How to Select the Best Financial Partner *for Your Staffing Firm*

ACCESS CAPITAL

Owners of staffing firms know all too well how to operate in an industry fraught with both challenge and opportunity. Launching and running a staffing company can be financially lucrative: there are low startup costs, minimal fixed overhead, and potential for material earnings.

Staffing firms place 11 million individuals in jobs each year, and you become a core driver in this integral part of the US economy. Yet:

- Your bi-weekly payroll isn't in sync with how often you receive customer payments, creating a constant cash strain
- When you've won a new contract requiring you to fulfill a large number of placements within the week, your lender isn't always ready to match the potential increase in sales with an increase in cash availability
- Growing through acquisition is an effective industry strategy, but your lender isn't comfortable underwriting the initiative
- Your funding source questions undulating monthly revenue instead of recognizing your ability to effectively expand or shrink to match opportunities
- The only asset you can offer a potential lender is accounts receivable, which isn't an asset every lender can get comfortable with

Especially for the staffing industry, the right financing partner will not only deliver financial security and enable your business plan, but they will evolve with your business, empowering you to grow, thrive, and reach your long-term goals.

There are three different types of lenders to the staffing industry:

Banks

Factors

Independent Lenders

The act of securing the right financing partner for your staffing company is worthy of deep exploration that starts with understanding the distinct benefits and challenges of each option.

Bank Borrowing
at a glance

Ideal Borrower:
Larger companies with strong balance sheets and predictable, slower sales growth patterns

Characteristics:
Stricter financial covenants, limited flexibility with credit line increases, regulatory oversight

Collateral:
All assets but may prefer hard assets

Timing:
12+ weeks to open a facility and 4+ weeks to secure a credit line increase

Industry focus:
None, agnostic

Advance Rates:
70 – 85%

Pricing:
Lowest cost, Prime - 1.5% – Prime +3%

Covenants:
Strict (e.g., capping annual cash distributions, prohibiting acquisitions)

Relationship Style:
Siloed salespeople, account managers, and credit committees

Banks

Who is a bank best for?

Banks are often the favorite option for profitable, larger, more established businesses that can demonstrate steady future cash flow with which to borrow against. Banks also prefer staffing companies with predictable sales cycles and borrowing needs, as well as slower (i.e., perceived as "safer") growth trajectories.

Benefits

1. **Lowest Interest Rates.** Traditional bank loans have the lowest interest rates when compared with other options in the marketplace.
2. **Bank Can Offer Complimentary Financial Products.**
3. **Banks May Help Establish Extra Credibility.**

Challenges

1. **Banks May Prefer Hard Assets from You.** Staffing companies are sometimes challenged when attempting to apply for traditional bank financing because accounts receivable, a soft asset, tends to be the only asset a staffing firm can offer as collateral.
2. **Reporting and Regulatory Compliance.** The regulatory structure of traditional banking institutions means a bank will require its borrowers to adhere to certain reporting requirements and additional compliance that results in a substantial amount paperwork.
3. **Strict Financial Covenants Constrain Your Business.** As an example, a bank may require that the borrower not engage in acquisitions, exceed certain leverage ratios that could limit growth initiatives and restrict shareholder dividends.
4. **It Can Take Up to 4+ Weeks for You to Achieve a Credit Limit Increase, If Even Possible.** When a client is experiencing growth outside of their established credit limit with their bank, the credit committee will be called upon to thoroughly analyze the client asking for an extension of credit and ascertain if an increase can be granted. Many times, the members of the committee do not handle the client relationship on a day-to-day basis. The people who understand your business are handing you off to a committee. It's not unusual for this process to feel long and arduous and often, requests for line increases are denied. This may cause you to lose future contracts, leaving real cash on the table.
5. **Lack of Understanding Nuances and Unique Needs of Your Staffing Firm.** Banks support companies in a collection of industries, but are not typically staffing industry experts. Relationship managers may have a hard time understanding the actual security of specific accounts receivable or the relative safety of a new client, causing destructive delays or inappropriate request rejections. Not every company can invest the time to bring their bank relationships up to speed on the staffing industry without risking business.

Factoring
at a glance

Ideal Borrower:
Companies with credit issues, weaker financials, lacking an established borrowing history or insufficient financial reporting capabilities

Characteristics:
Short-term, high-cost solutions that transfer back-office collections and client communications to the factor

Collateral:
Accounts receivable

Timing:
2-4 weeks to receive initial funding

Industry focus:
None, agnostic

Advance Rates:
70 – 100%, may be subject to credit limits on certain customers

Pricing:
Highest cost, Prime + 5% - Prime +15%

Covenants:
None since you've sold your A/R

Relationship Style:
As purchasing A/R (i.e., your clients' payables) and then responsible for communications and collections, focused more vetting and communicating with your clients. Transactional relationship and not strategic

Factors

Who is a factor best for?

Invoice factoring provides a company with working capital by outright purchasing, at a discount, accounts receivable, thereby eliminating any wait by you for payments to arrive from potentially slow paying customers. This means that they place their main focus on your clients and their payment history, more often than not, taking over the communication and collection roles with your clients. Factors are a great alternative for staffing companies with less than stellar credit or little to no established borrowing history that are in immediate need of short-term working capital. In fact, while factor relationships can be long-term, due to their expense, they almost always serve a short-term need until cash flow improves.

Benefits

1. **Factors Provide a Quick Financing Solution to Companies with Little or No Borrowing History or Weak Financials.** The tradeoff is the highest interest rate and required reporting on and interactions with your clients, often times taking over certain aspects of the relationship.

2. **Factors Can Take on Your Company's Collection Responsibilities.** Collections can be time consuming and at times, present a strain to your customer relationships. Outsourcing that function to a third party might present a more ideal solution assuming your clients would welcome a third-party into your relationship.

3. **No covenants.** As you no longer own the A/R, the factor won't present limits on your other business activities.

Challenges

1. **Your Highest-Cost Financing Solution.** Factoring is at times 200% higher than that of a specialty lender or a bank. On a $1 million credit facility, that's equivalent to $100,000 to $200,000 more in interest per year.

2. **Your Short-Term Solution.** Longer relationships are best found at banks or specialty lenders who welcome long and fruitful alliances that last many years, allowing the lender to know their client and proactively anticipate their needs, helping to empower growth. At the time of this writing, nearly 30% of Access Capital's clients have been borrowing from and growing with the firm for over a decade.

3. **You Surrender the Collection Process to the Factor.** Unlike most bank and specialty lender relationships, a factor will be in contact with your clients, directly collecting accounts receivable. Some staffing business owners are not comfortable with this for two reasons. First, a factor may be unnecessarily aggressive in collecting a past due from a valued customer, straining the relationship for the staffing firm. Second, clients of the staffing firm may erroneously see the use of the factor as a sign of weakness, financial or otherwise, causing them to seek staffing solutions from other staffing resources.

4. **Process to Obtain Funding can be Challenging for You.** Each time you make a funding request of your factor, you will be expected to supply the corresponding invoices and any back up documentation as well as a schedule of accounts. After you submit all the necessary deliverables, you will then have to wait for your factor to evaluate your invoices, and extra time if they represent new customers.

5. **Account Management Issues Create More Work for You.** Factors manage their client accounts very closely, including recording each payment and applying it to the corresponding open invoices. Once customer payments arrive in the factor's lockbox, difficulties may arise. For instance, a factor could misapply a customer payment or make errors in customer payment adjustments to your account. This requires you or someone from your team to dedicate time to monitor for misapplications and correct when necessary.

6. **You Aren't in Complete Control of the Funding nor the Timeline.** A factor will review your customers and determine creditworthiness, which is akin to outsourcing the task of evaluating your clients to an industry expert. Due to the level of scrutiny used by a factor to evaluate your customers, you will have to wait for them to obtain financial information on your customer, if necessary, to establish a credit line. Sometimes, customers may not be able to or may be unwilling to provide required information if requested from them. Or, you may even be declined advances because the factor declines your customer's creditworthiness.

Staffing Specialty Lenders
at a glance

Ideal Borrower:
Companies projecting future growth or with variable sales cycles

Characteristics:
Long-term, mid-priced solution providers who closely partner with their borrowers to power growth through both financing and strategy consulting

Collateral:
Accounts receivable

Timing:
Four to eight weeks to open your credit facility; 1 – 5 days to secure a credit line increase

Industry focus:
Established niches

Advance Rates:
85-90%

Pricing:
Midlevel cost, Prime +1% - Prime +5%

Covenants:
Less restrictive than that of a bank

Relationship Style:
Main day-to-day contact is with empowered decision makers, and all levels of lender's organization is familiar with the client

Independent Staffing Specialty Lenders

Who is a specialty lender best for?

The most popular financing source for staffing firms is independent specialty lenders who offer asset based loans. These types of lenders are familiar and comfortable providing advances based on accounts receivable (ie, an asset), and advance rates can range from 85% to as much as 90%. A select few specialty lenders offer a truly collaborative and holistic approach in creating the best partnerships and outcomes for their clients. These may take the form of additional liquidity to support various strategic business objectives as an extension to the primary line (e.g., a term loan to support an acquisition) or ongoing planning and consultation to elevate your value proposition and compete more effectively in the market.

Benefits

1. **You Receive True Partnership.** Your first points of contact at an independent lender are often those who you will engage with throughout your entire relationship. And all members of your relationship management team work to develop a significant understanding of your business. As a result, borrowers of independent staffing specialty lenders receive customized financing solutions and personalized account management that strongly support client goals. No time is wasted bringing credit committees up to speed when you need financing most.

2. **Staffing Industry Experience.** Independent finance companies often establish specializations in the industries they serve, providing highly effective, customized solutions to clients due to years of experience lending to that industry. Not all specialty lenders focus on staffing so in order to secure the best financial partner, be certain your specialty lender has an established background in providing financial solutions to staffing companies. Never will a specialty lender who focuses on staffing ask a staffing owner what exactly it is they do to keep the lights on. That specialty lender already knows and will instead dig deeper to understand the specific uniqueness of your operation and your niche. Specialty lenders to the staffing industry are tuned in to the industry, recognizing the uniqueness of it. They are even active in industry associations like the American Staffing Association, Staffing Industry Analysts, and TechServe and have up-to-date knowledge of industry trends, workers compensation and other forms of insurance, VMO/MSP relationships, cutting edge technology specific to staffing, current challenges, and new government regulations. This turns a specialty lender not only into a source of financing but an invaluable sounding board that can help catapult your business.

3. **Network of Advisors.** Because of their high level of commitment and involvement in the industry, these lenders have formed a collection of long and valuable partnerships with other service providers in staffing, thus being able to open up a vast network of resources and industry experts to their borrowers.

Benefits, continued

4. **You Aren't Burdened by Restrictive Covenants.** Asset based loans are structured to be collateral-centric; an independent lender will focus on the quality of the collateral as far more important than the operating performance of a borrower. Because of this reliance on collateral, an asset based lender will require fewer financial covenants when compared with a traditional bank loan. For example, they won't stand in the way of one of the major growth drivers in the staffing industry: acquiring competitors. They also are not held to the same internal controls as that of a regulated bank enabling their borrowers to avoid restrictive covenants on actions such as dividend payouts and tend to support long term growth strategies at the possible expense of short-term profits.

5. **Your Requests for Credit Line Increases are Addressed in Real Time.** Dynamic businesses experiencing rapid growth will have direct access to decision makers to address their needs in real-time. Oftentimes, specialty lenders are prepared for and embrace this kind of growth for their borrowers and don't require onerous credit committees to justify your line increase request. Your relationship manager is usually the one who will act decisively on your behalf, thus empowering you to quickly fulfill new customer orders or make capital improvements. This level of responsiveness is more unique and not the norm, certainly among banks who will typically need to present to a credit committee on behalf of a client in order to achieve the increase. As an example, at Access Capital, we make it our practice to stay close to our clients' businesses, intimately know their plans for growth, and are thus able to deliver our scalable working capital on-demand.

6. **You'll Have Looser Reporting Requirements.** Staying compliant with the regulatory reporting requirements of a bank involves time you or your staff have to spend producing statements, documents and answering questions. Working with independent specialty lenders will not only more quickly provide you with access to capital, but save time on a bank's reporting requirements.

Challenges

1. **You May Pay a Little More in Interest than with a Bank.** Independent specialty lenders are less expensive than factors by up to 50% or more, but they often are more expensive than banks. Yet, staffing owners experiencing accelerated sales rates often are comfortable paying higher interest because they know that the premium they pay provides them with a more timely, robust, and scalable credit facility. For example, if you borrow $1 million from an independent lender at 10% versus a bank at 7%, you're paying a $30k annual financing premium. However, speed to scalable funding might enable a few new client wins per year representing $100,000+ additional net profit.

2. **Companies with Weak Financials May Not Qualify.** Factors are great options for those companies lacking strong balance sheets or an established borrowing history. Yet, it's important to note that while specialty lenders are not the ideal solution for weaker borrowers, if a staffing company has a strong business plan, sales team, and solid projections, they can always make the transition to a specialty lender.

3. **You Will Need to Support Your Credit and Collections Functions.** Unlike factors who are in contact with your customers throughout the relationship and even take control of client communication and collections, specialty lenders are not in touch with your customer. If your staffing firm needs this back-office support of a factor, and are willing to hand over the customer relationships as a result, then independent specialty lenders are not for you.

Access Capital is recognized as the leading independent lender to the staffing industry. For 35 years, we have been supporting staffing companies' operations and enabling their growth by providing customized asset based lending solutions.

Your Next Steps

You now know the distinct benefits and challenges of partnering with each of the three different types of lenders. If you haven't already determined the best fit for yourself, it's time to ask yourself the following questions:

- Do you have a measured sales cycle or do you see new, large orders on the horizon that will require additional capital to support your increased payroll?
- Does the lender understand staffing whereby you will save considerable time not having to teach them your business?
- Will having to produce reports for your bank or factor on a timely basis place a strain on you or your staff?
- Does the lender have the financial capacity and responsiveness to allow for unimpeded growth?
- Will the lender provide additional liquidity such as a term loan to facilitate an acquisition or strategic reinvestment in your business?
- How does the lender collaboratively align with your mission and do you share some of the same core values?

Answering these questions and referring to this lending guide will set you on the path to securing the best source of financing for your business. And as you know, financing is a major component of the fuel that drives staffing agencies to success.

The Access Capital Difference

We provide you more than financing. We provide you with access to future growth.

Learn about your lending options today.

800.421.0034
contact-us@accesscapital.com