

ARIBA FINANCIAL SOLUTIONS

Working Capital Management



ARIBA FINANCIAL SOLUTIONS: WORKING CAPITAL MANAGEMENT

Ariba® Working Capital Management solutions provide an efficient, automated way for you to optimize your working capital. As a core component of Ariba Financial Solutions, Ariba Working Capital Management delivers multiple tools and capabilities through the Ariba® Network™ that help you reduce your cash conversion cycle, extend days payable outstanding (DPO), and earn higher returns on short-term cash. Ariba Working Capital Management also supports your supply chain by providing your suppliers with new and innovative tools for greater cash visibility and liquidity.

THE CHALLENGES OF MANAGING WORKING CAPITAL

Traditional ERP and paper-based methods that many companies use to process orders, invoices, and payments are slow and inefficient, creating long working capital cycles that tie up cash and minimize opportunities for capturing pre-negotiated early payment discounts. Poor control over payables often result in invoices being paid too soon, sending cash out the door that could be used to obtain short-term returns. In today's economy, even if you have cash on hand, most short-term investments earn very little. Additionally, requesting extended payment terms from vendors can significantly strain their cash flow and credit, heightening the risk of supply chain disruption and driving your prices up.

ARIBA FINANCIAL SOLUTIONS

1. Ariba Invoice Management
2. Ariba Payment Management
3. Ariba Working Capital Management

CUSTOMER SUCCESS STORY

An entertainment industry company utilizes automated dynamic discounting to offer early payment to many of its suppliers not on pre-negotiated early payment terms. Rather than relying on suppliers to call them and request early payments, or trying to reach out manually themselves, the company uses a targeted cash use and supplier spend strategy to automate the process and reap returns with little effort. It has averaged a 10 percent APR return on discounts captured from this supplier self-service model.

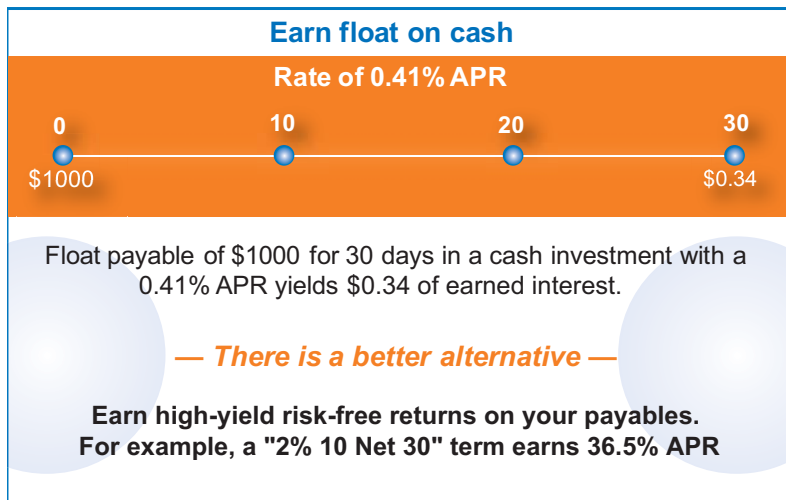
Current Short Term Cash Investment Returns					
Deposit Accounts					
Today's Average Deposit Rates in US					
	CURRENT	1 MONTH PRIOR	3 MONTH PRIOR	6 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.21	.25	.20	.25	1.50
FED RESERVE TARGET RATE	.25	.25	.25	1.00	2.00
PRIME RATE	3.25	3.25	3.25	4.00	5.00
1-YEAR CD	1.81	2.01	2.16	3.38	3.14
1-MONTH LIBOR	.32	.41	.51	1.89	2.45
3-MONTH LIBOR	.64	1.01	1.27	2.20	2.67

Provided by Bankrate.com

Automating payables processes has risen to the top of finance's strategies for eliminating these challenges with working capital in the procure-to-pay cycle. While the prevailing wisdom for many is to capture interest off the float, leading organizations are adopting early pay discount programs to maximize return on cash. Ariba Financial Solutions—Ariba Invoice Management Ariba Payment Management, and Ariba Working Capital Management—provide you with the right tools and capabilities to optimize working capital and unlock the true value of your financial supply chain.

Ariba Working Capital Management: A Win-Win Solution for Buyers and Suppliers

The success of any buying organization is directly tied to the viability of its suppliers. Today's leading working capital solutions offer value to buyers and sellers. Ariba Financial Solutions eliminate inefficient manual processes and accelerate the entire capital management cycle, unlocking payables value while cutting costs for you and your suppliers.



While providing you with the controls you need to optimize cash use and realize high-yield risk-free returns on your payables, Ariba Working Capital Management also provides your suppliers with the visibility and control over their receivables to better manage their cash flows. These features help suppliers get early payment at much lower rates than traditional market resources without incurring debt—and provide greater leverage for you to negotiate extended payment terms or reduced prices.

Ariba Working Capital Management solutions key benefits:

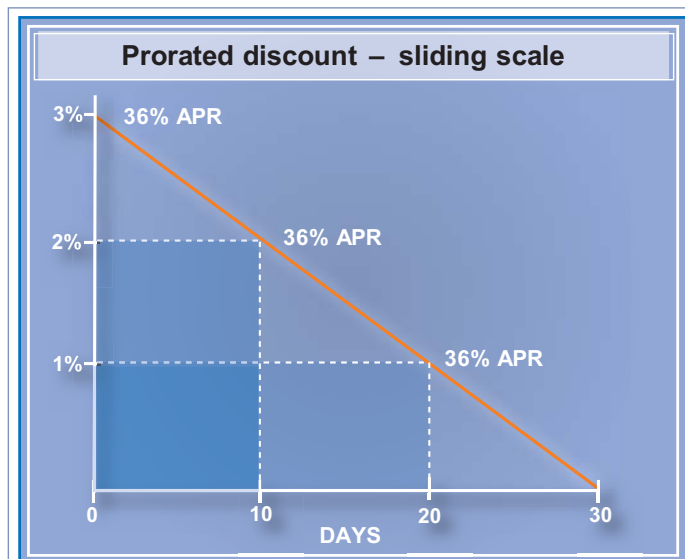
- Manage payables and cash with greater control and visibility
- Maximize returns and reduce investment risks on your short-term capital
- Enforce pre-negotiated contracts and discount terms established by procurement
- Optimize discount penetration across targeted suppliers, spend and invoices
- Strengthen supplier relationships and financial stability

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Products and Benefits

Products

1. **Ariba® Discount Professional™:** Comprehensive discount management features fully automate the process of offering, negotiating, and agreeing on early payment terms with your suppliers. Ariba Discount Professional features include:
 - **Supplier Groups** let you easily manage sets of suppliers and related spend for discounting all the time, some of the time, or never according to your unique business requirements
 - **Automate your invoices** to capture virtually 100% of pre-negotiated early payment terms and contracts to optimize your discount capture.
 - **Prorated discount terms**
 - Capture discounts after the discount due date on a sliding scale (e.g., "2%10 Net 30 Pro") gives you a two percent discount for paying within 10 days of the invoice date, or a prorated discount rate over the remaining days.
 - Ariba also offers the industry's only sliding-scale term that takes full advantage of invoice automation and trading partner collaboration by leveraging the Ariba Network. For example, "3% Net 30 Pro" is a true time-value-of-money term that offers a 36.5 percent APR regardless of when the invoice is paid over the life of the term.
 - **Dynamic Discounting** lets suppliers control the acceleration of payment on approved net term invoices (e.g. Net 60) in exchange for a discount. You control the internal rate of return, the amount of cash to use, and which suppliers to include in this program.



Traditional discount terms pay nothing past the discount due date. Earn 36% APR with a typical term, like 2% 10 Net 30, on invoices approved after the discount due date.

2. Trade Financing: These tools eliminate supply chain risk by giving vendors a fast, easy way to obtain the liquidity they need at below-market rates without debt.

- **Payables Financing** offers you a cost-free way to let suppliers sell their receivables to third-party lenders at much lower rates than traditional sources such as factoring, asset-based lending, or credit lines. You can then leverage this benefit to request extended payment terms or lower prices, shortening your cash conversion cycle and freeing up working capital.
- **Receivables Financing** enables organizations to submit receivables for sale through an online marketplace. Participating capital providers bid on these receivables. The competitive auction process earns better returns than similar liquidity options, and is one of the reasons suppliers are incented to collaborate with you over the Ariba Network.

BENEFITS

Increased Efficiency, Greater Accuracy, and Lower Costs

Automation eliminates slow, error-ridden manual processes, accelerating the entire cash conversion cycle and saving time and money for you and your suppliers.

- Efficient and effective user interface provides a “set it and forget it” way to automate standing early payment terms and discounts, giving you higher returns with less effort
- Electronic alerts and notifications of discount and financing offers and approvals eliminate the need for expensive and time-consuming phone calls
- Standing early payment terms are automatically applied upon invoice approval
- Detailed reporting and supplier analysis and prioritization help you identify areas for savings potential and ability to measure performance against operational goals
- Flexibility to make offers to individual suppliers or groups lets you customize terms based on specific business relationships
- Trade financing helps you remove expense from the supply chain rather than just shifting it to suppliers, creating a win-win

Greater Liquidity and Higher-Yield Returns on Short-Term Cash

By automating your payables and setting up discounts with your suppliers in exchange for early payment, you realize a much higher return than you would from

holding on to that cash by extending payables and earning interest on the float.

- Earn a 16 to 24 percent or even higher rates of return as compared to current rates of less than one percent from most traditional short-term investments
- Trade financing lets you maximize DPO, and improve your suppliers’ liquidity
- Ariba Working Capital Strategic Services help you segment and prioritize your supply base and determine the best strategy for optimizing your cash use, maximizing discounts and supporting your supply chain.

Reduced Supply Chain Risk

Ariba Working Capital Management solutions provide multiple ways to remove high borrowing costs and significantly reduce risk in your supply chain.

- Early payment discounts and trade financing let suppliers use receivables to fund cash flow at below-market rates without debt, enhancing credit ratings and minimizing the need to leverage balance sheets
- Better financing options for suppliers mitigate their overall risk and protect them from struggling financially or failing—ensuring the viability of vendors crucial to your brand and products

High Supplier Adoption

Convenient self-service features and a friendly, intuitive user interface make Ariba Working Capital Management solutions easy for suppliers to use, maximizing their

CUSTOMER SUCCESS STORY

A large computer manufacturer introduced prorated standing early payment discount terms to its supply chain and increased the number of suppliers accepting standing payment terms by over five times, penetrating greater than 30 percent of its spend.

“According to PayStream research, at least 50 percent of organizations are unable to capture anywhere between 50 to 70 percent of discounts offered, because their AP departments are unable to approve and pay the invoices within the 10-day discount window.”

Dynamic Payables Discounting & Supply Chain Finance: A Buyer’s Guide to Working Capital Solutions

PayStream Advisors
November, 2008

participation and incentive to transact with you over the Ariba Network.

- Ariba Cash Flow Optimizer™ lets suppliers rapidly determine cash flow needs, identify invoices that qualify for early payment discounts, then select those they wish to accept
- Automated alerts and notifications immediately inform suppliers of discounting or financing offers
- An early payments portal on the home page aggregates all supplier opportunities for discounting and cash flow financing in one location
- Flexible options and lower rates for cash funded through receivables reduces supplier costs of capital
- Ability to initiate dynamic discounting gives suppliers more control over payment amounts and timing while providing visibility into payment status
- Automatic invitations during enablement ask suppliers to choose from a list of standing early payment discount terms that you define
- Ariba's dedicated team for supplier education and outreach promotes the value of Ariba Working Capital Management solutions to further increase adoption

Customer Success Story

A large energy company removed the approval latency from its invoicing process and reduced approval cycle down to an average of five days. As a result, the company was able to take advantage of \$15 million in pre-negotiated early payment discounts that had previously been lost (on overall spend of more than \$15 billion).

About the Ariba Network

- The world's largest transacting network
- 300-plus active buyers
- More than 200,000 registered suppliers in over 100 countries
- Over 10 million invoices annually
- 20 million POs annually
- \$128 billion in total annual spend
- Transacting in 80 currencies

Ariba Inc.

Worldwide Headquarters

807 11th Avenue

Sunnyvale, CA 94089

Toll-free (USA): 1 866 772 7422

Outside USA: +1 650 390 1000

www.ariba.com

