

---

# Trading Up

## *What do you know about Trade Credit?*

By: Aaron Dyer

---

Did you ever play bartering games when you were a child? Later generations fondly remember days in school when they went adventuring on the Oregon Trail via the computers on technology day. In financing, you can play the trading game again, in what's known as trade credit.

In trade credit, a buyer will purchase supplies from a seller who will finance the transaction and allow the balance to be paid in installments or at a later date. Startups and rapidly growing businesses most often use this form of attaining additional capital. Do your research and find a great partner to barter with. Often, if a solid business relationship is established, that one supplier can continue to help you in the long-term.

The more history you develop with the supplier, the more easily you will be able to secure additional credit purchases in the future. It's time to brush off those powers of persuasion skills and put them to the test. It's about being organized, prepared, and selling yourself- not quite surprising if you've been following this particular article series.

The supplier will want to know such things as how much inventory you are currently seeking, as well as how much you might be looking for further down the road. In the beginning, it is likely that you will have to personally guarantee the purchase price on the first inventory transactions. The supplier will also ask for a priority security interest in

the inventory supplied. Gather your projections and present them to several possible suppliers in order to cover all your bases.

Life is a numbers game, so be persistent in your efforts and you will eventually be rewarded. The legwork you put into the front of things will ultimately benefit you and your business later on.



On the plus side, there is instant monetary gratification involved with this type of credit. The payment schedule is flexible and can be broken down into small amounts that can be paid over several months or years. You can have a number of trade credit accounts open, but make sure you can handle the payment schedule. You want to build bridges and not burn them. This will also help you establish those connections

necessary to making your business a success.

Buying on consignment falls into the category of trade credit and can be a viable option for your business needs. Buying consignment translates to you paying the supplier only. In most cases, this method is most popular with those industries that use electronic consumer products, furniture, or retail print products. It also lends itself to benefits of greater security for you and your business, as you will only pay the supplier for the goods if, and when, they are sold. The supplier will hold title to the consigned goods, but when sold you will keep a portion of the funds from the sale and return the balance to the initial supplier. It's a low risk/no risk situation where if the goods don't sell, you won't be paying out of your own pocket, you only have to return it to the supplier.

On the opposite side of the equation is the slight downside wherein trade credit usually involves a higher purchase price. The vendors you are partnering with are often in a similar position as you. They are working diligently towards keeping their business afloat and successful. The higher purchase prices provide a

greater sense of security to the vendors and their business.

Sellers are also known for offering cash discounts in order to receive immediate payment. If this is a viable option for you, and best for your business, it might be good to take into consideration, as you would receive more of a profit from the sale. However, you want to have a strong sense of projected figures for the sale, know the current market for the product, and consider the current state of your business financial affairs. This way, you will not jeopardize your own finances, a good deal is not a good deal if down the road you end up digging deeper into your own pockets.

You may be sick of hearing it, but the time you are taking to research all methods of procuring funds and inventory will ultimately greatly benefit you. The amount of time and energy that go into this research will almost directly correspond with your amount of success in business. You have to be willing to take those additional extra steps and sacrifice a sufficient amount of time in order to create as much security for yourself as possible. Be the driving force behind your own success!

---

#### **About the Author:**

Aaron Dyer is President of Dyer Consulting Group, a small business consulting firm that advises business owners on ways to grow their revenues and increase profitability through better strategic planning and financial management. For more information, and also to sign up for Aaron's future articles, visit [www.DyerConsultingGroup.com](http://www.DyerConsultingGroup.com)

