

Net 30 Terms: Good Or Bad For Your Business?



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Net 30 refers to one of the most common credit terms accountants and bookkeepers use. It simply means you're extending credit to your customer, and expect them to pay the full amount (also known as the net) of the invoice within 30 days of the invoice date. Though it's possible for customers to be confused about when the 30 day period begins, it's always based on the invoice date.

For instance, if Susan sends an invoice dated October 2, and that invoice has net 30 terms, that means you'll need to pay the total amount due by November 1. If you use any kind of invoicing or accounting software, you can enter your desired credit terms when you create the invoice.

Due in 30 Days vs. Net 30: Is There a

Difference?

Most of the time, there's not a difference between "net 30" and "due in 30 days" as they appear on an invoice since both indicate that a customer needs to pay the invoice within 30 days. The only time they difference is if you're offering a customer discount with the net 30 terms.

Benefits of Using Net 30 Payment Terms

If you're still not sure you want to offer credit terms to your customers, let's take a look at the advantages of offering net 30 terms.

Expands Your Customer Base

Because many customers appreciate payment flexibility, providing this option helps to increase your customer base. Payment flexibility is crucial for companies that may be experiencing their own cash flow problems.

Gives You the Option to Add an Early Payment Discount

One of the easiest ways to get your customers to pay their invoices early is to offer them an early payment discount. If you currently offer customers 30 payment terms but want them to pay a little quicker, you met at a discount for early payment.

For instance, if you want to add a 3% discount to customers who pay early you can change the billing term to 3/10 net 30. This means that if your customer pays within 10 days of the invoice date, they can take a 3% discount. If they choose not to pay the invoice early, the invoice is due at the net amount within 30 days of the invoice date.

Offers Incentive For Your Customers

If several of your customers are larger businesses, you understand that sometimes getting payment upfront or at the time of service is nearly impossible. But, by offering credit terms such as net 30, it's simpler for your customers to put

your invoice through their normal accounting processes and still pay you within the 30-day time frame you specified on the invoice.

Helps You Remain Competitive

if other businesses in your industry are extending Net 30 Terms to their customers and you are still insisting on upfront payment, it is more difficult to compete. Though not every business is in a position to extend credit terms to all of his customers, doing so can help your business remain competitive.

Builds Customer Loyalty

By offering credit terms to your customers, you helped establish both trust and loyalty, which may mean a customer for life.

Disadvantages of Using Net 30 Terms

Offering net 30 terms to your customers has some advantages, but before making a choice, it's important that you're aware of the drawbacks, too.

Discounts Decrease Profit Margins

If you offer discounts for early payment to your net 30 terms, your profit margin decreases. If you're in a position to reduce your profit margin in exchange for quicker payment, then by all means go for it. But, if you're already operating on a thin margin, it's not a good idea to discount invoices.

May Create Cash Flow Problems

If your business has a limited cash flow, you may want to reconsider extending longer payment terms to your customers. Small businesses that have a limited cash flow margin may be unable to wait 30 days for payments from their customers if they want to keep business running smoothly.

If you decide that you have to offer credit terms to remain competitive, consider offering net 10 which helps bring in payments much faster.

Terms Are Unclear

These terms may confuse customers who ask questions such as:

- Do the 30 days start when the invoice is received?
- Is payment due 30 days from today or 30 days from the invoice date?
- Do the 30 days start when the product or service is received?
- If a discount isn't offered, why are billing terms net 30?

These are all great questions and one of the easiest ways to prevent having to answer them over and over again is to use a due date rather than that 30. Revisiting our example above, on the invoice mailed dated October 2nd, if payment was desired by November 1st, it's just as easy to use due by November 1st on the customer's invoice rather than that 30.

May Create Additional Work

It is more work to invoice a customer, post the discount if you offer it, and record customer payments. You may also have to follow up with late-paying customers and possibly handle collections. If you have the time and the available staff to do this, great, but if you are a freelancer or otherwise working with a limited staff, it may be better to keep using your current payment arrangements.

Delinquent Accounts Happen

No matter how much research you do to vet your clients, the reality is you will eventually run into delinquent accounts. Those who pay late create a lot of extra work, and even with that extra volume of work, you may still never received payment. As a business owner, you must be prepared for that situation.

One way to protect yourself from delinquent accounts is to include a penalty. For the most part,, if you don't have any kind of punishment, your clients won't have any incentive to pay you on time. This means including a late fee on invoices if those invoices are paid after the due date. If your client objects to any kind of late payment charges, then this could indicate a potentially troublesome situation down the line.

Setting your payment terms and payment options is important so that you have

the necessary cash flow to pay your company bills on time.

Net 30: Frequently Asked Questions

Do you have to offer Net 30 to Customers?

There's nothing that says you have to offer customers any kind of credit terms. However, if you choose to you may find that it increases your customer base and overall business growth since trade credit is much more affordable than financing with credit cards since credit cards charge interest. It helps you remain competitive in the marketplace especially if your direct competitors also offer credit terms to their customers.

If you want to, you can extend net 30 Terms to clients that have established themselves as trustworthy and loyal. You can always inform your new clients that you only extend these terms to clients that you have a history with. If there isn't a dependable history where you can see the client's ability and willingness to pay on time, then you have to ask for upfront payment at the delivery of services or goods.

Is it beneficial to offer customers a discount?

This depends on several factors including whether your current cash flow is sufficient to keep things moving smoothly and if that discount impacts your cash flow negatively. If you don't want to offer a discount but want your customers to pay earlier, you can offer net 10 or net 15 terms or even due upon receipt in rather than that 30.

Is it okay to specify a due date without the net 30 terms?

If you don't offer your customers a discount, there isn't any reason why you can't use a specific due date rather than net 30. Using a specific due date also helps avoid customer confusion for those who aren't sure about when the 30 days actually begins.

Is Net 30 Right for Every Business?

Some small business owners may find the benefits of extending these credit terms to customers outweigh the drawbacks. But, if you're uncomfortable waiting 30 days for payment, you can allow for shorter credit terms. However, if you're in a competitive market with many other vendors, short payment terms may disqualify you in favor of other companies that offer additional flexibility.

Keep in mind, however, that any time you offer credit to your customers, there's a chance that you will not receive payments on time or at all.

On the other hand, extending credit terms to your customers to help grow your customer base and your overall business. By screening your customers carefully and selectively offering credit terms to them, chances are that offering net 30 payment terms can be a great decision for your business.

Ultimately, it comes down to the size of the business and its current cash flow. For medium-sized and larger, there's generally enough cash inflow to avoid the negatives associated with net 30 because there are many resources and revenue streams. For small or micro-businesses and freelancers, however, net 30 can be a trap.

Not only can this be an issue because the small business doesn't have enough revenue streams and resources to keep things running while they wait on payments to come in, but there's also the confusion because clients often have differing opinions of what net 30 actually means. Some may believe that the 30 days begins from the date the invoice is received and others may think that it is from the date the invoices issued while Others May believe that it starts when the work was completed or the goods were delivered.

Freelancers may also find the net 30 could begin after the client has invoiced their client. This happens often and generally without the supplier's knowledge. With short-term credit extensions, these small and micro businesses in days are themselves because they might not have enough leverage to get their invoices paid. This translates to having to continually extend a line of credit in such a way that net 30 can easily become net 60, 90, or longer. As a result, the smaller businesses can get stuck in the trap of having to work for essentially no pay for possibly a long time.

No matter what your situation is, it's crucial to understand the various invoice payment terms that are available within your invoicing software. You can always charge interest on late payments, but many suppliers will appreciate the interest-free option net 10, 15, 30, and so on offer them.

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