

Five Reasons to Offer Discount Terms

At their simplest, discount terms allow buyers to deduct a percentage of the full invoice price when they pay within a certain period. For example, terms of 1% 10 net 30 would give the buyer a 1% discount if they paid within 10 days. Should they choose to ignore the discount, the full amount would be due within 30 days.

Such terms offer some fairly obvious benefits to buyers, chief among them the right to pay less than the agreed-upon price. But discount terms can also help the sellers offering them, allowing them to:

- **Improve or Meet Competitive Conditions**

Some industries require discount terms as a matter of course, meaning that not offering them would have a negative effect on sales. In other industries where they're not so common, however, they can give a seller a distinct advantage over its competitors, provided the buyer in question is a solid credit risk.

- **Reduce Total Credit Exposure**

If discount terms are offered and customers take advantage of them successfully, then the payment cycle for the sellers is likely to shorten dramatically. This ultimately results in reduced delinquencies and fewer credit losses.

- **Reduce Credit and Collection Expense**

A faster payment cycle means that the receivables a supplier does have are of a higher quality, making financing considerably cheaper. Sellers that have exhausted most of their possible sources for financing or who just need a stronger turnaround for their receivables might not have any choice but to institute these terms, and could discover a real advantage.

- **Reduce Borrowing Costs for the Seller**

Better payment cycles, fewer delinquencies, less bad debt: all of these things add up to make a seller look like a far safer credit risk for their own financial institution or lender of record. Discount terms, when deployed properly, can aid the company as a whole, rather than just the company's credit department.

- **Put Their Money to Use Quicker**

Getting paid sooner is great, but the more important thing to consider is where that money goes once it's been received. Offering discount terms entices buyers to pay quicker, shortening the time between receipt and reinvestment and speeding up the entire corporate growth process.