

## The Real Deal – Taking Vendor Cash Discounts

If you're not taking advantage of vendor cash discounts you may be passing up significant cost savings opportunities. At first glance, cash discounts look like small insignificant amounts, but when you calculate the effective annual interest rate, these can be eye popping numbers.

We've put together the following Vendor Cash Discount table that calculates the effective interest rate based on various discounts amounts, days to pay and standard terms.

Cash discount options are often expressed in this way **2/10 Net 30**, which means "you can take a 2% discount if paid within 10 days, or pay the full amount within 30 days."

As the chart below shows, there is serious savings when considering cash discounts. I don't know how many times I've seen business owners pass up a cash discount just to hold on to their money for a few more days. Foregoing a 2/10 Net 30 discount option means you just passed up the equivalent of a 36.0% return.

If cash is tight but you have the availability to borrow on your line of credit, it can still pay to take advantage of discount terms if the percentage saved is better than the cost of funds.

If you have a key vendor that doesn't offer discounts, pick up the phone and ask them. Many businesses are starved for cash and may welcome this offer.

A word of caution, it's not **ALWAYS** wise to take a discount. Without proper cash planning a company can get into trouble taking discounts and running into a cash shortage because they depleted their working capital reserves. Planning is the key!

Study the chart below and when possible, take advantage of vendor cash discounts. It's the "real deal"!

Percentage Discount Offered	No. of Days to Pay Within and Take Discount	Standard Terms in Days	Effective Interest Rate
3.0%	5	15	108.0%
3.0%	10	30	54.0%
3.0%	20	60	27.0%
2.0%	5	15	72.0%
2.0%	10	30	36.0%
2.0%	20	60	18.0%
1.0%	5	15	36.0%
1.0%	10	30	18.0%
1.0%	20	60	9.0%
0.5%	5	15	18.0%
0.5%	10	30	9.0%
0.5%	20	60	4.5%



Michigan CFO Associates is a professional firm providing outsourced Chief Financial Officer & Controller services to small-business owners. Specializing in **Management Accounting**, the firm's CFOs focus on improving profitability and cash flow for businesses that cannot justify the cost of a full-time CFO.