

Supplier Financing Leverages Trusted Relationships

By *Finance New Mexico*

Vendors who supply products to retailers don't always have the capital needed to fill a large order. If the vendor can't get the money — or can't spend all its capital delivering a big order it has to wait 90 days to be paid for — it misses a chance to increase its profits and expand demand.

This is a common situation for many startups and small businesses that can't borrow from traditional banks or even nonprofit community development loan institutions because the business principals have no track record, uneven credit histories, scant collateral or unclear citizenship status.

Some commercial lenders serve this market by offering invoice factoring, purchase order financing or asset-based lending. But if the producer is lucky enough to manufacture a product in high demand, the retailer itself might be willing to finance the order. This type of “nurture capital” helps smaller producers scale up to demand in ways that benefit the retailer and producer.

Money to Grow

Most suppliers — whether producers or their representatives — welcome the exposure that comes with getting their product carried by a large retailer. But these opportunities can be exploited only if the producer is able to ramp up operations to fill a large order, which usually requires an infusion of capital for materials and labor.

The producer usually needs a loan if the order is so large that it temporarily drains company resources, including those earmarked for payroll and other fixed expenses. In some cases the company has to replace or reconfigure its machinery to meet mass-production needs, or it has to tweak the product to fit its new market.

Whatever the incentive, some New Mexico businesses consider access to capital a community development issue and are willing to lend to producers that supply what their customers want.



Desert Blends of Taos; photo courtesy of the company

Support for Homegrown Producers

Whole Foods Market has a local producer loan program that extends credit to vendors who have collateral but lack capital. The company provides up to \$25 million in low-interest loans to independent farmers and food artisans in the communities where it operates.

La Montañita Coop also finances capital-strapped vendors who keep it stocked with fast-selling products. Instead of requiring collateral, the co-op manages a pool of money sustained by contributions from members and other investors and deposited into an account at Nusenda Credit Union. The LaM Fund Loan Advisory Committee decides which loans to make, often based on established relationships with the provider.

According to the co-op's website, "the La Montañita (LaM) FUND is a member funded micro-lending program designed to grow the local food system and strengthen the local economy. It provides an opportunity for members of La Montañita Food Co-op to support farms, ranches, value-added producers, and other food system endeavors and related businesses in the La Montañita foodshed region."

In return, member-investors earn dividends from loan fees charged to borrowers, and the credit union reaps a small annual percentage of the value of outstanding loans.

To learn more about the LaM Fund, visit <http://lamontanita.coop/fund/>. For more information about the Whole Foods loan program, visit <http://www.wholefoodsmarket.com>.

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