



To Survive Factors Must Evolve with Industry and Technological Change

Learning how to navigate in these new evolving industries can be challenging and a factor must always be proactive in managing new types of risk. Whether it is marketing to a new industry/region or adopting new technology, the successful factor of today is much different than the one a decade ago. **BY ROBYN BARRETT**

The world is changing and factors need to be flexible and change with the times. Industry shifts and the introduction of new technology are the biggest changes that impact factors. During the past decade we have seen amazing advances in technology and communication that have made our lives easier but have also led to severe deterioration of long-lived industries. As we continue to move from a labor based society to a technology based society, factors will have to rethink how they manage risk and their portfolios.

Changing Industries

Industries we grew up with are going away quickly and being replaced by new, fast growing industries. Learning how to navigate in these new evolving industries can be challenging and a factor must always be proactive in managing new types of risk. Here are some examples of dying industries and the new industries that are causing them to become dinosaurs:

- **Wired telecommunications (hard-line telephones) versus wireless and Voice over Internet Protocol (VoIP):** Persistently high-fixed costs and cell phones have doomed hard-line telephone companies. The ones surviving are buying cell phone companies and are re-arranging their business models. The increasing polarity of

ANNUAL REVENUES FOR THE U.S. MANUFACTURING INDUSTRY HAVE DECLINED 50.2 PERCENT² SINCE 2000.

wireless products and VoIP services like Skype are the future of the telecommunications business. Annual revenues for the hard wired telecommunications industry have declined 54.9 percent¹ since 2000.

Wireless communication has made communication to remote areas possible and the transfer of information almost instantaneous. As communication and information travels faster than ever, the world seems to be getting smaller. This has large implications for the way we conduct business. Storing important files on a computer rather

than in drawers, for instance, has made information easily accessible. Also, the ability to quickly access vast amounts of information can lead to shortened due diligence processes and give factors better tools for proactively managing their portfolios.

• **Manufacturing versus outsourcing:** American manufacturing has continued to suffer during the past decade, mostly due to competition from abroad. Cheaper production costs in foreign countries have led companies to abandon mills and factories across America. Annual revenues for the U.S. manufacturing industry have declined 50.2 percent² since 2000.

Outsourcing has enabled companies to save money by looking outside of their home communities for labor. This is advantageous to employers because they can often get the same work done while paying much lower wages. For example, outsourcing manufacturing overseas has allowed entrepreneurs to enter markets in record time. Entrepreneurs can create a product prototype, have it made overseas and

shipped to the U.S. for distribution in a matter of weeks.

• **Newspaper and media publishing versus the Internet:** The plight of the newspaper and magazine business is still largely without a solution. A shift to online news and media has benefited some but devastated others as media outlets struggle to find a balance. Many newspapers and magazines are adopting a subscription based service as the latest attempt to sustain a failing business model. Across the country, 28.6 percent of newspapers have closed since 2000 and revenues have declined 35.9 percent³.

In general, the Internet has proven to be an inexpensive way for businesses of all sizes to reach more customers. Nowadays, if you can't find a business online, or if it has an outdated, ugly website, it looks downright unprofessional. Many businesses have succeeded in using the Internet as their primary, or sometimes only, medium. Thus, publishers are turning to online media as a way to gain advertising and retain subscribers.



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• **DVD, game and video rentals versus streaming:** Netflix/movies on demand are just so easy. Online movie streaming will just become more inexpensive as bandwidths improve. Competitors like Netflix and new technology such as online streaming, digital cable and satellite TV have hit the movie rental business hard. Revenues for this industry have declined 35.7 percent since 2010 and are expected to decline an additional 19.3 percent over the next six years⁴.

This discussion may not be directly relevant to all factors but it certainly opens an eye to some of the industries that are struggling to survive. The DVD, game and video rental and newspaper publishing industries may be obvious, but there are many others that are not as widely known. Each and every one of these industries has been impacted by one or more factors, including external competition, advances in technology and industry stagnation.

With both the dying and growing industries there are opportunities for factors. The key is to continually evaluate concentration levels within an industry, manage exposure risk across client and debtor credit limits and understand the nuances of changing and new industries. Financing clients in a dying industry is fine, but if you find you are largely concentrated in dying or quickly declining industries, then you better start rethinking your marketing efforts. New industries can bring on challenges such as understanding the implication of electronic signatures for key legal documents, the acceptability of email correspondence in lawsuits, or the electronic flow of funding documents.

Changing Technology

Today's factoring operation is much more efficient and lean than it was a decade ago. While factoring will always be the most labor intense of any lending option, factors are turning to technology to help them reduce staff, improve portfolio management, decrease errors and expand geographically. In the past, smaller factors preferred to factor clients in their city or state. With online reporting, electronic banking and video conferencing, factors can expand their market reach to different markets with minimal cost outlay.

Here are some ways factors are incorporating technology in operations and marketing:

- **Digital documents versus paper:** Most businesses have been moving away from paper documents in favor of more efficient electronic or digital documents. Even paper faxes are fading away. Factors are no different and the expense of converting to a paperless operation has enormous savings in

terms of supplies and efficiency.

- **EDI/online vendor access versus written or verbal verifications:** EDI/online vendor access allows the factor to immediately verify funding information directly with the debtor. While this doesn't always replace a written or verbal verification, it does allow the factor to monitor the client/debtor activity and can reduce the need to utilize other forms of verification.

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• **Physical office versus virtual office:** In the past, when a factor wanted to expand to a new region, they would open a physical office and hire staff, thus requiring additional capital. Today, all a business development officer (BDO) needs is a good laptop, a smart phone and a wireless connection to build a virtual office. Effective BDOs are using tools such as video conferencing and customer relationship management

software to efficiently manage the sales process from any location.

• **Rolodex versus customer relationship management (CRM):** Rolodexes are dead – repeat, rolodexes are dead. To stay in front of prospects and to efficiently market, factors need to adopt CRM. CRM is a widely implemented strategy for managing a company’s interactions with customers, clients and sales prospects. It involves using

technology to organize, automate, and synchronize business processes—usually sales activities, but also those for marketing, customer service and technical support. The overall goals are to find, attract and win new clients, nurture and retain those the company already has, entice former clients back into the fold, and reduce the costs of marketing and client service. Also, utilizing CRM software means the home office can easily monitor the activities of BDOs and can quickly implement changes to ensure sales costs stay down and performance goals are being met.

• **Snail mail marketing versus social media:** Social media has dramatically transformed marketing by creating demand for products, services and information. Businesses are now able to get a better understanding of their customer base while also getting immediate feedback on new products and services. Social media can be valuable to every industry and it is important to understand how it works.

Even factors need to have a social media marketing plan to help them educate and gain prospects. Since most first impressions happen online, a positive social media plan can help a factor make a good first impression and show prospects the factor is forward thinking.

Whether it is marketing to a new industry/region or adopting new technology, the successful factor of today is much different than the one a decade ago. The factors that will emerge as successful players will be proactive in adapting their business as industry and technology continue to change. •

^{1,2,3,4} *Toon Van Beeck, “Ten Key Industries That Will Decline, Even After the Economy Revives,” IBISWorld, May 2011*



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