

# *Despite Competition, Factors Still Growing*

**BY MYRA THOMAS**

For factors, 2018 was a very solid year for business, with many in the industry experiencing growth across all regions and specialties, whether organically or through acquisition. Despite the good news, industry leaders do note that competition remained fierce, and they predict more of the same for the year ahead. Banks continue to be highly liquid, and independent factors are likely to see additional pressure from regional and community banks.



# TSL PARTICIPANTS



**Julie Acuff**  
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Large and small factors indicate strong deal flow, helping to head off some of the competition and pressure on yields. But an expected uptick in bank mergers will also likely change the dynamics of factoring once again in 2019 and beyond. Jelena McWilliams, FDIC Chairman, indicated her concerns about bank consolidation at the Wisconsin Bankers Association's annual Bank Executives Conference in February.

## **Factors are Hard at Work**

For now, competition continues to increase and prices drop, and clients are coming to expect numerous quote sheets on the table. For the smart secured lenders, proper underwriting and due diligence, as well as a customer-driven approach, are the best ways to head off competition and gain and retain business.

Factors say they are preparing themselves for continued downward pressures on pricing, as well as a further chipping away at structure.

It takes heightened customer service and attention to the nuances of each and every client to succeed in this sort of environment. "One of the most unique parts of our business is our capability of providing credit facilities ranging from \$2MM to over \$100MM-plus, which allow us to grow with our clients," says Julie Acuff, senior vice president and Northeast Regional Manager for the Commercial Services Group at Wells Fargo Capital Finance. She notes that new business generation is strong. However, as deals become larger with more complex structures, the time from a signed term sheet to closing continues to lengthen. "It's something that I believe we will continue to see in 2019,"

she says. With the continued pressures on pricing, it takes efficient operations and expense control to help make up the difference to the bottom line. Acuff adds, “The only way I know how to respond is to constantly evaluate how things are done, and why, to see if there is a more efficient way to get the same or better results. Technology has helped to increase efficiencies, resulting in a much improved client experience and enabling us to improve the time it takes to close new relationships and react to existing client needs.”

client-facing side, platforms can serve as a business and marketing tool. “We are always looking to make our platform faster, more transparent and user-friendly for the client,” he says. Technology can certainly help factors to compete in a crowded field, especially with the largest bank players with many more resources at the ready.

According to Robyn Barrett, managing member of FSW Funding & FSW Trade Finance, the larger factors and banks have deep pockets, buying or building enterprise-grade software to increase efficiency from origina-

day,” says Kelly. A hands-on approach and good old customer service are keeping J D Factors ahead of the prior year. “This has been the best year for new business,” he says.

At least half of J D Factors’ business is in the transportation sector, which, historically, has been very good for the industry. However, he predicts rates and yields will be under pressure in the transportation arena in 2019. Plus, Kelly notes that every client that the organization keeps, if there is competition involved, there is likely a rate cut. Today, he says, 99% of deals are done on a term basis. “It’s strictly a

**T**he business still requires face-to-face meetings with current and prospective clients. Despite the influence of technology, the old-fashioned handshake is still a big part of the factoring world. Bo Kelly, executive vice president at J D Factors, notes that his organization has people out in the marketplace, making sure to speak directly with business owners. “We have BDOs out in the field, meeting clients,” he says.

### **The Tech Advantage**

Certainly, technology has changed the way factors do business, helping them to be more efficient and effective in their day-to-day operations. It’s also changed how they communicate and exchange information with clients. Clients want to be able to access their account at a touch of a button, so factors need to constantly invest in improvements and innovations to systems to provide customers with what they want. J. Michael Stanley, managing director of Rosenthal and Rosenthal, notes that customers are demanding “convenience and a heightened level of service,” and technology is one of the ways to help facilitate that. Stanley notes that Rosenthal and Rosenthal’s online platform gives clients what they want—transparency and information at their fingertips.

The right technology also allows factors to have the ability to do more with less, which translates into a direct increase in the bottom line. On the

tion to operations. “The good news is there are plenty of tech companies who are building great products that are finally affordable for the small-to-mid-sized factor,” she adds. Now, the smaller factors can be in on the same tech as the big guys.

### **The Old-Fashioned Face-to-Face**

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reaction to the competition, and it serves as leverage for us,” he adds. That doesn’t mean Kelly isn’t willing to negotiate to keep the right client.

### **The Value-Added Approach**

Stuart J. Rosenthal, president of Prestige Capital, notes that 2018 was a banner year for his organization as well. “What sets us apart is our speed and ability to structure and fund complicated deals,” he remarks. Prestige Capital not only evaluated more deals, but saw larger transactions than the year before. But the main ingredient in the organization’s success, he notes, is “our attempt to react and close without delay.” Prestige Capital is also “industry agnostic,” as some people like to call it. And at a time when competition is intense, the approach seems to make sense. Rosenthal is predicting that 2019 will be more of the same. “I think competition will continue to be tense, and there will be more and more pressure on rates,” he notes. “I am hopeful that the traditional lenders will tighten




their credit requirements and that interest rates rise in order to narrow the gap between factoring and more traditional forms of borrowing.”

Mark Bienstock, managing director at Express Trade Capital, agrees “service and speed to market” are two of the defining characteristics of a successful factor. Express Trade Capital has also diversified the types of clients and companies they deal

“value-added” for small and mid-sized companies. Tariffs are a very challenging and complex matter, but a company with a specialty in trade finance, as well as shipping and logistics, can serve as a valuable advisor to a client. “We have significant contacts in many industries and in sourcing and across all continents,” he adds. “This is a side and tangible benefit of working with Express Trade Capital.”

### A Look Ahead

What 2019 holds in the way of additional tariffs or the recession remains to be seen, of course. Barrett believes 2019 will continue to be robust to start. “The economy is still going strong, and the Fed has backed off from the previously expected interest increases,” she says. “I think factors will continue to thrive. Cash advance loans will be the main



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with to further expand the business. “That diversification is a key part of our growth,” says Bienstock. And, despite the competition, he notes that 2018 was a very strong year for business. “We embrace and love competition because it makes everyone better.” Today, factors are not only filling niches, they are also becoming a much more accepted and mainstream form of financing, he says.

But he cautions that factors need to stay ahead of the curve and be dynamic in their approach. For instance, Express Trade Capital has a division devoted to Eco-Financing. “We are finding significant opportunities in markets focused on sustainability and eco-friendly practices, particularly in the food and beverage space,” he says. “The monitoring can be complicated, but we are very much hands-on.”

### Tariffs and the Economy

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Of course, that sort of expertise will prove particularly handy if and when the recession hits. But today, more of the business owners that factors deal with appear to be less concerned with the recession than with tariffs. According to Acuff, “Wells Fargo Capital Finance’s clients are concerned about what will directly impact them, such as tariff increases. I think we will see some issues for businesses importing from overseas and the client’s ability to raise prices to offset the increased cost.” Prices are staying somewhat stable, she notes and, for now, the buyers are willing to pick up a part of the tariff increase. This helps since many manufacturers have already locked in prices with buyers before knowing the impact of the tariffs.

But Acuff and other factors do note that the impact of tariffs has been a discussion at almost every client meeting since early last summer and continues to be a major discussion point. “While some clients have been impacted more so than others, the uncertainty seems to be the biggest pain point, as clients continue to dedicate a considerable amount of time and money evaluating alternate sourcing options and developing their overall strategy,” says Acuff.

competition in the small-ticket factoring world.” She also predicts that increased scrutiny will at least start to turn the tide on cash advance loans, which will mean small businesses will have to look beyond these high-interest loans to factoring, which is much more sustainable.

After one of the longest periods of economic growth, the inevitable swing of the economic pendulum is likely drawing nearer. An economic downturn, when combined with the rising costs of imports, can certainly make business owners more hesitant about expansion and capital investment. That certainly impacts how factors do business. However, Kelly says that factors shouldn’t obsess over possible changes to come. “We see what happens in the economy and react accordingly,” he adds. “The good thing is that factoring is a unique product. No matter the conditions, companies will need factors, whether they’re expanding or money is tight.” Fortunately, for the industry, factoring is somewhat recession-proof. **TSL**

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