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Dynamic Discounting

Implementation overview

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Why Dynamic Discounting?

Strengthen Supplier Partnership

- Competitive financing option to suppliers, particularly smaller to medium sized suppliers or those unable to access Supply Chain Financing (SCF)
- Current and past twelve (12) months invoice status accessible to all suppliers through vendor (Taulia) portal, regardless if discounts are taken
- Payment process visibility improves supplier customer experience and builds trust

P2P Process Efficiency

- Incentivises completion of three way match for invoice to be available at earliest instance for discount
- Reduced AP Helpdesk workload when suppliers are enabled to perform own reconciliation
- Direct integration with SAP and existing standard payment process

Economic Benefits

- Alternative investment option for Group surplus cash at low risk
- Competitive yield with target program discount rate of x%
- Reduces unit cost of purchase
- Capped at $xxxM working capital investment

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Specific business requirements

RFP subject to standard Rio Tinto sourcing process

i. Platform needed multi-language capability (e.g. Quebec French)
ii. Global Supplier Outreach Team coverage
iii. Ability to manage complex tax legislation compliance (e.g. Canada)
iv. System integration and frequency of data transfer from host system to platform and back
v. Zero disruption to BAU processes (e.g. upstream PTP processes, e-procurement process, no impact to existing contractual arrangements with suppliers)
vi. Increased PTP process efficiency (month end reconciliations, supplier self serve invoice status queries)
vii. Small Project Team to implement programme - leverage Dynamic Discounting Partner outreach team and technology
viii. Ability to control programme working capital limits
ix. Economic benefits through discounts captured, net of program costs

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Challenges

a) Balancing against working capital targets

i. Establish a program hurdle rate
ii. Articulate program benefits: trade-off between working capital and costs
iii. Satisfy internal reporting requirements
iv. Manage exceptions and exclusions
v. Program monitoring from inception (see KPIs monitored below)

1. Program APR

Target:
> x% p.a.

Triggers for review:
- Program APR < x%
- Hurdle rate review if > 50 bps change

2. Spend invited

Target:
> $x p.a.

Triggers for review:
- Invited, prorated spend <x% of target

3. Supplier adoption rate

Target:
> x%

Triggers for review:
- <x% supplier adoption rate

4. Working capital change

Target:
< $x

Triggers for review:
- Working capital increase > $x
- Forecast group cash <$x after one-off events

5. Discount captured

Target:
> $x p.a.

Triggers for review:
- Prorated discount captured <x% of target

Challenges

b) Stakeholder management

i. Multiple owners of supplier relationship
ii. Internal communication and education (onshore vs offshore)
iii. External supplier queries (resourcing)
iv. Ensuring stability in strategic programme direction throughout project lifespan

c) Quality of master data: Supplier contact list and emails

d) Procure-to-pay process alignment:

i. 10 day invoice processing timeframe
ii. Payment terms of net 30 days or greater
iii. Establishing daily payment runs

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Key success factors

- Partnership from the start
- Communication and programme education
- Efficient enrolment campaign
- Choosing the right provider for specific needs
- Establishing clear governance structure and monitoring process
- Leverage offshore to increase enrolment rate
- Effective managements of exclusions

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Singapore – 23rd May 2019

Getting buy-in for your supplier finance programme

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Treasury Manager
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Dirk Fourie
Principal - AP Excellence
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