

# Payment Terms: Steering Discounts, Terms and Liquidity in Procurement

Payment terms govern when and in what form a buyer is to settle the supplier's invoice. They cover the payment period, early payment discounts, payment method and safeguards such as advance payments or guarantees. For industrial buyers, they are a central procurement and financing lever that influences liquidity, supplier relationships and landed cost alike.

## Key facts

- Payment terms bindingly define the payment period, early payment discounts, payment method and any safeguards, and should always be agreed in writing in the contract or purchase order.
- Typical benchmark values in industry are 14 to 60 days net; longer periods are rather the exception than the rule in practice.
- An early payment discount of 2% within 14 days instead of 30 days net corresponds on paper to an annualised interest rate of around 36% – a duty of review for every buyer.
- Days Payable Outstanding (DPO) measure how long a company actually takes on average to settle its invoices.
- Extended payment periods act like a supplier credit, but burden the upstream supplier's liquidity and can create price or supply risks.
- In the event of a dispute, the terms validly agreed between the parties prevail over the counterparty's standard terms and conditions.

## Definition: payment terms

Payment terms are the contractual provisions governing the due date, periods, granting of early payment discounts and payment modalities between buyer and supplier. They form part of every purchase order, every framework agreement and every order confirmation obligation, and represent the financial side of the supplier relationship.

## Components in detail

Payment terms typically include: payment period in days (e.g. 30 days net), early payment discount (e.g. 3% within 7 days, 2% within 14 days), accepted payment methods (bank transfer, bill of exchange, LC), the due date trigger (invoice date, goods receipt or both) as well as any advance or instalment payments.

- Payment period: time allowed until the due date
- Early payment discount: price reduction for early payment
- Payment method: bank transfer, direct debit, LC, bill of exchange
- Trigger for the period: receipt of invoice, goods receipt or acceptance of the service

## Legal framework

In Germany, general commercial principles apply; for contracts with consumers and small businesses, statutory limits on payment periods take effect. Clauses in standard terms and conditions are subject to statutory content review, so excessively long periods or one-sided defensive clauses may be invalid. In individual cases – particularly with international contracts and the choice of applicable law – legal review should be carried out. As a general rule: the terms actually validly agreed, for example in the purchase order or framework agreement, take precedence over conflicting standard terms and conditions of the contracting party, provided those terms have been validly incorporated.

## **Typical design: discounts, payment periods and safeguards**

The design of payment terms should match the procurement situation. For standard catalogue goods, short lead paths and discounts are customary, whereas for capital goods and new developments, advance payments, milestone payments and retentions are used instead.

### **Early payment discounts as a procurement lever**

An early payment discount is effectively an interest transaction: a rebate of 2% for payment 14 days before the due date corresponds, when annualised, to a return of around 36%. If the company's own cost of capital tie-up is cheaper, taking the discount is almost always attractive – especially with strategic A-suppliers with stable margins. Buyers should therefore assess discounts not as a blanket price reduction but as a standalone financing decision, and disclose them transparently in the price sheet.

### **Payment periods by procurement type**

Typical benchmark values have become established in industry: 14 to 30 days net for C-parts and catalogue goods, 30 to 60 days for serial components, and often staggered milestone payments for large projects. Longer periods increase the company's own DPO, but shift financing pressure onto the upstream supplier. With small suppliers or quasi-monopolistic items this is counterproductive, as it can encourage price increases and loss of priority in procurement logistics.

### **Advance payments and safeguards**

For capital goods, tools or first samples, advance payments of typically between 20% and 40% are customary. Buyers protect themselves through bank guarantees, a parent company guarantee or acceptance of preliminary work. Payment release should be linked to measurable milestones, such as confirmation of the sample delivery or receipt of the order confirmation.

## **Methods and approach: negotiating and operationalising payment terms**

Payment terms should ideally not be negotiated in isolation, but as part of the overall package of price, delivery readiness and quality. Preparation, negotiation and operationalisation follow a clear process.

### **Preparation and negotiation strategy**

Before renegotiating or newly creating a framework agreement, the buyer analyses the company's own liquidity position, the DPO baseline and the importance of the supplier. With strategic suppliers, a waived discount can be traded for price stability or better capacity. Transparency is key: payment periods, discount scales and consequences of late payment belong in every price sheet and are reviewed alongside price changes – for example via a price index or a defined price deviation workflow.

## **Operationalisation in the ordering process**

In operational procurement, payment terms must be machine-processable: in the purchase order, in the order confirmation and in the ERP system. Deviations between the purchase order and the order confirmation – for example regarding the payment period – belong in a defined deviation workflow before the invoice is approved. The invoice is posted according to the agreed conditions; discount deductions are documented cleanly to avoid complaints.

## **Defining payment triggers**

A practically relevant point of contention is the start of the period: invoice date or goods receipt? In practice, the later of the two dates has often prevailed as the rule. For complex products, linking to acceptance or an inventory procedure at goods receipt is recommended in order to avoid duplicate payments in the event of defects.

## **Key KPIs: making payment terms measurable**

Payment terms can be managed using financial and procurement KPIs. The central figure is Days Payable Outstanding (DPO) – the average duration between receipt of invoice and payment.

### **Days Payable Outstanding (DPO)**

The DPO shows how long a company actually takes to pay. It is calculated as trade payables divided by cost of goods sold, multiplied by 365 days (or as the day difference between invoice and payment in individual cases). High DPO values relieve the company's own liquidity, but extreme values signal supplier stress and should be critically questioned, especially with strategic A-suppliers.

### **Discount utilisation and cash conversion**

Discount utilisation measures the proportion of discount-eligible invoices that are actually paid with the rebate applied. Values significantly below 100% indicate process or liquidity problems. In addition, the Cash Conversion Cycle metric is worthwhile, as it juxtaposes customer and supplier credit and captures the capital tie-up of the entire procurement plan.

## **Risks and controls: pitfalls in payment management**

Payment terms carry several risks: lost discounts, incorrect payments, default with interest consequences and reputational damage with the supplier. Sound control processes minimise these dangers.

### **Lost discounts and incorrect payments**

The most common source of loss is a missed discount due to long approval chains. Automated invoice workflows with clear approval limits and deadline monitoring help here. Incorrect payments also arise from duplicate invoices or incorrect account assignment – a four-eyes review and matching with goods receipt and order confirmation are the minimum standard.

### **Supplier financing and supply risks**

Extremely extended payment periods act like a forced loan to one's own group at the expense of the supplier. This can lead to liquidity bottlenecks, loss of priority in procurement logistics or even supply failures among small and medium-sized A-suppliers – with direct consequences for on-time delivery (OTD). In the context of compliance requirements such as the Corporate Sustainability Due Diligence

Directive (CSDDD), fair payment practices towards suppliers are also coming into sharper focus.

### **Standard terms and compliance risks**

Unilaterally extended payment periods in standard terms and conditions may be invalid; default and interest consequences would then arise earlier than expected. In international procurement, for example through offshoring, letters of credit (LC), currency risks and differing local customs are added. The specific contract design should be legally reviewed on a case-by-case basis.

## **Current developments: digitalisation, supply chain finance and ESG**

Payment terms are under dual pressure: digitalisation is making processes faster and more transparent, while sustainability and supply chain laws are demanding fair payment practices more strongly.

### **E-invoicing and automated processes**

The widespread introduction of structured e-invoices accelerates invoice receipt, review and payment triggering. Shorter processing times make it possible to reliably use discount periods and make payment periods of 14 days more realistic. At the same time, the degree of automation in procurement planning is increasing, so that payment terms are monitored systematically rather than case by case.

### **Supply chain finance**

Instruments such as factoring or reverse factoring allow suppliers to monetise receivables before the due date while the buyer retains its payment period. These models are a means of resolving the conflict of objectives between long DPO and supplier liquidity, but they carry balance sheet and transparency requirements that should be reviewed with the finance and tax departments on a case-by-case basis.

### **Fairness and sustainability**

From a sustainability perspective – for example in the context of the Corporate Sustainability Due Diligence Directive (CSDDD) – payment practices are increasingly assessed as part of the duty of care along the supply chain. Disproportionately long payment periods can be perceived as a tool of pressure on suppliers and should be avoided with strategic partners.

## **Typical metrics**

### **Days Payable Outstanding (DPO): typically 30–60 days**

Average duration from receipt of invoice to payment; excessively high values burden suppliers.

### **Early payment discount utilisation: > 95%**

Proportion of discount-eligible invoices paid within the discount period with the rebate applied.

### **Annualised early payment discount return: approx. 36% p.a. at 2%/14 days**

Notional return of the discount; compared against the company's own financing costs.

### **Invoice processing time: typically < 10 days**

From receipt of invoice to payment release; the basis for reliable discount utilisation.

## **Practical example**

A medium-sized mechanical engineering company with around 400 suppliers analyses its payment landscape: the average DPO is 42 days, but discount utilisation is only 55% – mainly due to long

approval chains in accounts payable. At the same time, a strategic A-supplier of precision parts complains of liquidity pressure and announces price increases. The company takes up the issue as part of a comprehensive renegotiation.

- Include discount scales (2% within 14 days) in all framework agreements and in the price sheet, and report discount utilisation quarterly
- Automated matching of purchase order, order confirmation and invoice, including a defined price deviation workflow
- With the strategic A-supplier, shorten the payment period from 60 to 30 days – in return, a 24-month price guarantee and a priority commitment in procurement logistics
- For capital goods, make advance payments in future only against guarantees and tied to measurable milestones

## Conclusion

Payment terms are far more than a formality at the end of a purchase order. They influence landed cost, liquidity, the supplier relationship and even supply reliability. Buyers should assess discounts as an interest transaction, differentiate payment periods by supplier criticality and regulate every trigger for the period precisely in the contract. Measured systematically via DPO and discount utilisation, payment terms become a plannable procurement lever. Those who anchor them cleanly in negotiation, system landscape and controls reduce costs while at the same time strengthening the resilience of the supply chain.

## Frequently asked questions

### What are typical payment terms in B2B industrial procurement?

In practice, payment terms of 14 to 60 days net have become established, depending on industry and product category. 30 days net is common, sometimes 14 days for C-parts, and staggered milestone payments for capital goods. Early payment discount (skonto) combinations such as 2% within 14 days or 3% within 7 days are widespread. What matters is always the clause specifically agreed, not industry practice.

### Is taking early payment discounts worthwhile for the buyer?

Almost always worthwhile on paper: an early payment discount of 2% for payment 14 days before the due date corresponds to an annualised return of around 36%. As long as the company's own liquidity or financing cost is lower, taking the discount is advantageous. With strategic suppliers, however, waiving the discount can be deliberately traded for price stability or supply benefits.

### What does DPO (Days Payable Outstanding) mean?

Days Payable Outstanding (DPO) indicate how many days on average elapse between receipt of the invoice and actual payment. They are typically calculated from accounts payable, cost of goods sold and 365 days. High DPO values relieve the company's own liquidity, but very high values can burden suppliers and trigger risks in the procurement logistics chain.

### When does the payment period begin – invoice date or goods receipt?

That depends on the agreement; by law the relevant point in time is when the service was received and the invoice was received. In industry, the later of the two dates has often prevailed as the start of the period. Buyers should expressly define the trigger in the purchase order and framework agreement in

order to avoid disputes.

### **What is the maximum permitted payment period in standard terms and conditions (AGB)?**

For B2B contracts, statutory guardrails apply in Germany, for example 30 days from receipt of the invoice as the legal presumption; deviating agreements are possible under certain conditions, while stricter limits apply to consumers. Excessively long or one-sided standard terms and conditions clauses may be invalid. The specific permissibility should be legally reviewed on a case-by-case basis.

### **What to do when suppliers demand shorter payment terms?**

First assess the criticality of the supplier: with strategic A-suppliers, a shortening can make sense if it is traded for price stability, capacity security or better on-time delivery (OTD). Alternatives include supply chain finance, which allows the supplier to monetise receivables before the due date. It is important to record the change contractually and implement it systematically.