HIGH-VOLUME

WORKSHEET 2 OF 9

Payment-Terms Working Capital Review

Fill in before renegotiating payment terms with any vendor where you have at least 12 months of transaction history.

Complementary worksheet for
Vendor Negotiation Playbook
by Ibrahim Anwar

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SECTION 1

What This Is For

Payment terms are the one contract variable most operators never explicitly negotiate. They accept the terms that appeared on the first invoice — net-30, COD, or 10 days after receipt — as if those terms were fixed market conditions rather than a starting position that both parties had agreed to stop discussing. This worksheet exists to restart that conversation with numbers, not with a vague sense that "we'd like better terms."

The sheet forces two calculations before the operator walks into the meeting: how much working capital the proposed extension is worth in dollar terms per year, and whether that value is larger or smaller than a 1% unit price discount on the same annual volume. Once those two numbers sit side by side, the choice of which lever to pull first becomes a calculation rather than a guess.

SECTION 2

Benefits

What you get when you actually run this worksheet on a real situation:

- Converts a payment terms request from a favor-seeking conversation into a data-driven negotiation with a specific dollar value attached.
- Quantifies the working capital impact of every proposed extension so the operator knows the exact annual value of each day of additional credit.
- Frames the on-time payment record as a documented asset — not a courtesy — that earns longer terms rather than requests them.
- Shows when payment terms are more valuable than a unit price discount, which is counter-intuitive for most operators and therefore often overlooked.
- Identifies the right trade-off to offer the vendor in exchange — volume certainty, earlier PO submission, or fixed payment day — turning a request into a package.

SECTION 3

Framework To Use

— Terms-vs-Discount Value Map

Two parallel calculations that show which lever — payment terms or unit price — delivers more annual value from the same vendor relationship.

BEFORE	AFTER

SECTION 4

How To Use

Follow these steps in order. Each one builds on the previous.

1. Enter the current payment terms in days and the proposed terms in days. Record the difference (additional days of credit).
2. Enter your average monthly purchase value with this vendor in USD.
3. Enter your actual cost of capital: bank loan rate if you borrow, or the rate you pay on informal credit if that is the source. If you have no debt, use your weighted average return on cash deployed in the business.
4. Calculate monthly working capital value: monthly purchase × (additional days ÷ 365) × annual cost of capital rate.
5. Calculate annual working capital value: monthly figure × 12.
6. Calculate the value of a 1% unit price discount: annual purchase value × 1%.
7. Compare the two values. If the working capital value of the proposed extension exceeds the 1% discount value, lead with the payment terms negotiation. If not, price discount is the higher-value lever.
8. Prepare one trade-off to offer in return: a volume commitment for 3 months, fixed payment on the 5th of each month, or PO submission 14 days ahead of need.

SECTION 5

Example Use

> *A food ingredient distributor buys flavoring compounds from a Tangerang-based vendor at $8,750 per month. The current terms are net-30. The purchasing manager wants to propose net-60, and needs to know if that is worth more than asking for a 1% price reduction.*

Current terms: net-30. Proposed terms: net-60. Additional days: 30.

Monthly purchase: $8,750. Annual purchase: $105,000.

The business carries informal financing at 18% per year (1.5% per month) from a cooperative lender.

Monthly WC value of 30-day extension: $8,750 × (30 ÷ 365) × 18% = $8,750 × 0.0822 × 18% = $129.50 per month.

Annual WC value: $129.50 × 12 = $1,554 per year.

Value of 1% price discount: $105,000 × 1% = $1,050 per year.

The working capital value of the extension ($1,554) is 48% larger than the 1% price discount ($1,050). At this cost of capital, terms negotiation delivers more annual value than price negotiation.

The purchasing manager walks into the meeting leading with terms, not price. The trade-off offered: the business will commit to a 3-month minimum purchase volume of $8,000/month, with PO submission 10 business days ahead of the delivery date — giving the vendor predictable production scheduling. In exchange, payment terms extend from net-30 to net-60.

The vendor accepts. The effective annual gain: $1,554 in working capital value plus the elimination of one informal credit drawdown per month, saving $131 in interest. Total value from a 30-minute renegotiation: approximately $1,685 per year.

SECTION 6

The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

Payment-Terms Working Capital Review

Fill in before renegotiating payment terms with any vendor where you have at least 12 months of transaction history.

ITEM	CURRENT	PROPOSED	DIFFERENCE
Payment terms (days)			
Monthly purchase value ($)			
Annual cost of capital (%)			
Monthly WC value of extension ($)*			—
Annual WC value of extension ($)			—
Value of 1% price discount on same volume ($ / yr)	—	—	
WC value vs price discount: which is larger?	—	—	
On-time payment record (months of documented history)		—	—
Trade-off to offer vendor in exchange		—	—

SECTION 6 (CONTINUED)

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. *Monthly WC value = monthly purchase × (additional days ÷ 365) × annual cost of capital rate. If you use informal financing at 2% per month, enter 24% as the annual rate. The working capital value of the extension is proportionally larger at higher cost-of-capital rates.

2. Is the annual working capital value of the proposed extension larger or smaller than the value of a 1% unit price discount on the same volume? If it is larger, lead the negotiation with payment terms, not price. If it is smaller, calculate how many additional days would be needed to match the 1% discount value — and consider asking for that number instead.

SECTION 7

Tips and Traps

TIPS

- Compile the payment history before the meeting: a simple spreadsheet with order date, due date, and actual payment date for the last 12 months. That record is more persuasive than any verbal claim about your reliability as a payer.
- Propose specific terms, not a vague request. 'Extend our terms from 30 to 45 days on orders above $5,000' is answerable. 'We'd like better payment terms' is not.
- Frame the trade-off you offer as something the vendor visibly gains, not as a concession you are making. 'We will send POs 14 days ahead of need' gives the vendor production planning certainty. Lead with the benefit to them.
- If the vendor agrees verbally, confirm the new terms in a one-paragraph email before the next PO goes out. A verbal agreement on terms is not a contract term.

TRAPS

- Negotiating terms separately from price and other variables as though they are unrelated. Vendors respond better to a package: '80% volume commitment plus 14-day advance PO in exchange for 45-day terms and 2% better price' than to two separate standalone requests.
- Using the working capital value calculation to justify terms but then not actually using that freed capital. The value of the extension is only real if the cash is redeployed, not left idle in the account.
- Asking for longer terms without a documented payment history to support the request. The history is the argument. Without it, the vendor has no reason to extend trust they have not observed.
- Accepting advance payment on repeat orders without revisiting the arrangement. Advance payment is working capital lent to the vendor at 0% interest. A two-cycle track record of clean delivery and quality is sufficient to renegotiate any advance-payment arrangement.

SECTION 8

Appendixes

Appendix A — Working Capital Value at Different Cost-of-Capital Rates

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Formula: Monthly WC value = P × (D ÷ 365) × R
  P = monthly purchase value ($)
  D = additional days of credit requested
  R = annual cost of capital (decimal)

For $10,000 monthly purchase, 30 additional days:
  At 12% annual CoC   →  $10,000 × 0.0822 × 0.12 = $98.60 / month = $1,183 / yr
  At 18% annual CoC   →  $10,000 × 0.0822 × 0.18 = $147.90 / month = $1,775 / yr
  At 24% annual CoC   →  $10,000 × 0.0822 × 0.24 = $197.30 / month = $2,367 / yr
  At 36% annual CoC   →  $10,000 × 0.0822 × 0.36 = $295.90 / month = $3,551 / yr

Breakeven: terms extension equals a 1% price discount when
  R ≥ (annual purchase × 1%) ÷ (monthly purchase × additional days ÷ 365)
  Simplifies to: R ≥ 365 ÷ (additional days × 12) × 1%

For 30 additional days: breakeven CoC = 10.14%
For 45 additional days: breakeven CoC = 6.76%
For 60 additional days: breakeven CoC = 5.08%
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Appendix B — Terms Negotiation Package Formats

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Package 1 (standard vendor, 12+ months history):
  Offer   : Volume commitment of 80% of forecast for 3 months
  Ask     : Extension from net-30 to net-45
  Anchor  : 12-month on-time payment record (attach the log)

Package 2 (strategic vendor, tight capacity):
  Offer   : PO submission 14 business days ahead of need
  Offer   : Fixed payment date (e.g., 5th of each month)
  Ask     : Extension from net-30 to net-60
  Anchor  : Production planning certainty the vendor gains

Package 3 (advance payment negotiation):
  Current : 30% advance on every order
  Propose : 0% advance after 3 clean delivery cycles; net-30
  Offer   : Written volume commitment for next 2 months
  Anchor  : Delivery and quality data from past 3 orders
```

WHERE THIS WORKSHEET COMES FROM

Vendor Negotiation Playbook

The First Price Quoted Is Not the Best Price Available

by Ibrahim Anwar

This worksheet is one of nine in the *Vendor Negotiation Playbook* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

Read the source book on Google Play Books:

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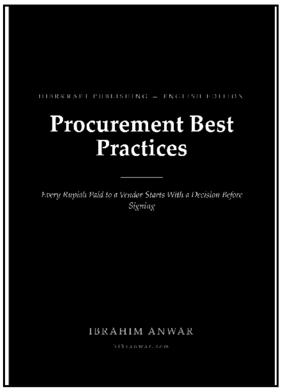

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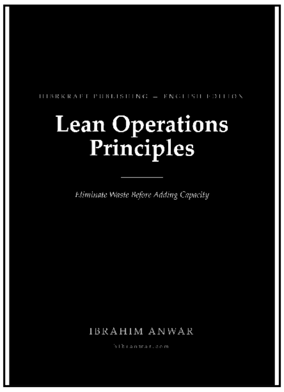

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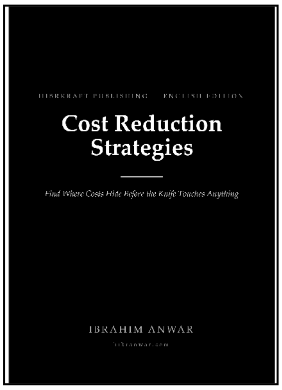

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Find Where Costs Hide Before the Knife Touches Anything

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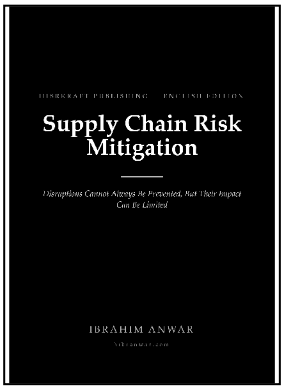

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