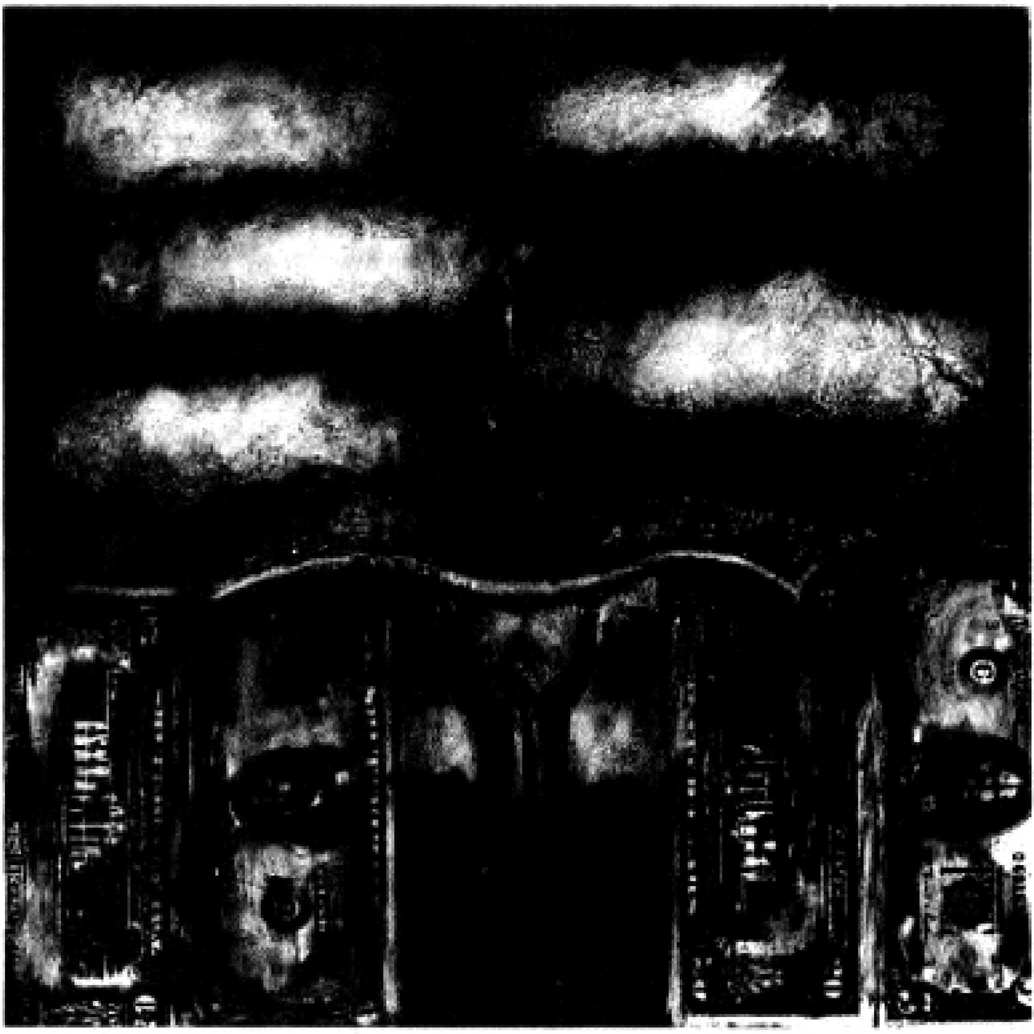
BY ELAINE POFELDT

INSTANT CASH

Raise the money you need in 48 hours — through factoring



WINNING a big client is a little like dating a movie star. There's a lot of prestige that comes with jumping into the limelight, but staying there can be a bitch.

For many entrepreneurs, the toughest part of the relationship is getting large businesses to pay up. The fact is, at many of America's corporate monoliths, the folks in accounting like to wait 60 or 90 days before they pay invoices. The reason is simple: the longer Godzilla Corp. keeps its money in the bank, the more interest it collects. Small businesses are stuck financing the operations of these big players while they struggle to survive.

For a growing number of entrepreneurs, factoring offers a way around the problem. This fast track to cash, once used mostly in the garment industry, is now catching on in fields ranging from construction to medicine, says Leonard Machlis, executive director of the Commercial Finance Association, a trade association for factoring companies and other asset-based financial services operating in New York City. Factors collected $72 billion worth of bills in 1997, up by 13 percent over the prior year, according to the association's research. "Factoring's on the rise," Machlis says.

Here is how factoring works. Special finance firms known as factoring companies take on the responsibility for collecting bills from your most creditworthy customers, provided these payments aren't more than 90 days overdue. In most deals, they give you between 60 and 80 percent of the value of your invoices up front, says Robert Press, chairman and CEO of Finantra Capital, a finance company in Plantation, Fla. Then, when they collect the bills, they'll give you the rest of the money, minus a fee. Currently, fees range from about 1 percent to 5 percent of the value of your invoices, depending on how old the bills are.

While factoring can be an expensive way to raise capital, it can also be a practical alternative to bank loans for those who don't qualify — particularly if your need for cash is time-sensitive. Unlike your banker, factors won't look at your business plan or

ILLUSTRATION BY MICHELLE BARNES

your personal credit rating. "We don't care how big or small you are," says Finantra Capital's Press. All they check out is the credit rating of the customers whose bills you ask them to collect. This can take less than 48 hours, which means you get the money you need fast.

It's worked for Philip Brach, owner of World Trade Knitting Mills in Brooklyn, N.Y. His factory makes sweaters, primarily for a large national retailer, churning out $10 million in sales annually. He started factoring his bills 14 years ago but quit in 1998 when a major bank gave him a $1 million credit line at a better interest rate. Six months later the bank rescinded its offer. The loan officer told him that World Trade Knitting Mills was too big for the institution's small-business loans and too small for the financing it offered medium-size firms. So, in 1998, Brach went back to factoring, building a relationship with a Manhattan-based factoring concern called Quantum Corporate Funding. He says he's happy with the switch. "When you call with a question, you don't have to wait days and weeks for answers from the president and vice president," he says. Factoring has allowed him to increase his production and sales by about 25 percent in two years, he adds.

Some banks are actually beginning to send clients they reject to factors, says Craig Sheinker, president of Quantum Corporate Funding, who now gets regular referrals from Citibank and other institutions: "They've decided it's in their best interest to refer their business to someone who can help the client. When the client grows to the point where he's bankable, they feel he'll be inclined to stay with them and borrow from them."

Navigating the factoring process can be challenging if you've never done it before. Use these tips.

EXAMINE YOUR INVOICES

Factors will take on only bills that they think are collectible. That means the ones you've sent to creditworthy clients in the past 90 days, says Quantum's Sheinker. Even better are those in the 30- to 60-day-old range. If your problem is a pile of six-month-old invoices, don't turn to a factor. He'll send you to a collection agency instead. Collection agencies are willing to take on your oldest invoices because they charge you more. "People who don't pay for 60 or 90 days may not pay you," says Press.

Russell Handley is the kind of client whom factoring guys like Sheinker love. Handley's company, Test Communications Group in Newburgh, N.Y., installs cable lines for large cable companies. In his industry, it's standard for these firms to take as long as 90 days to pay bills. At the same time, there aren't a lot of deadbeats among them. So, when cash is tight and he needs to pay his workers, he farms out as much as 45 percent of his invoices to Sheinker for collection. His getting money quickly allows him to take on more work, he says. In fact, he credits factoring with having helped him increase his annual revenue from $500,000 seven years ago to nearly $4 million today. "We wouldn't have grown as fast as we did without it," he says.

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CONSIDER YOUR PROFIT MARGIN

Because factoring adds to your overhead, it may not be ideal for companies whose profit margin is less than 15 percent, says Sheinker. "If somebody is importing commodities like coffee beans, where the markup is very low, it doesn't pay to factor," he explains. "If you have a product like costume jewelry, where the markup is 200 percent, it's meaningless whether you chop 2 percent or 3 percent off their invoice."

KNOW THE SCORE

Factoring may provide an ideal quick fix for a healthy company during crunch time, but it's not a substitute for instituting a sound, long-term financial plan. "If you're a troubled company and are using factoring basically to keep yourself afloat, you could be setting yourself up for a problem," says Press. Cutting into your revenue with factoring fees will only make your financial troubles worse. "You're borrowing from Peter to pay Paul," he explains.

FIND THE RIGHT FIRM

There are many new players in factoring these days. Not all of them are good. "There have been a laundry list of people who have gone into the business but didn't know what they were doing and had their heads handed to them," says Press.

The easiest way to find a reputable factor is to go through a trade association that screens its members. The Commercial Finance Association, a 56-year-old organization, lists its 300-plus corporate members on its Web site (www.cfa.com). "We've had no problems or complaints so far," says the association's Machlis.

Folks who've spent many years in the industry are your best bet, says Press. "Every relationship is terrific when everything works out well," he says. "But when there's a problem, who knows how to solve it? Someone with experience."

Also bear in mind that the firms with the lowest rates aren't always your best bet, adds Press. "The really important thing at the end of the day is service. When you're submitting invoices to get money advanced to you, you want it taken care of quickly and professionally."

MAKE SURE THE PRICE IS RIGHT

Factors love repeat customers. It's cost effective for them to do their due diligence on your clients only if you're going to keep coming back. So, companies that do business with a factor on a regular basis should ask for a volume discount. "Everything in life is negotiable," says Press. ⊗