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EXPANDING HORIZONS

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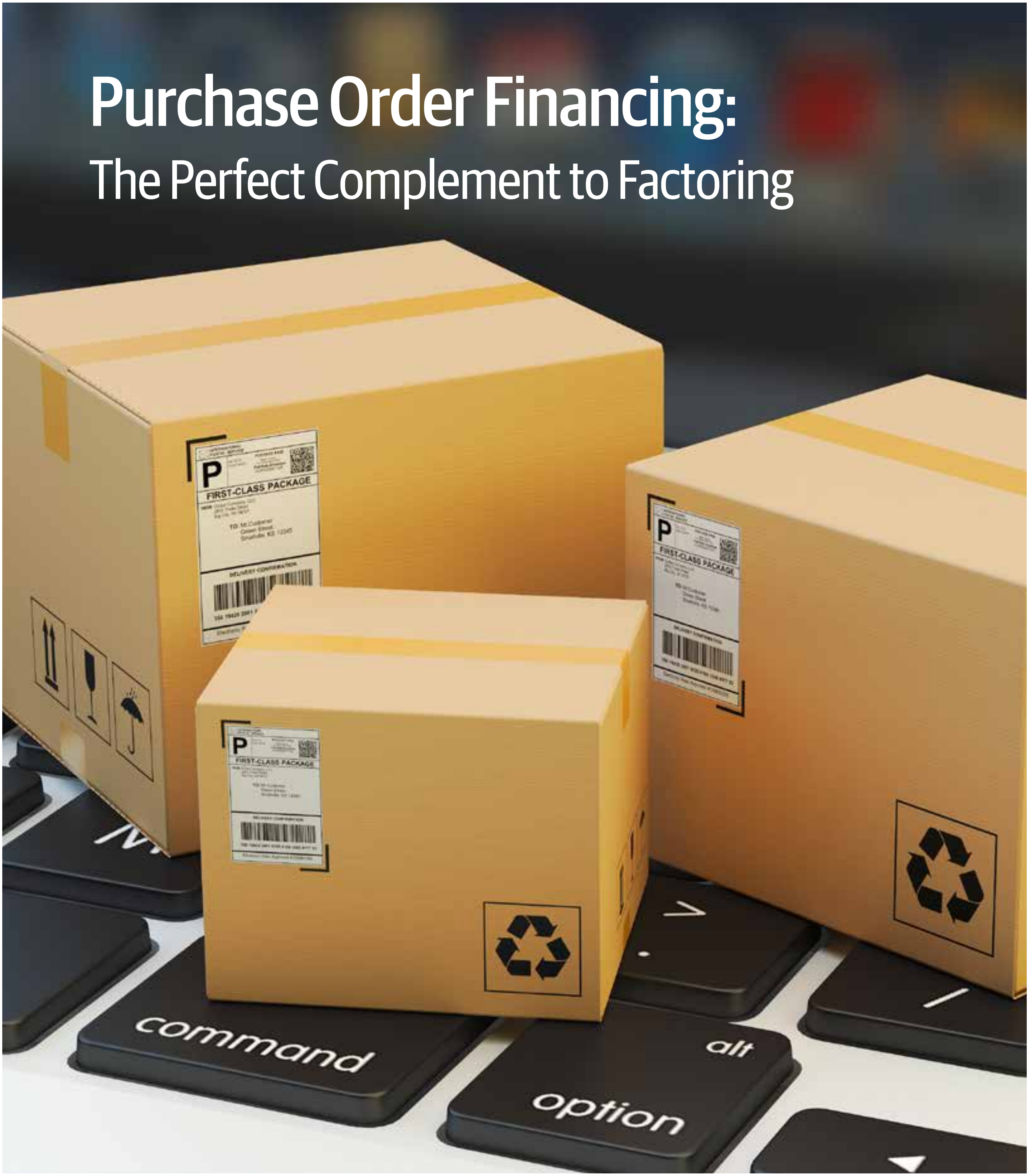

E-commerce has accelerated the pace of business today, and companies often face challenges obtaining working capital quickly enough to close a deal. Paul Schuldiner points out that PO lending is also changing and expanding into new areas. To offer flexible financing, factors are working with PO lenders to meet clients' needs.

BY PAUL D. SCHULDINER

For entrepreneurs and business owners, e-commerce has had a transformative effect on nearly every aspect of managing and operating a business. It's made it effortless for companies to reach their customers where they are — in their homes and on their phones. It's accelerated the pace of production, upended traditional inventory models and created opportunities to leverage data to create more personalized experiences. But for lenders — factors, in particular — e-commerce has completely changed the way we finance and support companies, whether during critical periods of growth or inevitable disruption.

Rosenthal recognized the significance of this shift early on and began laying the groundwork to offer more flexible lending products to current and prospective clients whose bottom lines were being squeezed by the new challenges associated with e-commerce. Then in 2016, we launched Rosenthal Trade Capital, a division dedicated solely to purchase order financing. Designed to work in tandem with Rosenthal's already robust factoring and asset-based lending divisions, the PO financing division focuses on providing alternative inventory financing solutions to cash-constrained businesses.

No business today — importer, exporter, wholesaler, assembler or light manufacturer — is immune to the complexities of operating in the e-commerce space. For direct-to-consumer businesses or those that straddles brick-and-mortar and e-commerce, challenges like seasonality, rapid growth and under-capitalization are common hurdles that every business eventually faces. In today's retail environment, it's more important than ever that companies learn how to effectively manage the relationship between their e-commerce and brick-and-mortar platforms.

PO CAN FUND E-COMMERCE

Historically, PO financing has been used by wholesalers selling into brick-and-mortar retail and has proven to be enormously helpful for clients serving big box retailer customers. In the case of big box retailers, PO financing helps businesses take advantage of sales they would otherwise be forced to decline because of unfavorable trade terms with suppliers or liquidity issues. In fact, many lenders are quickly realizing that the components of the upfront inventory audit required for financing a company selling into brick-and-mortar retail — everything from quality control and product sourcing to logistics and delivery — can also be leveraged to fund and finance an e-commerce business.

This scenario plays out every day with companies looking to secure additional short-term inventory financing to support that once-in-a-lifetime order from a brick-and-mortar retailer, while balancing it with their growing online sales order book. Depending on the kind of financing the company can secure — and how quickly it can secure it — that single order can either make or break the business.

We recently saw this when a consumer goods importer approached Rosenthal after the company discovered it was facing an unexpectedly large order book from a slew of new customers, both e-commerce and brick-and-mortar. Hustling to fulfill the orders in time for the holiday season put a significant squeeze on the company's cash flow, so it sought additional financing with its existing lender, a third-party factoring company. With an already multi-million-dollar facility in place, including an approved overadvance, the existing lender declined the request. To add insult to injury, the overseas supplier that had, up until then, granted open terms to the company, was unwilling to extend those terms and was requiring pre-payment for goods before shipping.

FACTOR RECOMMENDS PO SOLUTION

The company faced a conundrum. But t, the existing factor, even though it could not extend credit itself, recognized the value of such a large seasonal inventory build and encouraged the company to explore PO financing as a solution. Rosenthal entered the picture, introducing a soundly structured PO financing program into the company's financing mix. We established an inter-creditor agreement that would easily transition PO financing back to factoring once the related accounts receivable were generated from the purchase order financing. And with a new multi-million-dollar PO financing facility in place, the client would be able to obtain goods from more than one overseas supplier by issuing letters of credit. Freight, duty and logistics costs would also all be financed, and the required inventory would be funded at an advance rate of 100%.

Because the existing lender — the factor in this case — had the foresight to recommend PO financing and connect the dots to Rosenthal, there was a positive outcome for all parties involved. The factor was not forced to increase its overadvance and was even better positioned because the PO financing generated incremental cash flow that repaid the initial overadvance. The client was able to use its higher brick-and-mortar orders to provide additional support for its e-commerce orders. The new suppliers now had the credit enhancement it needed to ship the products, so the client met its shipment deadlines to the end customers.

Another recent example illustrates how PO financing can be more than just a valuable tool for traditional trade cycle financing. It has also become beneficial for companies needing production financing or work-in-process financing. A third-party factor approached Rosenthal to provide a PO financing solution that could support the overall supply chain finance solution for one of its clients. The company, a manufacturer and importer of HVAC equipment, needed to fund the purchase of raw materials, components and direct labor costs for product that was backed by e-commerce forecasts and program commitments from large industrial customers.

The complex production financing requirements of the transaction involved the structure of purchases from several component suppliers as well as funding the fabrication of the final products by a multi-national contract manufacturer. Working closely with the factor, Rosenthal was able to establish a multi-million-dollar PO financing facility that worked alongside the existing factoring facility.

These scenarios — and the complex confluence of unexpectedly large orders, difficulty securing additional financing from existing lenders and challenges with overseas suppliers — have become all too common in recent years. Lending in this environment requires flexibility, tolerance and a level of expertise that stretches far beyond simply lending on an invoice.

Most lenders, and factors in particular, often do not have the internal infrastructure required to address these challenges in a comprehensive way. If it's executed at all, it's often done piecemeal or as a special accommodation for select clients and is rarely offered as a formal service or dedicated program. Factoring companies are superior at checking and analyzing end customer credit, verifying and collecting receivables and managing all aspects of accounts receivable administration, not to mention lending on receivables. Marrying that expertise with an experienced and nimble PO funder can help to ensure transactions remain secure and less risky for all parties involved. Aligning with a PO funder that is a trusted, friendly partner and has the expertise needed to operate in a challenging credit environment is essential for any factor, asset-based lender, or bank looking to gain a competitive edge. •

Paul Schuldiner is executive vice president and division head of Rosenthal Trade Capital. Paul is a seasoned financial executive with over 20 years of experience in the purchase order and trade finance business and has previously held senior leadership roles at Wells Fargo Capital Finance, King Trade Capital, and as a principal of Transcap Trade Finance. In addition to purchase order financing, Paul started his career in the asset-based lending and factoring division of a NYC based finance company and practiced as a CPA in public accounting.