

How to Strengthen Your Business for Growth



In a post
COVID -19
Environment



Management:

How Invoice Factoring Can Strengthen Your Business for Growth

The economic challenges of the Corona Virus have left a cash flow shortfall for many firms. Even in today's high growth economy, the cards are still stacked against many small firms. With an impaired balance sheet as a result of your equity being eaten away by tighter operating margins, rising cost of materials and labor, and the inability to pass on the additional costs means that bank financing is almost impossible to get. If you are lucky enough to have a bank line, the terms and conditions may have changed as new regulations have the potential to shift the profile for your relationship with the bank from a strong personal relationship into a loan that is categorized as 'risky,' thereby requiring the bank to increase its capital requirements. The ability to find and obtain needed financing to strengthen and grow businesses remains a true challenge. Cash flow management can either make or break a small business. Without the proper cash flow management, you will never be in a position to grow your balance sheet and change the lending profile of your company from the bank's perspective.

The demands within the construction industry seem to be constantly working against you. As more contractors and subcontractors bid on the same jobs, to remain competitive, you must offer extended payment terms and earn less on the jobs that you successfully bid. Meanwhile, as the business owner, you must ensure you have the cash flow to make payroll, pay benefits, manage and collect accounts receivable, manage and pay suppliers, and find work to backlog. These demands create an almost perpetual cycle of cash flow deficiency for your business. To add insult to injury, a natural disaster such as the COVID-19 Virus can create a sharp decrease in work, and because of your constrained cash flow, you must pass on opportunities to increase your work load and backlog.

Stretched Cash = Business Risk

Firms across the nation face similar conditions each day in their own businesses. Let's take a look at Marc; Marc owns and operates a successful electrical firm supplying services to the City of New York, the Board of Education, and Mass Transit, to name a few clients. Working within the industry standard practice of 90+ day payment terms was challenging enough. Then, COVID -19 hit.

The demand for his company's services dramatically decreased and an immediate reduction of work was the result. The delay in collecting accounts receivable, as a result of extended payment terms needed to gain the highly competitive business, was forcing the company to miss payroll and delay payment to its own suppliers, the life blood of the business. The residual impact of stretching inadequate cash flow leads to neglected bidding capacity. The company's backlog of work was reduced from the typical six to 12 weeks to just two weeks.

Realizing that stretching existing cash flow was no longer an option, the company approached local banks for financing help. Each one turned down the company's loan applications but referred the company to alternative financing firms. Even those firms turned down the contractor due to strict credit conditions, balance sheet issues, and the existence of debt hangover and the company's inability to meet other loan covenants.

Succeeding Today

Taking Control & Keep Up with Factoring

There are a multitude of companies that provide invoice factoring or spot factoring to small businesses. This is an effective strategy to help companies obtain the funding they need when traditional sources, such as banks and finance companies, are not available or willing to help. This invoice factoring strategy refers to the sale of only that portion of a company's accounts receivable needed to meet its cash flow needs. In other words, the company sells its outstanding invoices for services the company has already provided, only if it needs the additional cash flow for operations. Companies are then able to sell a single invoice or a schedule of invoices in exchange for much needed working capital. Those funds provide staying power until cash flow catches up with expenses. Invoice factors typically work with construction-related companies including electrical subcontractors, dry wall subcontractor, mold remediation firms, and demolition companies.

Meet Extended Payment Terms & Grow Business

In today's competitive market place, the ability to offer extended terms is crucial to winning business with large firms. Many businesses shy away from offering extended terms on their accounts receivable to their customers because they cannot handle the cash flow burden that comes along with the offering of extended credit terms. However, larger customers expect extended credit terms and prefer to do business with those vendors that can provide them. Providing extended credit terms to customers insures that the larger company is cash flow positive and has lower costs of borrowing. Through invoice or spot factoring, your company will become a more valued supplier to your existing customer base and provide you with the potential to grow even more.

With invoice factoring, the factor firm waits to get paid while commercial firms get the working capital required to stay afloat while the accounts receivable matures. The cost of factoring is a percentage of the receivable, so astute small business owners will increase the cost of their goods to take into account the cost of factoring their invoices. This pricing strategy essentially transfers the cost of factoring to their customers and allows the small business to grow to the extent it is able to with its large customers.

Repay Bank Loans

In addition to immediate cash flow needs, many small businesses also have debt hangovers from revolving credit facilities that have been termed out as a result of the COVID -19 and the change in their financial condition. Capstone Capital Group, LLC is adept at working and negotiating with banks and finance companies that are unable to extend more credit to their existing borrowers. By entering into Limited Subordination Agreements (LSA), the bank permits Capstone to purchase accounts receivable that would have otherwise been part of the bank's collateral. This added liquidity ensures the business owner has sufficient working capital to operate with until their credit line is paid down. In many cases, as the business grows because of the use of the LSA, the bank or finance company is paid down quicker and at less cost to the business owner. This is accomplished through increased sales and overhead being allocated over more jobs.

The range of cash flow solutions provided by Capstone include accounts receivable management services, funds control, providing credit information on accounts, and in some cases, trade finance or purchase order financing. These firms can provide needed cash now without the bureaucracy of a traditional bank or finance company. Invoice factoring gives you cash as needed, when you need it.

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