

Accounts Receivable Financing - Think Differently!

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Accounts Receivable Financing - Think Differently! explores the banking paradigm and how you can think outside the box to grow your B2B business and take advantage of new sales opportunities.

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Borrowing money is as American as apple pie. Americans borrow money to purchase houses, to finance automobiles, and to pay for luxury items on their credit cards every day. It is a rare individual that can pay all cash for their house, their car, or their credit card bill every month. The U.S. economy thrives on credit because of the recycling of cash when these purchases occur. America is an economic powerhouse, partly because collectively we borrow so much money to have things today, instead of saving the cash to buy these items some day, if ever, in the future. Economic theorists are of the opinion that when you purchase a house, the cash recycles about seven times: to the realtor, to the title company, to the mortgage broker, to the lender, the butcher, the baker and the candlestick maker, and so forth.

{bot_wrgoogle}We live in the land of opportunity. You do not need a college degree or pedigree to become an entrepreneur. All you need is the ability to organize, manage, and assume the risks of a business with a sufficient amount of cash to fund the business.

Borrowing money is the American paradigm for success for individuals and for businesses. According the American Heritage Dictionary, a "paradigm is:

1. One that serves as a pattern or model.
2. A set or list of all the inflectional forms of a word or of one of its grammatical categories: the paradigm of an irregular verb.
3. A set of assumptions, concepts, values, and practices that constitutes a way of viewing reality for the community that shares them, especially in an intellectual discipline.

Usage Note: Paradigm first appeared in English in the 15th century, meaning "an example or pattern," and it still bears this meaning today: Their company is a paradigm of the small high-tech firms that have recently sprung up in this area. For nearly 400 years paradigm has also been applied to the patterns of inflections that are used to sort the verbs, nouns, and other parts of speech of a language into groups that are more easily studied. Since the 1960s, paradigm has been used in science to refer to a theoretical framework, as when Nobel Laureate David Baltimore cited the work of two colleagues that "really established a new paradigm for our understanding of the causation of cancer." Thereafter, researchers in many different fields, including sociology and literary criticism, often saw themselves as working in or trying to break out of paradigms. Applications of the term in other contexts show that it can sometimes be used more loosely to mean "the prevailing view of things." The Usage Panel splits down the middle on these nonscientific uses of paradigm. Fifty-two percent disapprove of the sentence The paradigm governing international competition and competitiveness has shifted dramatically in the last three decades."

For more dictionary information please see: The American Heritage® Dictionary of the English Language, Fourth Edition Copyright © 2000 by Houghton Mifflin Company.

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What does this have to do with accounts receivable financing?

Banks exist primarily to loan money to people and businesses, on a safe and sound basis according to federal banking regulations. The banking paradigm for businesses involves offering checking and savings accounts to take money in, and offering various types of business and personal loans to “get the money out”. Their goal is to make a profit on your cash for the bank. To qualify for these loans you have to prove, to the bank’s satisfaction, that you have the clear and present ability to repay these loans. If you are a startup company, a company that is growing very rapidly, or an established company that is affected by a sudden negative event, the banking paradigm may not work for you. Perhaps, you need to think differently; perhaps your perspective is “inside the banking paradigm box” and you need an alternative.

What is inside the box thinking? According to 'Thinking Outside the Box'? By Ed Bernacki Published April 2002:

“Thinking inside the box means accepting the status quo. For example, Charles H. Duell, Director of the US Patent Office, said, "Everything that can be invented has been invented." That was in 1899: clearly he was in the box!

In-the-box thinkers find it difficult to recognize the quality of an idea. An idea is an idea. A solution is a solution. In fact, they can be quite pigheaded when it comes to valuing an idea. They rarely invest time to turn a mediocre solution into a great solution.”

Mr. Bernacki distinguishes “inside the box” thinking vs. “thinking outside the box” as follows:

“Outside the Box

Thinking outside the box requires different attributes that include:

- Willingness to take new perspectives to day-to-day work.
- Openness to do different things and to do things differently.
- Focusing on the value of finding new ideas and acting on them.
- Striving to create value in new ways.

- Listening to others.
- Supporting and respecting others when they come up with new ideas.

Out-of-the box thinking requires openness to new ways of seeing the world and a willingness to explore. Out-of-the box thinkers know that new ideas need nurturing and support. They also know that having an idea is good but acting on it is more important. Results are what count.”

If your B2B business does not have enough bank credit to expand at the rate you need, or if your B2B business cannot take advantage of growth opportunities because of lack of funds, you may need to think differently: think outside the box. Think of using the virtually unlimited financing that is available from accounts receivable financing.

To think differently, you may need to overcome the two most common “inside the box” concerns regarding accounts receivable financing.

Objection: “Our customers will not want do business with our company if they know we are dealing with a commercial financing company to finance our accounts receivable”.

Think Differently: Accounts receivable financing allows you to offer credit terms, like the bank. Many businesses prefer to resell your products or services and earn a profit before they have to pay you for your product or service. Accounts receivable financing generally involves notification to your customers of the arrangement to “manage” your receivables; and verification from your customers that your product or services were “satisfactory”. From your customer’s point of view, someone in their account’s payable department is changing the “pay to” portion of their check to the address of a commercial finance company. Usually the check is cut payable to you and sent to a P.O. Box of the commercial finance company. In certain situations, notification may not be required at all; this is called non-notification factoring.

Objection: “Accounts receivable financing is too costly”.

Think Differently: Accounts receivable financing is a paradigm for success; you will have the necessary working capital you need to fulfill larger orders by accelerating your cash flow. You will need a gross margin of 20% or more, in general, for this type of financing to make economic sense. There is an inverse relationship between the cost of financing and the size of your credit facility: the larger the credit facility, the lower the cost. In other words, the fees and rates will be less for \$500,000 per month than for \$25,000 per month.

The bottom line: Accounts Receivable Financing- Think Differently! is intended to help you think “outside the box” and become more profitable. One tried and true paradigm for achieving this result as an entrepreneur with a B2B business is accounts receivable financing.

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Mr. Elberg is a licensed attorney and licensed real estate broker. Gregg Financial Services is a full service brokerage for commercial finance companies and banks that fund B2B businesses. Mr. Elberg arranges funding from \$25,000 to \$50 million per month at competitive pricing, and works to reduce your financing costs as your company grows. For more information about GFS, please visit our website:

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