

## **Facts on Factoring: When it is good, it is very, very good. When it is bad, it is horrid.**

*by Joy Ann Venverloh 10/3/2005*

A deal, that is. Most factors, small or large, have many good, successful "treats" to talk about and some bad "tricks" to be embarrassed and concerned about. When someone plays a trick on you, you feel sheepish or embarrassed to be caught. Making a factoring mistake is like that.

It took me some time to admit to myself, my partner/husband, and my lawyer what a dumb thing I had allowed to happen. As you can guess, the nightmare began quite innocently. A banker called me and asked me to find venture capital for a local manufacturing company that had been in business for a little over a year. Since I am a member of the Missouri Venture Forum, I am somewhat familiar with venture capital sources. So I said I would try to help.

I met the local business owner and was impressed with the detail of his business plan and his determination to succeed. I arranged for a couple of meetings with venture capitalists, but they were not too impressed since the company had not yet turned a profit, and the income was around \$100,000 (too small). They were very close to profitability and had financed their company themselves up to this time. Factoring would not help since they only had very small invoices, which would not give them the money that they needed.

I notified the banker of my findings and went back to my small factoring business. About six months later, the local business owner called me about funding. What he really needed was \$75,000 in purchase order funding. He had contracts from a large container company to assemble the containers. He also had a letter from them praising the great job his company was doing putting these items together for them. They were making my client the only assembler for their many branch offices. His problem was that he needed money to rent trucks to get his equipment to the job site, which was states away. He also needed the money for payroll during that time and up to when the check would come in.

The assembly was a simple procedure. What could go wrong? This was beyond my company's financial lending guidelines, but I was confident that this deal would go smoothly. I would put up the money and then factor it out. I did my due diligence, sent the letter of assignment, received it back, and proceeded to fund my client.

About three weeks later, he was to start invoicing the customer (a very creditworthy customer). This customer was paying within 10 days after invoicing. I figured I would have my money back in a couple of months.

About four weeks later, my client called long-distance. It seemed that the customer wasn't ready for him when he arrived with his equipment and men. He had used all of the money with the truck rentals and payroll. Now he needed another \$50,000. In my "dumbed-up and numbed-up" state of mind, the only way to get my money back was to give him the \$50,000 to finish the job. I had a purchase order of \$156,000 for the first advance and a \$72,500 purchase order for the second advance.

Things started happening. I received \$42,768.96 for three invoices, then nothing. I called and my client told me that the invoices and the payments would be forthcoming. Nothing came. I called the customer. No answer to my messages and letters. After endless calls,

late notices, and demand letters, I went to my lawyer. He found out that my client had asked the customer to stop sending me the checks and give them to him instead. We are now about to go to court. I am at this time confident that I will receive all or most of my money.

"Treats" are not as emotional as "tricks," but they feel good. I have had many treats.

One painting contractor has been with me since June 2003. He made \$50,000 the first year. Now he has over \$1,000,000 in contracts for this year alone and has at least 17 workers on the payroll every week. He tells me all the time that he would not be in business without for my company.

Here is another "treat." I started factoring a small printing company right after I started my business. I factored \$112,500 in invoices the first year, \$104,000 the second year, \$246,500 the third year, \$293,000 the fourth year, \$81,458.50 the fifth year, and \$16,908 this year. Needless to say, my printing company doesn't need me anymore. He merged with another printing company and bought out another company in 2005.

I feel good about all of my "treats." I try to learn from my "tricks." I've learned that it doesn't pay to over-fund your company's credit limit just so your client can stay in business. Small factors as well as large factors have to be vigilant, even when you think that you have covered all bases. I did my share of sleepless nights and worried days. Now it's time to move on to the next "treat."

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