Assignment 4 Coca-Cola and Taulia case (DD)

Case Study: Coca-Cola Bottling Co. Consolidated, Taulia, and Dynamic Discounting (PIERRE MITCHELL, April 2014)

Coca-Cola Bottling Co. Consolidated (CCBCC) is the largest independent Coca-Cola bottler in the US. It has over 10,000 suppliers, about 25 percent of which are non-PO[1] based. SAP is the ERP backbone, but the firm also uses Kofax for OCR[2] and ReadSoft for invoice approval workflow. The PO-based invoices is not a big problem, especially for direct spend. "We have POs down," says Accounts Payable Manager Steve Richards. However, CCBCC also has roughly 100,000 non-PO invoices per year.

One of the supplier segments that represents a big opportunity within these non-PO invoices is the area of trucking. Roughly 300 over-the-road trucking carriers called "haulers" are key players in the supply chain, but they are not big companies. About 200 of these are "mom and pop" independent contractors – and as you may expect – are not always the most technically sophisticated. But, the business problem is not so much the efficiency challenge of managing the high volume of invoices that average only about $500 per invoice. Rather, the biggest challenge for these firms is the cost of capital that they have to pay in order to finance their operations – even sometimes just to finance the fuel for the load they plan to carry. Historically, many of these small businesses have had to pay receivables factoring firms very high interest rates, and that is money that is taken out of the CCBCC supply chain. The catch is that CCBCC can provide a cost of capital that rivals the factoring firms.

So, as you may have guessed, CCBCC decided to step in and help with the suppliers' liquidity problem by giving them the option to take early payments in return for a discount. However, they realized that they needed to automate the process of providing flexibility in the terms while dynamically determining the relevant discount. CCBCC saw this as an opportunity to partner with the P2P and supplier discounting provider Taulia, which they could easily plug into their existing ReadSoft and SAP investments to offer these truckers an offer they couldn't refuse. By implementing Dynamic Payment Terms, CCBCC was able to eliminate the complexity of multiple different payment terms by letting suppliers choose to be automatically paid as soon as the invoice was approved in exchange for a small discount.

CCBCC had about 30 payment terms, but was able to consolidate them and set suppliers up at 28-day net terms as the standard payment term. With Taulia's early payment capabilities, the suppliers can now sign up for payment terms with a sliding scale discount applied dynamically when the invoice is approved (which CCBCC calls its "autopilot" mode). Roughly 50 percent of

[1] PO = Purchase Order based
[2] OCR = Optical character recognition

suppliers use this automatic discounting approach, and the rest opt to control their early payments individually through Taulia (i.e. only taking an early payment when they need it).

The early payment schedules can vary, but CCBCC kept the implementation simple with two payment terms that are tied to SAP, one to denote the automatic sliding discount schedule (Dynamic Payment Terms – automated), and the other representing the traditional discount term that a supplier can pick (Dynamic Discounting – opt-in).

One interesting feature is a dynamic discount pop up box that offers to convert the one-off discount selection to the auto-discount mode (within Taulia this is called enabling “CashFlow”). The system offers up the question: “Would you like to be paid early on *all* of your invoices?” CCBCC values this contextual point of conversion because it makes the post-approval invoice payment completely automated. The integration is handled through a “POD service.” This is merely a remote function call (RFC) that integrates the data exchange across the firewall between the on-premise version of SAP and the hosted Taulia P2P platform that the suppliers interact with.

In terms of the business case, the original value was about the automation, visibility, and supplier self-service functionality. Dynamic discounting was originally going to be the so-called icing on the cake, but as it turned out, the icing was very tasty. If you consider a discount of about $10 for a $500 invoice, the 2-percent early payment annualizes to a far superior APR than CCBCC would earn in its Treasury operation. And supplier relationships are strengthened because the suppliers no longer have to work with a separate receivables factoring firm; they can use the same integrated platform they use for e-invoicing and self-services.

CCBCC is currently evaluating other supplier segments to roll the solution out to and expand the value and ROI of the program. Future plans include extending Taulia to other supplier divisions and regulating a portal use policy, especially as new suppliers are created.

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Questions

1. What is the role of an IT-platform in this dynamic discounting case of Coca-Cola. Explain your answer

2. What is the role of an ERP application (SAP, MS Dynamics, PeopleSoft etc.) in this dynamic discounting case of Coca-Cola. Explain your answer

3. Explain with an example the economic trade-off in dynamic discounting for the supplier and the buyer.

4. What are the 3 elements of the costs of interest in financing working capital? Explain your line of reasoning.

5. What is the value added for Coca-Cola of this SCF instrument? Explain your line of reasoning.