

Accounts Receivable FACTORING

PARKING LOT CO.

Eric James, owner of **Parking Lot Co.** provides commercial parking lot maintenance services including weekly cleaning, curb stone repair / repositioning, and landscape maintenance to small strip malls and other commercial accounts. When providing services to shopping centers and malls, **Parking Lot Co.** is usually paid by the key anchor tenant who's store that particular area of the parking lot serves.

One day, James was contacted by a new management company

that serviced the city's largest retail shopping mall. He was offered a contract to service the entire parking lot of the mall, billing the anchor tenants separately for the service. The total contract value was for just under \$30,000 per month and with a profit margin of nearly 50%, the additional business would result in a handsome profit for the **Parking Lot Co.** company. But there was just one problem.



The Problem: Slow Paying Key Tenants

James had always been reluctant to accept contracts from major malls since mall "anchor tenants" tend to be very large retailers that are notoriously slow at paying their invoices. Even with a 50% margin, payroll for employees for such jobs would be substantial. With major retail anchor tenants taking up to 60 days to pay invoices, James felt he could face serious cash flow problems regarding weekly payroll if he accepted such sizable contracts.

Some time ago, James had received some information and a brochure in the mail from a local loan consultant regarding "invoice financing" which he had saved. He called the consultant who explained the process called "factoring" and how for a fee of

between 4 and 5% for 60 days, James could receive advance payment upon his accounts receivable sufficient to make payroll while he waited for invoices to be paid by the slow paying "anchor" tenants.

James almost couldn't believe he had never heard of such a financial accommodation and quickly saw that this thing called "factoring" would allow him to accept the lucrative contracts he had been shying away from for the last 10 years.

A conference call was quickly set up by the loan consultant with a factor who told James he could indeed solve his cash flow / working capital problem by establishing a factoring arrangement for his company. James asked he could review the



contracts and they were immediately sent by the factor to James by overnight courier.

James reviewed the contracts and executed the agreements. Once received by the factor, a factoring relationship was established in less than 36 hours.

With the creation of the factoring relationship, James called the management company representing the large shopping mall that had recently offered him the

contract and conditionally agreed to the contract pending receipt of the contract terms and conditions. Of greater importance, now that James had the ability to finance his receivables as they were created, he began an active marketing program directed at the other large local area retail centers and grocery chains that he had avoided prospecting for so many years.

Future Growth of Parking Lot Co.

With the factoring arrangement in place, Eric James also quickly realized it would allow him to aggressively market for new customers and service contracts with larger, prospective customers, something he had shunned in the past due to his lack of adequate working capital to fund payroll while waiting for checks to come in. **Parking Lot Co.** occupied a unique service niche in the area with

virtually no competition. With his factoring arrangement now solidly in place, James also looked to expand his services to parking space line striping and began researching his ability to team up with a dependable local asphalt contractor to be able to offer small parking lot asphalt repairs as well. His new factoring arrangement had opened many doors.

Factoring

The World's Most Popular Method of B2B Small Business Finance

