

SCALE YOUR SCF BUSINESS WITH DYNAMIC DISCOUNTING



THE RISE OF DYNAMIC DISCOUNTING

Over the past decade, dynamic discounting has evolved into a multi-billion-dollar offering. While blockchain and deep-tier financing garnered much attention, fintech companies quietly addressed gaps in the most traditional form of Supply Chain Finance—Dynamic Discounting—transforming it into a major success. This document explores its journey and future potential.

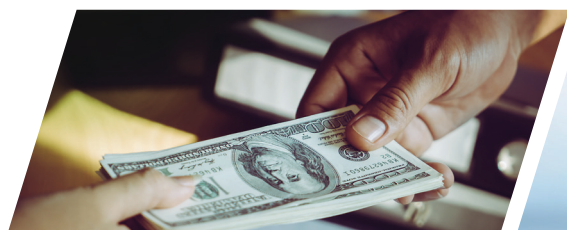
THE TRADITIONAL APPROACH

Trade credit terms such as '2/10 net 60' have long underpinned buyer-supplier relationships.

2 / 10
NET 60

This model offers a 2% discount for payments made within 10 days, with the full amount due in 60 days.

While this benefits both parties—ensuring faster payments for suppliers and cost savings for buyers—it has struggled to adapt to modern supply chain complexities and varied corporate priorities.



Treasury aims to maximise returns on surplus cash with minimal effort, akin to time deposits.

Procurement seeks to reduce costs while maintaining strong supplier relationships to ensure supply continuity.

Accounting ensures seamless compliance with accounting and tax regulations.

In large organisations, scaling discounting programs presents several hurdles



Misalignment of Responsibilities: Procurement teams, though skilled at supplier engagement, are not incentivised or equipped to pitch working capital solutions. Treasury teams often lack direct supplier relationships to drive adoption.



Rigid Discounting Models: Fixed-rate schemes like "2/10 net 60" do not account for the diverse financial needs of suppliers. Some may accept steeper discounts for early payments, while others may require lower rates to participate.



Manual Processing Bottlenecks: Processing hundreds of discount requests daily is resource-intensive, error-prone, and delays payments.



Cash Flow Constraints: When the buyer's treasury lacks liquidity, early payments are not feasible, reducing the program's reliability for suppliers.

ENTER FINTECH SOLUTIONS

Fintechs have addressed these challenges with innovative solutions:

PROBLEM 1: Supplier outreach

SOLUTION

Teams of working capital specialists engage suppliers across multiple buyer programs, prioritising those with the highest potential to generate discount revenue

PROBLEM 3: Optimised discount revenues

SOLUTION

Fintechs use marketplace models where suppliers submit discount offers, creating a demand-supply balance and optimising returns for the cash buyers deploy.

PROBLEM 2: Automated processing

SOLUTION

ERP plug-ins (for buyer) automate invoice data sharing, offer processing, payments, discount revenue recognition, and tax compliance.

PROBLEM 4: Alternative funding

SOLUTION

Fintechs enable switching the funding source from the buyer's treasury to banks, effectively transitioning from dynamic discounting to bank-funded payable finance.

For buyers, fintech solutions offer an attractive proposition—higher returns on spare cash (~8% in dynamic discounting vs. ~5% in dollar deposits) with minimal effort and risk.

However, these solutions come with **trade-offs**:

Revenue Share Costs: Fintechs charge a revenue share of 10-15% of the discount revenue generated.

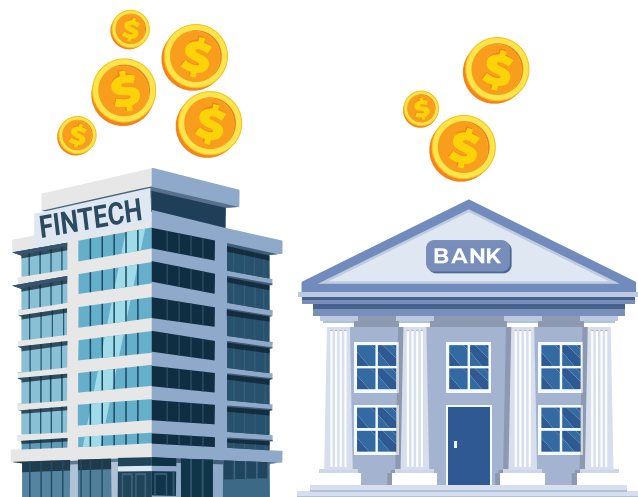
Potentially High Costs for Small Suppliers: Fintech solutions are sometimes criticised for being opportunistic, charging very high discount rates to smaller, more financially constrained suppliers.

Focus on Large Buyers & Suppliers: Fintech firms prioritise larger buyers and suppliers to maximise revenues across buyer programs.

Limited Reach: On average, only about 5% of accepted invoices get financed under such programs. However, the sheer scale of procurement in large enterprises still makes fintech-enabled dynamic discounting a significant market, with C2FO, a fintech firm in this space, alone financing over \$400 billion in invoices to date.

BANKS RESPOND

By 2019-20, banks realised they were losing some ground against the Fintech solutions. Corporate buyers increasingly sought ways to deploy their own cash in SCF programs. Also, traditional payable finance programs demanded high involvement from buyer's end to renegotiate credit terms with the suppliers and at times facilitate bank's KYC/AML assessment of suppliers. Even with low discount rates, fixed rate payable finance programs found it difficult to scale in several cases.



In order to address this, banks on one hand introduced product structures that minimise supplier onboarding efforts (for instance, Corporate Payment Undertaking).

On the other hand, banks started exploring how they can enable dynamic discounting in their SCF product offerings. These are generally hybrid solutions that enable buyers to selectively deploy their own cash to SCF programs.

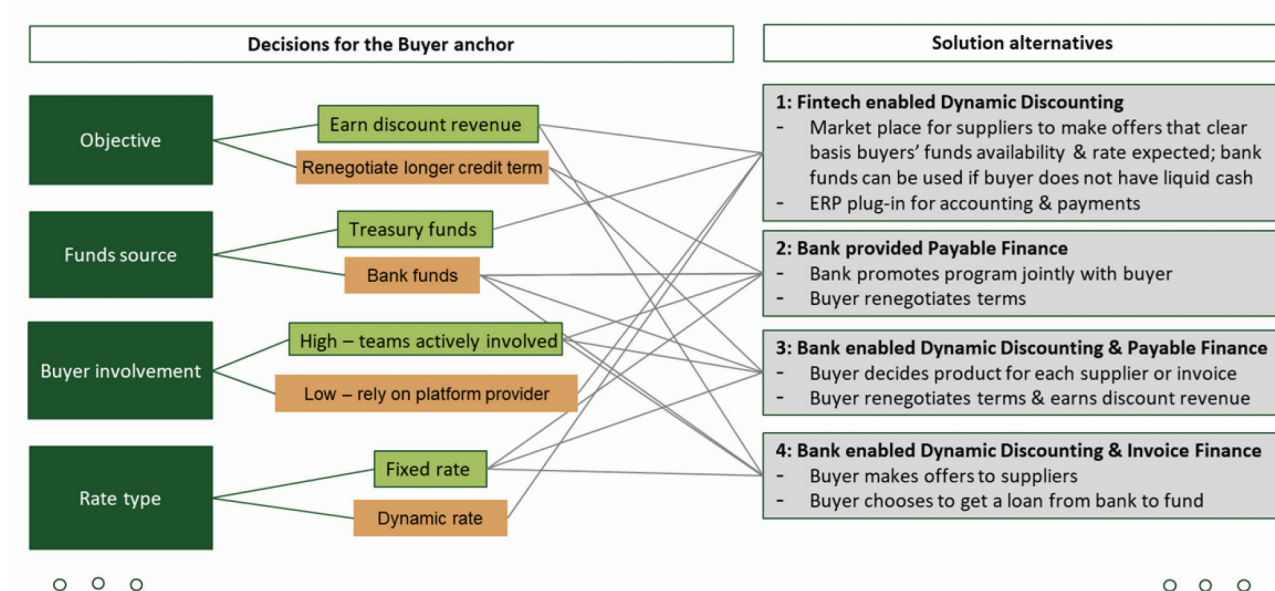
Hybrid structures such as below have emerged:

Dynamic Discounting Offers Bank platforms allow buyers to make discount offers to suppliers, and in some cases, let suppliers propose their own. If accepted, buyers can finance payments either from their account or via a bank loan—earning a risk-free margin if the loan interest is lower than the discount offered.

Fixed Price Discount Requests Here, the process mirrors traditional payable finance. Suppliers request early payment without knowing the funding source. Once offers are received, buyers get the first right to fund them—either via cash or bank loan. If the buyer declines, the bank steps in using standard payable finance structures.

THE FUTURE: WHAT'S NEXT?

As the market matures, dynamic discounting will grow in sophistication. Banks will refine their offerings, tailoring them to buyer needs, while enhancing their tech capabilities and partnering with fintechs. Fintechs, in turn, will evolve to serve both banks and buyers more effectively.



Key decisions (from a buyer's lens) to tailor the right hybrid solution

It is crucial for the bank to understand the buyer needs correctly in order to tailor the right solution. The bank can ask the below questions to gain the understanding:



To tailor the right solution, banks need to understand buyer requirements.

Key questions include:

Do you typically have excess cash?
Are you interested in earning returns on it?

What is your current rate of return (e.g., 5% p.a. on dollar deposits)?

Would your teams (procurement, finance, treasury) manage the program actively, or would you prefer a fintech partner to handle it?
Note: Fintech involvement entails sharing 10-15% of the discount revenue.

If you lack excess cash, would you still consider funding the program via a bank loan to capture the spread between discount revenue and interest cost?

Would you prefer earning higher returns (e.g., 8% p.a.) by simply paying suppliers earlier? This could reduce your COGS and improve gross margins.

What are your thoughts on dynamic pricing (like surge pricing in Uber) vs. a fixed discount rate?

Dynamic pricing could result in higher supplier costs during peak seasons, risking supplier goodwill.

Fixed pricing may not optimise value for buyers or suppliers—buyers may under-earn, and creditworthy suppliers may be overcharged.

If uninterested in the above, would a standard payable finance program work better for your needs?

KEY TRENDS INCLUDE :

Banks Expanding Hybrid Solutions: Banks will increasingly integrate dynamic discounting with traditional SCF products (as summarised in 3 and 4 in the above diagram). The solutions will gradually increase in sophistication to match up to Fintech solutions and will likely meet the needs of a large section of buyers. However, banks are unlikely to offer capabilities like, ERP plug-ins or market-place concepts and will continue to rely on Fintech partners to enable these capabilities



Fintechs Strengthening Bank Partnerships: Fintech solutions will enhance their platforms to help banks manage their products, programs as well as accounting, reporting and reconciliations

Network Effects Driving Growth: As more buyers and suppliers join fintech-enabled platforms, supplier onboarding costs will decrease, boosting revenue generation.





eMACH.ai SCF from Intellect Design Arena

As global trade evolves, efficient and flexible financial services are critical. eMACH.ai SCF from Intellect empowers banks to lead the future of SCF with a comprehensive front-to-back solution supporting all key SCF products.



Why eMACH.ai SCF?

Comprehensive SCF Suite: Includes Purchase Order Finance, Payable Finance, Receivable Finance, Dynamic Discounting, and Dealer Finance. eMACH.ai SCF's low-code platform enables rapid creation of tailored SCF products.

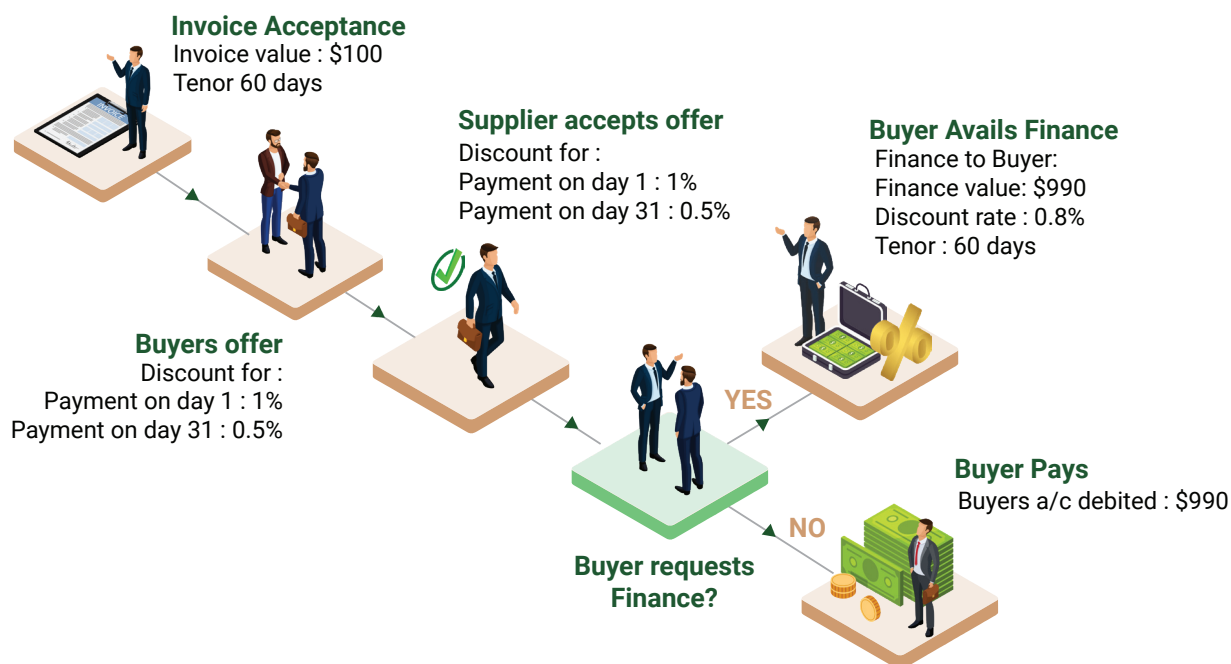
Specific to Dynamic Discounting, eMACH.ai SCF enables comprehensive capabilities:

- Supports hybrid program structures where treasury-funded early payments coexist with bank-funded payable finance.
- Below is an example of a bank enabled SCF program that allows flexibility to the buyer to fund their own program.



- Provides configurable slab-based discounting (e.g., 1% for day 1, 0.5% for day 31), allowing suppliers to choose early payment terms that suit their liquidity needs. What are your thoughts on dynamic pricing (like surge pricing in Uber) vs. a fixed discount rate?

Below is an example of a dynamic discounting program available on eMACH.ai SCF where Buyer makes a slab-based offer and avails of a loan to finance their dynamic discounting program:



Seamless Fintech Integration: eMACH.ai SCF's API-first, microservices architecture allows easy integration with fintechs. APIs are available for every invoice lifecycle event: creation, amendments, payments, reconciliation, etc. Enables banks to create differentiated offerings while eMACH.ai SCF handles product management and backend processes.

Front-to-back Solution: Covers PO/invoice lifecycle, onboarding, finance management, accounting, and delinquency management

AI-Driven Efficiency: Embedded AI automates data extraction from invoices and POs, customer service using AI chatbots and AI driven early warning signals

eMACH.ai SCF has been consistently recognised across multiple global analyst leadership quadrants. As a comprehensive and integrated Trade & SCF suite, eMACH.ai SCF is a key part of Intellect's wholesale banking solutions, trusted by **325 banks across 57 countries.**

About the Author



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Amit Maroo currently serves as the Global Head of Supply Chain Finance at Intellect Design Arena. Amit brings a unique perspective, having managed SCF products in multinational banks, fintech firms, and large buyer corporations. Notably, he rolled out Supply Chain Finance in India at Bank of America, developed fintech solutions with C2FO, Credable, and Veefin, and consulted Maersk on implementing a global SCF program across over 100 countries. Prior to his foray into SCF, Amit began his career as a process, tech, and risk management consultant with TCS and Deloitte Consulting. A strong believer in continuous improvement, Amit carries this philosophy into both his professional and personal life. When he's not innovating SCF solutions, you can find him on the badminton court or engrossed in a good book.

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