only at time of contract negotiation
Regulatory Requirements	None	UCCs, Receivable Purchase Agreements, etc. Regulatory requirements vary by country	Defined in credit card user agreement	None	None
Resource Requirements	C2FO turnkey services supports all aspects of the solution.	Medium. Can require heavy lifting when coupled with payment term extensions.	Medium. Transactions must typically be audited	Medium to high. Depends on how rates are set and accepted	High. Requires management at the strategy and execution levels

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What makes a working capital market work?

True dynamic discounting depends on unique technology and expert services. C2FO represents the first real-time market environment for dynamically pricing the value of early cash flow delivery. It creates transparency between buyers and suppliers, security for both, and is backed by a one-of-a-kind combination of financial and technical expertise and experience.

C2FO has patents pending on its market platform. The market algorithms and simple setup features optimize the live market environment and ensure its compatibility with all enterprise frameworks. Key to market adoption is product design and support to ensure that clients need not change their existing A/P and A/R processes. User experience centers on an array of tools that provide clients instant metrics on offer status and how certain actions or adjustments will affect aggregate APR.

...investors who have funded some of the world's most successful technology platforms (PayPal, Twitter, etc.) are now putting their money behind C2FO...

C2FO's leadership experience is impressive in both technology and finance. Founder, Chairman, and CEO Alexander Kemper heads a team that features executives from leading financial services and analytics companies, digital marketing companies, NASDAQ-listed technology firms, and related industries. It is a company with global ambition, and investors who have funded some of the world's most successful technology platforms (PayPal, Twitter, etc.) are now putting their money behind C2FO, bringing that ambition within reach.



True dynamic discounting with a live market offers unique advantages

The C2FO live market for working capital is a unique concept that has proven its value to large and mid-size buyers, and a vast range of suppliers. The superior model of true dynamic discounting offers buyers an ease of implementation and a higher income than other discounting solutions. The real-time, dynamic C2FO market awards early payment to more suppliers than other options. Suppliers love C2FO, giving the platform and SRM support team a 98 percent approval in our 2017 customer satisfaction survey.

Contact us to find out what C2FO can do for you.



For more information contact us at:

- sales.support@c2fo.com
- US / +1 866.463.6565
- UK / +44 (0)20 3036 0332
- HK / +886 91974 8788

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