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Receivables Funding Can Add Cash **Eliminate Headaches**

Outsourcing may be a good option for your dealership.

By Denise L. Rondini, Executive Editor

In order to be in business, you have to extend credit to customers, and on average customers take 45 days to make a payment back to you. Obviously some pay more quickly, but others can take much longer. In the meantime, you still need cash to run your business while waiting for customers to pay you.

One solution to this problem is accounts receivable funding, which basically consists of outsourcing your accounts receivable to a third party. According to Jeff Leavitt, vice president of sales for Corporate Billing, companies like his come into a dealership and liquidate the receivables that are on a dealer's book, "and then on a daily basis we turn yesterday's invoices into cash today."

Here's how accounts receivable funding works: The dealer provides the company purchasing the receivables with customer information and an accounts receivable aging report.

The company then decides which of the accounts receivable it will purchase and pays the dealer for the receivables minus a fee. Leavitt explains this is very similar to the way credit card companies function.

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Economic Update

• The amount of freight carried by the for-hire transportation industry fell 0.2 percent in October from the recent peak achieved in September, according to the U.S. Department of Transportation's Bureau of Transportation Statistics.

• The Ceridian-UCLA Pulse of Commerce Index — a measure of economic activity based on real-time diesel fuel consumption — rose 0.1 percent in November following a 1.1 percent increase in October.

• The national average retail price for on-highway diesel dropped 3.7 cents to $3.894 a gallon during the week ended Dec. 12.

• U.S. freight railroads' carloads were up 3.7 percent for the week ended Dec. 10 compared to the same week last year. Intermodal traffic was up 3 percent.

• First-time claims for unemployment insurance fell by 19,000 on a seasonally adjusted basis to 366,000 for the week ended Dec. 10 from the previous week's revised figure. The four-week moving average was 387,750, a decrease of 6,500 from the previous week's revised average.

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For the existing receivables, a company normally will purchase those that are less than 90 days old.

Following that there often is a 90-day conversion period. "In order to take on the risk from a dealer with existing accounts, we have a conversion period that gives us 90 days experience with that customer while the dealer assumes the risk," Leavitt explains. At the end of the 90-day conversion period, Corporate Billing is at risk for non-payment.

Having a conversion period is the easiest way to get the process started and is least disruptive to the dealership. It means the dealership's existing customers do not have to fill out new credit applications with the company that purchased the receivables.

Dealers typically submit their invoices to the outsource company on a daily basis. "They are generating invoices daily so it makes it most cost effective for them to submit them each day," Leavitt says. "They basically are converting everything to cash the next day."

A firm who purchases a dealer's accounts receivable also typically takes over other accounts receivable functions. "What we do for the fee is provide them with cash — next day funding," Leavitt says.

"We provide them with credit risk so we take on the risk for all the receivables and we do all the billing and collections. All the payments come to us, so we are posting payments and we are managing credit to new customers." This allows the dealer to concentrate on his core business of selling and servicing trucks.

That is one of the reasons dealers cite for selling their accounts receivable, but there are others. "Dealers do it because it dramatically improves their cash flow and gives them working capital that has been tied up in receivables," Leavitt says. "If a dealer is looking for working capital, this is one of the easiest and most cost effective ways of getting it quickly."

Outsourcing receivables also can lead to a reduction in head count and, more importantly, can alleviate risk. "If a dealer has hundreds of thousands of dollars outstanding in receivables he has to collect on them. If the customer does not pay, the dealer has to write it off. Accounts receivable funding eliminates the risk of charge offs," Leavitt explains.

While dealers do have to pay a fee to the company purchasing the receivables, Leavitt says no dealer is getting paid on 100 percent of their invoices. If they are, he believes their credit policies may be too tight and they run the risk of losing business.

"We are very aggressive in opening new accounts for dealers," he says, citing a 97 percent acceptance rate of credit applications submitted by dealers from potential customers. On these new customers, Corporate Billing assumes the risk for unpaid invoices. ■