ALTERNATIVE FINANCING: WHEN IS IT THE BEST TOOL FOR YOU?

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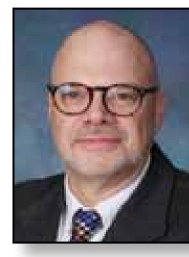

BUSINESS IS ABOUT MAKING MONEY. Sure, there are many considerations that go into choosing a model, then deciding to tackle the challenge, and finally what you want to do with your business. But without profit, none of those good intentions will have a chance to happen.

And "it takes money to make money." You need some to get started, to run the operation, and to grow the business. This is not news. Why then do we tend to consider financing as an afterthought, often allowing money problems to take us completely by surprise? For many of us, it's because some "experts" would have us think we can't possibly navigate the process ourselves. Don't believe it; a basic read of the landscape does not require a higher power—just good common sense.

Intimidation and denial keeps us from thinking of money as what it is: a ***tool***, one of many we use to be productive at what we do. When we know from the outset how the tool is to be used and what size and configuration fits the job, money is no more intimidating than is a hammer to a carpenter. But a carpenter who fails to bring a hammer to work either loses the day's wages or borrows someone else's hammer—maybe the "standard" hammer that's too big for the task at hand—and ends up smashing a thumb, incurring exorbitant medical bills, becoming locked in an endless cycle of financial catch-up, and never making any progress toward a secure future.

So, how do we get a fix on the right tool? Start with the objective. Does the task require tens of thousands of dollars (like an expanding payroll for a big new account) or hundreds of thousands of dollars (like a push for major market share and the capacity to support it) or more (like a multi-unit regional franchise purchase). Like any other tool, an injection of cash has a useful life; and generally you do not want to be paying for it after it has been used up (you may have to replace it with another one) or beyond the point where it's earning you more money. Ask yourself: *Will the ongoing benefit outweigh the cost of the tool?*

And perhaps even more importantly, when the job is done and you find out afterward—after you've accomplished your goal—that you might have bought a different tool for a slightly lower price, are you going to beat yourself up or be glad that you've progressed from where you were and you're moving ahead? You can second-guess yourself into perpetual paralysis, or you can go with something that works under the circumstances and make the most of it.

Understand and be *realistic* about the circumstances surrounding your current need for cash. Are you gearing up for a strategic move, anticipating a seasonal shortfall situation or other financial event, or are you in an unexpected crunch? Is there an immediate urgency, i.e. an unusual opportunity or costly consequences for not meeting an obligation right away?

This part of the analysis is largely about the options available to you in a timely fashion. If you're in a hurry, the protracted time frame and extensive application process for larger banks and lenders may eliminate them as an option for a new relationship. Their job is to make sure that they can't lose on the deal, no matter how things go for you. In case you can't make your payments, they want to be sure they've "secured" something else of yours. It takes time for them to check you out, on top of the time it takes you to get all the information together. Once done, though, a line of credit can be among the least costly sources of cash.

Enter "alternative" financing — more tools for specific objectives: To plug a gap? For strategic growth? How will it fit?

If you are already working with a bank or factor, and you've reached your borrowing limit, the terms and conditions of that arrangement may prohibit you from seeking other secured borrowing (and they know when you do). Of course, if you've pledged all of your available assets, further secured lending isn't an option anyway.

Enter "alternative" financing options: more tools designed for various jobs and purposes. These are based on other forms of reward—generally in the category of "return on investment"—for the supplier of the dollars. The primary difference between one and another alternative option is what the funders are buying with their money.

At one end of the spectrum are funders who want a significant piece of ownership in your business. That gives them more control over how you use the dollars and even what you do with your company. These investors may not be interested in repayment anytime soon or even at all. And they may offer millions of dollars.

Others make what they think is a good bet on your good business sense and may or may not require an option to convert the deal into ownership shares, depending on how things go. These lenders are more interested in getting their dollars back with a favorable profit and generally don't require as much of an up-front qualification process as a bank. They're accepting more risk in exchange for higher interest than the bank. So they don't get caught too far out on a limb, they will typically limit the amount they're willing to contribute to less than a million.

At the other end of the spectrum are those who are not interested in an ownership stake, are willing to supply the cash you need quickly, and require few or none of the strings or restrictions that come with other, more traditional loans. They offer smaller amounts, spread their available dollars over lots of loans to a varied client list, and structure the deal for quicker repayment. The advantages to you are speed, freedom to pursue other sources of funding, and no dilution of your ownership control of your business. The trade-off is a higher comparative cost—in exchange for less hassle and a more manageable, predictable, finite term. No exit strategy required.

When you know how you'll use the dollars to net a substantial return, when the opportunity at hand calls for quick action, and when you're comfortable with the terms, the "more expensive" funding can absolutely be the best tool for your situation. (That's as close as I'll come to a shameless plug for my own product.)

Prepare yourself to ask the "simple" questions and demand clear answers. Get a handle on your own comfort level with the trade-offs. By knowing where you stand and what to look for in the tools available, you stay in charge of the process and on track to your objective.

Stu Carothers directs staffing business development for Payroll Funding Company in Princeton, New Jersey. Industry terminology often confuses broad categories of service (ex. "payroll funding") with specific product types (ex. receivables factoring), whereas other viable options exist especially for staffing providers. PFC's Mezzanine Funding is one such alternative. Readers are invited to forward questions of interest for future articles about any aspect of the content presented here. Stu can be reached at 609-924-9394 or scarothers@payrollfundings.com.