ISSUE NO 2

THE WATSON GROUP

Info@twgfundingsolutions.com
(888) 483-1117

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 A MULTI-MILLION DOLLAR GOVERNMENT CONTRACT AS A START-UP!

A TRUE CASE STUDY

I recently received a call from one of our Factoring partners referring a client seeking $5 Million to fund a pending federal government supply contract for solar energy panels. The panels would be shipped to a central government warehouse for later shipment to various government facilities around the country for installation by another contractor.

The client was a well-known technical expert and consultant in the solar energy industry and had negotiated great prices and margins with several national solar panel manufacturers. However, they were new as a supplier, had no credit history, and as a result, were on a cash basis with the manufacturers.

The Factoring company was unable to help because Factoring would only fund invoices for goods that had already been delivered and accepted by the government. In addition, they only offered PO funding to existing clients. The client had also been declined by a PO lender because they didn't meet the minimum 2-year time in business requirement.

WHAT WOULD YOU DO?

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HOW TO FINANCE A MULTI-MILLION DOLLAR GOVERNMENT CONTRACT AS A START-UP!

THE DELIMA → A PRACTICAL SOLUTION

If securing Contract Payroll Funding BEFORE you invoice is the No 1 issue facing many contractors, then funding LARGE supply contracts without a doubt, must truly be No 2 !!! (we'll be discussing Contract Payroll Funding in our May issue)

Factoring ALONE is not an option for solving the payment problem since you can't invoice until you deliver, and you can't deliver until you get the cash upfront to pay for the goods.

For some, its' truly a "CATCH-22 Situation".

This is a problem we see in our practice on a regular basis, from HOW TO develop funding solutions for everything from solar panels to medical equipment, to construction materials, to electronic equipment, to janitorial supplies, and on and on and on.

So, let's talk about a few practical and proven funding solutions, along with a few "Little Known Secrets" as well.

In this issue we will discuss Vendor Trade Credit Financing Products, to Include: (1) What It Is, (2) How It Works, (3) What Are The Costs, and (4) Key Success Tips, including a few "*Little Known Secrets*".

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

- Payment Guaranty Letter
- Stand-By Payment Assurance Letter
- Disbursement Authorization Agreement

To request a **free subscription** to Contract Capital Bi-weekly Digest scan the QR Code below or email: **info@twgfundingsolutions.com**

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WHAT IS VENDOR TRADE CREDIT FINANCING?

WHAT IS IT?

Without a doubt, for many growing business owners, Vendor Trade Credit Financing is truly a "**Little Known Secret**". Like traditional PO Funding, they provide you with the capacity to pay your vendors. But unlike PO Funding, they don't provide upfront cash or Letters of Credit but do so through utilizing a variety of what we refer to as **Trade Credit Enhancement Instruments**. These Instruments essentially serve as an "assurance of payment" to your vendor, SUBJECT TO the specified conditions contained in the instrument being met. More on that later.

Trade Credit Enhancement Instruments provide your vendors with an irrevocable, unconditional guaranty of payment in exchange for extending trade credit to you. At the end of the day, your vendors really don't care WHO pays them, as long as they know they're being paid from a credit-worthy source. Couldn't think of a more credit-worthy source then "your bank", right?

In this issue, we're going to cover 3 types of Trade Credit Enhancement Instruments;

(1) **Payment Assurance Letter-**lender provides an unconditional, irrevocable, payment guaranty to your vendor, payable within the agreed upon net payment terms, SUBJECT TO (1) delivery and acceptance of the goods by your customer in conjunction with (2) their approved invoice, and (3) confirmation that payment will be forwarded directly to the lender by your customer.

(2) **Stand-by Payment Assurance Letter**-lender essentially serves as a "co-signor" whereby lender agrees to pay within the net payment terms if you don't, SUBJECT TO the same conditions above. Typically used in cases where the client already has open credit in good standing, but the vendor requires a "comfort letter", so to speak, because the credit required to fill the order substantially exceeds their existing open line.

(3) **Disbursement Authorization Agreement**-lender DOES NOT provide an advance to pay the vendor but agrees to unconditionally pay the vendor upon receipt of the invoice payment from your customer, IN EXCHANGE FOR extending credit to fill the order. In this instance, much like Funds Control for construction subcontracts, the lender essentially plays "traffic cop" with the money for a vendor who doesn't mind waiting to get paid but requires an assurance of payment.

Trade Credit Enhancement Instruments are typically not issued by PO Funding lenders who make their money paying your vendors, but surprisingly enough by "some" (but not all) Factoring companies, who make their money funding approved invoices.

For those not familiar, in a nutshell, Factoring is a specialized form of financing designed to speed up cash flow by advancing against approved invoices, from approved customers, who have agreed to submit their invoice payment directly to the Factoring lender. So, every time the specified conditions contained in the Trade Credit Enhancement Instrument are met, another opportunity is created for a Factoring lender to fund an invoice, all things being equal.

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How Does It Work?

The actual Trade Credit Enhancement Instrument is issued to your vendor from your lender, along with your order for the goods required to fulfill your customers PO, including any detailed instructions for packing, labeling, shipping, etc, as specified in the PO. Your vendor prepares and dropships the order directly to your customer. In some instances, a third-party inspection company may be required by the lender to ensure the goods meet the required specifications, along the quantity, quality, and required specifications in your customers Purchase Order.

Once the goods have been **DELIVERED and ACCEPTED** by your customer, you essentially have the basis for an approved invoice. Once issued and confirmed by your customer, the Factor will typically advance 80% of the invoice amount, pay your vendor when due in accordance with the net terms, and wire the balance of the advance to you.

When your customer submits the invoice payment to your lender, they will deduct the 80% advance along with their fee and wire the remaining balance to you. Factoring fees can range from 1% to 3% per 30 days. So, if the invoice amount is $10,000, the advance is 80%, the amount paid to your vendor is $5,000 due net 30, the Factoring Fee is 2% for 30 days, and payment terms with your customer is 30 days, below is a simple illustration to show how it all works.

By the way. We'll be talking a lot more about Factoring in another issue.

Trade Credit Enhancement Instruments also work extremely well in situations where you either have multiple vendors required to fill your customers' PO, recurring orders every month, or BOTH. A system is established between all parties so that funding repeat orders becomes a "routine administrative procedure".

Invoice Amount To Customer	$10,000
Factoring Advance (80%)	$8,000
Pay Vendor	$5,000
Advance Balance To Client	$3,000
Invoice Payment From Customer	$10,000
Deduct Factoring Advance	$8,000
Deduct Factoring Fee (2%)	$200
Net Balance To Client	$1,800

What Are The Costs?

The best part of this "**Little Known Secret**" may be the cost. In some cases, the Factoring lender will provide Trade Credit Enhancement Instruments AT NO COST, again, because they make their money on Factoring, and issuing the instruments simply gets them one step closer to an approved invoice to fund. In this case, what does that mean for you? ZERO COST FINANCING!

In other cases, the Factoring lender may charge a nominal flat fee of $250 to $500. Still others may charge a flat fee of 1% on the amount payable to your vendor.
Whatever the cost, find out UPFRONT.

Remember, "**MONEY IS A MATERIAL**", so be sure to include your financing fees into your cost and pricing equation to better ensure hitting your target Gross Profit Margins. Make sense? OK!

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KEY SUCCESS TIPS

- Find out if your Factoring lender issues Trade Credit Enhancement Instruments, and if so, what are the costs, if any.
- Negotiate aggressive prompt Pay and Fast Pay Trade Discounts, and MAXIMIXZE the time frame in the discount window.
- Always have your factoring lender pay your vendor on the LAST DAY of the discount window to MINIMIZE the number of days you need to borrow money.
- Utilize savings from your Prompt Pay Discount to help OFFSET your financing costs.
- Remember- MONEY TALKS! Customers who take advantage of Prompt Pay Discounts are considered the best and put you in a position to negotiate better pricing, along with annual volume discounts drawn down on a monthly basis.
- Again, be sure your PO allows partial shipments and partial invoicing. Particularly important with multiple suppliers and re-curing purchases.

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**

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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 Manufacuring Financing
- Financial Commitment Letters
- Working Capital Term Loans
- Revolving Asset-Based Lines of Credit

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