

The SME Playbook:

Maximising Profitability
Through Supplier Discounts



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INTRODUCTION

As the owner of an SME business, your main objective is to achieve continuous growth while maintaining financial stability.

Within your array of financial strategies, one often underestimated but highly impactful tool for improving your profit margins is leveraging supplier discounts.

This guide is specifically tailored to both new and experienced SME business owners, offering a straightforward, step-by-step manual and practical tactics to enhance your negotiation skills for securing better discounts with your suppliers.

By mastering this skill, you can not only bolster your company's financial well-being but also evolve your role into a driving force for business expansion.



CHAPTER 1: UNPACKING SUPPLIER DISCOUNTS

Understanding the Basics

While supplier discounts are not new, they represent a powerful financial tool for SME business owners who grasp their significance. These discounts can lead to substantial improvements in profitability by directly reducing the Cost of Goods Sold (COGS). Let's explore the essentials.

Supplier Discounts 101

Supplier discounts, also referred to as vendor discounts or trade discounts, are incentives provided by suppliers to encourage early payment, bulk purchases, or other favourable terms. These discounts can take various forms, including:

Early Payment Discounts: Offered when you settle your supplier's invoice before the due date. For example, you might receive a 2% discount if you pay within ten days instead of the standard 30 days.

Bulk Purchase Discounts: Suppliers may provide lower unit prices or additional discounts for larger orders. For instance, purchasing 1,000 units of a product might result in a lower per-unit cost compared to buying just 100 units.

Seasonal Discounts: Certain industries, like retail, witness seasonal fluctuations in demand. Suppliers may extend discounts during off-peak seasons to stimulate sales.

Loyalty Discounts: Rewards for maintaining consistent or long-term business relationships. The longer your history with a supplier or the more you've ordered, the higher the potential discount.

It's important to be mindful of associated risks. For instance, consider bulk purchasing only if you have the means to sell the items promptly. Managing seasonal discounts can be tricky; overbuying may result in excess inventory that needs to be sold at a reduced price.

Why Do Supplier Discounts Matter?

Supplier discounts matter because they have a direct impact on your business's financial performance:

Lower Your Costs: Discounts reduce the amount you pay for goods and services, directly improving your gross profit margins. For every dollar saved, that's an extra dollar of cash available and profitability.

Increase Competitiveness: Lower supplier costs can help you price more competitively, potentially attracting more customers.

For many businesses, suppliers are a critical part and looking after your suppliers is a great way of ensuring long-term service and stronger supplier relationships.

CHAPTER 2: THE PRE-NEGOTIATION PHASE

Evaluating Your Position

Negotiating supplier discounts effectively begins with a thorough audit of your current position. An audit should consist of evaluating your whole supply chain, for example looking at suppliers, amounts spent and credit terms.

Consider alternative suppliers who might offer better discounts or pricing. Consider joining cooperative buying groups, together you'll have more buying power and therefore better pricing.

Talk to existing suppliers to establish terms for early payment, this means if you choose to pay early you have an agreed discount. For those suppliers that won't offer discounts consider alternative who will.

Before you sit down at the negotiating table, you must understand your financial capacity to capitalise on discounts.

Assessing Your Financial Capacity

Evaluate your ability to make early payments and take advantage of discounts without straining your resources. Being realistic about your financial capabilities is crucial, as overcommitting can lead to financial stress.

Consider whether you can access financing from a lender, such as a bank or Fifo Capital, to support your operations during periods when your own resources may be limited.

As financial constraints become increasingly apparent, more and more SME business owners recognise the financial wisdom of implementing a supplier early payment program, whether using their own funds or borrowed capital. Failing to do so could mean missing out on valuable discounts and the potential for increased profitability.

For example, envision a scenario in which a business allocates \$2 million to its supplier early payment program and identifies suppliers offering a 2% discount. This strategic decision can yield substantial returns.

Let's take Business A as an example. They use \$2 million in cash to facilitate 30-day early payments to suppliers, securing a 2% discount. Over a 12-month period, the total value of these discounts amounts to \$480,000, resulting in an impressive annual return of 24%.

Now, let's look at Business B, which utilises a \$2 million facility with Fifo to achieve similar early payments as Business A. Over a 12-month period, the value of the discounts they secure remains at \$480,000. However, Fifo charges a 1% fee for 30 days, totalling \$240,000 throughout the year. In this case, Business B realises a net return of 12% after paying Fifo.

In both scenarios, both Business A and Business B benefit. Additionally, Business B has the flexibility to use their own funds at times, further enhancing their returns without incurring any penalties.

Identifying Key Suppliers

Not all suppliers are created equal. Some are critical to your business's success, while others may have less impact. Equally, some suppliers need cash flow faster than others. Identify the suppliers that provide essential goods or services that directly affect your product quality or delivery times. These are your key suppliers.

Key Supplier Criteria:

- Goods or services are critical to your operations.
- Limited alternative suppliers available.
- Consistent quality and reliability.
- Significant portion of your COGS.

Why Identify Key Suppliers?

Focusing on key suppliers allows you to prioritise negotiations where they matter most. By securing discounts or favourable terms from these suppliers, you can have a more substantial impact on your bottom line and operational stability.

Use Cases

Manufacturing: Imagine you own a manufacturing company that produces custom electronics. Your key suppliers include electronic component suppliers, plastic manufacturers, and metal fabricators. These suppliers provide you with the materials and components needed to create your products. By negotiating discounts with them, you can significantly reduce your production costs and increase your profit margins.

Retail: If you operate a retail clothing store, your main suppliers are likely clothing manufacturers and distributors. These suppliers provide the apparel you sell in your store. By securing discounts from these clothing suppliers, you can lower your cost of goods sold (COGS), allowing you to price your products more competitively or increase your profit margins.

Distribution: Consider a distribution company specialising in consumer electronics. Your primary suppliers are electronics manufacturers and wholesalers. These suppliers provide you with the products you distribute to retailers and consumers. Negotiating discounts with these suppliers can help you improve your overall pricing strategy, making your distribution business more competitive and profitable.

CHAPTER 3: THE ART OF NEGOTIATION

Hone Your Skills

Negotiation is both an art and a strategy. It's the process of reaching mutually beneficial agreements with your suppliers. As an SME business owner, your negotiation skills are likely strong, and by further developing and implementing negotiation strategies, you'll become more confident and adept at finding common ground.

Developing Effective Negotiation Strategies

Successful negotiation isn't about winning at all costs; it's about creating value for both parties. Here are some negotiation strategies to consider:

Win-Win Approach: Seek outcomes where both you and your supplier benefit. Look for creative solutions that maximise value for both sides.

Information Gathering: Prepare thoroughly by researching market prices, your supplier's cost structure, and industry benchmarks. This knowledge gives you leverage.

BATNA (Best Alternative to a Negotiated Agreement): Identify your BATNA, the best course of action if negotiations fail. Knowing your alternatives can make you more confident during negotiations.

Ask Open-Ended Questions: Encourage your supplier to share information and concerns. This can help you identify areas where you can create value.

Be Patient: Rushed negotiations often lead to suboptimal outcomes. Take your time to explore various options and consider the long-term impact.

Build Relationships: Strong supplier relationships can lead to more favourable terms. Invest in building rapport and trust over time.

Tips for Negotiating with Suppliers

Whether you're negotiating prices, payment terms, or other aspects of your supplier agreements, these tips can help:

Be Prepared: Know what you want to achieve and be ready to articulate your objectives clearly.

Stay Confident: Confidence can influence the perception of your counterpart. Speak with conviction but remain respectful.

Leverage Timing: Negotiate when it's advantageous for you. For example, consider initiating talks before contract renewals or during off-peak periods.

Seek Common Ground: Look for areas where your interests align with those of your supplier. Finding common ground can be a basis for agreement.

Consider Trade-Offs: Sometimes, you may need to give in one area to gain in another. Be open to compromise.

Document Agreements: Ensure that all negotiated terms are documented in writing. This clarity reduces the risk of misunderstandings later.

Effective negotiation is a skill that improves over time with practice. Keep in mind that it's not just about securing discounts; it's also about building lasting, mutually beneficial relationships with suppliers, a critical aspect for SME business owners.

CHAPTER 4: LEVERAGING FIFOPAY FOR DISCOUNTS

Fifopay's Role

Fifopay is a game-changer when it comes to unlocking the power of supplier discounts. It's a financial tool that allows you to pay suppliers early and take advantage of early payment discounts without depleting your cash reserves. Let's explore Fifopay's role in boosting your profitability.

Understanding Fifopay

Fifopay is an innovative solution that empowers businesses to:

Pay Suppliers Early: With Fifopay, you can easily identify those suppliers willing to offer a discount and then settle your supplier invoices before their due dates, making you eligible for those early payment discounts.

Manage Cash Flow: By using Fifopay to pay suppliers, you can optimise your cash flow. This means you don't have to choose between paying suppliers early and maintaining sufficient working capital.

Enhance Supplier Relationships: Paying suppliers promptly enhances your reputation and strengthens your relationships with them. It's a win-win situation.

Secure Discounts: Fifopay enables you to secure discounts that might otherwise be missed if you paid invoices on their due dates.

Benefits of Using Fifopay

Fifopay offers numerous benefits, including:

Convenience: The Fifopay platform simplifies the process of paying suppliers early. It's user-friendly and streamlines payments.

Cash Flow Management: You gain control over your cash flow, allowing you to allocate funds where they are needed most.

Supplier Relationship Enhancement: Paying suppliers on time or early fosters goodwill and can lead to better service and cooperation.



Fifopay streamlines supplier discounts and cash flow for maximum profitability.

Use Cases

Fifopay for Manufacturing: Imagine you run a manufacturing business that specialises in producing high-quality furniture. One of your key suppliers is a wood supplier that provides you with the raw materials needed for your furniture production. This supplier offers a 5% early payment discount if invoices are settled within 15 days of receipt.

However, your usual payment cycle with this supplier has been 30 days because you want to maintain a healthy working capital balance for operational needs. You've been hesitant to take advantage of the early payment discount in fear of straining your working capital.

You decide to leverage Fifopay's capabilities to pay this supplier early and secure the valuable 5% discount. Here's how it works:

Invoice Receipt: Your supplier sends you an invoice for the latest wood shipment, totalling \$10,000.

Fifopay Action: You log into your Fifopay account and initiate the payment process for this invoice, specifying that you'd like to settle it early within 15 days to qualify for the 5% discount.

Making the Discount a Reality: Fifopay processes the payment to your supplier within the stipulated 15 days, ensuring you receive the 5% discount. The discounted invoice amount is now \$9,500.

Working Capital Unaffected: The beauty of Fifopay is that your cash reserves remain untouched, as Fifopay takes care of the payment on your behalf. This keeps your working capital intact for other strategic investments or operational expenses.

Fifopay for Retail: Imagine you own a retail store specialising in electronics, and one of your key suppliers provides you with the latest tech gadgets and accessories. This supplier offers an attractive 5% early payment discount if invoices are settled within 10 days.

However, your usual payment cycle with this supplier has been 30 days to ensure you have the necessary funds for restocking inventory and covering operational expenses. You've been missing out on the early payment discount opportunity due to concerns about affecting your working capital.

Here's how Fifopay can help you capitalise on this discount:

Invoice Arrival: Your supplier sends you an invoice for a shipment of the latest smartphones, totalling \$20,000.

Fifopay Action: You log into your Fifopay account and initiate the payment process for this invoice, specifying that you'd like to settle it early within the required 10 days to qualify for the 5% discount.

Making the Discount a Reality: Fifopay processes the payment to your supplier within the stipulated 10 days, ensuring you receive the 5% discount. The invoice amount is now reduced to \$19,000.

Working Capital Preserved: Importantly, your cash reserves remain intact because Fifopay manages the payment on your behalf. This means you have the necessary working capital available for restocking popular items or making any necessary store improvements.

Fifopay for Distribution: Distribution: You own a distribution company that supplies office products to various businesses. One of your primary suppliers offers a 3% early payment discount on invoices settled within 15 days, but your standard payment terms are typically 30 days.

Here's how Fifopay can help you make the most of this discount opportunity:

Invoice Reception: Your supplier sends you an invoice for a shipment of office supplies amounting to \$50,000.

Fifopay Action: You log into your Fifopay account and initiate the payment process for this invoice, indicating that you'd like to settle it early within the required 15 days to qualify for the 3% discount.

Making the Discount a Reality: Fifopay ensures the payment is made to your supplier within the stipulated 15 days, enabling you to secure the 3% discount. As a result, the invoice amount is reduced to \$48,500.

Working Capital Management: The critical aspect is that your working capital remains unharmed because Fifopay handles the payment on your behalf. This leaves you with the flexibility to allocate your working capital strategically, whether it's investing in expanding your product range, improving your distribution infrastructure, or meeting other operational needs.

For SME business owners, Fifopay streamlines discount strategy implementation, enabling early payments without compromising working capital, thereby optimising cash flow management.

CHAPTER 5: ADDITIONAL USES CASES

Supplier discounts can be a game-changer in various industries. Let's delve into real-world case studies from manufacturing, transport and distribution, and pharmaceuticals to see how businesses in these sectors have harnessed discounts to enhance their bottom line. These examples illustrate how SMEs can leverage discounts to increase profitability.

Case Study: Widget Manufacturing

Widget Manufacturing relies heavily on raw materials sourced from key suppliers. By negotiating favourable terms and using Fifopay to pay suppliers early, Widget Manufacturing secured an average discount of 4% on raw materials. This led to a 12% increase in profitability, allowing the company to invest in new equipment and expand its product line.

Case Study: Logistic Solutions Inc

Logistic Solutions Inc. operates a fleet of delivery vehicles. To optimise its fuel costs, they negotiated a bulk purchase discount with a fuel supplier. They agreed to buy fuel in larger quantities in exchange for a 7% price reduction. This move reduced their annual fuel expenses by \$80,000, directly improving their bottom line.

Case Study: PharmaFast

PharmaFast, a pharmaceutical distributor, used early payment discounts to manage its cash flow effectively. By paying suppliers early, they were eligible for discounts ranging from 2% to 8%. This strategy allowed PharmaFast to allocate more capital to inventory and expand its product offerings.

Case Study: Trendy Electronics

Trendy Electronics, a retail store specialising in consumer electronics, faced stiff competition. To gain an edge, they negotiated early payment discounts with their suppliers, particularly for high-demand products. This allowed Trendy Electronics to offer competitive pricing to customers, attracting more sales and improving overall profitability.

Case Study: EcoPower Solutions

EcoPower Solutions, a solar panel installation company, relies on quality solar panels for its projects. By negotiating discounts with their panel suppliers, EcoPower Solutions reduced the cost per installation. This competitive pricing helped them secure more contracts and increase their revenue, resulting in substantial profit growth.

Case Study: DigitalMart

DigitalMart, an e-commerce platform, sources products from various suppliers. By using Fifopay to optimise their payment process, DigitalMart secured discounts from multiple suppliers. These discounts translated into reduced product costs, allowing DigitalMart to offer better prices to online shoppers and boost sales.

Case Study: Fresh Harvest Foods

Fresh Harvest Foods, a food distributor, negotiated early payment discounts with their primary suppliers of fresh produce. These discounts allowed them to lower their procurement costs, ultimately improving their profit margins. The savings were reinvested in expanding their product range and reaching new customers.

Case Study: Glamour Cosmetics

Glamour Cosmetics, an FMCG company specialising in cosmetics and beauty products, relies on a wide range of suppliers for its product offerings. By effectively managing supplier relationships and leveraging Fifopay to secure discounts, Glamour Cosmetics improved its cost structure. This resulted in higher profitability, enabling the company to explore new markets and expand its cosmetic product line.

CHAPTER 6: THE SUPPLIER DISCOUNT PLAYBOOK

A Step-By-Step Guide

This SME-centric playbook provides a structured approach for unlocking supplier discounts, thus maximising your company's financial health.

Step 1: Pre-Negotiation Prep

- **Identify Key Suppliers:** Focus your efforts on suppliers critical to your operations.
- **Evaluate Financial Capacity:** Determine how much early payment your business can afford.
- **Set Clear Objectives:** Know what you want to achieve in negotiations.

Step 2: Effective Negotiation

- **Build Relationships:** Develop rapport and trust with suppliers.
- **Seek Win-Win Solutions:** Aim for agreements that benefit both parties.
- **Use Negotiation Strategies:** Apply tactics like information gathering, patience, and compromise.
- **Document Agreements:** Ensure all terms are in writing to avoid misunderstandings.

Step 3: Leveraging Fifopay

- **Understand Fifopay:** Familiarise yourself with Fifopay's capabilities.
- **Identify Eligible Discounts:** Determine which suppliers offer early payment discounts.
- **Optimise Cash Flow:** Use Fifopay to pay suppliers early without affecting your working capital.

Step 4: Monitoring and Review

- **Track Discount Usage:** Keep records of discounts secured through Fifopay. Assess Impact Continually evaluate the effect of discounts on your bottom line.
- **Adjust Strategies:** Modify your approach based on results and evolving supplier relationships.

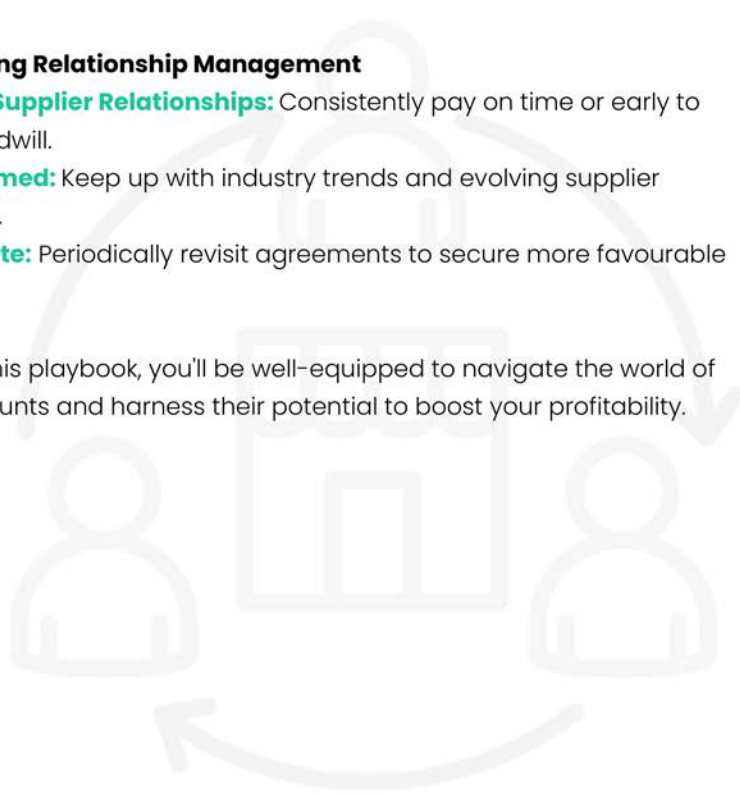
Step 5: Scaling Success

- **Expand Discount Usage:** Identify additional suppliers and categories where discounts can be leveraged.
- **Invest in Growth:** Allocate funds saved through discounts to strategic initiatives.

Step 6: Ongoing Relationship Management

- **Maintain Supplier Relationships:** Consistently pay on time or early to foster goodwill.
- **Stay Informed:** Keep up with industry trends and evolving supplier conditions.
- **Renegotiate:** Periodically revisit agreements to secure more favourable terms.

By following this playbook, you'll be well-equipped to navigate the world of supplier discounts and harness their potential to boost your profitability.



CHAPTER 7: MEASURING SUCCESS

Tracking Your Progress

Measuring success is imperative in any financial endeavour. This chapter outlines essential key performance indicators (KPIs) and metrics for you to use in assessing the effectiveness of your supplier discount strategy.

Key Performance Indicators (KPIs)

Discount Capture Rate: This metric measures the percentage of available discounts that your business successfully captures. A higher rate indicates effective discount utilisation.

Profit Margin Improvement: Monitor how supplier discounts impact your gross profit margins. Track the percentage increase in profitability attributed to discounts.

Cash Flow Optimisation: Evaluate the impact on your cash flow management. Measure your ability to pay suppliers early while maintaining sufficient working capital.

Supplier Relationship Quality: Assess the quality of your relationships with key suppliers. Surveys or feedback can provide insights into supplier satisfaction.

Data and Analytics

Make use of data analytics tools to track KPIs and gather insights. Modern software platforms can help you manage and analyse discount usage, financial performance, and supplier relationships.

Continuous Improvement

Remember that measuring success is an ongoing process. Regularly review and adjust your discount strategies based on performance data. Continue to refine your approach to maximise profitability.



CHAPTER 8: CONCLUSION

As an SME business owner, you can tap into supplier discounts to boost your company's financial health. This playbook provides you with the knowledge and tools to improve supplier relationships, increase profitability, and secure a brighter financial future for your business.

Remember that effectively using supplier discounts is an ongoing process that requires adaptability as your business grows. Stay informed, nurture supplier relationships, and consistently aim for mutually beneficial solutions.

With the insights and strategies in this playbook, you're ready to guide your company toward financial success, with supplier discounts as a valuable part of your financial toolkit.

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