Accounts Receivable

FACTORING

CABLE LOCK ALARM MANUFACTURER

Tom Mismara is the owner of the *Alarm It Cable Lock Company*, a manufacturer of high quality stainless steel cable lock alarms. *Alarm Its* are a unique cable lock product with a “screaming alarm” and feature a stainless steel power pack along with many various cables and attachments that can be used to secure bicycles, motorcycles, gates, kayaks, golf carts, and all types of expensive consumer goods.

Though originally manufactured at the company’s facility in Naples Florida, Tom moved the manufacturing process to China in 1995. The *Alarm It* product would be contract manufactured in Shenzhen, China and distributed in the United States and various other countries through a well developed distribution network.

Tom Mismara slowly built up this network of wholesale distributors over the years by attending major hardware trade shows. Minimum purchase requirements for new distributors was a “standard shipping container” of product” or approximately $250,000 worth of Alarm Its.

The Problem: International Credit and Payment

When Tom signed up his first international distributor, he required cash payment up front, which was certainly the least attractive payment alternative for his new foreign distributors. All complained, but when manufacturing the cable locks, Tom was required to post a letter of credit for the benefit of the Chinese manufacturing factory which required cash. Posting such letters often required Tom to access his home equity line of credit at the bank and especially if Tom had multiple large orders at the same time.

To solve part of his problem, Tom explored the ability to engage the services of a *purchase order finance* company to post his letters of credit for manufacturing. Under his agreement with the PO funding company, Tom would pay a fee of 7% for the letter of credit. This arrangement worked fine for large domestic orders from big-box stores where he had valid purchase orders from exceptionally creditworthy clients, but it did not solve his problem regarding his large international orders from new distributors where he could not determine the buyer’s credit. He therefore still required up front money prior to manufacturing and shipping.

In a subsequent conversation with his purchase order finance company, his representative told Tom he should contact an international factor, a company that provides advances on accounts receivable on cross-border transactions. On the call, his representative gave Tom the name of several international factors that he had worked with in the past and Tom immediately placed a call to find out more.

Tom Finds a Solution in International Factoring

With recommendations in hand, Tom placed a call to one of the referred factoring firms that provided international factoring services. On the call to the factor, he explained the problem he had with his new international customers and asked if there was a solution to his problem through factoring.

The factor explained to Tom that factoring would indeed solve his problem so long as his international customers had good credit. Under an international factoring arrangement...

- Tom would ship the goods to an approved international client with 30 day payment terms
- When the goods were received and inspected, the factor would advance 80% of the invoice amount to Tom for the goods. Tom's customer no longer had to pay upfront in cash or post a letter of credit.
- Once the customer paid the factor in the 30 days allotted, the factor would wire Tom the 20% invoice balance less a small fee for services.

But there were additional benefits to *Alarm It* based on the relationship of the factor to Tom's purchase order finance company.

In the future, when Tom submitted a request for purchase order finance, his PO finance representative would contact Tom's new factor to get an "approval" for factoring the transaction once the goods were manufactured and subsequently delivered to Tom's customer. This meant Tom would no longer have to arrange for his own line of credit through his bank to pay off the purchase order finance company upon delivery of goods. That payoff would now be provided by Tom's factor who would finance the newly created invoice and "take out" the purchase order company for the letter of credit necessary for the manufacturing of the goods. The combination of international factoring and purchase order finance now paved the way for a much smoother purchase transaction as Tom continued to build *Alarm It's* international sales network.

Factoring

The World's Most Popular Method of B2B Small Business Finance