Making Good Decisions About **Rates**

Why the cheapest rate may actually cost you more.

by Kenneth P. Walsleben

Like staffing and recruiting firms, many businesses have a built-in cash flow problem. Worse yet, the bigger and faster you grow, the more acute it becomes! This is because the vast bulk of recurring expenses — labor costs — must be paid each week.

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Is rate the first question to ask?

Typically, employee payday follows the respective workweek by just a few critical days, while you won't receive payment from your clients for weeks on end. So, whom do you turn to for financial assistance? It's likely a bank, a factor, or an equity partner.

As a financier myself, I can confirm that the first question typically asked of me is, "So, what's your rate?"

Let me tell you my little secret…. This is exactly the wrong question to ask me up front! Sure, rate is important, but it's decidedly not your biggest concern.

I humbly suggest that your first question should be, "So, how much money can you help me make?"

Let's be honest. Bank money is the cheapest money on the face of the earth; then, typically in order of cost, comes Asset Based Lenders (Factors), and finally, equity partners (Venture Capitalists). After years in the business, let me assure you that any of us can make the cost of our money appear very cheap.

How do I make an informed choice?

Ask me, instead, how I can help you make more money than any of the other alternatives available to you! After all, isn't that the bottom line? Everything else pales by comparison.

Let's examine three, brief truths. They are:

1. You want to protect gross profit margins.
2. The best way to make more money is to grow your business.
3. You want a flexible funding source, who understands your industry, so if the going gets tough, you want them to dig in with you, rather than hide behind the legalese of their funding docs.

Your job, as a consumer of funding services, is to remember these truths and to become as informed as possible of your many options.

Do not, however, make the mistake of thinking that rate is your primary determinant amongst options.

Let me explain….

Factors — the best way to raise funds?

As already mentioned, bank capital is always "cheapest." However, bank money may be the exact wrong decision for you.

Bank loans are normally secured with all of your corporate assets and oftentimes your personal ones.

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This realistically eliminates other forms of funding available to you. Bank money requires your personal guaranty, and relationships will be limited in size, by a line- or loan-cap.

That line-cap can be a real killer. Once you get to that limit, you no longer have a funder, you have a new partner!

Worse yet, your ability to grow is no longer in your hands.

It's your lender's choice. Clearly, this is a situation to be avoided, but if your only initial concern was "rate" then, you lost.

In this case, you'd no doubt agree that the "costs" of deferring new business opportunities, tying up all of your collateral, producing ever more financial reports, and searching for a new lender — if possible — more than offset the initial appearance of cheap money.

So, how many of those truths listed above did you violate in your search for cheap money?

Why worrying about rate may cost you!

As a former banker, let me assure you that I am not picking on banks. Rather, I want to point out that your first question about rates is normally badly timed. In certain cases, a bank loan might be the proper choice, but inordinate focus on "rate" is often done at your peril.

Whenever investigating any financial alternative, "rate" may be in the top-ten of important concerns, but number one?

No way! Instead, consider these questions first:

1. How can you **make me more money**?
2. Do you **require my personal guaranty**?
3. What **collateral do you require**?
4. How long have you **served our industry**?
5. Do you have **line-caps or limitations**?
6. What financial **reporting obligations** do you require?
7. How can **I limit my use of your funding**?
8. Who will **handle my relationship**?
9. What other **costs must I endure**?

Only after fully understanding issues like the above, can the "Rate Question" reasonably make any sense.

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The Hamilton Group, where Walsleben is also co-founder, specializes in factoring accounts receivable for rapidly growing businesses and those with significant, up-front costs. Walsleben, an author of several business articles and a volunteer judge for the final rounds of the semi-annual Entrepreneurship & Emerging Enterprises' 457 Capstone Business Plan Competition at Syracuse University's Whitman School of Management, has been in the financing profession since 1974, and active in the factoring profession since 1982. Walsleben is a past director of the International Factoring Association factoring.org — based in Pismo Beach, California. Reprinted with permission from RSSM.

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