

Working capital options for today's companies

The need for working capital spans business situations from growth to turnaround. Some companies need quick access to capital for a specific transaction; others may need a substantial infusion of cash for a longer period of time. Having knowledge of financing options to help keep a company on track to achieve its objectives is important. Asset-based lending, accounts receivable financing, and purchase order finance can all strengthen a company's working capital sources.

Asset-based lending

An asset-based loan is a revolving line of credit and/or term loan that is secured by assets such as accounts receivable, inventory, machinery, equipment, real estate, and others. This kind of financing can provide a company funds quickly, and bolster cash flow on an ongoing basis.

Benefits of an asset-based loan include:

- *Fewer covenants.* An asset-based loan often lacks the financial performance covenants imposed by traditional cash-flow loans.
- *Flexibility.* The loan can alleviate short-term cash flow challenges.
- *Less costly.* The cost of an asset-based loan is often less than that of raising additional equity.

Accounts receivable financing (Factoring)

A factor, or an accounts receivable financing company, can buy a company's receivables and quickly give the company a percentage of the money it is owed. This kind of financing can be ideal when a business needs cash quickly, or it can be a means to establish a steady flow of working capital.

Benefits of factoring include:

- *Timeliness.* Typically, a company can quickly secure financing for supplies, rent, payroll, and other business needs when it faces fluctuating (or seasonal) sales or a growth spurt
- *Nothing to pay back.* Because the factor converts a company's accounts receivable to cash, there is nothing to pay back, and the company will not have a loan on its balance sheet

Purchase order finance

A purchase order financing company pays a manufacturer to produce and ship the goods a company needs to meet the demands of a purchase order. This type of financing can provide a company the capital it needs to fulfill a specific transaction, which can help it grow and avoid liquidity challenges.

Benefits of purchase order financing include:

- *Timeliness.* Because purchase order financing is short-term financing, funding can be approved and provided rapidly
- *Boost credibility.* The purchase order financing can cover up to 100% of the financing necessary to complete the transaction
- *Universality.* Most purchase order financing works for both U.S. and foreign manufacturers

Examples

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[Financing for Hampshire Group to meet seasonal demands](#)

[Financing opens doors for Masonite's business plans](#)

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