

Quick-wins

Management of suppliers' discount rates



1. Managing payment conditions

Identify and unify suppliers with various discount rates and achieve total savings of more than 10 Mio. EURO

1.1 Intro

In our Quick-Win - Tips series we have worked out more than 100 tips. This time we are dealing with the management of suppliers' discount rates. This quick win tip is particularly interesting for companies with sufficient liquidity, as you can directly identify the effects of discount optimization through successful supplier negotiations.

In the coming weeks we will repeatedly accompany the fictitious company Production Company SE in realizing quick wins. The Production Company SE is a global company and has several production beach locations with decentralized purchasing. We also have the following information, which was given to us by the procurement department.

- Total spend volume: **1 Bn. EURO**
- Number of suppliers: **10.000**
- ERP system: **SAP**

1.2 Baseline

For starting an optimization of the discount rates, it is necessary for a company to create a database in the first step. Hereby, four pieces of information should be worked out to ensure ideal data transparency.

- Supplier number and -name
- Discount rate of the supplier in the supplier base
- Stored discount rates for all invoices paid by the supplier
- Procurement spend for the supplier

When searching for deviations between the discount rate in the supplier base and the discount rate of the invoices paid, both the suppliers and the process should be examined. In this step, we recommend a prioritization of suppliers based on the height of the purchasing volume and then processing them top-down.



In the real world, we regularly experience that companies do not centrally monitor the discount rates of their suppliers in a systematic manner. Consequently, deviations in discounts occur more frequently than expected.

- Samir Kharkan, CEO -

1.3 Case Study

For our fictional example we assume that Production Company SE has sufficient liquidity and purchases from its suppliers at a discount. When comparing the discount rates in the supplier base with the discount rates, stored for all invoices paid, two different discount rates were analyzed for the supplier "XYZ Engineering GmbH" (XYZ).

- Procurement volume (XYZ): **10 Mio. EURO**
- Information in the supplier base: **2% discount - 14 days, 30 days net**
- Discount rates for all invoices paid: **9 Mio. EURO with 2% discount - 14 days, 30 days net**
1 Mio. EURO with 3% discount - 14 days, 30 days net

This numerical example shows that the discrepancy between discount rates can have a positive effect on the earnings-situation for companies. In the case of the Production Company SE shown here, 9 EURO million of the procurement volume for XYZ was processed using the discount rate (2%) and 1 million EURO using the higher discount rate (3%). In the next step, the company can now contact XYZ to increase the discount rate from 2% to 3%. The **direct P&L effect would be 90.000 EURO** on an annual basis (1% of 9 million EURO) and 7.500 EURO monthly. Extending such analyzes to many suppliers can be very lucrative for your company. For example, if Production Company SE would extend the analysis to 10.000 suppliers and only identify 100 suppliers with a deviation in the discount rates, more than 9 million per year or 750.000 EURO per month could effectively be saved which has a direct positive effect on the company's total financial situation.

Savings comparison before & after the analysis of payment conditions



1.4 Practical Implications

Limitations in process analysis imply that many companies do not realize their true savings potentials. As a result of a lack of data transparency, many potentially earnings-increasing effects remain undetected. In addition, companies commonly do not have the capacities to spend enough time on detailed and time-consuming analyzes, like the presented analysis of supplier-discounts. This is the case because both the amount of data and the number of relevant data sources have risen sharply. In the real world we experience that only a few companies deal with the analysis of deviations in discount rates, as the work involved in creating this analysis is high. Purchasing organizations look forward to short-term savings. However, process optimization and the development of strategies can help the organization much more sustainably and should therefore not be forgotten.

How can we support in achieving this Quick Win

The **SCALUE® Procurement Analytics** solution can support you in creating transparency about your purchasing volume and identifying potentials for process optimization in your purchasing organization.

Especially when large numbers of suppliers are aimed to be analyzed over several years, companies are forced to make compromises with regards to the amount of data. If you do not want to make such compromises and your goal is full data transparency, we should schedule a meeting.

1.5 The Sales Team



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