

Lenders! Take Inventory on How to Utilize your Business Advantages

By Richard Eitelberg

Purchase order financing is a growing field, due to the pragmatic nature of the service as well as the win-win-win benefits that it enables lenders, factors and clients. With reverse factoring abilities, banks increase their operations without increasing their risk. Utilizing this form of financing is a way to establish new supplier relationships that lenders otherwise would not be able to process.

By utilizing PO financing, banks can build credit history on firms that may present opportunities for additional lending (e.g., for fixed assets). Banks also receive information on company's cash, accounts receivable and inventory turnover. Lenders can cross-sell other products such as credit cards, automotive financing, etc. This often unfolds into an extensive customer base with a diversified list of industries to further develop relationships and revenue.

PO financing clients are people who are not in a position to borrow at conventional rates from factors and banks. The customers we, at Hartsco Financial, deal with in the PO finance industry are primarily importers, exporters, distributors and manufacturers.

Clients are able to thrive because PO financing lenders can provide transactions based on future sales, which banks and general factors don't do without some sort of collateral. Since inventory factors finance both finished goods and work-in-process (WIP), firms like ours are able to complete transactions where we buy finished product from our client's supplier and ship to the client's customer without our client processing a thing. We start with orders in hand, and it's the collateral value of the goods that is actually financed.

Hartsco's PO financing team can close deals in five to seven business days, sometimes less. This timeliness permits clients in a tight spot to complete transactions immediately. Since deal closing times vary from provider to provider, customers should always ask for timeline evidence when looking for a PO financier. Since PO financing is more aggressive than traditional banks, rates are at a higher advance, and funds

are often distributed as quickly as 48 hours once approved.

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Factoring varies. While some would pass up clients because their collateral is insufficient, lenders working with inventory factors are leading the pack. Now collaborative financing is available and done in conjunction with positive outcomes for all.

PO financing is usually provided through secured lines of credit that are intended to finance multiple orders or transactions. This can be set up for one to three years or just one-time transactions. Most providers require that the owners be privately held.

PO financing looks at a client's future potential rather than prior year's results. Yet, the borrower must substantiate that the growth will be safely manageable.

Future Forward

We are experiencing a boom in the inventory factoring industry — with percentages rising toward continuous growth. The expansion of PO financing is based on two things:

1. Increased rates at banks and factors
2. Reluctance of banks and factors to take risks

Banker Beware

While many banks and factors are tempted to enter into the PO field, they usually do not have the expertise to succeed. Banking encompasses a broad range of techniques and benefits. Loan officers specialize in loans, not PO financing.

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So if that type of funding is needed by a client, banks and other lenders are better off seeking out an inventory factor.

Consider the inventory factor to be your specialist. The inventory factor is actually an expert-added value to the services lenders would obtain by utilizing this approach. By using an inventory financier, lenders can gain the expertise they need on the PO side while still keeping the factoring/receivable financing in-house.

“Debunking” the Myths

There are some myths regarding PO financing that are not necessarily true for the industry. One often heard is that the course of PO financing is seen as high and prohibitive. This isn't the case. In many instances, purchase order financing is as economical as some of the small factors.

Another myth is that this type of financing isn't readily available. Is this too good to be true? No. It is here, possible, tried and true, and a repeatedly documented smart business move available to those who know the difference between wanting what they want, and going for what they want. Positive results of PO financing are undisputable — in many cases, it's a win-win-win situation for all parties involved.

PO Financing Relationships With Traditional Lenders

About 25% of our firm's borrowers use a PO financier only, while the other 75% utilize PO financing along with traditional lenders. The structure of the inter-creditor (PO financier and the traditional lender) relations is agreed upon upfront.

Banks will often exit the loan for two to three years, keeping the business operating while the PO financing helps the borrowers' business grow. Most PO financiers, like Hartsko, pay referral fees. The company works with factors, banks and asset-based lenders.

When lenders have customers they cannot fund, instead of losing the client, they refer them to us and we jointly service their business needs. In this type of scenario, everyone wins, including the customer.

Workouts

PO financiers are ideal partners for lenders and companies in a workout situation. For example,

Hartsko's PO financing services provide the cash flow that a struggling company needs along with the transaction management experience lenders look for. Most often, the lender receives payment through a portion of the proceeds that are collected.

Participations

Leading lender companies rely upon Hartsko's leadership and experience to shepherd their clients through short-term problems. By participating with us, lenders gain the advantage of our strength, flexibility and transaction management expertise.

Hartsko Purchase Order Transaction Flow

1. Client obtains purchase order from customer
2. We support by issuing L/C to client's vendor or by cash payment
3. Vendor produces and ships goods
4. Goods are delivered to the customer
5. A/R lender advances a percent of receivable to take out PO financier costs and fees

Things to Look for in PO Finance Affiliations

There are many aspects to keep an eye on when affiliating with other lenders in dealing with all aspects of a customer's transaction. Some of them are:

Insufficient Capital — If your client has solid sales orders but lacks the working capital to complete the transaction or continue to grow, a reputable financier might be your ideal solution.

International Expertise — Established and reputable PO financiers with developed expertise and experience can structure import or export transactions.

Reduction of Foreign Risk — Client companies benefit from transferring the payment by the foreign buyer.

Preservation of Equity — Fast growing companies often have limited options for securing working capital. Find financiers that provide the capital you need and take no equity or ownership interest in your company.

Speed of Funding — Clients need a quick response so they can keep their sales. Financiers should conduct a rapid due diligence and review the details of the transaction.

Increase Profits — Deal with financiers that will increase your negotiating power so you may realize more profits by saving on costs by getting increased supplier credit.

Protection of Identity — Many clients need transactions secured in such a way that the manufacturer and end customer do not become acquainted. For these transactions, the end buyer issues a letter of credit to our client, and the PO financier issues a letter of credit to the manufacturer.

Benefit Examples

Here are two examples of what can be accomplished when using a PO financier as a source of capital.

Hartsko started with a particular client in 2004 at a time when its business revenue was \$500,000. Today it is at \$4 million. The client credits his success to the ease of use of our funds, the speed, as well as the ability to bend to his needs. The company had previous challenges with traditional funding due to their importing of merchandise. Today this previous “mom-and-pop” operation is one of the largest thriving operations and suppliers to major chain stores throughout the country.

Another client that started with \$800,000, is now earning \$4 million, and enjoys outlasting and under-bidding competition due to the flexibility of PO financing we provided. It was done anonymously, and the company enjoys the knowledge that its competition is unaware of how it was able to obtain the capital that has edged it ahead. [abfj](#)

Richard Eitelberg, a CPA since 1992, practices in the Bayside, NY, and Deerfield, IL, offices. Hartsko Financial was established in 2004, and quickly rose to a high level ranking among client satisfaction and reputable business standing. Much of their business is done with brokers as well as factors and banks. The company is backed by private equity. Before joining Hartsko, Eitelberg was a CFO in the garment industry for 20 years. He is a long-standing member of the IFA and TMA. He can be contacted at 718-229-0440 or by e-mailing reitelberg@hartsko.com.

