Keep Cash Flowing With Trade Terms

Richard Flynn

To make the end of the month a bit easier, it pays to understand how trade terms work, how they can be used to even out cash flow, and what you can do to gain access to trade terms, or similar tools. The following provides the basics of trade terms along with tips on how to put them to work for your business.

It seems like some sort of catch-22: When new business is hard to find, cash begins to dwindle; but when new business comes in, cash flow problems can leave the coffers even emptier. This situation is certainly not unique to medical device manufacturers. In practically every industry, a down economy causes customers to pay later and later, making a cash-poor state seem like an inescapable reality of business. But the good news is that even in a bad economy, cash flow problems aren't inevitable. To keep cash flow concerns at bay, make sure you're taking advantage of every tool available, including the tried-and-true cash flow management tool known as trade terms.

Help Manage Cash Flow With Trade Terms

Trade terms are known by a number of names and are often referred to as "supplier terms," "trade credit," "net terms," "purchase terms," "payment terms" or simply "terms." The premise behind the practice is simple. A company and its suppliers agree on the timing of payments and how much is due at a given date. Common agreements are "net 30" or "net 60," meaning that a company must pay its supplier either 30 or 60 days from the invoice date in full for a purchase. To encourage early payment, however, suppliers may include an incentive of 1% or 2% for customers who pay within ten days.

When your business has cash and can make early payments, earning a 1% or 2% discount is a great option that puts your cash to work. While the early-pay discount may seem insubstantial, a consistent discount over a year's time can add up to considerable savings. In a slow economy when profits are slim, discounts like this are a valuable tool for boosting margins. If your company, for example, is able to mark up a particular component for a profit of 10%, then an additional 1% received from your component supplier for early payment essentially widens your margin to 11%.

There are, of course, times when early payment isn't an option. To help customers avoid a cash-flow crunch, some vendors offer trade terms that will permit you to delay payment. Under these terms, customers agree to make a designated partial payment and are permitted to take the goods and defer full payment for a specified term, such as for an additional 30 days.

Actively Pursue Trade Terms

Whether you're in a position to earn a discount or need to defer payment, trade terms are a great tool. It's important, however, to recognize that trade terms are not automatic; they must be earned. What's more, not all suppliers can be expected to offer trade terms to customers, and those that do are selective about who receives them. Suppliers don't want to take the risk of offering a discount to customers who will simply take the discount and then pay late. Likewise, they are cautious when extending deferment options, because doing so amounts to financing free short-term credit for customers.

Since trade terms are offered only in limited situations, receiving this privilege requires effort on the part of the customer. Approach your vendors with the goal of negotiating more favorable terms, keeping in mind some vendors simply don't offer them, and that it may take time to earn the privilege. Because trade terms are about trust and creditworthiness, you can expect the most from companies with which you have the longest and best relationships.

Create Opportunities

In cases where you haven't been successful in negotiating trade terms, consider ways in which you can make your business more attractive to vendors. Begin by looking at what makes your best customers valuable to you and use that knowledge to make yourself a better customer. The volume of business a customer provides, for example, is a significant factor in a customer relationship, so one way to earn more favorable terms may be to offer to consolidate your business for a particular type of goods or service with a single vendor. Another factor that affects how vendors see you is the regularity of your business. Perhaps you can look at your ordering patterns and decide whether you might formalize a standing order with a particular vendor instead of sending orders on an irregular basis.

There will always be vendors who don't offer trade terms, or situations where you won't be offered special terms. In addition, there are simply many kinds of expenses such as utilities and phone bills that will never qualify. In these cases, look

for other ways that you can improve cash flow. Using charge and credit cards that offer cash back or other rewards is one way of earning a form of discount. Another possibility is to use cards that offer trade-like terms such as the Plum Card from American Express OPEN. Also consider other non-cash payment methods, such as bartering and using rewards from credit and charge cards. While seemingly modest, all of these techniques can go a long way.

Keep Credit Records in Order

Whether you already receive trade terms or hope to qualify for them in the future, it is important to establish and keep a strong credit record. Doing so will help you keep the terms you may already have and can help you earn more favorable terms later. If you've worked hard to build a strong credit record, then don't keep it to yourself. Make it easy for vendors and credit issuers to confirm that you're an established business. You can do so by registering with commercial credit bureaus like Dun & Bradstreet and the Small Business Financial Exchange.

You'll also want to make certain that the credit records on file are up to date and accurate. Contact credit bureaus to verify the information in your credit report and check your company profile for errors. If you do find mistakes or irregularities, be sure to address them immediately to maintain good standing.

In difficult times, all business owners are understandably concerned about keeping up with the changes of a quickly evolving market and staying ahead of the competition. Don't forget, however, that one way to stay on top is to mind business basics like cash flow. Without the solid support of cash reserves, it doesn't matter how well you tackle market changes or outsmart the competition. By minding cash flow today with proven tools like trade terms, you'll not only help improve your business's resilience in this down economy, you'll be positioning yourself to take advantage of the many opportunities that will come when the economy rebounds.

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