

Factoring vs. Early-Pay Discount vs. KMK – Financing Decision Matrix

Run this when a cash shortfall has been quantified and three financing options are simultaneously available. The worksheet calculates the cost of each option per day of working capital covered.



Working Capital Management
by Ibrahim Anwar

What This Is For

This worksheet is for the moment when CCC optimization is underway but cannot close the entire cash gap within the available time window, and three financing mechanisms are all genuinely on the table: factoring an outstanding receivable, capturing an early payment discount from a key vendor, and drawing on the revolving KMK facility. Each looks like a solution. None is obviously wrong. The difference between them in cost can be substantial — and the wrong choice can cost tens of thousands of dollars annually on a mid-sized operating base.

The operator who reaches for this sheet is not choosing a long-term financing strategy. They are solving a specific, quantified gap — usually a month or two of peak working capital — and need to know which of the three instruments is cheapest per day of coverage for this specific gap. The worksheet produces one decision: which instrument to use, in what amount, and for what duration. It is not used monthly. It comes out when the gap is real and the clock is running.

Benefits

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

- Translates three different financing instruments into a single comparable metric: effective annual cost and net cost per day of working capital covered.
- Forces an explicit calculation of the factoring fee versus the cost of not factoring — the stockout, missed vendor discount, or delayed payroll that the shortfall would otherwise cause.
- Prevents the common error of automatically choosing the most familiar option (usually KMK) when a cheaper instrument is available for a specific receivable.
- Produces a written record of the financing decision that can be explained to a bank, an auditor, or an investor during due diligence.
- Reveals when all three options are more expensive than waiting and collecting, which is the correct decision when the shortfall is not yet critical.

Framework To Use

— Effective Cost Per Day of Coverage

Every financing instrument has a cost rate and a coverage duration. Reducing both to cost per day makes them directly comparable regardless of structure.

Instrument	Typical cost range	Coverage mechanism	When it is cheapest
KMK revolving draw	12–18% per year (UMKM)	Cash from credit line; repay from future inflows	Cyclical gap of 30–90 days with clear repayment date
Early payment discount	18–37% effective annual cost (typical 2% discounts)	Reduces payable outflow by the discount amount	Never — unless KMK is unavailable or cost exceeds 37%
Factoring (receivable sale)	18–36% per year (1.5–3% per month)	Cash now from selling receivable at a discount	Creditworthy buyer, short gap, shortfall cost > factoring fee

How To Use

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

- 1** Step 1: Define the cash gap precisely. How much is short, and for how many days? Write both numbers at the top of the sheet before calculating any instrument cost.
- 2** Step 2: For KMK: enter the available limit, current utilization, and annual interest rate. Calculate daily interest cost: $(\text{Annual rate} / 365) \times \text{Gap amount}$. Calculate total interest for the gap duration: $\text{daily rate} \times \text{number of days}$.
- 3** Step 3: For factoring: identify which receivable is the candidate. Enter the receivable value, the factor's monthly fee rate, and the number of days until the receivable would normally be collected. Calculate factoring cost: $(\text{Monthly rate} \times 12) / 365 \times \text{Days} \times \text{Receivable value}$. Note: factoring gives you the receivable amount minus the fee — confirm the net proceeds cover the gap.
- 4** Step 4: For the early payment discount: enter the discount percentage, the standard payment term, and the early payment period. Calculate effective annual cost using: $(\text{Discount}\% / (100 - \text{Discount}\%)) \times (365 / (\text{Term days} - \text{Discount period days}))$. Calculate the rupiah cost of the discount: $\text{Discount}\% \times \text{invoice amount}$.
- 5** Step 5: Calculate the cost of not financing — the working capital shortfall impact. What specific cost does the gap cause if unfilled? Stockout revenue loss, missed vendor discount penalty, or overtime to manage the shortage. This is the maximum you should pay to fill the gap.
- 6** Step 6: Compare all three instruments on cost per day of coverage. Select the lowest-cost option that covers the gap and does not push any facility past its limit.
- 7** Step 7: Write the decision at the bottom of the sheet: instrument chosen, amount, duration, repayment date or receivable collection date.

Example Use

A distributor has a \$28,000 cash gap for 35 days in October — the peak month. Three options are on the table: draw KMK at 15% per year, factor a receivable from a creditworthy buyer at 2% per month, or capture a 2% early payment discount from their main vendor (terms: 2/10 net-45).

Gap defined: \$28,000 for 35 days. KMK utilization is currently 55% — room exists.

KMK cost: $(15\% / 365) \times \$28,000 \times 35 \text{ days} = \402 . Net cost per day: $\$402 / 35 = \11.49 .

Factoring: receivable value \$35,000, factor rate 2% per month. Factoring fee = $(2\% \times 12 / 365) \times 35 \times \$35,000 = \$808$. But net proceeds = $\$35,000 - \$808 = \$34,192$ — more than the \$28,000 needed. Factoring is available. Cost per day: $\$808 / 35 = \23.09 .

Early payment discount: main vendor invoice is \$40,000, discount is 2/10 net-45. Effective annual cost = $(2/98) \times (365/35) = 21.3\%$ per year. Annual cost on \$40,000 = \$8,520. For 35 days of acceleration: $\$8,520 \times (35/365) = \817 . But the discount only covers 35 days if payment happens immediately — the gap may not align with the vendor invoice date. Also \$817 costs more than KMK for the same period.

Decision: KMK at \$402 is cheapest. Factor only if KMK utilization were above 90%. Do not take the early payment discount — it costs twice as much as KMK per day of coverage.

Written decision: "Draw KMK \$28,000 on October 1. Repayment from November receivables collected by November 5. Target repayment date: November 6." Filed with the sheet.

The Worksheet

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

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INSTRUMENT	GAP COVERED (\$)	COST RATE	DURATION (DAYS)	TOTAL COST (\$)	COST PER DAY (\$)	FACILITY HEADROOM AVAILABLE?	DECISION

Reflection Prompts

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

1. What is the cost of not filling this gap at all? If the gap causes a stockout that loses \$5,000 in gross margin, or a missed vendor discount worth \$800, that number is the ceiling on what any financing instrument should cost. If all three options are cheaper than the cost of the gap, choose the cheapest. If all three are more expensive, fill the gap through accelerated collections instead.
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2. Is the cheapest option available given current facility utilization? KMK at 15% is cheaper than factoring at 24%, but if KMK utilization is already at 92% and the draw would breach the limit, it is not an option. Check availability before calculating cost.
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Tips and Traps

TIPS

- Always start the worksheet by defining the gap in dollars and days. Without a specific number, all three cost calculations produce abstract percentages that cannot be compared meaningfully.
- Factoring is worth calling a factor to price even if you expect not to use it. The quoted rate may be lower than expected for a creditworthy buyer, and knowing the market rate sharpens the KMK comparison.
- Write the repayment date for any KMK draw before the draw is made. KMK without a repayment date stays outstanding until cash is accidentally surplus — which can take three or four months and generates unnecessary interest.

TRAPS

- Comparing nominal rates without converting to the same time base. A 2% monthly factoring fee is 24% annually. A 15% annual KMK rate is 1.25% monthly. They look similar until the time base is standardized.
- Choosing factoring because it feels faster without checking whether the net proceeds actually cover the gap. A factor takes the receivable at a discount — the net cash received may be less than the gap amount if the fee is large relative to the receivable value.
- Taking the early payment discount as a default response to vendor invoices without calculating whether it is cheaper than KMK. In most cases with KMK rates below 20%, standard 2% early payment discounts on 30–45 day accelerations are more expensive than borrowing from the bank.

Appendixes

Appendix A – Cost Comparison Formula Sheet

KMK daily interest cost:

$$= (\text{Annual rate} / 365) \times \text{Gap amount}$$

$$\text{Total for gap} = \text{Daily cost} \times \text{Gap days}$$

Factoring total cost:

$$= (\text{Monthly rate} \times 12 / 365) \times \text{Gap days} \times \text{Receivable value}$$

$$\text{Net proceeds} = \text{Receivable value} - \text{Factoring fee}$$

Early payment discount effective annual cost:

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

$$\text{Rupiah cost of discount} = \text{Discount\%} \times \text{Invoice amount}$$

Cost of the gap (maximum acceptable financing cost):

$$= \text{Stockout margin loss} + \text{missed vendor discounts} + \text{other operational shortfall costs}$$

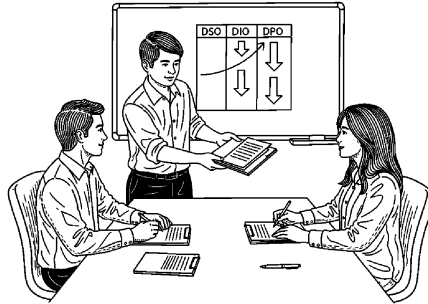
Appendix B – When Each Instrument Is the Right Choice

KMK draw : gap is 30-90 days, repayment date is calculable from projected inflows, KMK utilization below 85%

Factoring : receivable is from a creditworthy large buyer, factor rate is competitive, gap cannot wait for normal collection, cost of gap (stockout, penalty) exceeds factoring fee

Early pay discount: ONLY when effective discount cost < KMK rate
(rare: requires KMK rate > 20% or discount period > 30 days)

None – collect faster: gap is not yet critical, 5-7 day acceleration on largest overdue receivable fills the shortfall without any financing instrument cost



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.

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