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Andrew Giordano at his Com-Tech L.L.C. construction company in Yonkers.

Factors to consider

Entrepreneurs say 'factoring' helps advance their business

Since 1995 when Andrew Giordano of Elmsford started Com-Tech, a Yonkers-based construction company that installs reinforced concrete, he has gone from jobs on backyard sidewalks to deals with large municipal agencies such as the New York City Housing Authority, boosting annual revenues from \$20,000 to more than \$3 million, he said.

But the municipal agencies can take up to 90 days to pay Com-Tech for a job, and Giordano has needed funds to bridge that time gap in order to support the company's weekly payroll and pay his suppliers, which would otherwise hit him with finance charges. "My suppliers don't want to hear that I'm getting paid 60 to 90 days late; they want their money right away."

Giordano, president, said traditional bank loans haven't been the answer to his problem. Banks denied his loan applications early on as he was trying to build his business.

Tony Dinkins, president of Unlimited Events & Marketing Inc., a special events and promotions company in Yonkers, has experienced a similar problem since launching his business in 1994.

Dinkins' company, whose revenues have grown about 25 to 35 percent a year, manages events sponsored by clients such as Western Union and Colgate-Palmolive, including community outreach efforts.

Dinkins said larger clients can take 60 or 90 days to pay an invoice, but he has needed quick access to cash to run his programs and also seek new business.

Both Giordano and Dinkins have found

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solutions through a process called "factoring." A factoring company purchases Com-Tech's or Unlimited Events & Marketing's invoices and advances them 60 to 80 percent of the invoices' face value.

The debtors, in this case the clients of Com-Tech or Unlimited Events & Marketing, will pay back the factoring company. Then the factoring company gives Com-Tech or Unlimited Events & Marketing the remaining 20 to 40 percent of the invoices' value, minus a fee of about 2.5 to 4 percent.

Dinkins started doing financing through a Manhattan-based factoring company, Quantum Corporate Funding Ltd., about two years ago. Giordano also started financing through Quantum a year ago.

Dinkins said he submits an invoice to Quantum and, within 24 hours, Quantum advances him 75 percent of its value.

"They've been instrumental in helping us with our cash flow," Dinkins said. "It's a great alternative funding source for small businesses."

Factoring

Quantum Corporate Funding is one of the U.S. factoring industry's smaller finance companies, said Bruce Jones, deputy executive director of the Commercial Finance Association. About a third of the 300 companies represented by the Manhattan-based national trade association perform some kind of factoring, he said.

Factoring originated in the garment industry. The largest factoring companies, which number fewer than 15, are primarily big banks, Jones said.

He said the largest factoring companies still focus on textile companies and designers. But he explained that the factoring industry, which in 1998 achieved \$75 billion in volume, has experienced significant growth among its smaller companies.

These smaller companies, such as Quantum, have translated their smaller size into flexibility, enabling them to expand factoring into new industries, Jones said.

"We pride ourselves with coming up with customized solutions to difficult problems," said Howard Chernin, Quantum's senior vice president.

Chernin said Quantum, founded 10 years ago, started its factoring with construction companies, which became a niche source of its \$80 million in annual volume.

He said factoring has expanded into service industries ranging from cable programming to limousine companies, from startups to publicly traded businesses.

Factoring companies rely on the invoices' creditworthiness — helpful to small businesses without sufficient credit backgrounds themselves, Chernin explained.

Dinkins said businesses like his seeking financing through factoring should make sure they have a large enough profit margin to absorb the fees. Dinkins said his company's profit margin is more than 20 percent. Giordano said his margin is between 15 and 20 percent.

In addition to factoring, Quantum performs asset-based lending, which offers lower fee rates, higher cash advances and takes into account the borrower's creditworthiness, Chernin said. Quantum also has a program called Trade Credit Plus, whereby Quantum helps purchase business materials.

Seeking financing?

Businesses interested in seeking financing through a factoring company can contact the Commercial Finance Association at 212-594-3490 to obtain information about companies and their loans, said Bruce Jones, deputy executive director of the association. Information also is available on the web at www.cfa.com.

"Shop around," Jones said. "You want to deal with someone with experience."

Two Yonkers-based companies, Com-Tech L.L.C. and Unlimited Events & Marketing Inc., said they have benefited from financing through Quantum Corporate Funding Ltd. (www.quantum-funding.com), a Manhattan-based factoring company. Interested businesses may call Quantum's senior vice president, Howard Chernin, at 800-352-2535 or 212-768-1200.

■ By LOREN BRODY

Niche market

Chernin said opportunities have increased for factoring companies like Quantum because banks have become more frugal with lending. "Basically, the way I see it, banks are really tightening up their credit facilities."

Quantum receives referrals from banks and accounting firms, he said. Alan Green, senior vice president-commercial lending for First Union Bank in White Plains, said he has referred clients to Chernin in situations in which in-house solutions didn't work.

"I know he (Chernin) fits a niche that a lot of banks don't hit," Green said. Congress Financial, a subsidiary of First Union, does asset-based lending, but mostly with large deals.

Philip Zegarelli, president and chief executive of Reliance Bank in White Plains, said he can see that factoring, which his bank does not offer, could work well for both the lender and borrower in certain situations.

But Zegarelli also said that Reliance Bank's concentration on more traditional small-business lending, including a specialization in U.S. Small Business Administration loans, has been successful. "Business is better than ever for us."

Robert Capone, president of Community Mutual Savings Bank in White Plains, said his bank, whose focus is residential lending, has succeeded in expanding into business lending through traditional loans for small- and mid-sized companies.

■ By LOREN BRODY