

Purchase Order Financing - A Bridge

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Purchase Order Financing- A Bridge Over Troubled Water explores a financing technique to take advantage of large B2B sales opportunities by paying for the production of the products to be sold with a commercial finance company's credit combined with the credit of the company which is purchasing the products.
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America is a land of opportunity. According to the United States Census Bureau, recent data indicates over six million new businesses were created in 2003, the latest year for which data is available. It appears that for every business that was created another business met its demise. Does this mean these business enterprises failed?

{bot_wrgoogle}Not necessarily. The United States Census Bureau records closures of companies with employees, but they do not look further into the specific circumstances for the closure. When a business closes its doors, there can be many reasons for what's statistically a "failure," including a sale or merger, which may actually be a sign of robust financial health or good prospects. When a business closes, it may be because the investors have lost their investments or because they have sold out profitably.

Selling out profitably is known as an exit strategy; it is also known as "cashing out". If you have a business that manufactures or distributes a product that suddenly becomes very popular, you may be presented with a once in a lifetime opportunity. Here are two examples.

An inventor of a device that permits parents to regulate the time that their children can watch television wins best of show in a commercial competition for innovative products. Commercial interest in purchasing the product is intense, but funds to manufacture are insufficient. Another company manufactures a device that is related to pets. For twenty years they struggle. They pitch it to a "Big Box" store and sign a proposal to test market it in fifty stores; if successful, it will be rolled out to 200 to 300 stores with wholesale purchase orders for \$1000 per week per store. If the product sales meet expectations, how will the manufacturer afford to pay to produce the immense quantity of product required?

Both of these situations are in need of a bridge over troubled water called purchase order financing. Purchase order financing can be complicated and complex in details, but the concept is simple.

When a manufacturer or distributor has a large purchase order from a creditworthy customer, a commercial finance company will issue a Letter of Credit to guarantee that a factory producing the product will be paid. When the goods are shipped and delivered to the customer (i.e. the big box store) the commercial finance company pays the factory. The customer is invoiced for the product. An account receivable is created, which will be paid to the commercial financing company that provided the letter of credit. Purchase order financing is the bridge that makes the deal possible. Accounts receivable financing, or factoring, is the back end financing that guarantees payment to all concerned. This may involve one company on both sides of the transaction, or two companies- a purchase order financing company and an accounts receivable financing company with an intercreditor agreement to contractually obligate all parties to be

repaid.

The Free Dictionary defines bridge as a verb, - .to make a bridge across;
"bridge a river"

To bring together, join- cause to become joined or linked; "join these two parts
so that they fit together".

Simon and Garfunkel were an extremely popular band starring Paul Simon and Art
Garfunkel. They became famous in 1965 with their hit single "The Sound of
Silence". Their music was featured on the academy award winning film, The
Graduate. They were well known for their close harmonies and sometimes unstable
relationship. Their last album was called "Bridge Over Troubled Water" which
featured a single with the same title. They broke up in 1970. In 1981 they
reunited for one more concert called: "The Concert in Central Park" which
attracted 500,000 people.

The lyrics to "Bridge Over Troubled Water" are:

When youre weary, feeling small,

When tears are in your eyes, I will dry them all;

I'm on your side. when times get rough

And friends just can't be found,

Like a bridge over troubled water

I will lay me down.

Like a bridge over troubled water

I will lay me down.

When you're down and out,

When you're on the street,

When evening falls so hard

I will comfort you.

I'll take your part.

When darkness comes

And pains is all around,

Like a bridge over troubled water

I will lay me down.

Like a bridge over troubled water

I will lay me down.

Sail on silvergirl,

Sail on by.

Your time has come to shine.

All your dreams are on their way.

See how they shine.

If you need a friend

I'm sailing right behind.

Like a bridge over troubled water

I will ease your mind.

Like a bridge over troubled water

I will ease your mind.”

The bottom line: Simon and Garfunkel were right. Like a bridge over troubled water, purchase order financing combined with accounts receivable financing will “ease your mind” and help you overcome “troubled waters” when a huge sales opportunities are on the table and exponential growth and financing are necessary to your success.

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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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