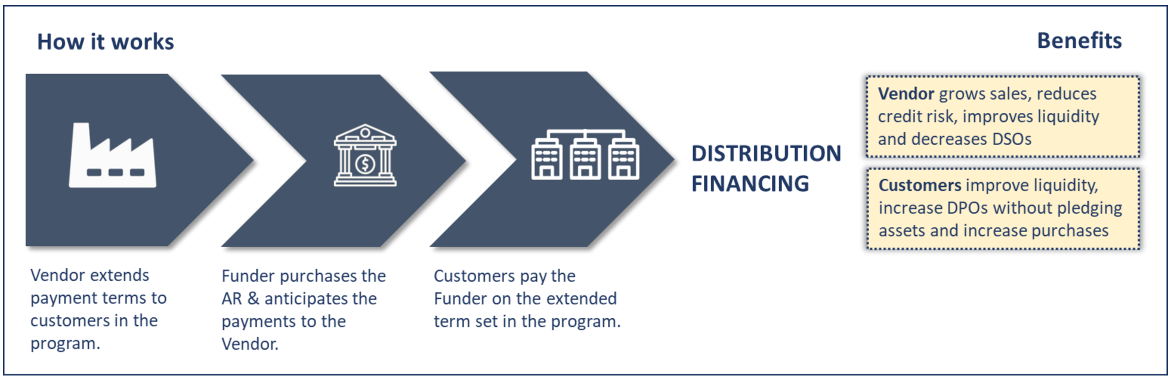
Best practices for sales growth financing

Companies are constantly in the lookout for ways to increase sales. There are countless ways of achieving this depending on the companies´ business model and strategy, as well as on the industry sector and market dynamics. In particular, manufacturing companies that sell B2B in open account, use the terms of sale that they offer customers as a tool to manage commercial relationships and their own competitiveness, which influences their sales performance. This includes payment terms conditions, in addition to the more straightforward ones such as price and volume.

Below we reveal two practices that a number of companies have successfully implemented to promote sales growth via payment terms extension. By injecting working capital to customers via these sales financing programs, companies create a win-win situation for themselves and their customers.

Distribution Financing

An effective way to boost sales in a balance-sheet efficient manner for the originating company (or vendor) and its customers, is through a receivables-based sales growth financing program also known as Distribution Financing (DF). The idea behind DF is that the vendor sponsors a program to extend the payment terms to a portfolio of customers or distributors and sells the related accounts receivable (AR) to a program funder on a true-sale basis. The funder pays the vendor on the original invoice due date or earlier, and collects from the customers on the extended terms introduced by the program. In addition to the increase in sales, the vendor reduces credit risk, improves liquidity and working capital metrics as it decreases its Days of Sales Outstanding (DSOs). The customers also benefit, as their liquidity and working capital metrics improve too driven by the increase in Days of Payables Outstanding (DPOs), allowing them to increase purchases from the vendor.



Growth Financing

Another innovative way to stimulate sales through an improvement in the payment terms offered to customers is via a payables-based Growth Financing (GF) program. In a GF setup the customers selected by the sponsoring vendor assign a funder as a payment agent. The funder pays the vendor on behalf of the customers on the invoice due date, and collects from the customers on an agreed extended payment term. The main difference with DF is that in GF the vendor is not legally engaged and does not sell receivables to the funder, but instead each customer establishes a payables-servicing facility with the funder. The result for the vendor is an improvement in the commercial relationship with the selected customers, increased sales and greater visibility over collections with no legal engagement or AR sale, whilst the customers enhance liquidity and working capital metrics, and increase purchases from the vendor.

Overall, sales financing programs have proven to be a very effective way to grow sales, particularly for OEMs that sell through distribution channel partners. The two key elements for these programs to be successful and long lasting are having an appropriate structure and most importantly having the right program servicing.

Alternative Distribution Finance Ltd. (ADF) is a specialized funder that aggregates liquidity from a diversified pool of investors and fronts the funding of both types of sales financing programs - Distribution Financing and Growth Financing - for companies worldwide. ADF´s financing programs are serviced by Global Supply Chain Finance Ltd. (GSCF), the world's leading processing technology within the Supply Chain Finance market.