Net: understanding payment terms and conditions in procurement

In procurement, net refers to the agreement to pay an invoice net – i.e. without any deduction of early payment discount – within a defined period, typically expressed as "net 30" for 30 days. This specification is part of the payment terms and is one of the most important instruments for managing working capital. For buyers, the right design of net payment terms is a direct lever on liquidity, supplier relationships and, in practice, also on purchase prices.

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Key facts at a glance

01 Net specifies within which period an invoice is to be paid net – without deduction of early payment discount.

02 In practice, net 14 to net 60 are common; in mechanical and plant engineering, 30 days are widespread.

03 Longer payment terms improve the buyer's liquidity but can cause higher prices or worse conditions.

04 Net payment terms are part of the payment terms and are closely linked to early payment discount, supplier credit and payment terms combinations.

05 The legal basis is the agreement in the purchase contract; in practice, suppliers cannot simply be forced to accept longer terms.

06 Suppliers increasingly assess net terms as part of the overall terms and frequently build capital costs into their prices.

Definition: Net

Net describes a payment condition under which the invoice amount becomes due in full, without deductions, within the agreed period. The notation "net 30" means: payment within 30 days of the invoice date, unless a different reference point such as goods receipt is contractually defined. Net terms are thus the counterpart to the early payment discount, where payment is made earlier in return for a price reduction.

Distinction from early payment discount and supplier credit

With net payment, the buyer receives no price reduction, merely an interest advantage, because they can use the capital free of charge during the period. An early payment discount, on the other hand, exchanges a discount (usually 1–3%) for a very short payment period, frequently 7 to 14 days. Economically, net is advantageous when the company's own return on capital exceeds the implied discount return – a consideration that should be made supplier by supplier.

Reference points for the start of the period

The start of the period is defined contractually: classically the invoice date, but in practice also goods receipt, acceptance or performance inspection. Especially for plant/service orders with acceptance procedures, the goods receipt or acceptance reference is advantageous for buyers, as it links invoicing with the inspection of performance. Clear rules avoid disputes over the start of default and the consequences of arrears.

Typical net payment terms and how they are structured

The specific length of the period depends on the industry, the size of the partners, the negotiating position and the product group. Standard values range from payable immediately to 90 days; anything beyond that is in practice more the exception than the rule.

Common values in practice

In industrial procurement, the following levels have typically become established: net 14 to net 30 for ongoing material replenishment, net 45 to net 60 under negotiating pressure or with large corporations, as well as advance payments or immediate payment for new suppliers, urgent requirements and sometimes for very small orders. With strategic partners using Vendor Managed Inventory (VMI), the payment term is often linked to the billing model, e.g. monthly consolidated invoicing.

Negotiating tactics: payment in exchange for price

Experienced buyers treat the payment term as a negotiating variable on an equal footing with price, quantity and service level. Anyone accepting a short term can demand price advantages or faster delivery capability in return; anyone enforcing a long term must expect price surcharges if the supplier builds in their financing costs. Transparency about one's own cost-of-capital calculation makes this negotiation objective.

Special forms: safeguards in international business

For transactions with new or foreign suppliers, a letter of credit or advance payment may take the place of a pure net agreement, particularly for high-value deliveries or precarious credit ratings. Incoterms such as EXW or Incoterms FOB primarily govern delivery and transfer of risk, but they indirectly determine when the invoice is issued – and thus when the net period begins to run.

Key KPIs relating to net payment terms

The effect of net terms is reflected in several key figures of working capital management. Procurement and finance should manage these together, as price and liquidity effects are closely coupled.

Days Payable Outstanding (DPO)

The DPO measures how many days on average lie between receipt of invoice and payment. A high DPO relieves liquidity, but a value that is permanently well above the contractual target can damage supplier relationships. In practice, the DPO for manufacturing companies often lies between 30 and 60 days.

Cash conversion cycle and discount utilisation rate

The cash conversion cycle combines DPO with inventory holding period and days sales outstanding – net terms act here directly as a reducer. The discount utilisation rate shows what proportion of invoices is paid net despite the discount option; if it falls, it is worth examining whether the implied return of the discount exceeds the company's own cost of capital.

Invoice processing time

Besides the contractual period, internal process speed is decisive: whoever inspects and approves invoices late effectively forfeits the payment term or falls into arrears. Short processing times are therefore a prerequisite for being able to agree fair, short terms with suppliers.

Risks and controls when using net terms

Net terms are not a free instrument. They shift liquidity at the supplier's expense and create risks that must be systematically controlled – especially in strained supply chains.

Financial strain on the supplier

Long payment terms can push suppliers – especially small medium-sized companies – into liquidity bottlenecks. This indirectly affects availability, quality and willingness to invest, and in the worst case can be assessed as a default risk within the supplier network using instruments such as bow-tie analysis. Buyers should keep an eye on the solvency of critical suppliers, for example via creditworthiness and supplier bank data checks.

Legal and procedural controls

Payment terms are a contractual component and should be properly recorded in the specification of services or the general terms and conditions of purchase. Before concluding a contract, in practice an IBAN verification of the payee is recommended, along with a supplier bank data check, in order to prevent cases of invoice and payment fraud. Only approve changes to bank details against verified confirmation.

Duplicate payments and master data quality

Inaccurate supplier master data leads to duplicate master records and accidental duplicate payments. A duplicate score in master data management helps to detect such errors early. In addition, the inspection and invoice verification function should check whether the payment term, discount period and amounts match the order.

Current developments: net terms in transition

The design of payment terms is in flux. Several trends are changing how buyers use net terms and talk about them with suppliers.

Focus on resilient supply chains

Following the disruptions of recent years, many companies place value on stable partnerships. An excessively long net term is increasingly recognised as a strain on the supplier network and can reduce the willingness to engage in safe launch processes or prioritised orders during shortages – for example within order prioritisation. Payment behaviour is thus also a factor in supplier loyalty.

Digital invoicing and payment processes

Electronic invoicing, automated checking and bank-integrated processes shorten processing times and also make shorter net terms practicable without losing early payment discounts or rebates. Parallel standardisation such as the Global Location Number (GLN) facilitates the unambiguous assignment of invoices to suppliers in data exchange.

Interest rate turnaround and working capital focus

With rising interest rates, the value of every day of payment term increases – for buyers and suppliers alike. Both sides therefore negotiate more sharply, and instruments such as supply chain finance or factoring-based solutions gain in importance without the net agreement itself having to change. For buyers, this means: payment terms need active, data-driven management rather than blanket standard specifications.

Typical metrics

Metric	Typical value
Days Payable Outstanding (DPO)	typically 30–60 days *Measures the average time between receipt of invoice and payment; the target level depends on the strategic orientation.*
Discount utilisation rate	frequently > 50% where programmes are actively used *Proportion of invoices paid with an early payment discount despite a net agreement.*

Invoice processing time	ideally < 5 working days *Short processing times are a prerequisite for reliable adherence to net terms and good supplier relationships.*

Practical example

A medium-sized mechanical engineering company with around 400 active suppliers had previously worked with a blanket 60-day term, regardless of product group and supplier size. An analysis of the payment terms showed that many small suppliers were in effect pre-financing the group and increasingly building surcharges into their quotations. The company introduced a differentiated payment strategy and from then on negotiated payment terms as a package together with price and delivery conditions.

- Differentiation by product group: net 30 for critical A-parts, net 60 for standardised commodities with alternative sources of supply.
- Linking the payment strategy to supplier evaluation, among other things via service level and fill rate in previous periods.
- IBAN verification and supplier bank data checks before every new supplier creation, in order to rule out payment risks and fraud.
- Targeted use of early payment discount arrangements: where the implied return exceeded the cost of capital, payment was made at short notice despite net terms.

Conclusion

Net payment terms are more than a formal contractual detail: they influence liquidity, purchase price and the stability of the supplier network alike. Smart buyers do not negotiate the period in isolation, but in the context of price, early payment discount and delivery performance. The key figures DPO, cash conversion cycle and discount utilisation rate show whether the chosen strategy is actually working. What matters is a sound contractual fixation including the reference point for the start of the period, as well as a robust master data and inspection basis within the process. Those who understand payment behaviour as part of the supplier partnership win on both sides: liquidity and security of supply.

Frequently asked questions

? What does net 30 mean in procurement?

Net 30 means that the invoice must be paid in full within 30 days without any deduction – i.e. without an early payment discount. The period usually starts on the invoice date, but contractually it may also be tied to goods receipt or acceptance. This arrangement is part of the payment terms and should be clearly recorded in the purchase contract or the specification of services.

? What is the difference between net and early payment discount?

With net payment, the buyer pays the full invoice amount within the period and uses the capital free of charge. An early payment discount means the buyer receives a discount, typically 1–3%, for payment within a short period (often 7–14 days). Whether net or discount is more favourable is determined by comparing the implied discount return with the company's own cost of capital.

? Which payment terms are common in industry?

In practice, net 14 to net 30 is typically found for ongoing material orders, and net 45 to net 60 with larger companies or under negotiating pressure. Advance payments or short terms are common with new suppliers, custom-made products or international business, sometimes secured by a letter of credit. Industry- and country-specific characteristics should always be checked.

? May a buyer extend payment terms at will?

Legally, a payment term is fundamentally negotiable and must be agreed between both parties; unilaterally imposed very long terms are limited or restricted in many jurisdictions. In individual cases, the legal position should be clarified with the legal department. In practice, a long term can usually only be enforced in return for concessions or from a strong negotiating position.

? How does a long payment term affect suppliers?

Long terms tie up liquidity at the supplier and can negatively affect their growth, willingness to invest and quality. Small and medium-sized suppliers in particular react sensitively and build capital costs into their prices. Deteriorating payment behaviour can also reduce the supplier's willingness to prioritise deliveries in the event of shortages.

? When does the payment period begin under net terms?

That depends on the contractual agreement. The most common reference point is the invoice date, but goods receipt, acceptance or provision of services are also common. For buyers, the goods receipt or acceptance reference is often more favourable, as it links the due date to the inspection of performance and avoids disputes over the start of the period.

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