

## Finding Alternative Forms of Financing

By Martin C. Daks - 5/28/2007

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Before Mya Jacobson started Feed your Soul LLC, a cookie company based in Jersey City, she worked as a stock trader on Wall Street. Perhaps that's why she felt comfortable bypassing banks when she needed a \$250,000 line of credit last January and tapped a private investor for the financing. While bank-based financing works for many companies, it's not unusual for businesses, from startups to mature companies, to reach a point where a bank is not the answer. Alternative sources of financing may cost more than a traditional bank loan while sometimes offering flexibility that a bank can't match.

Jacobson, a 32-year-old Hoboken resident, credits Al Izzi, a business consultant with the federal Small Business Administration's Small Business Development Center at New Jersey City University, with helping her secure a line of credit. Izzi "was integral to my success in lining up private financing," she says. "He helped me to set up my financial records and worked with me to gain a thorough understanding of daily budgets and other critical business knowledge." Jacobson tapped into the line of credit to buy machinery and equipment, and to boost her firm's marketing campaign. She also set up a café on the ground floor of her Hoboken bakery where customers can drop in and buy her cookies or place orders to have them shipped out across the country.

Jacobson is currently laying the groundwork to expand her business again. This time around, she's considering an equity investor. "At some point soon, we'll need more money for equipment and marketing," she says. "I've been in touch with former colleagues and other business associates who have expressed a willingness to invest considerable sums of money in return for an equity stake in my company. Even though it means giving up part of my ownership, I'll get valuable growth expertise from these owner-investors." Companies in unusual circumstances may need to seek nonbank financing, says Charles Ludmer, president of Cohn Capital LLC in Roseland. The subsidiary of J.H. Cohn works to match asset-based lenders, factors and other funding sources with mature companies that have revenue shortfalls or have experienced explosive growth that strains their working capital.

Asset-based lenders generally focus on a company's balance sheet, advancing funds based on the borrower's receivables, inventory, or machinery and equipment, while giving less weight to cash flow. Factors typically buy a company's accounts receivables at a discount to their face value, while purchase order financiers pay firms for purchase orders (POs) received from customers. Because a PO is a commitment to make a purchase rather than a receivable, PO financiers may pay less than factors.

About 18 months ago, Ludmer worked with a New Jersey-based women's accessory maker that was starting to outsource business overseas and needed \$5 million to \$6 million in cash.

"During the transition, the company experienced a working capital shortfall, and its funding base deteriorated sharply," Ludmer says. "At the time, the client had an asset-based lending relationship with its bank, but the company's worsening financial position meant the bank would only advance 70 percent of the manufacturer's receivables and 40 percent of its inventory."

Ludmer linked the company to a nonbank asset-based lender (ABL) that was subject to more flexible lending and underwriting regulations.

"The ABL we recommended offered a 90 percent advance rate on the company's receivables, and a 50 percent advance rate on inventory," says Ludmer. "Since then its operations have improved, and I'd say that in another year or so it will be able to go back to a bank for [lower-cost] financing."

E-mail to [mdaks@njbiz.com](mailto:mdaks@njbiz.com)