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Experts Discuss Financing Options for Businesses Big and Small

By Alison A. Nieder | *Thursday, October 30, 2014*

Financing alternatives from traditional methods such as factoring to crowdfunding opportunities were discussed at a recent panel discussion featuring factors, investment bankers and other finance experts.

“We are in the area of the country that develops new talent,” said **Ilse Metchek**, president of the **California Fashion Association**, who co-moderated the event with Mitch Cohen, regional manager of CIT Commercial Services.

Organized by CIT and the **CFA**, the Oct. 23 event, titled “Green Is the Color of Money,” was held at the Omni Hotel in downtown Los Angeles. The panel included CIT President Jon Lucas; Steve Brownlie, managing director of Altamont Capital Partners; Jennifer Baxter Moser, managing director of TSG Consumer Partners; Paul D. Schuldiner, managing director of business development for King Trade Capital; Katie Fitzgerald, manager business development for CircleUp; and Kati Suominen, founder and chief executive officer of TradeUp and of Nextrade Group LLC, as well as founder and partner of the US Export Capital Group LLC.

Cohen started the event off with a series of questions for the audience, who were equipped with hand-held meters to record their answers. According to the results, 86 percent of attendees use factoring in their business or recommend it to others. Most said they use factoring for account-receivables management and credit protection. A smaller, but still significant group—69 percent—said they had brought in private-equity financing or have recommended it, primarily to gain market share, while 54 percent also said they use or recommend purchase-order financing to build equity or because the company is undercapitalized.

And while 42 percent said they are aware of crowdfunding but never explored it, 30 percent said they were unaware of crowdfunding at all, and only 13 percent said they have used crowdfunding in their own business.

For many in the apparel industry, factoring is the traditional means of financing a business.

“The basic product, the purchasing of an invoice, hasn’t changed [in years],” Lucas said. What has changed is technology. [Today,] we communicate electronically—we use electronic credit filings. Technology helps us process invoices. There are more changes in the consumer product space and retail space. The landscape has changed. Our clients have fewer [retailers] to sell to. Their exposure is larger.”

The cyclical nature of the fashion industry and the scale of big-box retailers have also provided an opportunity for factors that provide purchase-order financing.

“It’s an incremental finance tool,” Schuldiner said. “It allows customers to take an order that they wouldn’t have been able to."

Schuldiner said the use of P.O. financing has grown as big-box retailers have begun giving orders to customers that may have "seasonal cash-flow problems and short-term working-capital deficiency."

"It works in tandem with banks and factors. It's not meant to replace existing or conventional financing," he said. "Factors continue to do the credit approval and lend on receivables."

Investment potential

For Brownlie and Moser, each representing private-equity investment firms, the apparel industry represents a "rich industry with multiple opportunities," Moser said.

"It's a very large industry with opportunities for brands to grow and scale," she said. Moser's firm has invested in apparel companies such as Paige Premium Denim and Revolve Clothing.

"There are lots of companies in different situations, ranging from companies that have hit on a right trend or owners that want to take their chips off the table or bring in a partner," Brownlie said. "There are also the type of opportunities where a company finds themselves in situations that are out of their control. We bring more than capital. We bring experts and additional structure."

Brownlie said his Palo Alto, Calif.–based firm will even look at a company that has "hit a plateau or has been neglected."

"The core strength of the brand is really paramount," he said. "The next stage of growth might be something management doesn't have experience with."

Altamont invested in action-sports brand Dakine, which was under the Billabong umbrella while the surf brand was undergoing a proxy fight.

"Dakine was a great example of what we're looking for," Brownlie said. "It has a loyal customer base, but within Billabong different factors caused the brand to be neglected."

With Altamont's help, the company expanded its product categories and shored up its international business, he said.

Crowdfunding from start-up to export

Fitzgerald's company, CircleUp, looks for "standout" companies in the earlier stages of brand building.

CircleUp is perfect for "companies that have historically had trouble raising capital," she said. "If you are sub-$15 million, you don't have a lot of resources to facilitate growth at an earlier stage. We get companies through that difficult stage."

Suominen's business, TradeUp, helps connect companies looking to export with potential investors.

"Our focus is on exportation across sectors," she said. "These companies typically grow very rapidly once they reach the international stage. Companies that typically come to us have trouble securing capital from traditional banks."

Suominen said her company looks at "more-seasoned companies" that already sell overseas, "given that there is a learning curve."

Her business connects these companies with a network of third-party advisers and investors.

"There is a lot of support from the U.S. government that is left on the table," she said. "Very few companies are taking advantage of the growth opportunities of emerging markets."

Both Fitzgerald's and Suominen's companies offer an online platform for companies to connect with investors.

These platforms are providing an efficient way to research accredited investors, Suominen said.

"We leverage technology to reach a broad offering of investors," Fitzgerald said. "By introducing technology, [these platforms] allow companies to focus on relevant investors. We're able to cut down fundraising time to two to three months from 12 to 18 months."

Suominen described her company as a "conduit" for companies to gain access to investors and expertise.

"At the end of the day the deal is between you and the investor, not you and the platform," she said.

Brand vs. private label

While many on the panel said they were looking for great brands with potential for growth, **Metchek** asked if any were looking at private-label manufacturers that may be interested in building their own brand.

"We haven't heard about financing companies with great potential to become great brands," she said. "Most of the companies in California are private label. Where is the money to get to the point to be a great brand?"

For CIT and King Trade, many of their clients are private-label manufacturers.

"The companies we look at are on their way to being brands," Schuldiner said. "Companies like Billabong, honestly, aren't going to need P.O. financing."

While crowdfunding resources such as CircleUp typically look at up-and-coming brands rather than private-label manufacturers, Fitzgerald acknowledged the value of industry experience.

"If you have experience in the industry and are starting a new brand, that's more interesting to an investor than a company with no experience in the industry," she said.

Both Brownlie and Moser said their companies like to invest in founders—the "visionary" behind the brand.

"What we see is people care deeply about the legacy of what they've built," Brownlie said.

But both Lucas and Schuldiner noted the importance of strong management teams as well.

"The founder has the vision, but before him are the team, the ones that are on the front line every day," Schuldiner said.

Lucus said CIT looks primarily at the management team and the business plan.

“It’s more of an art than a science,” he said. “There are many different ways to finance a business.”