

## To Discount or Not to Discount...that is the Question

A helpful calculation for determining when a supplier's discount is your best option.

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### Here's the formula:

<b>Annualized Interest from the Supplier Discount</b>	=	$\frac{\text{Discount \%}}{100\% - \text{Discount \%}}$	$\times \frac{360}{\text{Credit Days} - \text{Discount Days}}$ (Number of Loan days)
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### Here's what the formula means in English:

Let's assume that HVACR Supplier A offers you a discount of 1% when you pay in 10 days or requires full payment in 30 days. The interest rate for a short-term loan (or on your line of credit) is 8%.

The Annualized Interest from  
The supplier discount

= $\frac{1\%}{100\% - 1\%}$	x	$\frac{365}{30 - 10}$
= $\frac{1\%}{99\%}$	x	$\frac{365}{20}$
= .010101	x	18.25
<b>= 18.4%</b>		

This means that the annualized interest rate earned on the money used to make the early payment is 18.4% percent. Since your cost of borrowing is 8% you should take the discount. This assumes that you will repay the bank the entire amount borrowed!