

Solutions to the growth dilemma

It is common that as companies grow, new challenges arise that demand different solutions. Namely, when a company increases sales volume significantly, it usually experiences increasing working capital financing needs, as accounts receivable and inventory tend to grow more than accounts payable. Hence, companies looking to expand are faced with a dilemma: how to increase sales without putting a strain on working capital.

The good news is that there are ways of managing sustainable sales growth in a balance-sheet effective manner. In particular, companies can consider two specific solutions:

	Solution 1: Distribution Financing	Solution 2: Growth Financing
 What is it?	<u>Receivables-based</u> financing program established by the company looking to grow sales	Company-supported program to finance growth based on customers' <u>payables</u>
 How does it work?	<ul style="list-style-type: none"> Company extends payment terms to customers and sells the related receivables to a funder on a true-sale basis Funder pays the company on the original invoice due date or earlier and collects from customers on the extended terms 	<ul style="list-style-type: none"> Customers selected by the company assign a funder as a payment agent Funder pays the company on behalf of customers on the invoice due date and collects from the customers on an agreed extended payment term
 Sales performance	Boost sales <u>directly</u> by extending terms offered to customers	Promote sales growth <u>indirectly</u> by introducing an agent that extends payment terms to customers
 Working capital impact	For the company: Positive impact: Reduce DSO *	For the company: Neutral impact
	For customers: Positive impact: Increase DPO *	For customers: Positive impact: Increase DPO *

* DSO: Days of Sales Outstanding; DPO: Days of Payables Outstanding

With the working capital injection enabled by these two types of programs in the form of extended terms to customers, companies can effectively sort out the growth dilemma. A growing number of vendors are implementing them, mainly OEMs that sell through distributors and channel-partners, substantially improving customer relationship and prompting sales growth.

Two fundamental elements are recognized to ensure the long lasting success of sales financing programs: one is to have an appropriate program structure and another key element is to have the right servicer managing the daily program processes.

Global Supply Chain Finance Ltd. ([GSCF](#)) is the world's leading service provider, specialized in managing sales financing programs worldwide with state of the art technology and vast structuring expertise of almost 30 years.