

What is Reverse Factoring for Cannabis Businesses?



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Cash flow is an important aspect of business operations, but spending on needed supplies and other overhead doesn't always align with income from sales.

You may find yourself in a situation where you don't have the cash on hand to pay supplier invoices promptly, even though you anticipate money coming in.

This could be a major impediment to carrying on operations, which is why many businesses require an open line of credit to **bridge the gap between expenses and income**. This type of financing can be hard to come by for cannabis businesses because many major banks won't serve the cannabis industry.

But with the right cannabis lender, you have the opportunity to secure a range of financing options, including reverse factoring. What is reverse factoring, and how can it help your business account for fluctuations in cash flow? Read on to find out.

What Exactly is Reverse Factoring?

Reverse factoring is a financing solution that involves three parties – you, your lender/financial organization and your suppliers. Also referred to as supply chain financing, this process is initiated by you, the buyer, and involves paying off supplier invoices with financing and then paying the lender back when money comes in.

This financing allows you to continue making needed purchases to keep your business going while you await income from sales. You can avoid the stress of unpaid invoices and unsteady **business cash flow** as well as the potential for harming relationships with suppliers because of late or missed payments.

How Does Reverse Factoring Work?

The process is relatively simple once you have an arrangement in place with a **cannabis lender**. It starts when you purchase supplies or products from a vendor. Your supplier then provides you with an invoice for the purchase. Typically, this is approved by your company and given to the lender offering an open line of credit.

The supplier can request early payment, which the lender releases on your behalf and bills against your line of credit. The supplier receives payment, and you are responsible for paying the lender on the agreed schedule (perhaps monthly or at a set maturity date).

Suppliers may pay a small fee for early payout, and you may be charged interest, depending on the amount of credit and when you pay.

Examples of Reverse Factoring for Cannabis Businesses

If you run a dispensary, you might cultivate/manufacture some of your own products, but likely, you also sell a range of products supplied by other brands. You must order these products regularly to keep store shelves stocked, but you're essentially paying out of pocket until you sell the products, recoup your costs and earn revenue.

The gap between buying products and selling them could leave you dealing with a dip in your cash flow. You might not have the money to pay for products you need to stimulate sales and income. What can you do?

With accounts receivable/invoice financing or a reverse factoring line of credit, you can keep an open line to funding needed to pay supplier invoices in a timely manner, allowing you to continue placing needed orders for supplies while you await sales and revenue to cover the costs.

Advantages of Reverse Factoring for Cannabis Businesses

You may be hesitant to take on any form of lending as a business owner. It's natural to worry about repaying not only borrowed funds but accrued interest.

That said, having a backup in place to provide coverage between expenditure and income is not only helpful to your ongoing business operation, but there are also benefits for your suppliers as well.

How the Supplier Benefits

Your suppliers are dealing with some of the same issues you are when it comes to cash flow. They provide you with materials or manufactured goods that cost them money, but they're waiting on you to pay for them.

When you have credit lined up to pay them if your cash flow stalls, you give them the gift of predictability that allows them to keep their operations running smoothly. If they know they can count on timely payments, they're better able to manage their business and keep supplying yours.

How the Buyer Benefits

The biggest advantage of receivables factoring for your cannabis company is that it allows you to optimize cash flow, alleviating the risk of supply chain collapse. When you have ready cash to pay for products, you can work with supplier payment terms and build long-lasting relationships that benefit your business long term.

Keeping Cash Flowing in Your Marijuana Business

Many forms of cannabis financing can help you expand and purchase equipment or **real estate**. Credit lines that allow you to manage cash flow are arguably the most important for maintaining uninterrupted operations.

You might get away with paying suppliers late once or twice, but if you prove consistently unreliable, you'll find yourself without a supplier. Keeping the cash flowing gives suppliers confidence in your ability to pay and helps you maintain strong relationships and a steady supply of product.

Is Reverse Factoring Right for You?

Unless you're lucky enough to have a lot of money sitting in the bank to cover cash flow concerns, having a backup option like reverse factoring in place to cover lean times is essential.

With a reliable income stream, you can find a **suitable cannabis lender** and enjoy favorable terms that give you the best opportunity to keep your business operations on track.

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