Funding Options for Growing Tech Companies

Access to working capital is a constant struggle for growing technology companies, in part due to accounts receivable collection periods of 90 days or more. Long collection periods put a strain on cash flow and make this growing industry a high-risk investment for banks and traditional funding companies.

The cycle goes as follows: the longer an invoice takes to be paid, the higher the risk of investment loss, the harder it is to secure funding.

However, a variety of funding options are available to growing companies in the tech industry. There are financing firms that specialize in asset based funding options such as purchase order financing, inventory financing, real estate financing, factoring and a variety of other alternatives.

Asset Based Loans

Asset-Based Loans are secured by assets, which are taken if repayment isn't met. Asset-based loans are a great choice for rapidly growing companies who may be undercapitalized. These companies then leverage future revenue, in the form of inventory, account receivables or equipment, as collateral.

Accounts Receivable Financing

AR Financing is a subset of asset-based lending that uses open invoices as the primary collateral. The factoring of receivables provides an advancement of cash on accounts receivable, allowing timely access to funds and removing the need to wait on collections from customers.

Purchase Order Financing

Unlike asset-based loans, purchase order financing generates an advancement of cash before an invoice is created. In order to finance the manufacturing of an item, lenders advance money to businesses against a purchase order for finished goods, or add value to specific products.

Mezzanine Loans

A hybrid of debt and equity financing, Mezzanine Loans are typically used to finance the expansion of existing companies, based on specific objectives for the transaction and the existing capital structure of the company. Mezzanine financing is debt capital that gives lenders the rights to convert to an ownership or equity interest in the company if the loan is not paid back on time and in full.

Growing tech companies can use asset-based loans and receivables financing to generate working capital for business improvements, construction and expansion.