Financing For Opportunity With Working Capital

Situation: Capital Constraints

A retail Internet company working on very slim margins lacked the capital to build adequate inventory in advance of the holiday-season rush, its busiest time of year. The company had a $200,000 bank line of credit - it needed four times that amount to ensure it had enough inventory on hand to fill its holiday sales orders. To make matters worse from the borrowing perspective, it didn't have direct control over its inventory.

Approach: Negotiate Vendors and Model Cash Forecast

The first step for KRM was to work with the company's vendors to secure as much credit as possible and negotiate manageable payment terms. This resulted in improved terms that reduced the borrowing needs by 20%.

With new vendor terms in place, KRM modeled the company's cash forecast to include the surge in inventory required over the busy holiday season. With slim profit margins, relatively thin capitalization and inventory spread across 14 third party distribution sites most banks were unwilling to lend the amount of money the company required to hit its sales targets.

KRM found a bank that took interest in the company's rapid sales growth and record of consistent earnings.

We then worked closely with the bank to ensure they could confirm reported inventory and gain access to it if the need arose. This reassured the bankers and allowed them to collateralize the inventory at a high advance rate.

Excellent recording and reporting processes at the company made their financials transparent, giving more comfort to the bank.

The combination of vendor support, a good story and excellent recording, reporting and forecasting capabilities helped the bank give a strong rating to the company. The bank agreed to provide the company with the remaining financing required to achieve their holiday sales and profitability objectives.

Results: Profitability and Growth

Securing a healthy level of working capital was key for the continued success of this business. With its sizable line of credit, it was able to acquire the inventory it needed to make its sales targets while increasing profit by 30 percent.

With profitable sales, the company was also able to repay the bank by the end of the year, which helped to build its credit rating.

The entire process strengthened business relationships and the company as a whole. It is more prepared to deal with market shocks and fluctuations as they arise, and it’s taken a step toward developing long-term financial health and the opportunity for further growth, including acquisitions, as they move into the future.