ECONOMIC RHYTHMS | BY PETER DODS

Wait, *How* Much Interest?

You'd never pay 90 percent interest on a loan, right? That would be outrageous. No one would pay to finance anything at that rate. Right?

If you aren't taking quick pay discounts — depending on the discount rate, the terms, and the frequency of your orders — you could be paying an outrageously high-interest rate. You might be asking: If quick pay discounts (also known as early pay) are often only 2 through 7 percent, how on earth do I get 90 percent?

I'll admit, though we at Easy Music Center always knew the importance of paying our bills early, we never realized just how crucial it was until we almost lost a 7 percent quick pay discount. My office manager wasn't carefully checking our statements against our invoice log, and we somehow didn't receive two large bills.

Thanks to an excellent rep, we were able to (eventually) receive the discount. Though we ended up getting credit, it got me thinking about how crucial quick pay is, as I wanted to make a strong impression on my not-so-meticulous office manager.

Keep your finances in check with the quick pay advantage

EARLY BIRD SAVINGS

I took my office manager aside and explained the following scenario to him, using "Vendor X" as an example.

Every month we buy $1,000 worth of product from Vendor X. The product arrives at our store along with an email invoice at about the same time. Vendor X gives us a 7 percent quick pay discount if we pay within 30 days. Or, we can pay the face value of the invoice within 60 days. Assuming we intend to pay the bill, there are only two possible outcomes: We pay the bill "early" for $930, or we pay the bill "late" for $1,000.

CONSISTENCY PAYS

Each month we buy $1,000 worth of product from Vendor X. Each month we sell $1,000 worth of product from Vendor X. We opt to take the quick pay every month, giving us $70 in quick pay each month. We do this all year. That's 12 months at $70 each, resulting in $840 per year.

If you consistently pay down $930 (a $1,000 invoice after a quick pay of 7 percent) all year (pay off early, buy, pay off early, buy, etc.), you can get back $840 via early pay discounts on a fixed payment of $930. Isn't that 90 percent ($840 divided by $930)? What if you do this 24 times a year? The same type of math would yield you an interest rate of almost 181 percent. Jeepers!

QUICK PAY, QUICK!

I don't know about your business, but no business that I know of pays even close to that rate to borrow money. Even a rate of 24 percent would even be high for using a credit card.

Most small businesses with decent credit can get a revolving loan from their bank at 6 to 10 percent, making even a 2 percent early pay well worth financing. Remember always to convert yearly rates to monthly or daily rates to make more sense of this.

While what I described above is simplified, it's a close approximation to how things work in the real world. Why wouldn't you finance to pay for your quick pay? If you already have money in the bank to pay early and you aren't taking advantage of the discount, you must be allergic to making money.

Get ahead of the outrageously expensive cycle of missing early pay discounts. Your profitability may very well depend on it. **MI**

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