

CONTRACT CAPITAL DIGEST

Your Partner in Contract Financing and Working Capital for Over 35 Years

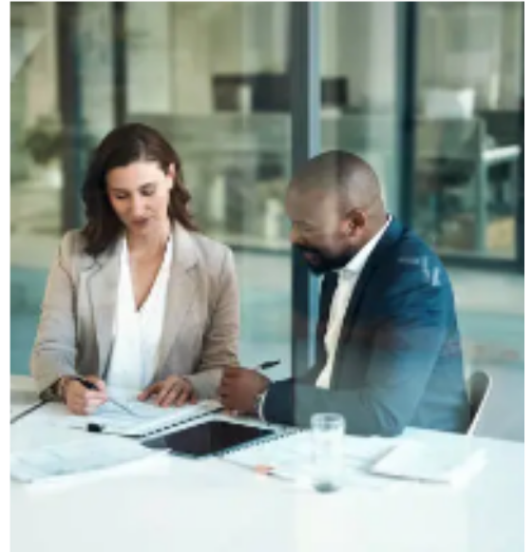
At THE WATSON GROUP, we've partnered with countless growing companies to secure financing for their contracts and purchase orders. Whether their customer or prospect is government or large commercial, we specialize in developing FUNDING SOLUTIONS to support their performance.

Our diverse range of innovative, "out-of-the-box" funding options include, Contract Mobilization Funding, Contract Payroll Funding, Vendor Trade Credit Financing, Supply Chain Financing, Purchase Order Financing, Construction Subcontractor Financing, Factoring and Express Pay Financing, Contract Manufacturing Financing, or Financial Commitment Letters, just to name a few.

CONTRACT CAPITAL DIGEST is designed to share with you the HOW TO's for some of the practical and proven techniques and methods we teach and use in our practice on a DAILY BASIS, regardless of business credit standing.

Please feel free to reach out if you have any questions or would like our input on any Contract Financing opportunities or challenges you may be having.

Gerald C. Watson
President & Publisher



HOW TO FINANCE PURCHASE ORDERS AND SUPPLY CONTRACTS A TRUE CASE STUDY

I recently received a referral for a client with a large supply contract from the US Army to furnish lumber by the truck load to several military installations. He was the lowest bidder and won the award. Payment terms with the Army were net 30, and he had to pay for the lumber before it was released.

The client was turned down for a loan from their bank, despite having the contract, primarily because they were relatively new in business, and didn't have the best of credit. Factoring was not an option because he couldn't invoice until he delivered, and he couldn't deliver until he had the money upfront to pay for the goods.

CONTRACT CAPITAL DIGEST is published bi-weekly by The WATSON GROUP, a Financial Intermediary specializing in arranging Contract Financing for growing business owners all over the country. To learn more about our services, simply click on the [LINK HERE](#)

HOW TO FINANCE PURCHASE ORDERS AND SUPPLY CONTRACTS

THE DELIMA

Without a doubt, finding ways to fund supply contracts, regardless of the industry, has been a major problem for growing business owners all over the country. And while more and more opportunities exist to secure million-dollar awards for supply contracts, for many, the problem of HOW TO finance them often stands in their way.

From the point of view of the supplier, a large contract ALONE does not provide a guaranty of payment, particularly if you are a new customer. And even when the Army pays YOU, your supplier has no guaranty that you will pay THEM. With limited trade references, and not the best credit, most suppliers will either place you on COD or require a deposit or pre-payment BEFORE they even ship.

The problem becomes even worse for contracts with re-curing purchases, particularly those involving multiple suppliers to fulfill a single order.

So what do you do?

These are some of the issues we address in our practice on a DAILY BASIS.

By utilizing a variety of "practical and proven techniques and methods", including a few "Little-Known Secrets", we've helped numerous clients all over the country secure financing for their Purchase Orders and Supply Contracts.

A PRACTICAL SOLUTION

The next several issues will focus on a different Purchase Order Funding Products or PO Funding Instrument. Each issue will discuss (1) What It Is, (2) How It Works, (3) What Are The Costs, and include a few (4) Success Tips.

The Funding Products and Instruments we'll be covering include:

- Purchase Order Financing-101
- Vendor Trade Credit Financing
- Payment Guaranty Letters
- Stand-By Payment Assurance Letters
- Letters of Credit
- Contract Manufacturing Financing
- Disbursement Authorization Agreement



WHAT IS PURCHASE ORDER FUNDING (PO) ?

What is PO Funding?

PO Funding is designed to provide short-term financing to pay for goods required to fulfill purchase orders from government agencies or credit-worthy commercial customers. PO Funding is designed to help growing companies who lack sufficient working capital by providing a FINANCIAL SOLUTION to pay their vendors and manufacturers in advance to fill their orders

How Does It Work?

Simply put, a PO Funding lender will pay your supplier (s) directly for the goods required to fill an order from a government agency or approved commercial customer. Once the supplier is paid, the goods are shipped directly to the customer. Once the goods have been delivered and accepted by your customer, and the invoice payment is due, payment is sent directly to your PO Funding lender, as per your authorization, and as required by the PO funder. The PO Funding lender will deducts the payment to your supplier along with their fee, and wires the balance to you.

The process begins with a review of the terms and conditions in the PO from the customer, and the price quote from the supplier. One of the keys is to determine if the timing is sufficient to meet the PO delivery requirements, and if the gross profit margins are sufficient for financing purposes. Most PO funding lenders require a minimum of 30% -40% in determining the financial feasibility of a transaction. In so doing, they look at the estimated amount of time the funds will be outstanding, from payment to the vendor until the goods are received and accepted by your customer. Since PO Funding fees accrue on a monthly basis, as a rule of thumb most look at a max of 90 to 120 days.

PO Funding lenders conduct Due Diligence on the supplier as well. For that reason, most PO Funders do not offer cash deposits but there are some that will. However, all of them can issue a Letter of Credit, a cash-backed financing instrument issued by a commercial bank allowing the supplier to draw against, upon presentation of selected documents, ie inspection reports, bills of lading, related shipping documents, etc

PO Funders also conduct Due Diligence on the client to ensure they do not have any business or financial issues that could impact funding approval or have first position UCC filings that need to be resolved before funding approval.

In all cases, PO Funding lenders require an inspection report by a third party inspection company to ensure the goods ready to ship line up with the quantity and quality specifications in your customers purchase order.

Finally, most PO Funders require you to have a Factoring lender in place to advance against your approved invoice. A portion of the advance is deducted by your Factoring lender and paid directly to your Po Funder. Since Factoring is always less expensive than PO funding, it makes the transaction more cost effective for you.

What Are The Costs?

There are several factors that go into determining the costs of PO Funding. They include the size of the order, number of transactions, level of risk, complexity, and lenders' terms and conditions included in their agreement, etc. Most PO Funding transactions are structured on a transaction-by-transaction basis versus long term contracts with annual or monthly funding requirements.

Depending on how you structure the Purchase Order with your customer with regards to who pays for what, your PO Funders cost can potentially also include the cost of goods, freight, shipping, duties, inspection, insurance, storage, etc. Unless you are experienced with shipping and logistics, its' probably better to either have your PO Funder handle it as some do, or utilize the services of an experienced logistics company.

Unlike Factoring, where the fees are based on the face value of your customers' invoice, with PO funding, fees are based on the *actual funds employed* including all of the costs above included in the equation. PO Funding rates typically range from **1% to 4%** per 30 days. In addition, some PO Funders also charge a set-up, processing, or admin fee as well.

Here's a quick tip- be sure to include an estimate of your PO Funding costs into your pricing **BEFORE** you bid, to better ensure hitting your target Gross Profit Margins. REMEMBER, "**Money is a Material**", so be sure and include its' cost along with everything else.

Finally, in one of our upcoming issues, we'll be introducing several PO Funding Instruments where we will also share a few "*Little Known Secrets*" on HOW TO reduce your PO Funding costs down to virtually ZERO! As they say, "stay tuned next week!"

KEY SUCCESS TIPS

On the PO Funders side, not all PO Funders work the same way. So, find out UPFRONT what they DO, and what they DON'T do. For example, some PO Funders will cover 100% of the cost of goods, while others don't and want YOU to have some "skin in the game". Some PO Funders will pay UPFRONT CASH deposits to your suppliers, while others don't. This is really important to know in cases where your vendor(s) are overseas and require a deposit to start production.

On the customer side, find out if you can do partial shipping and partial billing. This is particularly important where goods are coming from multiple suppliers to fill a PO. Also, if good are for re-sale, make sure the PO does NOT say: GUARANTEED SALE. Simply put, it means your customer can return unsold goods to you and only pay for what was sold, or they can sell at a discount and pay you a reduced amount. BOTH are DEAL KILLERS on the financing side so be crystal clear IN WRITING what your PO says.

In addition, many big box stores, ie Walmart, Target, etc, will have Vendor Agreements half the size of a yellow pages phone book. The agreement will include all of the details from A to Z, including delivery, billing instructions, compliance, etc, and in some cases, promotional terms and allowances. Don't worry about missing the small print, because its' ALL SMALL PRINT!

Here's my advice: read the Vendor Agreement from cover to cover. Then, when you're done- READ IT AGAIN. Over the years, I've heard lots of horror stories from companies who were a new vendor with a big box store, got caught up in the moment and didn't pay enough attention to details, and had major problems later. But that's a story for another day.

Finally, if you'd like a copy of our [Top 10 List of Things To Know BEFORE Signing a Purchase Order](#), click on the link **below**



Don't Let a Lack of Cash Flow Hold You Back From Taking On New Contracts!

Struggling to secure financing for your contracts and purchase orders? You're not alone. The fact is almost 50% of small business owners who applied for bank credit were denied. That's where we step in. Using our highly specialized, *alternative financing techniques*, we have helped growing business owners all over the country secure millions of dollars in financing for their government, and commercial contracts and purchase orders.

Transaction Engineering ©

COMPREHENSIVE DIAGNOSTICS

We begin by conducting a Preliminary Underwriting Interview to better understand your Contract Financing needs and timing, existing business condition, and identify any potential business or financial issues that could impact funding approval. We then compile a Checklist of Documents including a copy of contracts to be funded, along with standard business documents for internal review and analysis.

CUSTOMIZED FUNDING STRATEGY

With the results of our diagnostic review and analysis, we "engineer" a Funding Strategy to include the "optimal" funding products for each phase of your contract, ie at the beginning for mobilization or start-up, if required, in the middle to cover payrolls, vendors or subcontractors, if any, and at the end to speed up cash flow while waiting to get paid. We also develop a game-plan for addressing any business or financial issues which could impact funding approval.

LENDER SELECTION AND UNDERWRITING

Based on your Funding Strategy and our history and working relationships with our funding partners, we determine the "best fit options" including structuring of your Financing Facility, and negotiating of funding amounts, rates and terms. Once you have elected to move forward, we will continue to work with you and your lender on a day-to-day basis, including preparation of your formal app package, underwriting, due diligence, addressing any business or financial issues as required, ie UCC filings, all the way through final approval.

CLOSING AND FUNDING

Upon final approval, we work with you and our funding partner to expedite and facilitate the closing process through your review and execution of Closing Docs Package and funding.

Contract Financing Product's We Offer

- Contract Mobilization Funding
- Contract Payroll Funding
- Supply Chain Financing
- Vendor Trade Credit Financing
- Purchase Order Financing
- Subcontractor Financing
- Material Supply Financing
- Factoring and Express Pay Financing
- Contract Manufacturing Financing
- Financial Commitment Letters
- Working Capital Term Loans
- Revolving Asset-Based Lines of Credit