Dynamic Discounting at JetBlue

Integration at a world class payables department

iPayables

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What is Dynamic Discounting?

Dynamic discounts give both the supplier and customer great flexibility.

The traditional discount is usually offered by a supplier for early payment by a certain cut-off. So if a supplier offers a 2%10Net30 term, they are offering the customer a 2% discount if the customer pays within ten days, or no discount if the customer pays at the normal contractual term of 30 days.

With dynamic discounting, the customer initiates the discount by offering the supplier a term that changes based on when it is paid. So if an invoice is an approved, an email might go to the supplier letting them know that the customer is willing to pay tomorrow in exchange for a 1.62% discount. The discount is dynamically calculated each day based on an annual return the customer demands. Dynamic discounts can also be calculated when the supplier is submitting invoices by allowing the supplier to select a preferred payment date and seeing the calculated discount. If the invoice is not approved by that date, the discount is recalculated based on the actual payment date.

Dynamic discounts give both the supplier and customer great flexibility. The supplier can take the discount deal when they need it and refuse it when they don't. The customer can raise or lower the cost of capital used in the dynamic discount calculation according to their needs; raising it when their cost of capital goes up or when they are short on cash, or lowering it when their cost of capital is low and they want to maximize the discount amounts received.

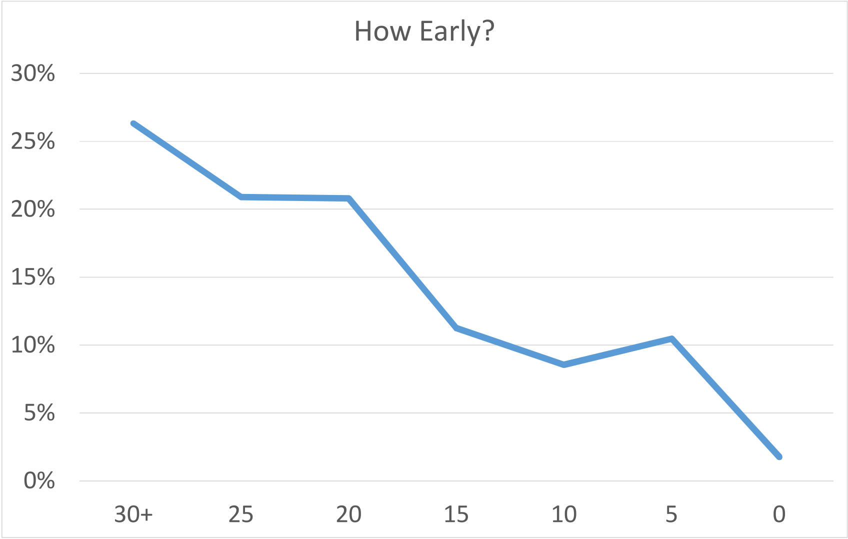
Dynamic Discounting only works when...

There is a reason dynamic discounting is fairly new. It doesn't work with paper invoices. The traditional paper invoicing process requires manual matching to purchase orders or routing for signatures. In our experience with larger organizations, around 50% of invoices in the traditional paper process are already past due when they are entered into the payables system, with only around 35% entered by day 24. It's hard to talk to suppliers about early payment through dynamic discounting when the paper process won't let you pay early.

The average approval time in InvoiceWorks® is 2.7 days.

With today's payables automation solutions, electronic invoices are submitted instantly, matched instantly, and instantly routed the next in line after each approval. The average approval time of an invoice processed in iPayables InvoiceWorks® from submission to complete approve is 2.7 days.

Offering to early pay a supplier at day 3 is much more interesting than offering to early pay at day 24.



The sooner you offer an early payment,

the higher the discount amount will be,

and a higher number of suppliers will take it.

The chart above shows how the percent of discounted invoices decreases as the net term nears. This is from a sampling of invoices in iPayables InvoiceWorks over a two year period. Even though the discount amount the supplier pays will be higher, the moral of the story is that the sooner you offer a discount term, the more suppliers will take it.

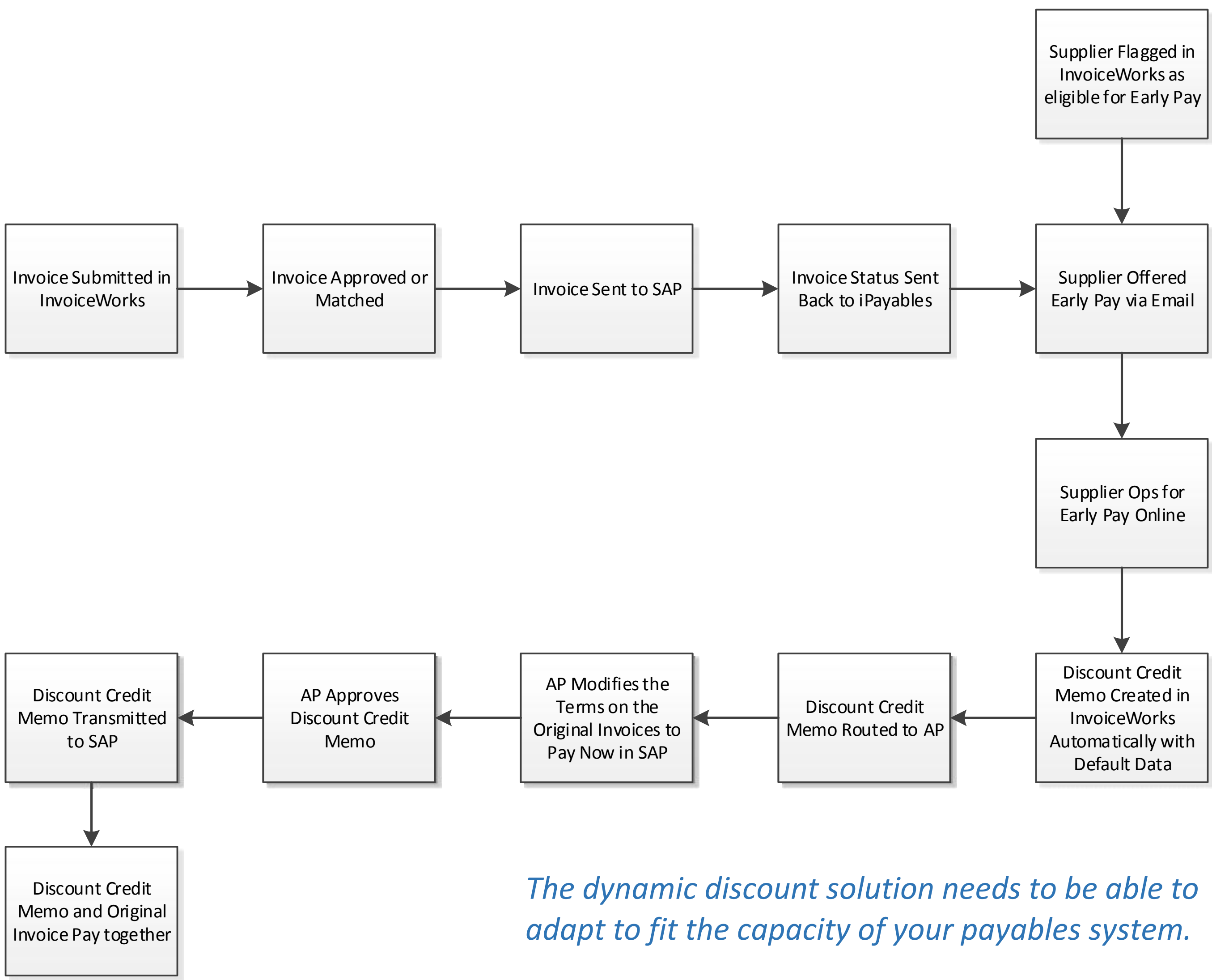
Integrating with the payables system at JetBlue

The dynamic discount process is sometimes influenced by the payables system and its capabilities. A few key points to consider:

- The payables system ability to store non-standard terms
- The ability to change payment date after an invoice is created
- The method of accounting for discount amounts (invoice discount or credit memo)

The dynamic discount solution needs to be able to adapt to fit the capacity of your payables system. If the dynamic discounting solution can't be configured to work with your system, you could spend a lot of time in system re-design and trying to get your IT group to change how your system works. Solutions that can be configured to work in a way your payables system understands are critical to getting the initiative off the ground.

At JetBlue, they had specific needs that led to the following configuration:



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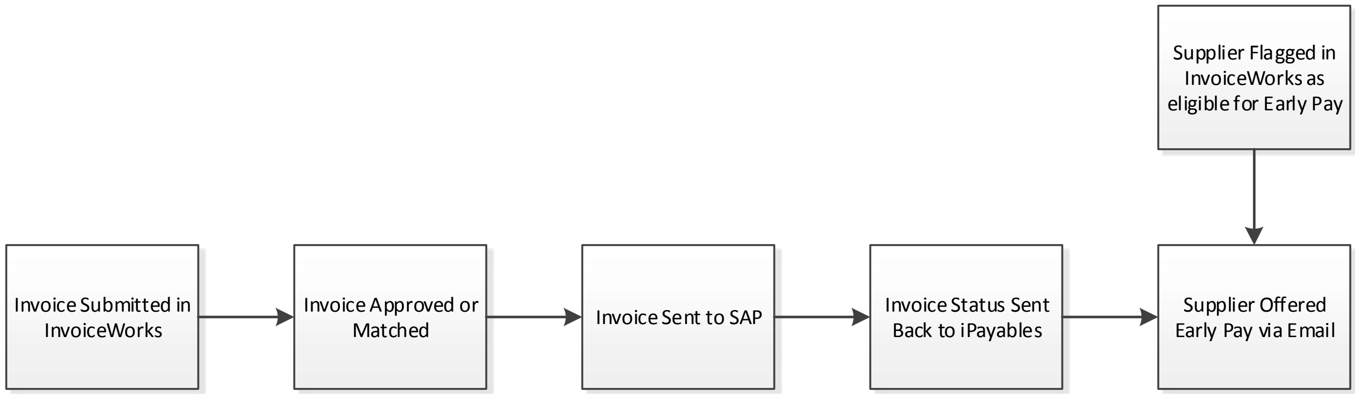
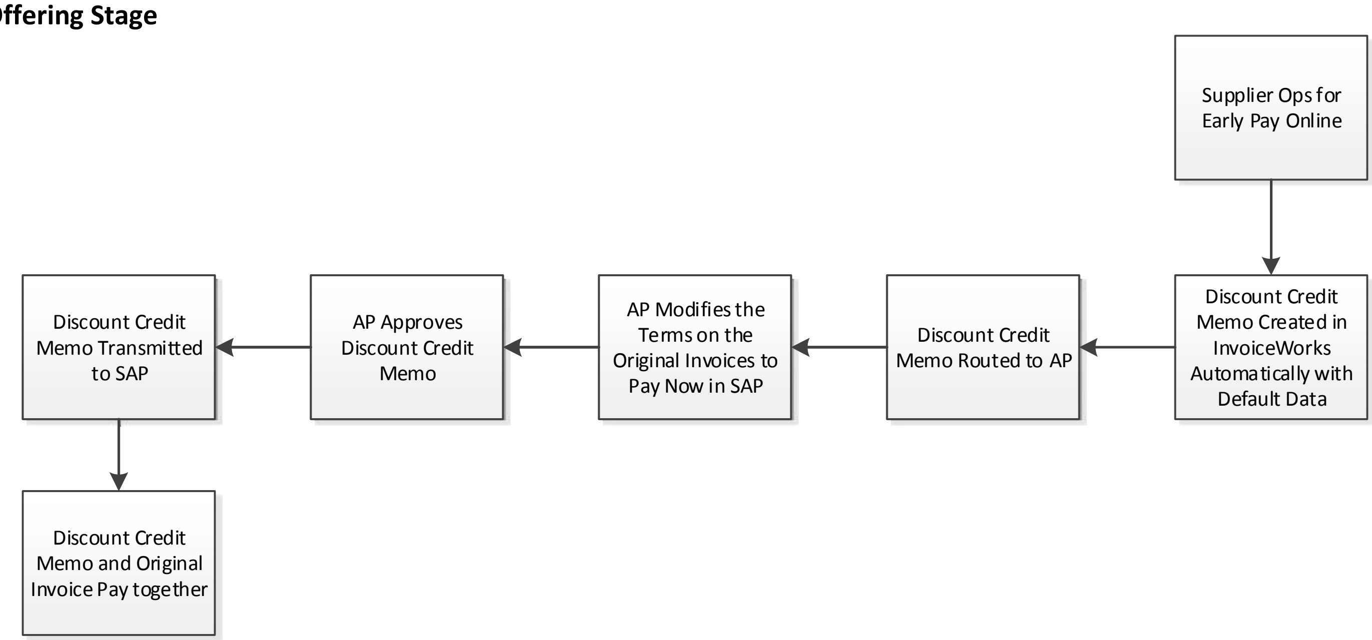
Pre-Offering Stage

Let's break down the JetBlue process into Pre-Offering and Post-Offering.



The first portion of the process shows how JetBlue wanted to make sure Dynamic Discounting was only offered to suppliers they selected. The payables system's connections to iPayables InvoiceWorks ensured that the iPayables system knew which suppliers could participate. JetBlue decided against showing the supplier the Dynamic Discounting options up front, so the option did not appear at the time of submission, but only after approval and transmission.

Post-Offering Stage



In this part of the process, after the supplier has opted for early payment, a discount credit is created. This was specific to JetBlue's needs. Not every company is going to want to do this with credit memos, the other configuration option is to adjust the terms of the invoice so the discount is included in the invoice itself. The end result is the same, the invoice is discounted and the invoice and discount are recorded with the appropriate coding in the payables system.

The discount credit used by JetBlue is routed to Accounts Payable for special tracking that they wanted to do. Normally, it does not need to go there, nor do the terms need to be manually modified in SAP, but this was the need JetBlue had. After their JetBlue-specific record keeping steps, their payables system combines the invoice and discount credit to pay the discounted invoice amount.

Summary

Dynamic Discounting creates a great opportunity for both you and your supplier. For the supplier, they choose invoice by invoice and pay a discount pro-rated to the number of days early they're being paid. For the customer, they can control their working capital by the discount rate they enter into InvoiceWorks.

Using payables automation to reduce matching and approval times down to a few days will make dynamic discounting very attractive to your suppliers and will allow the most discount capture.

And remember that most companies are going to be a little different from everyone else on how they need to implement dynamic discounting. Selecting a provider with flexible configuration options will help ensure a smoother and more effective implementation.

For more information on dynamic discounting with iPayables InvoiceWorks, visit us online at www.ipayables.com, or call us at (866) 874-7932.