

GENERATING NEW BUSINESS BROKERS or BUSINESS DEVELOPMENT OFFICERS

by Dave Rains

Factoring is a great industry. During an economic expansion, business is good... and in the bad times, business is great. While it is cyclical, there are always companies, good companies that need the assistance of factors to survive and grow. The risks can be great at times, but to the risk takers goes the rewards. So, here we are on the cusp of an expansion period for factoring. Banks are becoming more conservative daily and gently pushing their marginal customers away as the availability of money tightens. So, how do you, as a company get your piece of the action? What is the best method for generating new business?

While there are many marketing strategies that work in the different markets, I would like to compare and illustrate the two main options as they relate to the human factor; Brokers and Business Development Officers (on staff salaried salesman). What are the benefits of each? Which one is right for your company at this time?

Brokers are an intricate part of our industry. From the Cash Flow Convention to the independent consultant, brokers are as varied as our culture itself. When you have a good broker, it can be an excellent arrangement. The front-end costs are the most enticing part of utilizing a broker network. If they do not produce, then they do not get paid. They are paid a percentage of the business that is brought in, usually 5%-15% on the life of the deal. You do not have to pay taxes, carry insurance or pay any marketing expenses. You just pay the broker a certain percentage of the deal when you get paid. When you have a good broker that is bringing you quality deals, this is the ideal situation. If we could always limit our marketing costs to approximately 10% of the fees generated on every deal and then only pay when we get paid, then it would be a perfect world. Why in the world would anyone consider another method, other than brokers to generate new business?

Well, for several reasons. While you might have a broker who you like, who you really get along with, the broker is not your employee. Brokers are generally not bound to you in any form of an agreement, other than if you book a deal, you will pay a percentage of the fees generated. In addition, you can bet that if someone offers a half point higher, gets the deal done faster by 8 hours, or if for any reason the broker thinks another source might be more profitable, you are history. The other obvious drawback is your company will, in most cases, be competing against 4-6 other factors to whom the broker has presented the deal. It will then be a K-Mart rate shopping spree. We all know what happened to K-Mart. Of course, you cannot blame the broker. His loyalty is to the income that is produced by the deals generated.

The other, less obvious drawback is the broker typically does not care about your profit or if you are burned on a deal. Sure they want to keep the income stream, however the main concern is to get the deal booked. Therefore, if you miss something in due diligence or there is something that is known in that market about the deal or the company (and you are across the country), the brokers may not ensure you know all of the good, bad, and the ugly. In fact, more times than not, they will not be forthcoming about any of the bad and will ensure you are aware of all of the good. After all, the only objective is to book the deals. That is the broker's payday.

Another drawback to brokers is they sometimes stay too involved in a deal and can make a deal go south or cause unneeded interference by advice and consultations with the clients. The old saying "Too many cooks spoil the soup" is an excellent adage as the broker is the one who has the original relationship with the customer and can promise the client things you are not willing or able to accomplish. Again, it is the broker's goal to get the deal booked and they might promise or mislead or just give erroneous information about your company and the processes in the heat of booking the deal. This can put you and the client at odds with each other because they were told one thing and another transpires. This may not be done purposefully by the broker. They deal with different companies that have different policies, therefore what is a policy of due diligence by one company might be totally different by another

factoring company. However, by design or without malice, it does get tricky with a third party representing and being affiliated with your company, unless you know them well and they know your methods and operational procedures.

Even after the deal is booked, the broker sometimes maintains the relationship with the client to the detriment of the factoring company. If the broker establishes a better relationship with another company, then they will, more often than not, try to take your client to another company. If they have maintained a good relationship with the customer and you are in another part of the country, then it is easy to sell a company on the idea of "the grass is greener" or "this new factoring company I am representing is much better than the one you are currently doing business with".

With a good Business Development Officer, you alleviate many of these problems. First of all, the BDO is an employee who knows your company, its policies and what you will and will not do. He is able to communicate this on the front end which allows the deal go smoother throughout the process. Many of the smaller problems that become large concerns later can be addressed in the beginning, which will make booking the dealing easier and make relations with the client much better.

Secondly, because the BDO is your employee, it is their responsibility to ensure that you are protected on the front end and know all of the intricacies of the proposal. This can save you the write-offs that occur six to 10 months later after the client's hidden problems finally surface. It is in the BDO's best interest to keep you profitable and booking good deals because their livelihood is tied to your success.

When a deal is sourced with your BDO, in many cases, you are not competing with a lot of other factors and even when you are in some competition, you have your BDO in place who is fighting hard to bring the deal to fruition for you, selling more than just rates but company service, attitude, and reputation. This gives you good and consistent representation in the marketplace.

The BDO, after a short period of time, knows your credit criteria and which your target market. Therefore, your credit and underwriting time is not spent on a lot of deals that do not fit with what your company is looking to book. This can equate to a multitude of dollars in time/effort not wasted dealing with a broker that insists you give them timely answers on each and every deal which, in some cases, is so far off of the mark of what new business you will write. You sometimes will put up with this because of the occasional good deal that the broker does bring forth. Your own BDO will know in short order which rabbits to chase and which skunks to run away from.

In closing, the decision to use brokers or BDO's depends on what type of representation you want for your company in the marketplace. In reality, probably the best is a mix of the two. Use trusted brokers that you know or at the least do strong due diligence on their reputation to ensure they are individuals that you want representing your company because in the mind of the client, they are affiliated with your company.

Then, use BDO's for the markets that you want strong and consistent representation or markets where very qualified BDO's are available to represent your company. The base salaries and commissions vary and the BDO will cost you more money upfront and overall; however the end product in lost production time (looking at bad deals from brokers), customer retention, client confidence, and faster growth are well worth the additional investment.

David Rains is Sr. Account Executive and Team Leader of the Factoring/ ABL Division of MRI Sales Consultants. Dave is the foremost factoring recruiter in the US today.