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ALTERNATIVE FINANCING

Factoring Vs. Borrowing: An Alternative Method Of Financing That Really Works

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Today, perhaps more than ever, banks are reluctant to help finance contractors and subcontractors. As a result, the need for alternative financing methods is greater than it has ever been.

Yes, finding sources to finance projects is difficult, but without financially stable contractors and subcontractors, a project could wind up dead in its tracks — causing delays and even greater costs.

Factoring is fast becoming the alternative financing method of choice because factoring helps to shore up the financial stability of those who actually build the projects.

In fact, banks are referring contractors and subcontractors to qualified factors such as Quantum Corporate Funding, Ltd. in an effort to help contractors and subcontractors who have been and may still be their customers.

Why? Because as a factor we can help the bank's customer survive financial setbacks and bankruptcies simply by financing their receivables.

Accountants are also referring customers to Quantum because we help to improve their clients' cash flow for operating expenses. This enables their clients — contractors and subcontractors as well as MBEs, WBEs, SBEs, and DBEs, to purchase supplies and equipment and increase their labor force to keep their businesses going in these tough economic times.

For example, we're helping by factoring receivables for a carpenter in southern California who is working on a large residential development. The carpenter was able to increase his cash flow, which allowed him to buy supplies, pay his laborers and purchase the necessary equipment needed to finish what has become his largest job ever.

Without the help of Quantum Corporate Funding, this carpenter would probably have remained just another small, struggling carpenter.

But, you don't have to be a carpenter to qualify for alternative financing via factor-

ing. As I said, MBEs, SBEs, WBEs, and DBEs who, more than ever, are having difficulty obtaining financing for the project work that they get, can increase their own cash flow to grow their businesses, complete their work on a project, and use that success to obtain new work.

Interior firms can also qualify! Quantum Corporate Funding agreed to purchase the receivables of an interior firm that was turned down by a bank at a critical point in its business by providing the firm with the cash it needed for operating expenses.

In another example, one subcontractor, after we evaluated his situation, was indeed a candidate for factoring. He inquired about points, the percentage he would be charged to factor, and how soon he would be able to receive the monies he so desperately needed. In this case, the subcontractor would be able to receive an advance, under a no term contract, with no credit risk, equivalent to 60 percent of a specific single invoice totaling \$100,000 or \$60,000 in cash that would be wired directly to his bank account.

The subcontractor agreed to pay four percent of the total for the first 30 days as a fee on the \$100,000. In other words, he would pay \$4,000 to factor a \$100,000 invoice for one month. He would receive the balance of the money — \$40,000 less the \$4,000 fee — a total of \$36,000 upon receipt of the funds

FACTS ON FACTORING:

WHEN YOU BORROW

- It limits your flexibility
- A lender will secure assets equal to a minimum of three times the amount of the loan
- You can not secure additional funds without negotiating the loan
- You must meet monthly payment obligations

WHEN YOU FACTOR:

- You don't borrow money
- You make no monthly payments
- You receive funds in 24 hours or less
- You control your cash flow by determining how much to factor and how often

time market — as most are. Further investigation disclosed that his gross margin was 18 percent and that his annual overhead was \$150,000.

He also said that if he had "unlimited funds," he could double his business. "I would be going \$4 million in sales if I had unlimited funds. I'm turning away business

head? The answer is "no." Actually, the extra \$2 million in sales would only cost him an additional \$50,000 in overhead expenses.

A doubling of sales for most small businesses does not lead to a doubling of overhead. A business does not need twice the space or twice as many employees. It is the economy of scale that allows for such an increase in net profit.

This contractor realizing how he could benefit from factoring conjured up an image of another subcontractor smiling ear-to-ear — an image I have seen so many, many times in person.

Without factoring, this subcontractor made \$360,000 gross profit on \$2 million in sales. But, by factoring 100 percent of his receivable, he only had to factor \$2 million out of a projected \$4 million in sales in order to generate a gross profit of \$720,000. His annual cost for factoring was \$80,000.

Factoring helped him grow his business by taking advantage of discounts offered by suppliers. Factoring with Quantum Corporate Funding enabled him to take greater advantage of work opportunities he might have missed out on that would have substantially increased his bottom line.

We do not buy retention. Retention is where a percentage of monies are withheld by the owner until a project meets the owner's satisfaction.

What we do is supply cash. Cash to help you meet your payroll, tax and insurance needs. Cash to help you pay your suppliers and achieve greater discounts from them. But we do more, much more. We provide bank-to-bank wire transfers; we require no long-term contracts; we will factor as many invoices as you require; we don't need your financial statements; and in some cases, we can provide funding in 24 hours.

So, when your bank says "no," many times we'll say "yes." You don't need to go from bank to bank with your hat in hand. Your receivables are as good as cash with us. And, if you're a business start-up, we may just be able to help you too.

There is an unlimited potential for growth if factoring is used as the alternative financing method of choice.

BOTTOM LINE COMPARISONS

	PRESENT SITUATION	WITH FACTORING
SALES:	\$2,000,000	\$4,000,000
18% GROSS MARGIN:	\$360,000	\$720,000
OVERHEAD:	\$150,000	\$200,000
COST OF FACTORING:	NOT APPLICABLE	\$80,000
NET PROFIT:	\$210,000	\$440,000

due toward payment of the invoice. He therefore received \$60,000 plus \$36,000 — a total of \$96,000 for his \$100,000 invoice.

The subcontractor, reluctant at first, said he was operating in an extremely competi-

now because I don't have the cash flow to handle it," he said.

This is a very familiar scenario. However, the question most often asked is if he doubles his sales, would he double his costs.