

SPECIALTY LENDING

The Factoring Factor

Product Resiliency, Demand Keep Factoring Strong in Challenging Times

BY STEPHEN J. MCCABE

While the past year has been a challenging one for anyone involved in commercial finance, one of the few niches that has remained solid in 2012 is factoring. IFA founder and CEO, Bert Goldberg shares his views on the industry — past, present and future — and talks about the role the IFA will play in facilitating factoring's future global growth.



BERT GOLDBERG
Executive Director,
International Factoring
Association

Bert Goldberg founded the International Factoring Association (IFA) in 1999 as a spin-off from Distinctive Solutions, a software company he worked at that supplied factors with back-office software solutions tailored to the unique needs of their industry. The IFA grew faster than Goldberg could have imagined. The owners of Distinctive Solutions sold the company to 3i Infotech, Inc. about six years ago, which allowed Goldberg to put all of his time and effort into nurturing the IFA — and elevating the visibility and professionalism of factoring worldwide.

For Goldberg, factoring is clearly a financing niche unlike any other in the commercial space. "Personally, I think factoring is a great industry," Goldberg says. "It's one that assists the economy, works perfectly by itself and has the right number of competitors spread across the right number of factoring companies." Goldberg is looking forward to the IFA's 19th annual conference, to be held April 24-27, 2013 at the Fontainebleau in Miami Beach, FL.

Such annual gatherings are, in many ways, one of the most valuable aspects of the IFA. While the conferences were originally started as training sessions for users of Distinctive Solutions' software packages, Goldberg soon realized there was a pent-up demand for networking and training for factors beyond the formal meetings that he was offering just to his Distinctive Solutions customers. Meeting this demand was a

primary motive behind his launching IFA, and he has never looked back.

He recognizes that factoring is unlike almost every other form of commercial financing today — and this is one of its strongest attributes. "Factors find money in unique ways, through a different source, but they all manage to do so, and they put money out," he says.

Today, the IFA has assumed the lead as the preeminent professional organization for factors worldwide. With over 400 corporate members, the IFA is the largest association of commercial finance companies in the world. Its members run the gamut from dedicated factoring companies to asset-based lenders to other receivables-based finance companies.

And the role of IFA has grown far beyond the annual conferences the organization hosts. The IFA provides information, training, purchasing power and a professional resource for the factoring community. In addition, its members must adhere to a code of ethics specifying high standards of professionalism, competence and honesty, according to Goldberg. Clearly, the demand is strong for IFA's offerings.

"We're growing by 5% to 10% per year, and our conference attendance has grown similarly," Goldberg says. "We conduct training classes and add new ones each year to meet the evolving needs of factors and address new topics as they arise."

IFA also lists preferred vendors for products most sought after by factoring companies, and a stand-alone social networking tool designed just for factors is available to the IFA membership.

The Challenges of 2012

With 2012 having been a tough year for the overall economy and the widespread belief that 2013 could be every bit as challenging, what are the prospects for factoring over the coming year? Will its unique value

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proposition help insulate it from the turbulence of the marketplace, or is it inevitable that it will be swept up in whatever winds blow through the economy in the next year?

Goldberg is reluctant to predict where the markets might be headed. "I'm not an economist," he admits, "and I'm not too good at economic predictions, so I'm a bit skeptical of anybody who makes predictions." But he is willing to compare how factoring has fared in similar scenarios over the recent past to shed some possibilities for where it might be headed over the short term. To the limited extent to which the past can be any predictor of the future, Goldberg sees some room for optimism in the prospects for factoring.

"Normally, factoring does well through both good and bad economies," he explains, "It kind of depends on what the cause of the current economic condition might be." For example, he notes that in the most recent downturn, all business sectors seemed to be affected and reduced. "It wasn't just that banks were refusing to make loans, but everybody was doing much less business." He says that while factors were certainly not immune to the larger challenges facing the overall economy and did see their business drop off some during the downturn, they were probably not impacted as significantly as other financial institutions.

"I think the industries that had a really hard time during the downturn were ones like transportation, which has since started to rebound and grow some during the past year — although they have some other issues to deal with now with high fuel prices," Goldberg says. He notes that transportation constitutes the largest sector of IFA members, followed by temp agencies and manufacturing, and they've all experienced some modest growth in 2012. Goldberg sees trucking starting to improve in step with any improvement in the overall economy.

"Trucking did better in 2012 and as such so did the transportation factors," Goldberg says. "One of our other specialty niches is merchant finance — credit card factoring — which is a new area for factoring, but I think it's going to continue to grow in 2013."

Finally, to the extent factoring has remained viable and active during the downturn, it may have contributed to easing the difficulties of businesses seeking funding, according to Goldberg. "My opinion is that during the downturn, factors were ... one of the few institutions that kept the economy going by putting money out to small businesses."

The Opportunities of 2013

So, how might factoring fare in 2013? Again, according to Goldberg, much will depend upon the nature of the marketplace. He feels factors could find new opportunities abroad they explore beyond North America.

Goldberg points out that the IFA's biennial Business Profile and Performance Survey of its members helps IFA members stay abreast of where new opportunities could be emerging. The survey provides information about IFA members' operations, client details, business development practices, human resources policies and

other key items so that members can benchmark their own performance and better identify best practices and trends.

Based on what Goldberg saw in the last survey, he added a new international track to next April's conference that will offer sessions on China as well as sessions on the Latin America region, Europe and cross-border factoring. With the next biennial survey going out in January 2013, Goldberg is expecting it to continue to reveal the global opportunities for factors.

"China had factoring in just one city, or economic zone; now they've opened it up to nine new zones," Goldberg says. He also has seen cross-border factoring grow in lock-step with the growth of import- and export-focused companies. The emergence of a two-

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factor system — one each for importers and exporters — suggests that the opportunities will only continue to grow for factors that explore these areas. International Factors Group (IFG) and Factors Chain International (FCI), based in Brussels and Amsterdam, respectively, have been established to facilitate cross-border factoring. IFG will be attending the IFA's April conference to share its insight on cross-border opportunities.

Back in North America, Goldberg continues to see opportunities tied to the fortunes of the overall marketplace. "The economy in general will continue to dictate the role factors will play," Goldberg says. He feels that regulation could complicate the picture — not necessarily for factoring companies but for any industry that might rely on their products. "What the government might or might not do in terms of regulations could play a significant role in factoring," Goldberg says. "Regulation of any particular industry can also affect the growth of that particular sector."

But he's quick to add that factoring itself has always been one of the few financing products that has not been excessively regulated. "There's no impending legislation regarding the factoring industry, but something like that could obviously greatly affect factors and their future," Goldberg notes. Therefore, he's taking a proactive role on behalf of the industry.

"I created the American Factoring Association (AFA) ... for the sole purpose of lobbying and educating lawmakers on the factoring industry," he says. Since then, the AFA has raised funds and sent contingents of its members to meet with lawmakers about three times per year, he explains. "We've sent probably ten or 15 different contingents to Washington in the past three years to meet with lawmakers and policy makers and help educate them on the factoring industry and the good that it does for the U.S. economy."

Don't Tinker With Success

The AFA's message to lawmakers is simple, according to Goldberg: factoring is working just fine in financing

business throughout the U.S. and is an integral part of the country's economy.

Goldberg has been able to demonstrate to lawmakers how his organizations like IFA and AFA are taking the lead in ensuring the highest possible professional standards for his industry. He reports that the IFA is in the process of rolling out an industry-first factor certification program, currently in a beta/test mode, that will certify the account executives of any participating factoring company.

"Our certification program will require account executives to go through a very extensive training and testing procedure," Goldberg says. IFA offers the training and has created a board of qualified examiners to administer a rigorous testing process. "Only

those who pass will become certified factoring account executives," he says.

By publicizing the concrete steps leading factoring organizations are taking to effectively regulate and police their own ranks, Goldberg has been able to maintain a rare commodity in today's financing world: a financing niche that's relatively self-monitored. And according to Goldberg, the primary goal of the AFA is "to make sure it stays that way."

"I think factoring works perfectly the way it is," he explains. "I think it's one of those very few industries that seems to work very well and is perfectly balanced, with the number of factors in the marketplace providing sufficient competition to keep the supply and demand in sync." He cites a healthy level of competition among a near-ideal number of factoring companies that has evolved as the industry has grown.

"Even between factors, between competitors, there's a camaraderie and spirit of cooperation," Goldberg says. He says it's most evident at IFA conferences, where up to 700 factors are brought together to compare notes and share ideas.

That it has been able to achieve this stability and success is, for Goldberg, one of the greatest strengths of the factoring industry — and the one most worthy of preserving. "Let's face it, there's enough competition out there. Factoring works really, really well. It services the economy, and it services the business community perfectly the way it is."

Given the challenges facing the global economy, Goldberg feels certain factoring will continue to play a critical role toward recovery. "During any economic downturn, factors are one of the unsung heroes," he says. "They continue to put out money and finance small businesses when nobody else will." **abf**

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