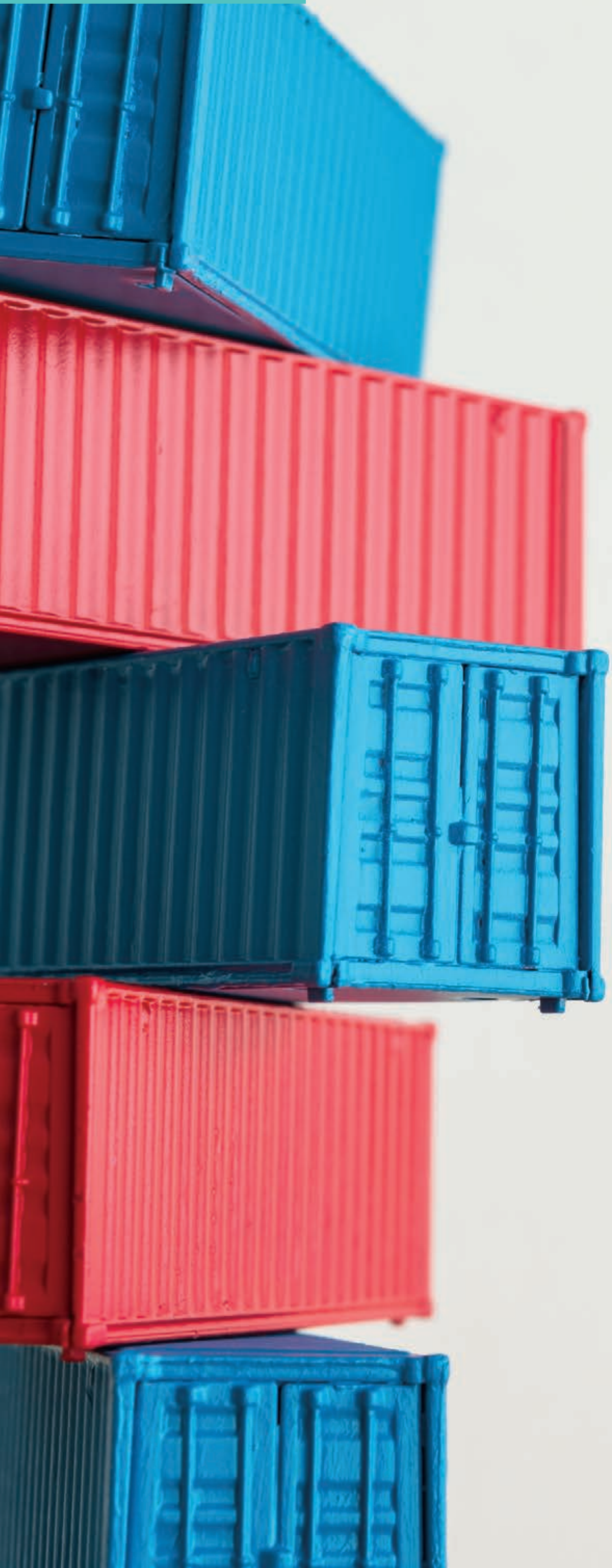

The Evolution and Impact of Factoring Services Amidst Global Supply Chain Disruptions

BY MICHELE OCEJO

In recent years, global supply chains have faced unprecedented challenges, from pandemic-induced disruptions to geopolitical tensions and economic uncertainties. As businesses grapple with these issues, factoring has emerged as a critical solution for managing cash flow and mitigating risks. SFNet members provide insight into how factoring has evolved, its impact on the supply chain, and real-world examples of its effectiveness.

Paul Schuldiner, executive vice president & chief lending officer, Rosenthal & Rosenthal, Inc., notes that the demand for factoring services has increased in response to ongoing global disruptions. "The global supply chain disruption, coupled with a softer retail market, has led many businesses to rely more on inventory within their borrowing capacity," Schuldiner explains. This shift has been driven by lower or stagnant sales in many retail segments, coupled with the end of government support programs like PPP and EIDL. These factors have collectively increased the need for non-recourse factoring and credit protection.

As companies face tighter credit conditions and a more uncertain market environment, factoring has become an indispensable tool. Schuldiner points out that in Rosenthal's recourse factoring division there has been a notable influx of requests from service and manufacturing businesses. "The end of government support programs and the tightening of bank lending standards have prompted many companies to seek liquidity through factoring," he says. This trend underscores the growing reliance on factoring as a flexible and responsive financial solution.

Martin Efron, executive vice president/head of factoring, White Oak Commercial Finance, adds: "The recent disruptions in global supply chains have highlighted some lenders' lack of understanding of their borrowers' business cycles. As a result, many got uncomfortable with higher loan balances and higher inventory positions. Factoring has historically played a very big role in supporting middle-market manufacturers and importers, and this time wasn't an exception. We saw plenty of opportunities during the supply chain disruptions."

Rochelle Hilson, senior vice president, notes a shift in demand patterns over recent years. "Prior to the COVID-19 pandemic, demand for factoring services was strong due to the need for predictable working capital," she explains. The COVID-19 Pandemic brought mandatory shut-downs, disruptions in the supply chain, and availability of less expensive sources of capital from the government - including the Paycheck Protection Program, the Economic Injury Disaster Loan, and Employee Retention programs and credits leading to a decline in demand for factoring services in 2020, which lingered into 2021 and 2022. "Disruptions in the global supply chain have posed challenges for factoring companies. Factoring companies have worked to improve risk management and offer additional hybrid facilities which might include inventory or purchase order financing. As economic conditions have improved, companies are again looking for the consistent and predictable working capital that factoring provides," Hilson says.

Mike Hudgens, president of CIT Commercial Services, a subsidiary of First Citizens Bank, highlights the impact of global supply chain disruptions on factoring demand. "Decreased numbers of active ships due to soft demand, attacks in the Red Sea, and drought in Panama are causing longer transit times and increased lead times for goods in the U.S.," Hudgens explains. These disruptions have heightened the need for working capital support, making factoring an ideal solution. "Factoring provides discretionary lending that can easily increase to support growth in inventory and accounts receivable," he adds. This flexibility is crucial for importers and retailers facing extended lead times and financial uncertainty.

"Retailers are also looking for working capital enhancement, often in the form of longer terms, which increases risk for the suppliers and leads to delays in them getting paid. That - in addition to turmoil in the retail space in the form of restructuring, mergers, buyouts, etc. - is an indication of the importance of non-recourse factoring with a partner that knows the industry, can appropriately assess the risk, and has the balance sheet to support the required financing," Hudgens says.

MARTIN EFRON
White Oak Commercial Finance

ROCHELLE HILSON
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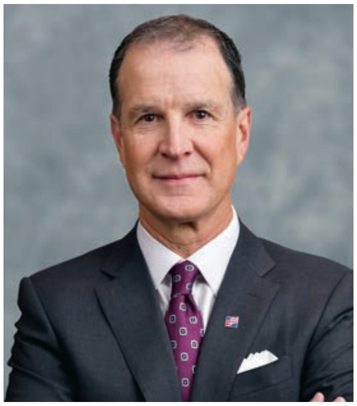
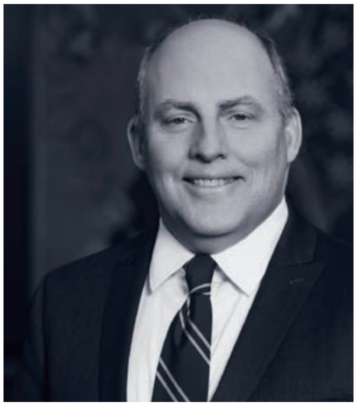


MIKE HUDGENS
CIT Commercial Services, a subsidiary of First Citizens Bank



PAUL SCHULDINER
Rosenthal & Rosenthal, Inc.

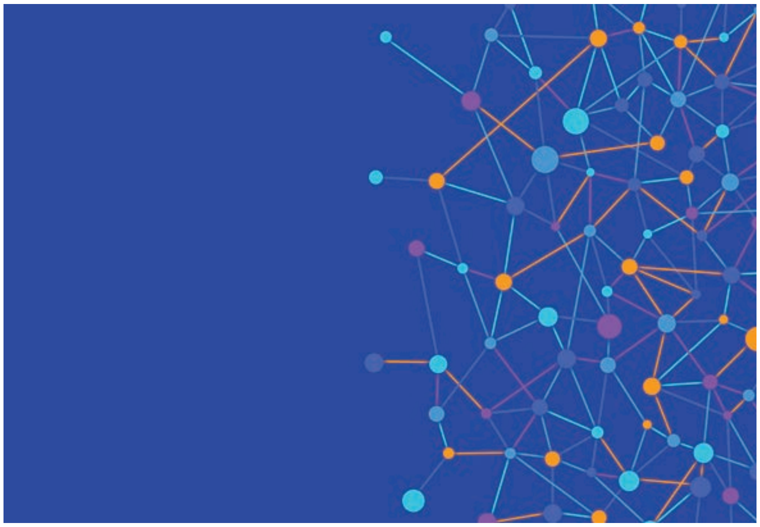
Strengthening Supply Chain Relationships Through Factoring

Factoring services do more than just provide liquidity; they also play a pivotal role in strengthening relationships within the supply chain. Schuldiner highlights how factoring supports the entire trade cycle, from raw material purchases to the creation of finished products. “When that final product is shipped, there are related inventory-in-transit and logistics costs that must be paid and, when shipped to the end customer, ultimately creates a receivable that must be collected on payment terms. The current state of the global economy has created a real need for both domestic and international factoring as well as inventory and purchase order financing,” he says.

Efron further elaborates on the benefits of factoring for supply chain relationships. “Factoring provides flexibility to importers, allowing them to meet their obligations to suppliers on time and potentially secure better financing terms,” Efron explains. Additionally, by offering credit coverage on the importer, factoring helps suppliers obtain better financing options in their local markets. This interconnected support strengthens the overall supply chain, fostering a more collaborative and efficient network.

Hilson emphasizes that factoring offers a predictable cash flow, which is vital for managing seasonal fluctuations and maintaining strong supplier relationships. “With a reliable source of working capital, companies can manage their cash flow more effectively, leading to timely supplier payments and potentially better terms,” Hilson says. This predictability not only enhances supplier relationships but also contributes to a more stable and collaborative supply chain.

Hudgens also highlights the symbiotic nature of the supply chain supported by factoring. “Every party in the supply chain can use more working capital support,” Hudgens remarks. Factoring provides the necessary financing that flows to factories, importers, and buyers at the appropriate times, ensuring that all parties can meet their financial obligations and maintain smooth operations. This interconnected support is crucial for maintaining a healthy and efficient supply chain.



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Real-World Examples of Factoring Success

Several case studies illustrate the tangible benefits of factoring in stabilizing and optimizing cash flow within the supply chain. Schuldiner recounts a notable example involving a century-old manufacturing company. “The client was a family-owned manufacturer and distributor of metal stampings, plastic parts and hardware to the furniture, bedding and RV/marine sectors seeking a new alternative financing solution after experiencing pandemic challenges and supply chain issues. The company was in the midst of successfully refocusing its core business when one of its largest customers unexpectedly went out of business. As a result, the company’s existing bank was unwilling to continue lending to them. The client exited the bank on good terms and was referred to Rosenthal when an investment banking partner realized that factoring could help to stabilize the company and optimize cash flow. Lending against both account receivables and inventory, we provided a $3-million non-recourse factoring facility, which included a $400,000 letter of credit and much-needed credit protection.”

Efron describes how temporary inventory lending and credit approvals to overseas suppliers helped clients manage supply chain disruptions. “We provided additional inventory lending and issued credit approvals to overseas suppliers, which helped smooth out the disruptions and set all players on a path to calmer waters," Efron says. This approach was instrumental in maintaining continuity and stability across the supply chain during a challenging period.

Hilson shares the case of ABC Sprinklers, a small manufacturing firm that faced cash-flow challenges due to extended payment terms and seasonal demand fluctuations. "ABC sources materials from several suppliers and sells its finished products to a network of distributors and retailers. By factoring their receivables, ABC saw an immediate improvement with cash flow. Instead of waiting up to 90+ days for payment from customers, ABC received up to 90% of the invoice amount upon issuing the invoice and the remaining 10%, less fees, after the customer payment arrived," says Hilson.

The role of factoring services has evolved significantly in response to recent global supply chain disruptions. As companies face new challenges and seek stability, factoring provides essential liquidity and credit protection. By enhancing cash flow management and fostering stronger relationships across the supply chain, factoring continues to be a crucial tool in navigating economic uncertainties and supporting business growth.

She explains that by providing a predictable source of working capital, ABC was able to strengthen their supplier relationships, obtain more favorable terms, provide more consistent delivery of goods to customers allowing the company to focus on its core business.

Hudgens provides another example involving a large retailer that had recently undergone a successful financial restructuring. "They wanted to ensure that after the restructuring, we would be able to provide them with trade credit support, an important component of working capital for them. CIT Commercial Services has the capabilities to support them, which allows our clients to ship and borrow against those receivables and gives them peace of mind that we are standing behind the credit worthiness of the customer," Hudgens explains.

The role of factoring services has evolved significantly in response to recent global supply chain disruptions. As companies face new challenges and seek stability, factoring provides essential liquidity and credit protection. By enhancing cash flow management and fostering stronger relationships across the supply chain, factoring continues to be a crucial tool in navigating economic uncertainties and supporting business growth.

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