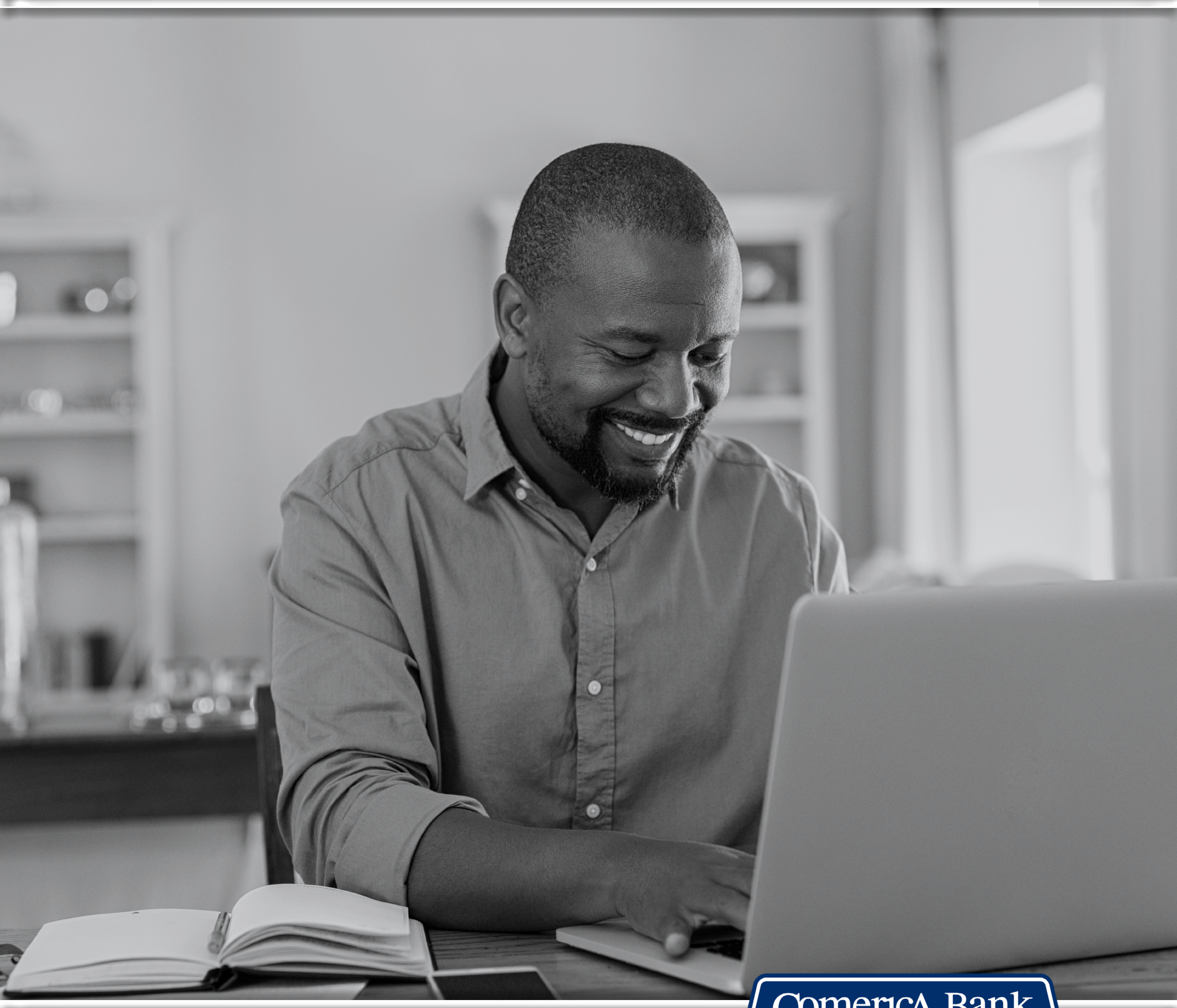
Merchant Wholesaler Funding Strategies



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Introduction

Ensuring that a business has sufficient financing is a fundamental responsibility for any owner, chief financial officer or other high-level decision-maker. This is an especially urgent and important duty when economic uncertainty prevails and liquidity risks are amplified.

Without enough financing, merchant wholesalers may not be able to pay supplier invoices, make employee payroll or otherwise fund operations. Considering that volatility can strike quickly and devastatingly, it's incumbent on wholesalers to have a responsive plan for securing financing.

But what are the best funding strategies for the industry? Many debate the benefits of a business line of credit vs. loan, but there are many more options available. Ideally, deciding your optimal mix of financing sources means finding adequate access to capital and liquidity in order to remain agile.

Let's examine some of those options:

Commercial term loan

Term loans are a traditional option that most businesses are familiar with; many may have experience with securing such loans to initially fund the company or meet other capital expenditures.

Commercial term loans are a debt-based product that typically provide a lump sum to the business. There are many different structures they can take, but most loans have a predetermined term that lasts one to five years. Some short-term loans may be extended to meet ongoing capital needs.

When seeking a term loan, pay attention to:

- The quoted interest rate.
- The collateral you may be asked to put up. If you default on loans, your financial institution may repossess business property or assets.
- The amortization schedule (i.e., how you will repay principal and interest).

Business line of credit

Lines of credit are a staple in corporate finance. Often, they are used as standby liquidity. For example, if a business encounters market headwinds or volatility, it has the option to draw down on a line of credit that is already established. Comparably, term loans are often taken out with a specific need in mind.

The amount of money your creditor extends to your business will depend on a number of factors. These include, but may not be limited to:

- Your personal credit score.
- The business's credit profile.
- Historic revenues.
- Current liabilities.

However, you can often negotiate with your bank or financial institution to raise your credit limit. This often hinges on business performance and extenuating circumstances, like an economic recession.

Working capital

Sometimes, traditional loans can take too long to obtain, which complicates the funding situation if a business faces a pressing short-term need. That's what working capital financing is for: to cover short-term expenditures that support daily operations for the organization.

Such loans are primarily used to help manage cash flow. For instance, if some high-value accounts receivable are late, that throws the entire business off. A working capital loan can be sought to pay expenses like imminent utility bills or cover seasonal cycles of low demand.

Be sure to pay special attention to interest rate and repayment. Some working capital financing can come quickly, but at a higher interest rate. Other lenders may ask for a percentage of future sales instead of monthly payments.

Equipment leasing

Economic turmoil is often a turning point for industries. As businesses recover, they may pursue transformative changes that modernize or futureproof their operations. This is a solid strategy, but the upfront cost of new technology or equipment can be prohibitive.

Equipment leasing can allow businesses to implement vital new infrastructure without having to make a full investment that strains liquidity. Leasing arrangements provide a cost-effective way to acquire critical equipment, often being inclusive of service and maintenance costs.

There may also be potential tax benefits. Section 179 of the U.S. tax code allows businesses to deduct a portion of the full purchase price of certain qualifying equipment, like fleet vehicles or software.

Asset-based lending

Merchant wholesalers possess wide stocks of inventory by their nature. The problem is if demand is low, they can't realize their return on investment, and may risk becoming insolvent or cash flow negative.

Fortunately, they can unlock cash flow from not only inventory but also invoices sent to customers. This is the concept of asset-based lending, which uses such inventories, invoices, commercial equipment or business property as collateral for a short-term loan.

When wholesalers face difficulty in accessing capital through normal channels, asset-based lending can provide a useful alternative to securing liquidity.

Supply chain financing

Supply chain financing is a niche option that can benefit wholesalers in a number of ways. It works like this: Wholesalers place orders with supply chain partners, and a third-party financial institution offers funding for supplier invoices.

This structure can help wholesalers avoid cash flow crunches, while also improving supplier relationships by ensuring payments are consistent and sometimes even ahead of time.

Explore your options with the help of Comerica Bank

Deciding on the right financing mix is fundamental to having a plan for navigating choppy economic waters. Even in calmer times, regularly assessing your access to capital and liquidity is important to business continuity.

Interested in learning more about the differences between a business line of credit vs. loan, or the feasibility of other options for your merchant wholesale company? Contact Comerica Bank today learn more about our business banking, credit and lending products.

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