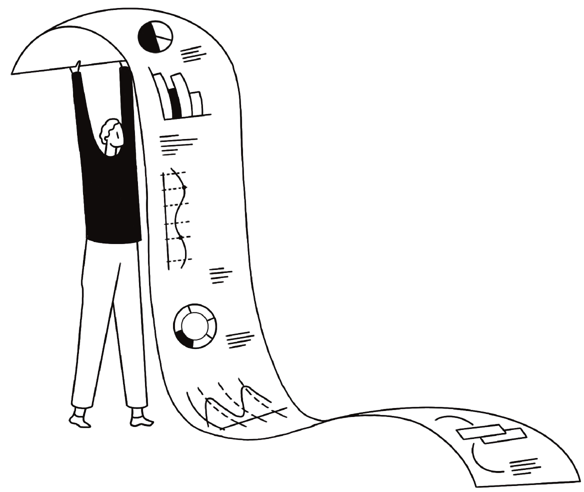
Case Study

Optimizing Payment Terms in Pharmaceutical Sector

Calculum Inc.
www.calculum.ai

Introduction

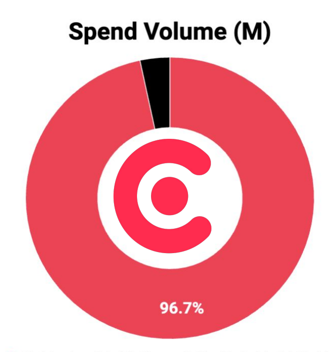
One of the largest pharmaceutical companies in the world contacted Calculum with the following requirements:



1. **Compare themselves with their peers** to see where the company is standing in terms of payment terms versus their competitors.
2. **Identify opportunities** to unlock free cash flow through payment terms optimization.
3. Provide procurement with all the **information on each supplier** to negotiate better terms.
4. **Plan the rollout** of the payment term optimization program with the ability to track the results

Matching, Normalizing & Cleaning Data

- USD 2.2B spend and 5,844 suppliers analyzed
- Match Rate of 96.7% of total spend



When looking at optimizing payment terms, and the overall company's cash conversion cycle (C2C), Calculum analyzed the client's spend of over USD 2.2B with 5,844 suppliers.

Calculum's ADA Platform performed the analysis and credit scoring of each supplier, and highlighted the distribution of spend in terms of country, region, industry, commodity, payment terms, procurement departments, sustainability and ESG (Environmental, Social, and Corporate Governance) score.

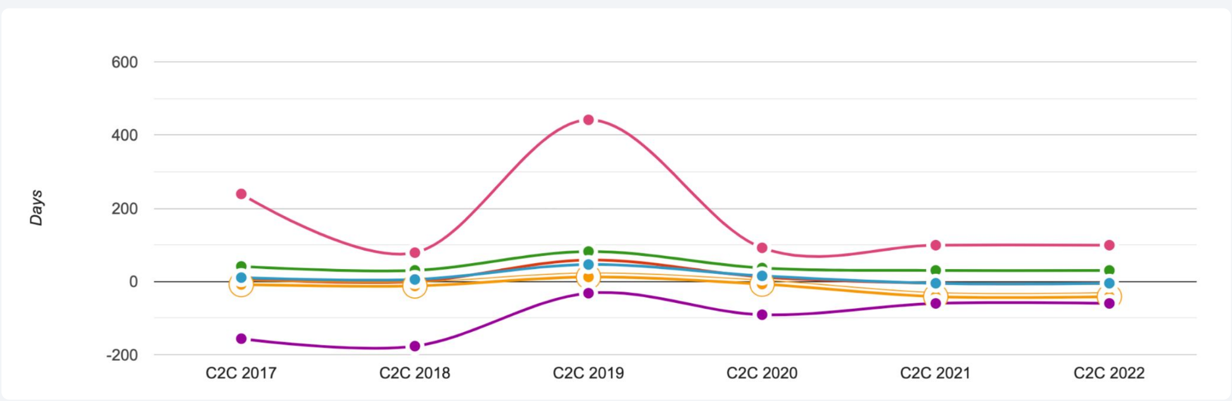
In addition, the ADA Platform helped the client to normalize and clean its data, increase visibility on its trading partners such as financial information, credit scoring, and identify where to focus (e.g. region, top 100 suppliers) its efforts to improve its payment terms.

- Compare the client to their peer group
- Compare the client with their specific competitors
- Compare the client to their country, region, or industry average
- Compare between seven different metrics
  - **Days Payable Outstanding (DPO)**
  - **Days Sales Outstanding (DSO)**
  - **Cash-To-Cash (C2C)**
  - **Payment Terms**
  - **Potential Cash Flow Impact**

Comparing Peer Data and Competitors

Calculum's ADA Platform gives the client's treasury and procurement department the ability to identify where their company stands compared to their peer group and individual competitors in the pharmaceutical sector.

The ADA Platform looks at specific metrics that can be used to measure their company's performance such as Days Payable Outstanding (DPO), Days Sales Outstanding (DSO), Cash to Cash Cycle (C2C), and payment terms.



Over 1.3M Companies Analyzed

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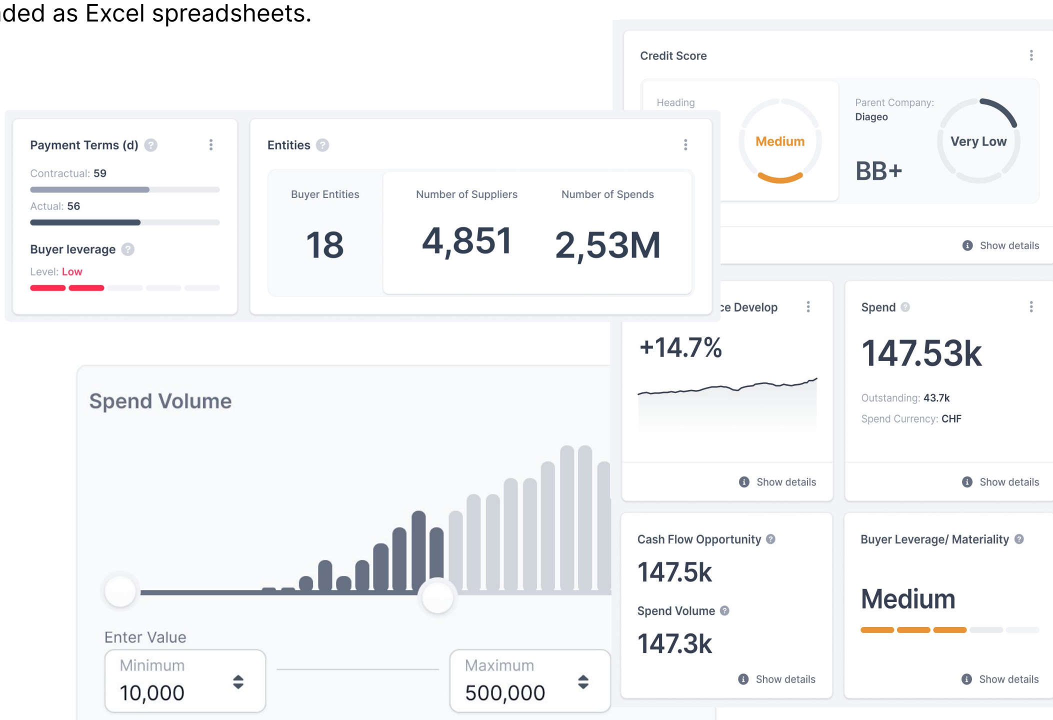
Insights on Distribution of Supply Chain Data

Calculum's ADA Platform allowed the corporate client to view all their suppliers and spend data from multiple different ERP (Enterprise Resource Planning) systems to gather insights about their entire supply chain.

The supply chain metrics listed to the left can be measured according to average payment terms, spend volume, number of suppliers or outstanding volume.

The ADA Platform allowed the user to view each supplier in a list that can easily be downloaded as Excel spreadsheets.

- Full-scope overview of the client's supply chain
- Break down of supply chain data into 40+ metrics
- Calculum credit rating of every supplier
- Geographically map out the client's supply chain



Supply chain data is classified into the following categories:

- Credit Score
- Country
- Region
- Procurement Team
- Industry
- Commodity
- Buyer Leverage
- Negotiation Complexity
- Buying Entity

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Identifying Free Cash Flow Opportunities

As a next step, the ADA Platform allowed the corporate client to create specific programs to organize their suppliers based on their strategic spend, tail suppliers, and suppliers based on their ESG (Environmental Social Governance) scoring.

The client created one specific program focussing on Supply Chain Finance for their US-based and Asian suppliers totalling 265 suppliers responsible for 70% of their direct spend, totalling over USD 1.5B.

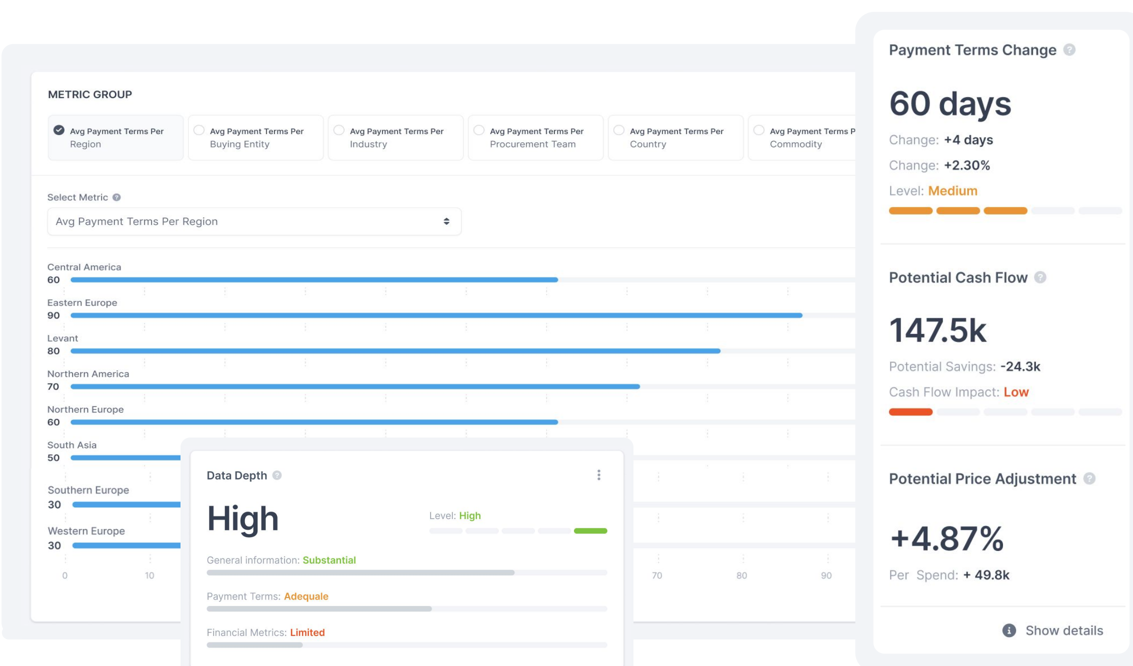
These optimization programs for payment terms were broken down by procurement manager, harmonized payment terms groups, financing groups, industry, commodity, country, supplier size, ESG score, women and minority-owned businesses, and country.

The client used the platform to harmonize its payment terms with its 5,844 suppliers from 43 different terms to just 12 standard terms.

Calculum's ADA Platform identified an opportunity to optimize the current weighted-average payment terms from average 63 days with 265 suppliers to 84 days.

The increase of 21 days represented an alignment of the terms to each individual suppliers market standard, based on commodity, country, industry, leverage, resulting in over USD 127M of additional Free Cash Flow for the corporate client.

- Break down the client's suppliers into programs
- Invite other users to collaborate with procurement managers and setup the program
- Specify term harmonization groups
- Allocate financing rates to suppliers



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Taking Action & Creating Project Plan

The client used the 9-Box model in the ADA Platform allowing to focus on the suppliers with the highest probability of success - accepting the new payment terms as well as the ones with the biggest cash flow impact on the client.

Based on the analysis the team developed and shared access to deployment plans in the ADA Platform with their procurement managers. These managers began the negotiation process by contacting each supplier via email outlined in these plans.

The client was successful in negotiating with 189 of the 265 suppliers representing a 71% success rate. This resulted in the client unlocking an additional USD 86.3M in free cash flow.

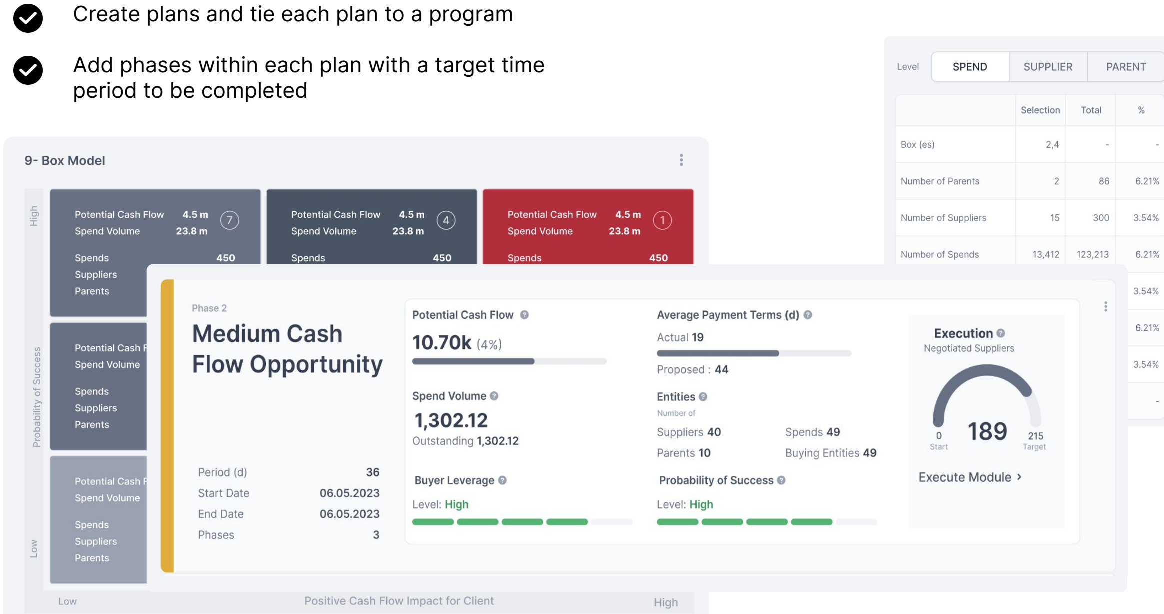
- Transition of programs into actionable steps
- Define the project plan time period goal
- Invite individual users to specific plans
- Create plans and tie each plan to a program
- Add phases within each plan with a target time period to be completed

Calculum's ADA Platform allowed the corporate client to create a plan to define the rollout of the payment terms optimization project.

The client used the ADA Platform to draft a strategy to negotiate their payment terms with their 265 suppliers by creating two plans for their US-based and European supplier programs. Each plan had a one-year time frame.

The corporate client decided to break down their Plan with their US-based suppliers into four phases based on the suppliers' credit score. The client broke down the Project Plan with their European-based suppliers into four phases based on the suppliers country. Each phase lasted three months in both respective plans.

ADA outlined the two plans and their four phases for the corporate client allowing the company to negotiate the new payment terms with their 265 suppliers.



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Negotiations & Tracking Results

The corporate client negotiated with each 265 suppliers using the plans which were created in collaboration between treasury and procurement. To help facilitate this process the client used the ADA Platform's Entity Card, which allowed the client to dive into each individual supplier with detailed information.

For example, the corporate client decided to optimize the payment terms with one of their suppliers, a mid-market manufacturing firm located in Central China. The client was able to see a potential increase in free cash flow of USD 122k by successfully negotiating the new payment terms suggested by the Platform.

In addition, the client was able to gather insights about this supplier in the ADA Platform such as the supplier's industry and country risk profile, their supplier's funding costs, credit score, and other key financial ratios.

The ADA Platform identified six possible negotiation strategies and arguments allowing the client to convince the supplier to accept the adjusted payment terms. One of the key strategy was the Supplier Standard, indicating what payment terms the vendor accepted by other customers, which was very helpful in the negotiation. After successful negotiation, the procurement manager entered the results into the ADA Platform along with the date of agreement and the date of the next payment terms review. With the new terms saved into the platform, treasury got notified and was able to record the Free Cash Flow.

- Analyze payment terms at individual supplier level
- See who is the ultimate parent and sister companies with different payment terms
- Credit Rating and ESG Scoring
- Choosing between multiple different term negotiation approaches.
- Customized negotiation script for each supplier, including what payment terms the supplier is offering to competitors.
- Record and track negotiation results

Calculum is data as a service (DaaS) company helping companies to compare themselves with their peers, analyze, optimize and negotiate better terms with their suppliers.

Using AI and predictive analytics Calculum's mission is to transform the way we select suppliers, negotiate payment terms, assess supplier risk, and unlock working capital.

Headquartered in Miami, the company empowers treasury organizations as well as credit and procurement teams, unlocking working capital, reducing risk of supply chain disruptions for corporates, and their trading partners.

How can Calculum help

Pharmaceutical firms unlock working capital

Over the past years, Calculum has worked closely with several industry -leading companies in the pharma-ceutical industry helping them with their focused approach to cash leadership.

With its Calculum's ADA Platform, leveraging AI and data analytics, clients can ensure maximization of shareholder value and gain competitive advantage by optimizing and negotiating better payment terms with their suppliers.

The ADA Platform identifies and improves over 10% in working capital for every dollar spend analyzed.

Contact us

We are ready to provide you with insights on payment terms that will help you improve your working capital structure and performance that helps address your specific needs.

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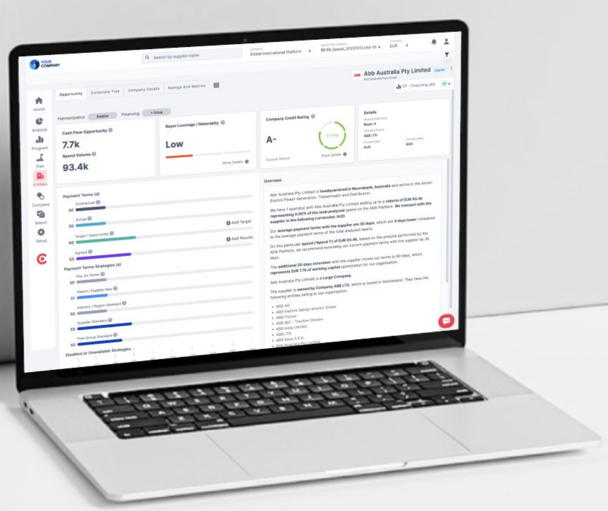

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