INSIGHTS AND ANALYSIS

HAVE YOUR CAKE AND EAT IT, TOO

How Card Payments Can Help Savvy Buyers Save Money and Extend Their DPO

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Overview

Many businesses share similar goals regarding managing their cash flow: they want to keep adequate cash on hand for short-term needs while maintaining solid relationships with suppliers by making timely payments.

Managing this balance can feel like walking on a tightrope. On the one hand, you can benefit from favorable terms when you make payments earlier. But on the other hand, the sooner you pay your bills, the sooner those funds leave your account, limiting your available cash.

Maintaining this balance requires optimizing your supplier payment schedule and methods. Often, businesses think this means finding a compromise between competing goals. But there is a way for savvy buyers to have their cake and eat it, too. We call it early payment discount arbitrage.

What is Early Payment Discount Arbitrage?

Many suppliers offer early payment discounts to their buyers. If you pay the supplier within an early payment window, perhaps 10 to 15 days, you can shave a certain amount – often around 2-5% – off your bill.

Paying your suppliers early helps maintain a solid relationship with them and saves you money. While these savings are beneficial, early payment also has a downside: the funds leave your account quickly.

One way to take advantage of the early payment discount – while still extending your DPO (days payable outstanding) – is to pay that bill with a credit card.

Using a credit card for business transactions has a number of benefits. One of these is the fact that you're obtaining what is essentially short-term financing.

This means that if you pay with a credit card, that card's grace period allows you to extend the amount of time before you pay the actual amount to as much as 40-60 days, depending on both the supplier's terms and those of the credit card issuer.

Unfortunately, some suppliers are reluctant to take cards – and are unlikely to offer discounts if they do – because of the associated processing fees. However, in many cases, the transaction processing costs may be significantly less than the early payment discount.

This is where the arbitrage concept comes in. If, as a buyer, you're willing to pay the processing fees, you can still net a discount on your payment. This way, you can save money on your bill, keep your supplier happy, and extend your working capital – all at the same time.

Example

To illustrate this, we'll look at an example of a buyer who owes their supplier $100,000. The supplier offers early payment terms of "2 net 10", meaning that the buyer receives a 2% discount if they pay the bill within ten days instead of paying the full amount within the contractual payment terms, which is often 30 days.

In our example, the buyer also agrees to pay the cost of the transaction. We will assume 1% for the total fees*, as Boost has the ability facilitate payments through its proprietary interchange rates. This amount, subtracted from their 2% discount, still enables them to benefit from a 1% net discount on their original $100,000.

Early Payment Discount (-2%)	**-$2,000**
Transaction Fees (-1%)*	**+$ 1,000**
Net Discount (1%)	**-$1,000**
Original Invoice	**$100,000**
Net Discount (-1%)	**-$ 1,000**
Total Paid via Credit Card	**$99,000**

The buyer earns this discount on their transaction while extending the amount of time they have access to their working capital. For this example, we'll say that they have a remaining grace period of 50 days before they'll need to pay the credit card bill.

Supplier Terms	**10 days**
Credit Card Grace Period	**40 days**
Total DPO	**50 days**

*Discounted interchange and processing rates may be subject to Issuer approval

By using the credit card, the buyer can take advantage of the entire ten days of their original early payment terms with the supplier – and the time afforded by the billing cycle of their credit card.

Adding to the benefits of commercial cards

An added benefit of early payment discount arbitrage is that it creates value for the buyer without taking anything additional from the supplier. Card payments offer suppliers a faster and more secure way to receive funds. According to the 2023 AFP Payments Fraud and Control Survey Report, checks are the B2B payment method most often impacted by fraud. 65% of the survey respondents said their organizations were targeted by a fraud attempt, and 63% reported that they had specifically faced attempted check fraud.

Accepting payments manually – receiving payments and posting them into an accounting system – costs companies time and money. According to PYMNTS.com research, the DSO (days sales outstanding) for companies that rely on manual accounts receivable processes averages 30% longer than companies with more automated processes. With straight-through processing from Boost Intercept®, suppliers are able to streamline the expensive manual processes associated with taking B2B payments. Suppliers who accept cards through Boost receive end-to-end automation and superior remittance reporting.

Want to optimize your working capital and take advantage of early payment discounts?

Talk to the payment experts at Boost about how you can take advantage of early payment discount arbitrage.

ABOUT BOOST

Boost Payment Solutions is the global leader in B2B payments with a technology platform that seamlessly serves the needs of today's commercial trading partners. Our patented solutions eliminate friction and deliver process efficiency, data insights and revenue optimization for Buyers and Suppliers around the world. Boost was founded in 2009 and operates in 45+ countries.

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