

HIGH-VOLUME

WORKSHEET 3 OF 9

Vendor Payment Schedule and DPO Optimizer

Run once to set up the schedule, then update weekly. Replaces the habit of paying all vendors on a single fixed date.



Complementary worksheet for
Working Capital Management
by Ibrahim Anwar

What This Is For

Most operators pay vendors on a fixed day each month — the 5th, the 15th, wherever the habit landed — regardless of what terms each vendor actually agreed to. That habit costs real money. A vendor with 45-day terms paid on day 15 means 30 days of vendor capital left on the table every cycle. For a business with \$500,000 in annual COGS distributed across ten vendors, that habit can translate to \$40,000 or more in unnecessarily early outflows per year.

This worksheet replaces the fixed-date habit with a terms-based schedule that pays each vendor on or near the actual contractual due date, captures early payment discounts only when the math justifies it, and integrates the result into a rolling 30-day cash commitment view. The operator who reaches for it is managing cash tightly and suspects they are paying some vendors earlier than necessary — or has just discovered their DPO is 12 days when the average vendor terms are 35.

Benefits

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

- Identifies every vendor being paid ahead of their contractual terms, quantifies the capital being released unnecessarily, and gives a target DPO for each relationship.
- Calculates the effective annual cost of any early payment discount offered, so the take-or-decline decision is arithmetic rather than instinct.
- Produces a 30-day forward payment schedule that prevents cash shortfalls from multiple large payments landing on the same week.
- Builds the vendor payment record that supports term extension negotiations — a clean on-time history is the primary lever for requesting longer terms.
- Separates vendor payments into three categories: pay on due date, capture discount, or negotiate longer terms — each requires a different action.

Framework To Use

— DPO Gap Analysis and Decision Rule

For each vendor: calculate actual DPO versus agreed terms, evaluate any discount offer, assign an action.

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How To Use

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

- 1 Step 1: List every active vendor. For each, record: agreed payment terms (days), last invoice date, and the date payment was actually made on the most recent invoice.
- 2 Step 2: Calculate actual DPO for each vendor: days between invoice date and actual payment date. Compare to agreed terms. Record the gap.
- 3 Step 3: For vendors where actual payment day is earlier than contractual due date, calculate capital released early: $(\text{Gap days} / 365) \times \text{annual COGS}$ from that vendor. This is the cost of the early payment habit per vendor, in dollars per year.
- 4 Step 4: For vendors offering an early payment discount, calculate effective annual cost using: $(\text{Discount}\% / (100 - \text{Discount}\%)) \times (365 / (\text{Standard term} - \text{Discount period}))$. Compare to your current KMK rate.
- 5 Step 5: Apply the decision rule from the framework: capture discount only if effective cost is below KMK rate; otherwise pay on standard terms.
- 6 Step 6: For vendors where terms extension is desirable, flag the next contract renewal date and prepare the negotiating position: on-time payment record, purchase volume, and proposed new terms.
- 7 Step 7: Build the 30-day forward payment schedule from actual due dates. Enter each vendor's next payment amount and due date. Review weekly for cash position conflicts.
- 8 Step 8: After 90 days on the schedule, recalculate actual average DPO. Compare to the pre-worksheet baseline. The difference is the working capital freed.

Example Use

A manufacturer reviews their vendor payment habits. Annual COGS is \$480,000, spread across six vendors. Before the worksheet, all six are paid on the 10th of every month. Average vendor terms: 38 days.

The operator lists all six vendors. Vendor A (terms net-30, annual COGS \$180,000): last invoice was the 2nd, paid the 10th — 8 days actual DPO against 30-day terms. Gap: 22 days early. Capital released early: $(22/365) \times \$180,000 = \$10,849$ per year.

Vendor B (terms 2/10 net-45, annual COGS \$120,000): discount offer. Effective cost = $(2/98) \times (365/35) = 21.3\%$ per year. KMK rate is 14%. Effective cost exceeds KMK — pay on day 45, do not take the discount. Capital saved by not paying early: the 35-day gap on \$120,000 = \$11,507 worth of vendor capital the operator keeps for longer.

Vendor C (terms net-45, annual COGS \$96,000): paid on the 10th, 12 days after invoice — 33 days early. Capital released early: $(33/365) \times \$96,000 = \$8,679$ per year.

Aggregating across all six vendors, the operator is releasing approximately \$31,000 per year in vendor capital ahead of contractual due dates. Shifting to a terms-based schedule costs nothing in vendor relationship terms — all payments remain within agreed terms — and frees the equivalent of \$31,000 in working capital at zero interest cost.

The new 30-day payment schedule shows no week with more than two large vendor payments landing simultaneously, avoiding the cash-crunch concentration that the old single-date habit occasionally produced.

Reflection Prompts

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

1. Sum the 'capital released early' column. That total is the working capital currently being given away ahead of contractual terms. Shifting payments to due dates recovers that capital at zero cost — no negotiation, no new credit facility, no interest.
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2. For vendors with a discount offer: did the effective annual cost calculation come out above or below your current KMK rate? If above KMK, document the decision to decline the discount so it does not need to be recalculated every month when the vendor sends the reminder.
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Tips and Traps

| TIPS | TRAPS |
|---|--|
| <ul style="list-style-type: none">• Update the schedule weekly, not monthly. A payment that falls on a Thursday in a cash-tight week needs to be visible the Monday before, not the day it arrives.• Keep a record of on-time payments per vendor. When requesting term extensions, three years of clean payment history is a concrete bargaining position. A verbal claim about reliability is not.• For vendors where terms negotiation is planned, time the conversation 60 to 90 days before contract renewal. Requesting longer terms during a cash crunch is a risk signal to the vendor. Requesting them from a position of strength is a business discussion. | <ul style="list-style-type: none">• Shifting payments to contractual due dates and then occasionally paying a day or two late. On-time is the floor. Late damages the record that supports future term extension requests.• Automatically taking all early payment discounts because 'a discount is always good.' A 2% discount on a 35-day acceleration costs 21.3% annually. If your KMK is 14%, the discount costs more than the bank.• Building the schedule but not integrating it with cash flow projections. A payment due on day 45 that lands in your peak NWC month needs to be visible in August, not in October when it arrives. |

Appendixes

Appendix A — Early Payment Discount Effective Cost Formula

Effective annual cost = $(\text{Discount\%} / (100\% - \text{Discount\%})) \times (365 / (\text{Term days} - \text{Discount period}))$

Examples:

2/10 net-30 : $(2/98) \times (365/20) = 37.2\%$ per year

2/10 net-45 : $(2/98) \times (365/35) = 21.3\%$ per year

1/10 net-30 : $(1/99) \times (365/20) = 18.4\%$ per year

3/10 net-60 : $(3/97) \times (365/50) = 22.5\%$ per year

Decision rule:

Effective cost < KMK rate → Take discount (borrow KMK to fund if needed)

Effective cost > KMK rate → Pay on standard terms

Appendix B — Capital Freed by DPO Improvement: Calculation Template

Vendor name : _____

Annual COGS (vendor) : \$ _____

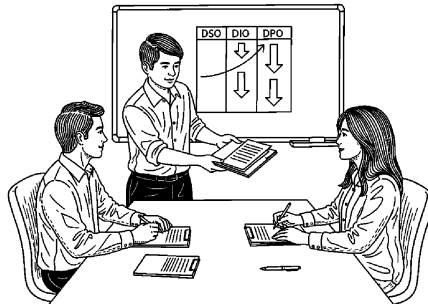
Current actual DPO : _____ days

Target DPO (= terms) : _____ days

Days gap to close : _____ days

Capital freed = $(\text{Days gap} / 365) \times \text{Annual COGS (vendor)}$
 = $(\text{_____} / 365) \times \$ \text{_____}$
 = \$ _____ per year

Repeat for each vendor and sum. Total = working capital freed from shifting all vendors to terms-based payment schedule.



WHERE THIS WORKSHEET COMES FROM

Working Capital Management

Working Capital That Gets Stuck Is a Decision, Not Fate

by Ibrahim Anwar

This worksheet is one of nine in the *Working Capital Management* 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.

Available on Google Play Books

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