

2014

FACTORING - GROWING A SUSTAINABLE BUSINESS

FACTORING - GROWING A SUSTAINABLE BUSINESS

2014

Sometimes it's best to begin with a simple definition.

Factoring — for many years not necessarily one of the more often-discussed or widely utilized aspects of trucking — has in recent years become an essential element for success in the transportation industry.

That is especially true for small-and-medium sized carriers and for independent owner-operators, two groups that collectively comprise at least 90 percent of the industry.

Webster defines factoring as the business of purchasing and collecting accounts receivable or advancing cash on the basis of accounts receivable.

And before you think that factoring is a new phenomenon in the business community, think again.

THOUSANDS OF YEARS

Factoring is said to date back about 4,000 years to the cradle of civilization, Bronze Age Mesopotamia, which included the Akkadian, Assyrian, Babylonian and Sumerian empires.

Later it was the Romans who began selling promissory notes at a discount, yet another form of factoring. The first documented use of factoring companies is said to have occurred in America some time before the American Civil War, when animal furs, cotton and even materials such as timber were shipped from the colonies to Europe using intermediaries or factoring companies.

As much as it is obvious that factoring is no fly-by-night scheme, it is equally obvious — and perhaps a bit more so — that factoring within the trucking industry is defined as WEX Fleet One.



Factoring is said to date back about 4,000 years to the cradle of civilization, Bronze Age Mesopotamia, which included the Akkadian, Assyrian, Babylonian and Sumerian empires.

WEX Fleet One is the nation's premier provider of fleet management services, regardless of whether that "fleet" has one truck, five trucks, 20 trucks, 200 trucks or 2,000 trucks.

"We are financing accounts receivable for the transportation industry," says Ashli Leonardo, factoring sales manager at WEX Fleet One. "As everyone knows,

truckers are hauling loads and don't get paid 30, 45, 60, 90 days out. What we are doing is buying invoices from debtors that are considered good debtors. We buy those and advance the customer (trucking companies) the funds up front — normally 90 percent of the invoice — and then we handle all the collection and paperwork. Once we collect, we take out our fee and we send them any additional funds that are available."

"The way we look at it is that your average trucking company should have a gross margin of 10 percent," says Michael Sturm, chief credit officer at WEX Fleet One, who has been in the factoring business since 2005. "So for you to run a load from A to B, you have to pay for fuel and the driver, and 90 percent. The 10 percent hold-back then comes into play. Those are your operating expenses, insurance, maintenance, things that don't require an advance to run your next load. Our fee comes out of that and is based on how fast the invoice pays, the average time currently being 33 days."

THE RECESSION

While WEX Fleet One has been in the factoring business for many years, the company found itself replete with business when the big recession hit in 2007 into 2008 and beyond.

Everyone remembers the fallout.

In trucking, 3,000 companies — mostly small companies or owner-operators — went out of business.

The stock market plunged: Between October 2007 and March 2009, stock market losses totaled \$11.2 trillion.

Throughout 2008 and 2009, 8.4 million jobs were lost. Within three years, the average working household saw income decline by \$2,700. The eight trillion dollar housing bubble burst. By 2009, the median price of a home fell back by nine years. In 2008, more than 3 million homeowners foreclosed. In 2009, 176 banks went under in the United States.

With the WEX Fleet One Factoring service, fleets can immediately get paid for 90 percent of the invoice amount to help maintain the cash flow to buy fuel and pay drivers, two key elements in a carrier's success.



Throughout 2008 and 2009, 8.4 million jobs were lost. Within three years, the average working household saw income decline by \$2,700. The eight trillion dollar housing bubble burst. By 2009, the median price of a home fell back by nine years. In 2008, more than 3 million homeowners foreclosed. In 2009, 176 banks went under in the United States.

Long-standing U.S. companies, particularly automakers like General Motors and Chrysler faced bankruptcy. The federal government stepped in with expensive bailouts.

The United States was in economic crisis and the trucking industry was along for the ride.

The United States was in economic crisis and the trucking industry was along for the ride.

“Prior to 2008, there were a lot of deals we were looking at where carriers were in a bank (with a line of credit) or coming out of a bank. There was a lot more bank talk then. Obviously the recession occurred and the credit markets just evaporated for transportation companies. Transportation was one of the hardest-hit sectors across the recession, but specifically in the credit market. No banks were looking to lend to trucking companies and if they were, the amounts were so small or so insignificant they were of no help. Banks were not supporting trucking companies’ business from a cash flow perspective. Factoring turned the corner. It used to have a bad connotation associated with it, but not now. You are just doing what you need to do to keep your business moving forward,” Sturm said.

HELPING CASH FLOW

Without a line of credit for upfront operational costs, independent contractors as well as small- and medium-sized trucking companies have turned to factoring as a means of moving forward.

“We are in the business of helping the customer’s cash flow,” Leonardo said. “So while payroll and fuel have to be purchased, until you collect on your invoices, there’s nothing you can do to keep your trucks on the road. So this basically is just a way to keep your trucks on the road with cash flow. What’s more, teamed with the WEX Fleet One Fuel Card if there is ever an instance where a company needs help with their fuel over the weekend, if they are set up



When the great recession hit in 2007, factoring stepped forward to help many, many carriers who could no longer obtain a line of credit from a bank.

with factoring we are able to advance them funds over the weekend to help them out.”

That same service is available to factoring customers who might find themselves short of cash.

“On a day-to-day basis, moving funds around is extremely easy,” Sturm said. “We are constantly called by customers who are stuck overnight or stuck over the weekend. “Being a factoring customer they get a pretty good amount of leeway. Typically what happens is they say ‘I’m trying to get this load delivered. And we say we’ll give you \$500 or \$5,000, whatever the number is and send us the invoices next week and we’ll pay ourselves back.”

Virtually any carrier can take advantage of WEX Fleet One’s factoring services — and can rest assured that WEX Fleet One is looking out for them. The process of becoming a WEX Fleet One factoring customer begins with underwriting.

“There is a brief three-to-five-day underwriting period of the client and that’s to ensure that there is a clear line of sight to the receivables,” Sturm said. “By clear line of site, I mean that WEX Fleet One has the right to purchase from the client and the right to collect them from the client’s customer. From there is the underwriting process of the client’s customers. They are the ones ultimately paying the bills and that’s sort of a myriad things and it’s an amalgamation of how creditworthy is the customer, how many customers are there, do we have a history with that customer, what size are the balances relative to the rest of the customers. We use a litmus test so to speak to gauge that. That occurs on the front end and then on an ongoing basis. Our clients are continually generating new invoices and sometimes it is for the same customer because they have dedicated lanes with a standing contract in place or they are constantly generating invoices for new customers. So we are constantly monitoring that credit for our clients’ protection. A lot of our clients use us for a credit type service.

CARRIER AGE DOESN’T MATTER

It doesn’t matter how long a carrier has been in business as long as the carrier has their insurance and their authority. “We are not worried about personal credit; we are more concerned who they are hauling for,” Sturm said. “Occasionally, we might run into some issues if carriers have tax liens and things like that. Once the underwriting process is complete, we send out contracts and with those contracts the carrier can turn around and send us whatever invoices they have ready to factor. Then we’ll also go back if they have invoices they’ve billed within the past 30 days and we can go

ahead and buy those even though they've already billed out for them."

WEX Fleet One factoring customers have the assurance that WEX Fleet One is doubly diligent about vetting debtors, and that information is readily available to customers through an online system or by contacting WEX Fleet One directly.

"We check them out thoroughly," Sturm said. "As I said previously, in factoring, we place little reliance on our clients' creditworthiness and we are looking at our clients' customers. If you are hauling loads for Walmart, UPS, C.H. Robinson Worldwide or Landstar, and those companies might have had some hard times, we don't take those issues into account. We assume companies such as those are going to have the ability to repay the debt. So if a customer's debtor had an unprofitable quarter or a year where a bank would get extremely nervous and start to rescind credit, those types of things don't hit our radar at all." In 2008 WEX Fleet One saw a common trend.

"Let's say a carrier had 40 trucks, but only enough business for 32 trucks," Sturm cited as an example. "They were late to adjust and that started to impact their business and the cash flow started moving in the negative direction. On top of that we saw a lot of little small tier brokers, customers and some big ones, quite frankly, file for bankruptcy.

Teamed with the WEX Fleet One Fuel Card, if there is ever an instance where a carrier needs help with their fuel over the weekend, if they are set up with factoring, advance funds are available.



So they were left with less business and some of their customers had gone out of business. So they were left with bad debt and at that point they are in such a cash crunch they almost couldn't operate. A bank is not going to lend into that situation, but factoring will. Factoring will say 'give us the rest of your customers, we'll move forward, you can recapitalize your business, you can expand or whatever you need to do.'"

WISE COUNSEL

In some instances, WEX Fleet One can become an advisor.

"A great example occurred recently when a client called me and said he wanted to haul for a client that we had at a certain debt limit. He said, 'I want to double my business with these guys. How does that look to you?' And I told him we didn't have a strong history on the company and the company hasn't been around very long. I asked him why he

was comfortable hauling for that company. He said, 'I knew these guys. They used to be such-and-such a company and they went out of business.' We talked through the situation and in the end he said, 'you know what, this isn't a good idea. I'm just going to stick with the current loads I have now.'"

For those who still might have to be convinced to give factoring a try, look at this statistic: About 80 percent of trucking companies with 250 or less trucks are factoring today.

"There is still a lot of factors out there that are operating out of their garages and so you are going to run into some factors that just aren't good business, but at the end of the day WEX Fleet One has a reputation of catering to smaller transportation companies so you have that one-on-one feel and you can trust you are not just some account number when you call in," Leonardo said.

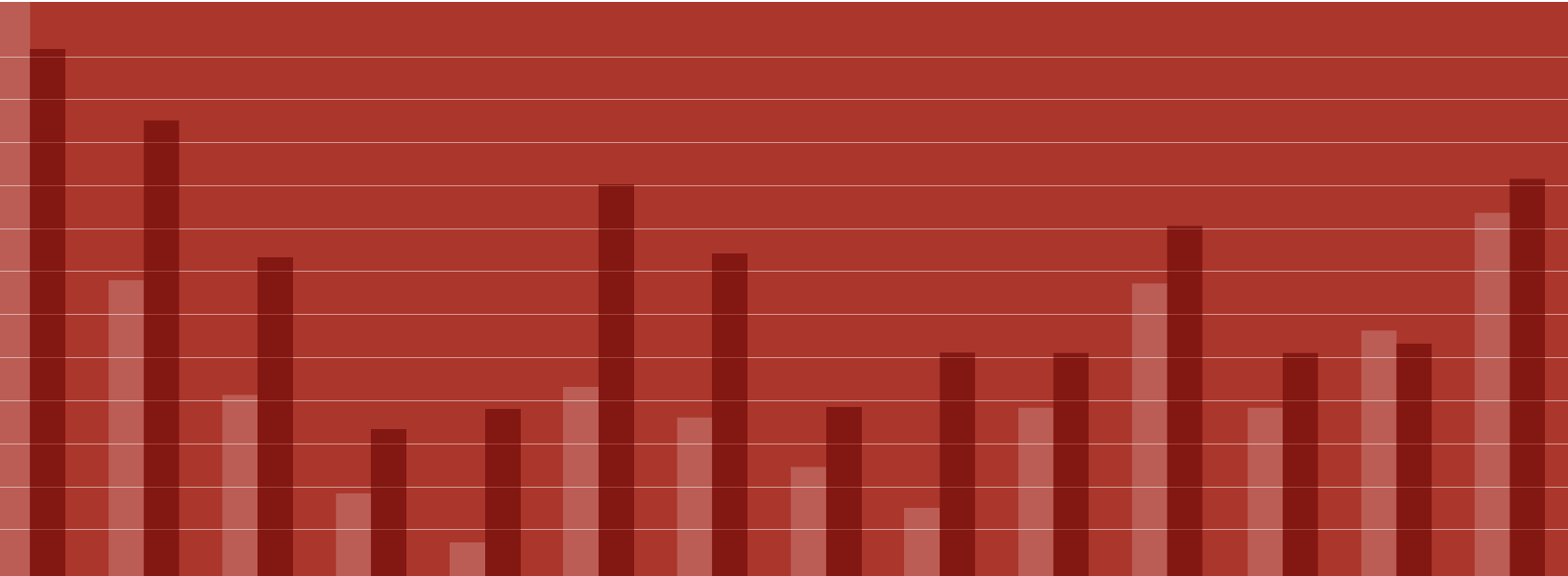
In the end, WEX Fleet One has one primary objective: to help its clients to grow a sustainable business.

And sometimes, that sustainable business reaches the point that the company has enough capital and lines of bank credit to maintain that 10 percent operating margin. That's no problem.

"If a company grows its business to the point it is ready to get out from under factoring and going to get a bank line of credit, we let them out of their contract at no charge so long as they are going to get bank financing," Leonardo said.

About 80 percent of trucking companies with 250 or less trucks are factoring today.





FLEETONE.COM | 1.866.51SALES

RESOURCES

WEX FLEET ONE FleetOne.com

PARTNERS IN BUSINESS <http://goo.gl/k7BZf>

U.S. DEPARTMENT OF ENERGY fuelconomy.gov