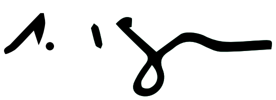
The Early Payment Guide: Everything You Need to Know to Navigate Early Payment Options

Even as the cost of borrowing increases, early payments can help suppliers grow their businesses – but how do they work?

This ebook breaks everything down for you into one easy-to-use guide.

Get started



Alexander "Sandy" Kemper
C2FO Chairman
and Chief Executive Officer

The Power of Early Payments

In recent years, suppliers have seen a trend toward longer payment terms from buyers. If this sounds familiar, your business could be waiting up to 60 or 90 days, sometimes even longer, to be paid — a situation that leads to poor cash flow and ultimately thwarts business growth.

Business lines of credit, bank loans and funding alternatives such as invoice factoring can all help your business secure the cash needed to operate and grow while navigating extended payment terms. However, traditional financing solutions can be costly, cumbersome and risky for many businesses, and they always take up precious time. Thankfully, there's a more cost-effective, accessible working capital solution: early payment programs.

Early payment programs provide a low-cost, quick and risk-free alternative to traditional business funding. While the concept of early payment discounts has been around for years, fintech companies like C2FO offer more innovative, equitable and affordable early payment solutions that make working capital — and business growth — more accessible to all.

If you're new to early payment programs or are considering leveraging them as a working capital solution, this ebook gives you everything you need to know.

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What Are Early Payment Programs?

Early payment programs are a smart and simple way to give you more control over your cash flow.

Early payment programs leverage incentives, or discounts, offered by the supplier to the buyer in exchange for early payment. In other words, the supplier gives the buyer a small discount on an approved invoice, and the buyer sends payment earlier than the agreed terms.

There are several ways early payment discounts are calculated or offered, depending on the program. But one thing all early payment programs have in common? They allow suppliers to get paid faster, fueling cash flow and the working capital needed for business growth. The early payment discount model is also simpler and more accessible than traditional funding methods such as bank loans, which often entail lengthy paperwork, approvals and credit checks.

Did you know?

Supplier

Also called a vendor, seller or provider, a supplier provides goods or services to buyers in a supply chain. Suppliers are often small to midsize businesses but can also be large organizations.

Buyer

A buyer is the customer of suppliers. Buyers purchase goods or services from suppliers to use or sell in their own business operations. Buyers are often global enterprises with complex supply chains.

Why cash flow management is crucial for businesses

Why are cash flow strategies such as early payment programs important? Profitability and consistent sales don't always mean that a business has the cash on hand to maintain success. Businesses need a flexible — and reliable — source of working capital to fund daily operations and make growth investments, but lengthy payment terms can leave cash tied up in a supplier's accounts receivable for weeks or months.

Traditional financing, such as business loans or invoice factoring, give suppliers the cash needed to operate and grow. However, these solutions can be costly, cumbersome and risky for many businesses. Early payment programs provide a faster, more cost-effective and accessible option for suppliers that want to increase cash flow.

In addition to early payment programs, other cash flow management strategies include:

- Monitoring and forecasting cash flow consistently
- Building an emergency fund
- Invoicing buyers promptly
- Evaluating opportunities for cost savings or efficiency improvements

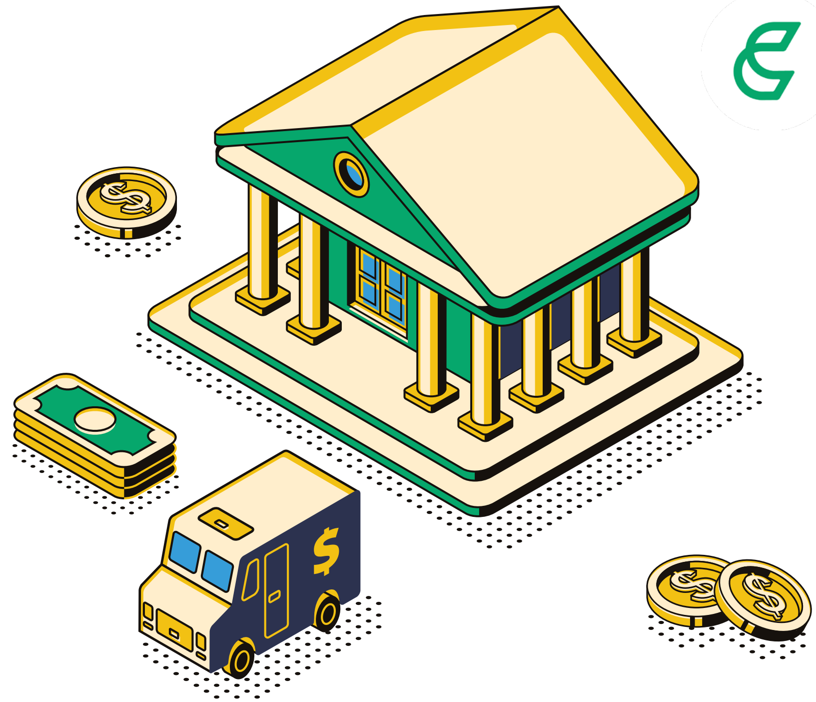
Buyers are often willing to pay early in exchange for a discount because it improves their profit margins and EBITDA — a common measure of a company's financial health. When suppliers can thrive and grow, this also strengthens the larger supply chain, which not only benefits buyers but also fuels a stronger economy.

"Having the opportunity of being paid almost 50% faster than I normally would allows me to continue to reinvest back into my company."

Michael Twer
Founder and CEO
Delilah Home

4 early payment benefits

1. Helps suppliers access working capital to meet business demands.
2. Enables businesses to grow, often at a lower cost than traditional funding sources such as bank loans.
3. Facilitates a win-win relationship between buyers and suppliers, strengthening the entire supply chain.
4. Offers a more accessible option than traditional funding, especially for small to midsize suppliers and those owned by women, minorities and veterans.



How Do Early Payment Programs Work?

Different early payment programs require different types of discounts. Traditional approaches tend to favor the buyer, but a more modern approach from C2FO provides more flexibility for the supplier.

Static discounting — the practice of having a fixed discount on all invoices in exchange for early payment from a customer — has been around for decades. It's a simple, time-tested formula. When a supplier and a buyer agree to 2/10 net 30, for instance, that means the buyer must pay a full invoice price within 30 days. If the buyer chooses to pay within 10 days, they pay 98% of the invoice value because they will receive a 2% discount. In theory, both parties benefit: The supplier gets paid earlier than 30 days, and the buyer saves money on the purchase.

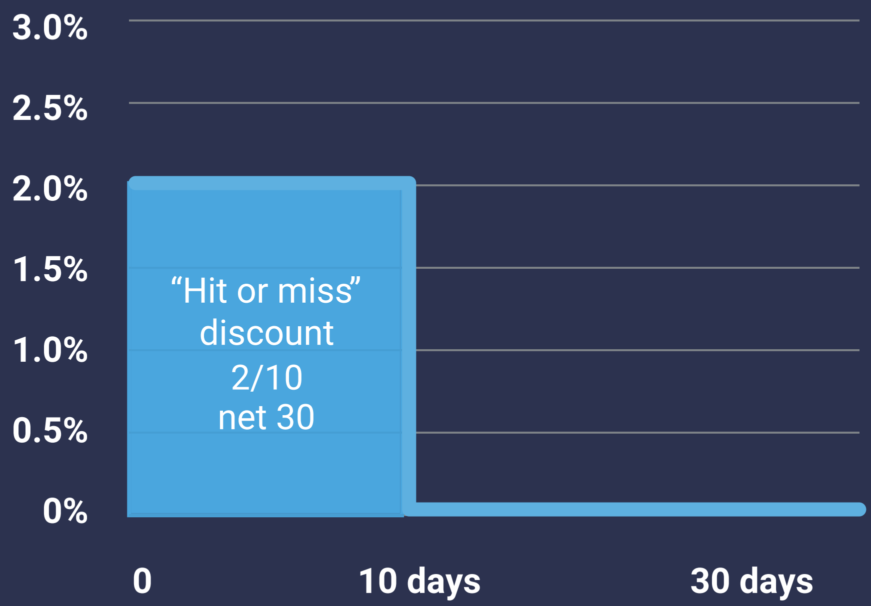
However, large companies almost always pay early to get the discount, so the net terms of the agreement are generally meaningless. The buyer decides whether to pay early or later, giving the supplier no control of their cash flow and very little ability to forecast actual payment dates, which can create a need for alternative funding options.

Dynamic discounting improves on static discounting, but the buyer is again in complete control. With dynamic discounting, the buyer has the entire payment term available for early payment at a predetermined discount rate. Dynamic discounts offer multiple discount opportunities, adjusting the discount rate according to how early the buyer pays. This allows the buyer to pay at any time before the full payment term. It also incentivizes buyers to pay earlier because the earlier the payment, the bigger the discount. However, dynamic discounting still makes it difficult for suppliers to manage their cash flow.

Let’s take a closer look: static and dynamic discounts

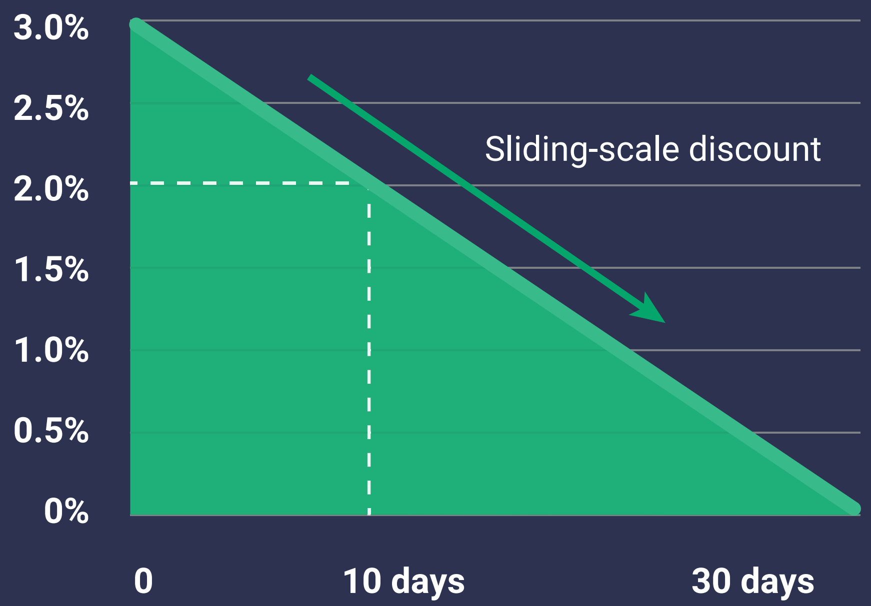
Static Discounting

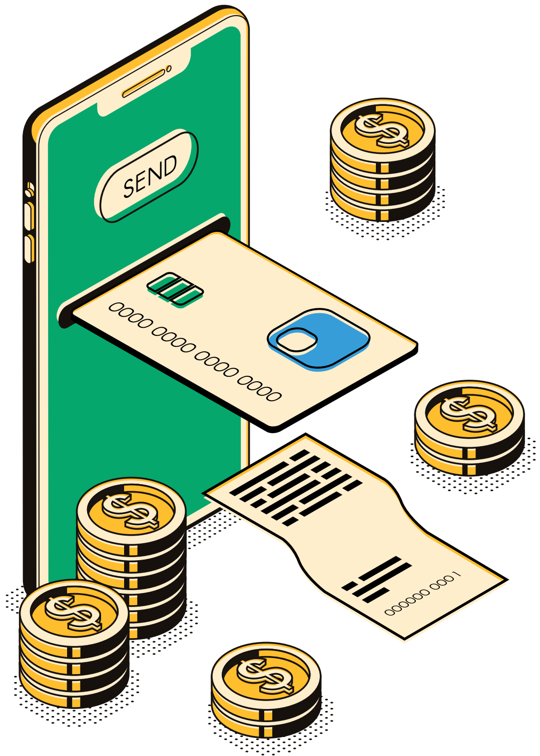
Only one discount opportunity



Dynamic Discounting

Multiple discount opportunities





C2FO Early Pay takes dynamic discounting one step further, giving suppliers the opportunity to make early payment offers on-demand when *they* would like to be paid. The C2FO platform connects suppliers with their buyers to facilitate early invoice payments and uses supply and demand data to help guide the supplier on an ideal discount rate to offer the buyer. Without getting too complicated, C2FO's algorithm helps to get more funding to more suppliers, resulting in more cash flow and more growth. This method often results in more competitive discount rates than static discounting or dynamic discounting.

More rate flexibility for suppliers

With C2FO Early Pay, suppliers have options when it comes to determining the rate value – whether they choose to express the rate as a discount offer or an APR offer. When a supplier is setting the discount rate, the C2FO platform automatically suggests three different options:

Express Accept: This is a guaranteed approach and will ensure your discount rate receives instant approval.

Trending Rate: This is a more competitive discount rate that will most likely be approved by the buyer.

Name Your Rate®: This allows suppliers to set their own rate while the platform suggests which rates are likely to be approved.

Using C2FO: The difference between an APR offer and a discount offer

With C2FO Early Pay, suppliers have the option to express an invoice discount as a discount rate or as an annualized percentage rate (APR) offer. So what's the difference?

A discount offer applies a flat discount rate to any outstanding invoices a supplier chooses to accelerate. When using this option, the discount amount is the same for every invoice regardless of how early the buyer pays.

For example, if you choose a discount offer of 1%, this discount applies to each of your invoices, whether they were paid on day one or day 20:

Invoice #	Original due date	Days paid early (DPE)	Invoice amount	Discount offer (%)	Discount amount ($)
1	Oct. 11	10	$10,000	1%	$100
2	Oct. 21	20	$10,000	1%	$100
3	Oct. 31	30	$10,000	1%	$100

An APR offer uses an annual percentage rate to calculate a unique discount for each invoice. APR is a measure of yearly interest or cost of funds — in this case, the discount cost. This rate adjusts depending on when the invoice is paid, a variable that C2FO refers to as days paid early (DPE). In simple terms, an APR offer means that the sooner a buyer pays, the bigger the discount on the invoice.

For example, imagine that you choose an APR offer of 12% on two different invoices, both valued at $10,000. Invoice one is paid 30 days early, while invoice two is paid 10 days early. With 12% APR, invoice one gets about a $100 discount, and invoice two gets about a $30 discount:

Invoice #	Days paid early (DPE)	Invoice amount	APR offer	Discount amount (12% ÷ 360 = 0.03% per DPE)
1	30	$10,000	12%	0.03% x 30 DPE x $10,000 = $98.63
2	10	$10,000	12%	0.03% x 10 DPE x $10,000 = $32.88

The C2FO Early Pay solution works like this:

1.

A buyer implements the C2FO Early Pay program and automatically uploads its suppliers' approved invoices.

2.

Any eligible supplier that serves the participating buyer can activate a free C2FO account and log in to view any approved invoices.

3.

The supplier selects which invoices to accelerate and sets the desired discount rate it is willing to accept for early payment.

4.

If the offer is approved, the buyer pays the supplier directly with the new discounted amount and payment date.

Unlike static discounting or dynamic discounting, with C2FO suppliers have control over which invoices they accelerate, when the invoices get paid and at what cost, giving them more control over their accounts receivable. Because C2FO uses an online platform to streamline early payments, it is also easier and more efficient than manual early payment processes.

What's in it for buyers?

You might be wondering: Why would buyers implement an early payment program such as C2FO Early Pay? After all, extended payment terms mean they get to hold on to their cash longer.

The truth is that **buyers have more to gain** from participating in an early payment program than from delaying payment. Here are a few reasons why:

- The savings gained from accepting a discount lead to lower cost of goods sold (COGS), higher profit margins and healthier EBITDA.
- Fueling suppliers' cash flow promotes a healthy supply chain, ensuring that buyers can deliver quality goods and services on time and in full.
- C2FO Early Pay allows buyers to segment and track funding to suppliers from socially and economically underrepresented groups. This helps support a buyer's environmental, social and governance (ESG) goals.

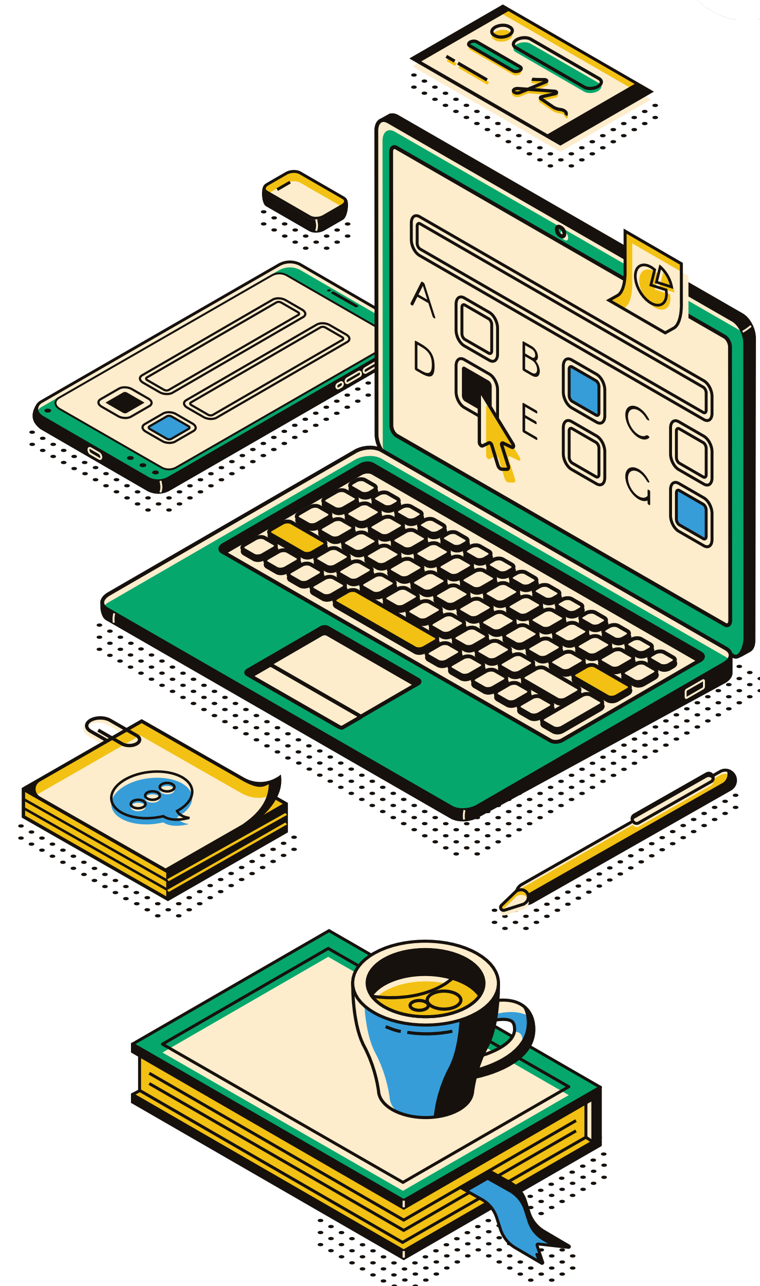
“We save four to five times more on the cost of money using C2FO. When we are in need of cash flow, we don't have to wait as long. It's been a game changer for us.”

Rhonda Sparks
Founder and CEO
UV Skinz

How Do Early Payment Programs Compare to Other Funding Options?

A supplier often has multiple ways to access working capital – however, not all options have the supplier's best interest in mind. Nor do they typically have the flexibility a supplier needs.

There are several ways a business can access working capital, from traditional bank loans to invoice factoring. The cost of each option, associated timelines and other factors — such as how the funding source may affect buyer-supplier relationships — are all important considerations when **weighing the options**.



Invoice factoring

What it is: Factors are third-party companies that buy a supplier's outstanding invoices outright at a reduced rate, typically for 70% to 90% of their total value. Once the factor collects full payment directly from the buyer, it gives the supplier the remaining amount minus factoring fees. Fees are usually around 1% to 5%, depending on how long the invoice remains outstanding.

How it compares to early payment discounts: Factoring agreements are complex, almost always have hidden fees and typically require suppliers to accelerate all invoices over a long-term contract. Early payment programs give suppliers more control and flexibility, letting them decide when to request early payment and at what cost. Early payment programs also allow suppliers to continue owning their business relationships because there is no third-party company collecting payment from their buyers.

Early payment programs ≠ invoice factoring

1. With factoring, a third-party company (called a "factor") finances early payment on a supplier's invoices. With early payment programs, a supplier finances early payment itself by offering buyers a small discount.

2. Factors buy a supplier's invoices and handle payment processes directly with the buyers. Early payment discounts don't include a third party, so the supplier continues owning its buyer relationships.

3. Invoice factoring usually entails complex contracts, hidden fees and strict terms. With early payment discounts, there are no contracts and the only cost for suppliers is the discount amount.

Supply chain finance

What it is: In a supply chain finance (SCF) agreement, a buyer partners with a lender — usually a bank or a fintech company. When a supplier submits invoices, it receives early payment directly from the lender in exchange for a discount. The buyer then pays the lender the full invoice amount within the agreed term and the lender profits from the discount.

How it compares to early payment discounts: Early payment programs are often more accessible to small and midsize businesses than SCF. Many SCF programs tend to favor larger suppliers with higher invoices available for payment. SCF agreements also offered through banks usually have resource-intensive qualification and onboarding processes that smaller businesses can't manage. While many SCF programs strengthen buyer-supplier relationships, there's also the potential for buyers to force suppliers into offering discounts when the alternative is a long payment term.

Business loans and lines of credit

What they are: Business loans and lines of credit are traditionally offered by banks, though these products are also available through alternative lenders. Qualifying businesses receive loans as a lump sum that is repaid through fixed monthly payments at a fixed interest rate. Lines of credit perform more like credit cards, allowing suppliers to draw funds at any time (up to a limit). Suppliers pay interest only on the amount borrowed, and the available funds replenish as soon as suppliers repay them.

How they compare to early payment discounts: It can take months to qualify for loans and lines of credit, especially for newer businesses. Early payments, on the other hand, have no access barriers and can be leveraged at any time. They also lack interest payments and the strict terms associated with loans and credit lines. While loans and lines of credit can provide convenient access to cash, early payment programs give suppliers more control over when buyers pay, enabling them to increase cash flow sustainably without acquiring more debt.

Let’s compare: C2FO Early Pay vs. other funding options

	Bank Line of Credit	Asset-Based Lending	Factoring	Supply Chain Finance	Static Discounting	C2FO Early Pay
No risk-based underwriting	X	X	X	X	✓	✓
No additional contracts or paperwork	X	X	X	X	✓	✓
Flexible source of capital, at a cost the supplier controls	X	X	X	X	X	✓
Easy-to-use, self-service platform with dedicated advisors	X	X	X	X	X	✓
Supplier works directly with buyer for payment	✓	✓	X	✓	✓	✓
Available to suppliers of all sizes	X	X	X	X	✓	✓
Fast receipt of funds in 1-2 days	X	X	X	X	X	✓

“I don’t really like to borrow money. I like to grow organically, and it’s been a blessing that we have been able to do that. The cost of the discount with C2FO Early Pay is just so minimal, it’s almost unreal.”

Candice Nicole
President and Founder
HUmineral

Worried about the economy?

Navigate uncertainty with early payments.

Many suppliers are facing an even tighter cash flow position as inflation rises and recession uncertainties continue. However, they may not be able to rely on their banks during an economic downturn. This isn’t just because the cost of borrowing is higher — many large banks are tightening lending requirements and ending supply chain finance programs.

C2FO supports businesses through economic uncertainty by:

- Continuing to offer C2FO Early Pay as a reliable source of funding.
- Providing competitive early payment discount rates that fluctuate based on the best market rate available.
- Enabling suppliers to receive early payments with no need to provide a credit history or meet other conditions typically required by lenders.

Who Uses Early Payment Programs?

Early payment programs are being widely used across multiple industries and by different sizes of companies to access working capital.

Early payment programs that facilitate early payment strategies such as dynamic discounting are now offered by several reputable fintech companies. These programs are widely implemented by buyers and suppliers across various industries, including financial services, retail, manufacturing, health care, technology and more. In terms of network reach, 65 of the Fortune 100 companies are C2FO customers, and the C2FO platform supports nearly 1 million customers in over 160 countries.

C2FO Early Pay is used by suppliers of various sizes and backgrounds, and often leveraged by small to midsize suppliers — as well as those owned by women, minorities and veterans — to access working capital. These programs are helping address inequities faced by small and diverse suppliers seeking financial support from traditional sources such as banks. For larger, more established suppliers, an early payment program becomes a strategic way to optimize working capital and fuel growth and innovation.

Why C2FO?

A company determined to give every business the power to thrive.

Unlike other early payment options, such as static discounting or invoice factoring, C2FO offers a working capital solution that gives suppliers unparalleled control and flexibility over their cash flow. Through C2FO's platform, suppliers have the power to choose which invoices to accelerate on demand and determine a discount rate that works for them.

C2FO is **driven by the belief** that every business deserves convenient, equitable access to the working capital needed to grow and thrive. After all, when the financial system is inclusive and accessible to all, businesses have the resources needed to innovate, grow and fuel the larger economy.

4 ways C2FO is different from other working capital solutions:

1. **It's fast.** Suppliers get paid an average of 32 days early when using the C2FO Early Pay program.

2. **It's flexible.** The patented Name Your Rate® technology puts the suppliers in control of their cash flow.

3. **It's easy.** There are no contracts and no paperwork. The only "fee" is the discount the supplier is willing to offer for early payment.

4. **It's a win-win.** A C2FO Early Pay program supports positive relationships between buyers and suppliers. Suppliers get paid early, and buyers strengthen their supply chain while increasing margins.

"I would highly recommend C2FO to any small business. This is a program that does not take advantage of us, that is actually here to help us be financially sound and help us compete with the larger companies that are out there."

Andrea Stringer
CEO
Alder Creek Gift Baskets

The reach of C2FO, by the numbers

991,505

customers are supported by C2FO in 160+ countries

1,349

women- or minority-owned businesses were funded by C2FO in 2022

65

of the Fortune 100 companies are in the C2FO network

453

of the Forbes Global 2000 companies are in the C2FO network

$4.7 billion

in funding was provided to diverse suppliers in 2022, a 27% increase over 2021

31.1 days

how much faster the average invoice on C2FO is paid

$322+ billion

in working capital funding since 2010

How to Get Started

If any of your enterprise buyers leverage C2FO, there may already be outstanding invoices on the platform you can request early payment on immediately. Here's how:

- [ ] **Step one:** Find your buyers already on the C2FO Early Pay platform.
- [ ] **Step two:** Activate your free account. It only takes a few minutes.
- [ ] **Step three:** Review and select outstanding invoices for early payment.
- [ ] **Step four:** Set a discount rate and make an offer.

That's it!
You'll get paid on approved invoices in as little as 24 hours.

What's the catch?

On-demand working capital with no contracts or hidden fees may seem too good to be true. But, the truth is a better financial system *can* be a reality – and C2FO believes what's best for suppliers benefits the entire supply chain.

There is no catch.

Enterprise buyers choose to work with C2FO because they are supplier friendly. Plus, there's no cost to suppliers to use C2FO Early Pay, aside from the small discount they give for accelerating invoice payments. And, when buyers support an early payment program, they can improve their profit margins and strengthen their supply chains.

C2FO is the world's on-demand working capital platform, providing fast, flexible and equitable access to low-cost capital to nearly 1 million customers worldwide. Using patented Name Your Rate® technology and a suite of working capital solutions, companies can get paid sooner by the world's largest enterprises — unlocking billions in risk-free capital. With a mission of ensuring that every business has the capital needed to thrive, C2FO has delivered more than $322+ billion in funding around the world. Founded in 2008 and headquartered in Kansas City, USA, with offices around the globe, C2FO is working to build a better, more inclusive financial system every day.

Learn More

www.c2fo.com