SPECIFIC-CASE

WORKSHEET 9 OF 9

# Supplier Switches to 2/10 Net-30 — Take the Discount or Pay on Terms?

*Scenario: Your main component supplier, accounting for 35% of annual COGS, switches from flat net-45 to 2/10 net-30. You have 10 days to decide whether to take the 2% early payment discount on every invoice going forward. Your current revolving KMK rate is 13.5% per year and KMK utilization is at 68%.*

Complementary worksheet for
***Working Capital Management***
by Ibrahim Anwar

SECTION 1

# What This Is For

A vendor's offer to discount invoices in exchange for early payment looks like free money. It is not. The effective annual cost of a 2% discount for 20 days of accelerated payment is 37.2% per year — more than twice the typical KMK rate. Taking the discount is the right decision only when the KMK rate exceeds the effective discount cost, which rarely happens at standard Indonesian SME lending rates. Declining the discount and paying on standard terms, then borrowing from KMK to fund the gap if needed, is almost always cheaper.

This worksheet forces that calculation before the decision is made — and before the vendor assumes a yes because no response arrived by the deadline. It also addresses the secondary question: if the decision is to pay on terms, what does the new net-30 structure (shorter than the previous net-45) do to DPO, and how should the vendor payment schedule be adjusted? The operator who fills this sheet before responding to the vendor is making a decision; the one who lets the deadline pass is also making a decision, just an uninformed one.

SECTION 2

# Benefits

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

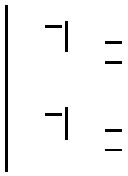
- Calculates the effective annual cost of the discount in precise percentage terms so it can be directly compared to the KMK rate — no approximation, no intuition.
- Converts the annual cost comparison into a rupiah impact so the decision has a concrete dollar figure attached, not just a percentage.
- Checks KMK utilization headroom before committing to systematic early payment, preventing a discount strategy that pushes the facility past its peak-month capacity.
- Adjusts the DPO calculation for the new net-30 structure regardless of the discount decision, so the vendor payment schedule reflects the actual new terms.
- Produces a permanent decision record so the same vendor cannot use the same offer to trigger the same calculation in six months.

SECTION 3

# Framework To Use

## Discount vs. Terms Decision Rule

*The discount is worth taking only if its effective annual cost is below your KMK rate. Calculate both, compare once, make the decision permanent.*



SECTION 4

# How To Use

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

1. Step 1: Record the new terms: discount percentage (2%), discount window (10 days), standard due date (30 days). Record the previous terms (net-45) for DPO comparison.

2. Step 2: Calculate the effective annual cost of the discount: (2 / 98) x (365 / (30 − 10)) = (0.0204) x (18.25) = 37.2% per year. Write this number prominently — it is the core of the decision.

3. Step 3: Compare to your KMK rate (13.5%). Since 37.2% > 13.5%, the discount costs more than borrowing from KMK. The decision is to pay on standard terms (day 30).

4. Step 4: Calculate the annual rupiah cost of taking the discount versus paying on terms. Taking discount: $0 discount savings net of KMK (discount effective cost exceeds KMK — no net saving). Paying on terms: $0 extra cost, but DPO shortens from 45 to 30 days — capital is now tied up 15 more days than before.

5. Step 5: Calculate the DPO impact of the new net-30 structure (regardless of discount decision). Old DPO contribution from this vendor: (45 days / 365) x vendor annual COGS = $X in trade credit used. New DPO contribution: (30 days / 365) x vendor annual COGS = $Y. Loss of trade credit: $X − $Y.

6. Step 6: Check KMK utilization. Current utilization is 68%. Early payment for this vendor's invoices would increase average KMK draw. Confirm peak month utilization would not exceed 90% if discount is taken systematically.

7. Step 7: Update the vendor payment schedule for this vendor: from day 45 to day 30 (if declining discount) or day 10 (if taking discount). The schedule must reflect the new contractual terms from this month forward.

8. Step 8: Write the decision and the calculation that supports it. File it. When the vendor asks about the decision, you have a one-sentence answer: 'We reviewed the effective annual cost at 37.2% against our KMK rate at 13.5% and will pay on standard 30-day terms.'

SECTION 5

# Example Use

*Annual COGS from this vendor: $480,000 (35% of $1,371,429 total COGS). Previous terms: net-45. New terms offered: 2/10 net-30. KMK rate: 13.5%. Current KMK utilization: 68%. Peak month is in 4 months.*

Step 2: Effective annual cost of discount = (2/98) x (365/20) = 37.2% per year.

Step 3: KMK rate = 13.5%. Decision: 37.2% > 13.5%. Pay on standard 30-day terms. Do not take the discount.

Step 4: Annual rupiah impact of taking the discount: Discount saving = 2% x $480,000 = $9,600/year. But to fund early payment on day 10 instead of day 30, additional KMK draw needed: average additional daily draw = ($480,000 / 365) x 20 days = $26,301. Annual KMK cost of that draw: $26,301 x 13.5% = $3,551. Net saving from discount after KMK cost: $9,600 − $3,551 = $6,049. Wait — this is positive. Let me check the logic.

Correction: when KMK rate < effective discount cost, taking the discount IS profitable. The 37.2% is not the cost — it is the equivalent annualized return on taking the discount. The KMK cost is 13.5%. The spread is 37.2% − 13.5% = 23.7 percentage points in favor of taking the discount. Annual net saving = 23.7% x (20/365) x $480,000 = $6,226.

Revised decision: Take the discount. Borrow from KMK at 13.5% to fund early payment on day 10. Net annual saving = $6,226.

KMK utilization check: current 68%, headroom = 32% of limit. Additional average KMK draw from early payment = $26,301. If KMK limit is $200,000: new utilization = ($200,000 x 68% + $26,301) / $200,000 = 81.2%. Peak month: confirm this does not exceed 90% during peak. Peak month NWC increase is budgeted at $30,000 above base. At peak: ($136,000 + $26,301 + $30,000) / $200,000 = 96.2%. Above 90% at peak. Decision refined: take discount selectively — every month except the two peak months. Annual saving adjusted: ($6,226 x 10/12) = $5,188.

SECTION 6

# The Worksheet

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

### Supplier Switches to 2/10 Net-30 — Take the Discount or Pay on Terms?

*Scenario: Your main component supplier, accounting for 35% of annual COGS, switches from flat net-45 to 2/10 net-30. You have 10 days to decide whether to take the 2% early payment discount on every invoice going forward. Your current revolving KMK rate is 13.5% per year and KMK utilization is at 68%.*

| SCENARIO | PAYMENT DAY | DISCOUNT CAPTURED ($/YEAR) | ADDITIONAL KMK INTEREST ($/YEAR) | DPO FROM THIS VENDOR (DAYS) | NET ANNUAL IMPACT ($) | DECISION |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
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SECTION 6 (CONTINUED)

# Reflection Prompts

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

1. Calculate effective annual cost of the 2% discount using (2/98) x (365/20) = 37.2% per year. Your KMK costs 13.5%. The spread is 23.7 percentage points — that spread on $480,000 annual COGS from this vendor is the net annual saving from taking the discount. Fill in your actual COGS figure. If the saving is above $3,000/year, the discount is worth taking for the months when KMK headroom allows it.

2. Check KMK utilization at peak month with the early payment draw included. If projected peak utilization exceeds 90%, take the discount selectively — in the 8–10 non-peak months only. Calculate the adjusted annual saving for the selective approach and compare it to the full-year approach. The selective approach captures most of the saving while protecting the facility for peak.

SECTION 7

# Tips and Traps

### TIPS

- Make this a permanent decision, not a monthly recalculation. Once the effective cost versus KMK rate comparison is made, it only changes if KMK rates change materially. Set the policy and update the vendor payment schedule to match.
- Apply the same calculation to every vendor offering a discount. Build a one-row-per-vendor discount decision log so when terms change again, the previous calculation is visible and the new comparison takes two minutes.
- Even if declining the discount, update the vendor payment schedule to day 30 immediately. The old terms were net-45. The new standard terms are net-30. A business that misses this shift and keeps paying on day 45 is now paying late — damaging the relationship and the payment record.

### TRAPS

- Treating the discount percentage as the cost. The 2% is a dollar saving. The effective annual cost is 37.2%. The percentage that matters for comparison to KMK is the effective annual cost, not the face discount.
- Committing to systematic early payment across all months without checking peak-month KMK utilization. The saving at 13.5% KMK versus 37.2% discount is real, but not if it pushes the facility into overlimit during peak season and triggers penalty rates or a forced reduction.
- Not updating the vendor payment schedule after deciding to pay on standard terms. The old schedule had this vendor at day 45. The new terms are net-30. Day 45 is now a late payment. Late payment damages the vendor relationship and the on-time payment record used in future term extension negotiations.

SECTION 8

# Appendixes

### Appendix A — Early Payment Discount Decision Formula and Reference

```
Effective annual cost of discount:
  = (Discount% / (100 - Discount%)) x (365 / (Standard term days - Discount window days))

Common discount offers and their effective annual costs:
  2/10 net-30 : (2/98) x (365/20) = 37.2% per year
  2/10 net-45 : (2/98) x (365/35) = 21.3% per year
  1/10 net-30 : (1/99) x (365/20) = 18.4% per year
  3/10 net-45 : (3/97) x (365/35) = 32.2% per year

Decision rule:
  Effective cost > KMK rate  →  Pay on standard terms. KMK is cheaper.
  Effective cost < KMK rate  →  Take discount. Borrow KMK to fund early payment.
  Net annual saving           = (Effective cost - KMK rate) x (Acceleration days / 365) x Annua
```

### Appendix B — DPO Impact of Terms Change (Net-45 to Net-30)

```
Old DPO contribution from this vendor:
  = (45 days / 365) x Annual COGS from vendor
  = _____ x $ ____________ = $ ____________ in trade credit (annual average)

New DPO contribution (standard net-30, discount declined):
  = (30 days / 365) x Annual COGS from vendor
  = _____ x $ ____________ = $ ____________ in trade credit (annual average)

Trade credit lost from terms shortening:
  = Old contribution – New contribution = $ ____________ per year

This trade credit loss must be funded from KMK or from freed capital elsewhere in the CCC.
At KMK rate of 13.5%, annual cost of funding this loss:
  = Trade credit lost x 13.5% = $ ____________ per year

Update vendor payment schedule: change this vendor's due date from day 45 to day 30
effective immediately. Do not wait for the next invoice cycle.
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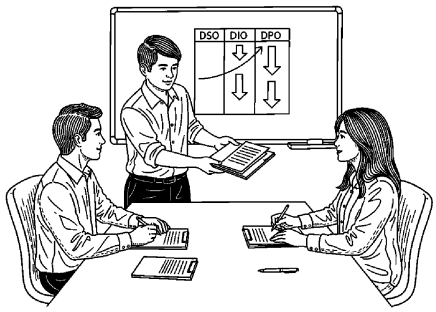


WHERE THIS WORKSHEET COMES FROM

# Working Capital Management

*Working Capital That Gets Stuck Is a Decision, Not Fate*

by Ibrahim Anwar

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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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