WHAT IS PURCHASE ORDER FINANCING

Purchase order financing provides businesses with short-term funding to pay suppliers in advance for qualified purchase orders. This option allows companies to accept larger orders and contracts that may not be financeable based on their available financial resources. It's a unique source of capital from a financing company without giving up equity. In PO financing, the focus is on the specific transaction, providing liquidity to grow the company without taking on additional debt.

WHO USES PURCHASE ORDER FINANCE LENDING FACILITIES

Many small and medium-sized businesses can benefit from PO Financing, which allows them to access revenue that may not be financeable through other means. Your company may struggle to generate the cash flow required for investing in accounts receivable and inventory associated with larger orders and contracts.

Conventional business financing for working capital and cash flow typically involves relying on traditional current assets such as receivables and inventory. Even if your company is well-financed and has a regular bank line of credit, you might still face difficulties in fulfilling large orders and contracts. This challenge becomes more daunting without access to traditional financing, making it seemingly impossible to generate cash to fulfill larger orders and contracts.

Remember this: Utilizing PO Finance allows you to take on larger orders without the commitment of a debt financing or loan solution. Purchase order financing can provide you with the capital to fill those large orders and contracts. It can be very complementary to your current financing if properly put in place. As we have noted, the concept of purchase order financing, also known as 'P.O. Financing,' is relatively new in Canada.

HOW DOES P/O FINANCING WORK?

Purchase order financing companies provide a reliable method for businesses making large purchases to obtain goods or services without upfront payment. After the customer's purchase order is approved for financing, the purchase order finance company will pay suppliers, usually through a letter of credit or other means.

Financing is provided to cover your material costs and direct labour costs, which are a significant part of your order or contract. In many businesses, 80% of the total order or contract is financed upfront. The purchase order funding process starts with your acceptance of an order from a verified customer.

In many cases, the supplier of the client requires payment in advance, which triggers the working capital cycle. Most clients understand that they won't receive full payment from their clients for 60-90 days after shipment. Business owners do not want to lose the order and are typically unable to secure financing from Canadian chartered banks based on their current financial position.

TRANSACTIONAL CFO SOLUTION, P/O FINANCING

The verified purchase order represents **an opportunity and value** because it allows you to obtain accelerated funding. In the purchase order finance process, your supplier is paid either by direct cash or, in some cases, a letter of credit. However, the main tool is a stand-alone separate facility that we will create for you.

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