

Accounts Receivable Financing- The Weight

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Accounts Receivable Financing- The Weight explores the heavy burden businesses face when their products or services suddenly become very successful. There are several financing techniques available to accelerate cash flow to meet this challenge.

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Cash flow is essential for every business. Cash flow is an accounting term that refers to the amount of money received and spent by a business during a specific period of time. Working capital is a similar but different financial term that is based on the daily operating liquidity available to a business. To calculate working capital, an accountant for the company takes current assets and subtracts current liabilities. A company may have substantial working capital but little liquidity because the working capital is either spent or owed in matters of accounts receivable, inventory or accounts payable.

{bot_wrgoogle}Cash flow is necessary to a company's survival, especially for those companies with limited access to financing. In particular, a company's accounts receivable and inventory may be like a weight preventing growth and expansion. The Merriam-Webster Online dictionary has eleven different definitions of the word weight when used as a noun. As used in this article, the word "weight" pertains to four of these meanings:

"4 a: something heavy: load b: a heavy object to hold or press something down or to counterbalance;

5 a: burden, pressure<the weight of their responsibilities> b: the quality or state of being ponderous;

7 a: the relative importance or authority accorded something <the weight of her opinions> b: measurable influence especially on others <throwing his weight behind the proposal>;

8: overpowering"

Inadequate cash flow is a heavy load and a heavy burden that holds down growth and productivity. Illiquidity creates a ponderous situation, such as whether or not to accept a new order, which bills to pay or is the survival of the business at stake? For instance, consider the example of a company that invented a weight training machine.

After years of research and development the company obtained a patent on a weight training machine that was designed for professional use at gyms. The machine includes a main frame, a lever carriage mechanism, an adjustment linkage and a stop mechanism. A lever carriage mechanism is pivotally connected to the main frame. The lever carriage mechanism includes a weight carrying portion adapted to carry at least one weight. An input mechanism is connected to the lever carriage mechanism. The adjustment linkage is connected between the lever carriage mechanism and the main frame and is configured to selectively adjust an arc of rotation of the weight carrying portion of the lever carriage mechanism about the main frame such that the weight carrying portion may selectively traverse each of a plurality of predefined strength curves in response to movement of the input mechanism by a user.

The machine has a catchy name; let's call it the Flexigym. It works to burn calories, make muscle and it is very popular with users. Suddenly, orders are overwhelming the company/manufacturer. The irony is success is a weight on the business and if the invoices for the Flexigym are not paid promptly this wait period is a serious burden to liquidity and growth. What are the options for improving cash flow for Flexigym?

Payments for inventory, sales commissions and accounts payable may be delayed. Manufacturing plant maintenance may be deferred. Professional fees to attorneys or consultants may be deferred. Most of these options may have negative consequences.

There may be a positive solution. If the company sells its product or service to other businesses accounts receivable financing may be the solution.

Accounts receivable financing creates instant cash for working capital. If Flexigym cannot wait 30, 60 or 90 days to be paid, a commercial finance company will purchase the accounts receivable and the wait for cash will be over. The process is relatively simple.

Flexigym agrees to terms with a commercial finance company. The customers of Flexigym are notified of this arrangement and instructed to send their payments to the financing entity. After the Flexigyms are sold and delivered, the commercial finance company verifies that delivery was satisfactory. Many finance companies use an internet based system; some use fax. In either case, upon receipt of the invoice and verification of satisfactory delivery 80% to 90% of the accounts receivable monies due will be wired to Flexigym's bank account. The weight is lifted, the wait is over, and cash flow is available for exponential growth. If accounts receivable financing is not sufficient for cash flow needs, purchase order financing may be employed to further increase cash flow.

"The Weight" is the title of a song by The Band which was very popular in 1968. The Band backed Bob Dylan on many occasions. The song is a good example of a silent title record where the title never appears in the lyrics. Accounts receivable financing is not obvious either unless you are educated regarding the merits and details of this financial technique. Here are the lyrics to The Weight:

"I pulled into Nazareth, was feelin' about half past dead;

I just need some place where I can lay my head.

"Hey, mister, can you tell me where a man might find a bed?"

He just grinned and shook my hand, "No!" was all he said.

Take a load off Annie, take a load for free;

Take a load off Annie, And (and) (and) you can put the load right on me.

I picked up my bag, I went lookin' for a place to hide;
When I saw Carmen and the Devil walkin' side by side.
I said, "Hey, Carmen, come on, let's go downtown."
She said, "I gotta go, but m'friend can stick around."

Take a load off Annie, take a load for free;
Take a load off Annie, And (and) (and) you can put the load right on me.

Go down, Miss Moses, there's nothin' you can say
It's just ol' Luke, and Luke's waitin' on the Judgement Day.

"Well, Luke, my friend, what about young Anna Lee?"
He said, "Do me a favor, son, woncha stay an' keep Anna Lee company?"

Take a load off Annie, take a load for free;
Take a load off Annie, And (and) (and) you can put the load right on me.

Crazy Chester followed me, and he caught me in the fog.
He said, "I will fix your rack, if you'll take Jack, my dog."
I said, "Wait a minute, Chester, you know I'm a peaceful man."
He said, "That's okay, boy, won't you feed him when you can."

Take a load off Annie, take a load for free;
Take a load off Annie, And (and) (and) you can put the load right on me.

Catch a cannon ball now, t'take me down the line

My bag is sinkin' low and I do believe it's time.

To get back to Miss Fanny, you know she's the only one.

Who sent me here with her regards for everyone.

Take a load off Annie, take a load for free;

Take a load off Annie, And (and) (and) you can put the load right on me.”

The bottom line: The Band was right. Take a load off yourself and be free from cash flow problems. Consider the weight, the cost to eliminate the wait, and whether accounts receivable financing is appropriate for your circumstances.

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