

Improving your bottom line  
through early payment discounts



**A FASTER, SMARTER WAY FORWARD**



# CAPTURING EARLY PAYMENT DISCOUNTS TO IMPROVE YOUR BOTTOM LINE

Imagine your AP department found extra money; they could either give it to other departments or add it directly to your bottom line. Would you jump at the chance?

Most people would say yes. However, most companies don't realize they are overlooking a prime opportunity to improve their bottom line with [early payment discounts](#). This ebook will explain what early payment discounts are and how you can start capturing them.

## **What are early payment discounts?**

When a vendor invoices your AP department, they probably set the due date somewhere between 30 and 60 days, though most are set to net 30. But it's common practice for vendors to offer early payment discounts, which average around 2%.

For example, let's say you receive a \$20,000 invoice from one of your vendors; the invoice could read 2/15 net 30. That means that if you pay the invoice within 15 days, you can deduct 2%, or \$400, from the total balance.

Early payment discounts benefit both the vendor and the supplier. The vendor gets paid faster, which reduces cash flow problems on their end. Plus, they reduce the likelihood of total nonpayment.

You benefit because you save money on every invoice you pay early. 2% may not sound like much on its own, but when you consider the fact that accounts payable deals with tens of thousands of invoices every month, it adds up a lot faster than you'd think!

## HOW DO I CAPTURE EARLY PAYMENT DISCOUNTS?

Per IOFM, 82% of organizations are offered early payment discounts on at least some of their invoices. But even though this situation is a win-win for everyone involved, many AP departments miss out on this opportunity.

For instance, the same study found that 35% of companies only take advantage of between 1-20% of the discounts offered to them. And 10% don't take advantage of any available discounts.





**THIS GUIDE COVERS A FEW BEST PRACTICES WHEN IT COMES  
TO TAKING ADVANTAGE OF EARLY PAYMENT DISCOUNTS.**

- 1. UNDERSTAND THE TERMS**
- 2. TRACK ALL EARNED & MISSED DISCOUNTS**
- 3. AUTOMATE YOUR AP PROCESSES**

## UNDERSTAND THE TERMS

Understanding the invoice terms will make it easier for AP to meet them. For instance, If the invoice terms are 2/15 net 30, this means the countdown begins on the invoice date. But vendors may change these terms over time so make sure you periodically review these terms and update them in your system. Make note of any vendors that have unusual payment terms. And you should consider offering to pay early for a discount, even if your vendor doesn't already offer this. They will most likely take you up on your offer.

If you've proven you can pay early, then your procurement team will be better positioned to have that conversation with your vendors.



## **TRACK ALL EARNED & MISSED DISCOUNTS**

If you miss out on an early payment discount, that's money left on the table. Keep a report of these missed discounts and, more importantly, why you missed them. This will help your department to address this problem in the future. Likewise, you should also keep track of any discounts that your company did earn.



## AUTOMATE YOUR AP PROCESSES

There are many reasons why accounts payable wouldn't be taking advantage of early payment discounts. But the most common reason is that their system isn't set up to handle such a quick turnaround on invoices, and they don't have full visibility into their payment schedule because it isn't automated.

This is why automating your AP processes is the best way to ensure you improve the company's bottom line with early payment discounts. Reduced cycle times and prioritization capabilities are what make this possible. Plus, there is an audit trail that allows the company to anticipate any issues that put early pay at risk.

**AP Automation** allows you to capture invoice data seamlessly, validate the data using AI, and speed up the approval process with 100% automated workflows.





## CONCLUSION

Accurate cash forecasting and optimization are necessary to make sure you're able to take advantage of early payment discounts. By tracking your key metrics, understanding supplier terms, and automating your AP processes, you'll improve the speed and accuracy of your invoice processing and optimize your cash flow.

Consider negotiating such terms with vendors who don't currently offer them. Paying invoices early will not only financially benefit your company, but it will also strengthen your relationships with your current vendors.

According to the Hackett Group, automated AP departments capture seven times more early discounts than their peers. Technology makes it easier for companies to streamline their AP processes and take advantage of these opportunities.





## RETHINK WHAT AP CAN BE

Start creating a better future for you and your AP department. Click the link below to read or download our complete guide to accounts payable automation.

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