Local entrepreneurs entertaining new financing options in wake of recession

For many, selling future sales for cash today is a simpler alternative than navigating the complexities of securing a bank loan

David Gens co-founded Merchant Advance Capital last September and has been buying small-business owners' future sales since

DOMINIC SCHAEFER

Garador owner Arkadiusz Lewandowski experimented with a new financing option for small-business owners when he borrowed $50,000 from Merchant Advance Capital

By Glen Korstrom

Tighter bank lending restrictions during the economic downturn resulted in small business owners being rejected more often for loans or having to jump through extra hoops to get that financing.

Entrepreneurs who did not want to deal with stricter regulations had few options.

That's changing.

When Richmond garage door manufacturer **Arkadiusz Lewandowski** recently needed to borrow $50,000 for his **Garador** business, he dreaded the idea of going to a bank to fill out reams of paperwork and waste what he considered too much time.

Instead, he looked at a concept that Vancouver entrepreneur **David Gens** is spearheading.

Gens launched **Merchant Advance Capital Ltd.** last September and has since loaned approximately $750,000 to 23 businesses.

"We buy future credit- and debit-card sales," Gens said. "I'll say, 'I'll buy $50,000 of your future sales for $40,000 today. I'll take 5% of each sale until I get repaid my full $50,000.'"

The interest rate varies because a company with slow sales that takes two years to repay the loan would have a lower annual interest rate than one that has brisk sales and can repay the loan in six months.

The model is similar to that of **CanaFunding** – a New York and San Francisco-based company that has operated in Vancouver since 2007 and has conducted hundreds of transactions in this city, CanaFunding president **David Goldin** told *Business in Vancouver.*

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– David Gens, CFO, Merchant Advance Capital

Company-wide, CanaFunding has bought hundreds of millions of dollars of future sales from small businesses, he said.

"I found that, with Merchant Advance, it was a lot easier and a lot quicker to fund the company than it would have been had I gone to a bank," said Lewandowski, who also considered factoring.

Factoring companies pay cash up front to buy a client's accounts receivable contracts for approximately 80% of the contracts' value. The factor then waits for payment and performs all necessary legwork to remind the debtor client that the bill remains outstanding.

Once the factor gets paid in full, its staff deducts a fee that tends to be between 2% and 5% of the contract's value. The factor then sends the remaining money back to the client.

"I felt that, with factoring, because they take over all your receivables and customers make out cheques to a different company than the one they first deal with, that it portrays not that good an image in most consumers' minds," Lewandowski said.

"If I was dealing with a company and then they said, 'You have to send your cheque to this other company,' I would feel that the company I was dealing with is maybe unstable because, for some reason, their accounts receivable is being handled by someone else."

Business owners such as **Jordair Compressors Inc.** owner and president **Jeremy Rowand** agree that this could be a concern.

Rowand told *BIV* that he likes factoring because it can improve cash flow and reduce his number of accounts-receivable staff.

"Business is great," **Pyx Financial Group Inc.** owner **Cassandra Consiglio** told *BIV*. Her 19-year-old company has 15 staff and more than 36 clients across Western Canada.

"Factoring typically does well in an upswing as well as in a downturn," she said.

Tighter lending requirements at banks prompt more companies to try factoring during recession years. Alternatively, she said, when the boom years arrive, there are plenty of fast-growing small businesses that need supplemental funding and are open to trying factoring.

"We're finding that B.C. is relatively suppressed still in terms of growth, so we did a huge amount of our business in northern B.C. and Alberta over the winter," Consiglio said.

She had not heard of Gens' business until *BIV* spoke with her.

But Consiglio said she advocates any alternative that accelerates a business' access to cash flow.

Gens left his day job at **CAI Capital Management** last August to devote himself, along with partner **Kevin Ainsworth**, to building Merchant Advance.

The duo have 22 investors, including one who invested $220,000. Many others invested as little as $10,000.

The investors split 80% of the company's profits. Gens and Ainsworth, who are also investors, get a 20% share of their company's profits.

Gens' and Ainsworth's loans tend to be between $30,000 and $250,000 and are usually to businesses that have been operating for at least one year.

"One of our requirements is that the business has a physical location and is swiping credit and debit-cards through a terminal," Gens said. "It's difficult for us to audit online transactions." ■

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