BY THOMAS G. SISKA

Just One Piece of the Puzzle...

Secured debt comes in many forms. Receivable financing is but one piece of a company's capital structure. However, it is becoming more and more necessary to provide cash beyond what your factoring advance formula allows in order to make a deal work. Therefore, rather than hoping that the prospect or their advisor can locate additional sources of financing, good Factoring salespeople have niche lenders in their hip pocket ready to bring to the table in order to provide that extra bit of capital that gets the deal closed. Being a receivable financing solution is nice. However, being a total business financing solution is better. It's better for you, better for your prospects and it's especially better for your referral sources who are counting on you to help. They expect results and are most time completely indifferent as to which company provides what type of financing. All that they care about is that at the end of the day, the referral got assistance and it was because of you.

Therefore, you had better be prepared to at least bring the following types of financing to the table, or watch your competition do it instead.

Purchase Order Financing

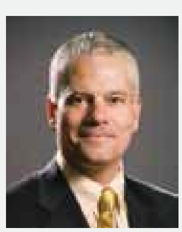
Since many small Factors are willing to fund start-up businesses, Purchase Order Financing (POF) is probably the next most valuable tool for those new companies. Like Factors, POFs are more concerned about the other parties to the transaction than they are about the client. POF can also allow small companies to fulfill orders many times greater than their existing capital structure allows, even with factoring. The factoring community has recognized the need and many are now willing to provide some sort of PO Financing assistance. Some even have formal divisions that provide this unique niche financial product.

The early Purchase Order Financing pioneers kept it simple. The entire PO had to represent finished goods that would be drop shipped directly from the manufacturer (usually from overseas) to the buyer, with the client never touching the goods. The process would many times involve the customer or buyer changing the name of the vendor from the client to the PO finance company to ensure that title to the merchandise and ultimate payment, once title was transferred to the buyer, would be made to the POF. As competition increased in POF, the requirement to change the vendor name was dropped. Then the goods were allowed to go directly to the client so he could break up the shipment for multiple customers. Next, the POFs began permitting their clients to repackage the finished goods. Then, light assembly became permissible. Now, purchase order financing can be used to purchase one or more major components needed in fairly involved manufacturing processes. Further, most POFs require that the client and its customer be pre-approved by a Factor to ensure the quickest payoff of their risk.

It is therefore imperative that you find the PO Financing company that targets the same types of customers that you do (size, years in business, etc.). The next step is to make sure that the inter-creditor agreement between your company and the POF is acceptable to both parties. It is recommended that this be taken care of before a transaction is ever referred so time isn't wasted later. It may even take a couple of different POFs to adequately cover the range of customer needs you encounter. And since PO Financing is most often more expensive than Factoring, there is no worry that the client will opt to use POF instead of Factoring.

Inventory Financing

This is a close relative to PO Financing, but allows the customer practically unlimited flexibility as it pertains to the type and purpose of the inventory. This kind of financing was practically non-existent ten years ago for the average non-traditional factoring client. Today, several firms are willing to face the perils of lending against this most dangerous collateral. In order to make the reward worth the risk, the minimum required borrowing amount is usually higher than POF ($250K vs $100K). So this type of financing is not available for the smallest clients (under $1 Million of annual sales). However,



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with bigger being better, these inventory lenders can help you land those large deals.

Equipment Financing/Leasing

The equipment leasing market is mature to the point where just about any piece of equipment of any size that has value can be financed, sometimes with little regard to the credit worthiness of the client. These “hard money” (meaning the client doesn’t have the consistent cash flow to make the payments on time without allowing some other obligation to be paid late, usually their unsecured vendors) equipment financing providers usually specialize in a certain type of asset, size of loan, credit quality of client or some combination thereof. Because the leasing market has been carved up into so many niches, it will take some work to locate the right firm (or multiple firms) that can help your typical client. However, when a bank is demanding a full payoff of both its line of credit (which you already know you can do) and its term debt, having the right equipment financing available can be the difference between making a commission and missing your quota.

Hard Money

Commercial Real Estate Loans

Again, when your factoring proceeds are not enough to make a deal happen, it is critical to have other money providers who focus on the assets that you don’t. The most common needs have already been discussed and those are the most important ones to focus on. However, some of our prospects do own the buildings in which they operate. And these same prospects tend to be of the bigger, more “commission generating” sort. If you sell factoring services for more than a couple of years, you’re sure to see this need arise. The firms that will provide loans on commercial real estate (CRE) where the owner can’t prove consistent cash flow to pay the mortgage are few indeed. But if you can find one that will loan in your territory (CRE lenders tend to specialize geographically), then this could give you a huge advantage over your competitors.

Mezzanine and 2nd Lien Lenders

Now were getting to the more esoteric business financing providers. These options usually only exist for the largest of clients (those with sales exceeding $10 Million annually) although you can sometimes find a local company that might look at smaller companies. These lenders either do not have a lien on any asset (the Mezz) or do not have a first lien on any asset. They are looking at either the client’s positive cash flow or “enterprise value” for repayment. Enterprise value is the premium a buyer would pay to acquire the client. Usually this “value” pertains to a company’s brand (like Levi’s or Docker’s in the case of clothing) or intellectual property (like a patent). Typical Factoring prospects have neither. But for those looking for very large transactions (greater than $1 Million in funds employed), these lenders may come in handy one day.

Conclusion

We can’t be all things to all people, or so it is said. But with the help of other lending specialists, we can more often be the solution our referral sources were always hoping we would be. •