

Factoring gets a face-lift

Often thought of as mercenary moneylenders, factors are undergoing a customer-friendly makeover

GARY WASSNER IS guaranteed a front-row seat when the fashion-design house Tuleh has its runway show during New York City's Fashion Week this February. But unlike most of the audience members, Wassner isn't a retailer, fashion editor, or celebrity checking out Tuleh's fall 2006 line—he's the clothing company's factor.

Why does Wassner merit such star treatment? Without him, there's a good chance that New York City-based Tuleh wouldn't be in business, never mind putting on a glitzy runway show. "With Gary as a financial partner, I can envision taking the company two or three times higher," says Ira Rosenfeld, Tuleh's director of operations.

It's hard to imagine a factor getting such kudos in years past. Until recently, factors—which pay businesses up front for outstanding bills and collect payments from customers when they're due—were often thought of as one step above loan sharks. "There was an image that factoring companies used baseball bats to collect from customers," says Carlos Weil, CEO of Capital Solutions, a factor based in Fort Myers, Fla. These days, however, many factors are behaving more like business partners than moneylenders. After all, Weil notes, it is in a factor's best interest for its clients to succeed.

The bottom line is the same: Borrowing from a factor is more expensive than taking out a traditional bank loan. Unlike banks, factors extend credit to businesses without assets or proven track records. In exchange for taking on extra risk, they charge a premium—interest rates usually start at two points above prime and can climb much higher. But competition from a new breed of small and midsize factors has forced the industry, once dominated by a few large firms, to focus on customer service. To that end, some factors now offer custom-tailored financing, flexible credit limits, and advice on everything from global expansion to customer relations.

That kind of handholding helped Bryan Bradley, Tuleh's co-founder and designer, rescue his clothing business from the brink of extinction. Bradley and his

At Ease
Thanks to his factor, Bryan Bradley can focus on runway shows instead of cash flow.



partner, Josh Patner, founded Tuleh in 1997 using their credit cards and \$225,000 in savings and loans from family members. Their tastefully sexy clothes quickly developed a following among the cocktail party set and space on the racks of high-end department stores such as Neiman Marcus. But it took weeks for retailers to pay their bills, leaving Tuleh without the necessary cash flow to expand into new markets and develop new product lines.

Bradley and Patner courted a dozen investors, but failed to find the right fit. In the winter of 2002, they hit rock bottom when they called off their spring 2003 runway show. The show would have cost at least \$200,000 to produce; Tuleh had just \$12,000 in the bank. Discouraged, Patner left the business to become a fashion writer. But Bradley was determined to make it work.

That year, Bradley signed a contract with Hilldun, the New York City-based factor run by Wassner. With Hilldun's help, Tuleh has since expanded into Russia, Italy, and Japan, and sales have increased sevenfold, reaching about \$7 million in 2005. Here's how the arrangement works: Each time Tuleh makes a sale to say, Neiman Marcus, Tuleh simply e-mails the invoice to Hilldun. As soon as the order ships, Hilldun deposits the amount of the invoice directly into Tuleh's account, minus about 9% interest, allowing Bradley to use the cash to finance upcoming runway shows or pay vendors. (Hilldun

Factors to Consider

Four key questions to ask before signing a factoring contract:

- 1 How much of my receivables will you withhold?** Most factors set aside 20% of receivables against deadbeat invoices. If your customers have good credit, you could reduce that to 10% or 15%.
- 2 Will I be fined for breaking my contract?** Shop around for a factor that does not charge early termination fees. Or, consider signing a six-month or one-year deal.
- 3 Are there any hidden fees?** Some factors require clients to pay fees related to, say, wire transfers and administrative costs, so get the complete picture up front.
- 4 Can I increase my credit limit down the road?** If you plan to grow fast, choose a factor that's willing to increase your line of credit before your contract expires.

also holds back roughly 20% of the receivables against unpaid invoices and disputes.) When the bill comes due, Hilldun collects directly from the retailer and sends Bradley the final 20%, less any adjustments.

New technology adopted by the factoring industry in the past couple of years also makes it easier for companies to track payments and catch billing er-

rors. Rosenfeld logs on to Hilldun's website every day to make sure Tuleh's accounts are in order. He recently noticed that a client had requested a partial refund on the same order twice. Armed with a printout from Hilldun's website, he challenged the company and resolved the matter in days. In the past, he would have spent a month sifting through faxes to fix the same problem. "I see who paid the bills yesterday and who didn't," Rosenfeld says. "I'm not waiting to get paperwork."

The advantages go beyond paperwork reduction and cash flow. Rosenfeld often consults with Wassner about the company's business strategy, tapping into Wassner's years of experience with retailers. Last year, for instance, Rosenfeld was considering opening Tuleh boutiques within several high-end department stores. Wassner warned him that many upscale brands have lost money on such boutiques after failing to meet sales quotas.

A growing number of factors are also expanding their offerings to work with U.S. companies doing business overseas. Weil has offices in South America and Europe and helps clients vet the creditworthiness of foreign customers. Hilldun even helps clients navigate tricky cultural issues that arise in doing business abroad. Once known for specializing in apparel companies, factors now cater to a wide range of businesses, including both manufacturers and service-oriented companies.

Some things about the factoring industry haven't changed. Many factors still fine clients for pulling out of contracts early. Though some lenders may be willing to raise a client's credit limit if, say, a substantial new customer comes along, others are more rigid.

Still, Rosenfeld has turned down offers from banks, opting to stick with Hilldun because of the extra advice and industry insight. Overseas sales now account for about 10% of Tuleh's revenue. Bradley is also working on a new line of shoes and accessories. Rosenfeld, meanwhile, isn't worried about funding the new projects. "You don't need deep pockets when you have Gary's phone number," he says.

—Catherine Curran

Back in Style
Factoring helped
finance Tuleh's
spring 2006 collection.



Resources Check out Factoring-101.com for more tips and links to books about factoring. Visit the website of the International Factoring Association (factoring.org), a trade group, to fill out an online form and receive information from various factoring companies.