



LSQ Funding Group, L.C.  
[www.lsq.com](http://www.lsq.com)

## 7 Simple Steps to Stay Afloat in the Staffing Industry

The Path to Better Cash Flow Management

*“If your company is experiencing a cash flow gap – when your cash inflows don’t keep pace with your cash outflows - your business is left short of cash.”*

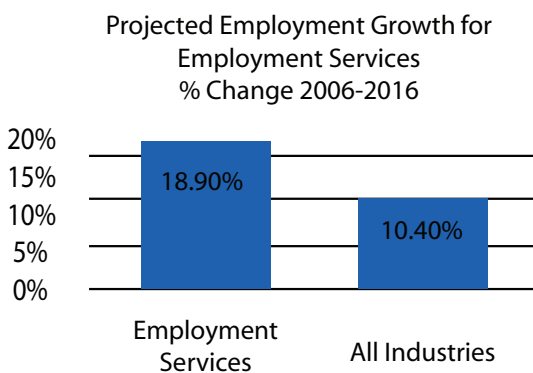
*“Susana Ortiz, president and chief executive of specialty baked-goods company Caroline’s Desserts in Redmond, Wash., says she was surprised that as many larger retail customers as smaller boutique customers were paying late. About 18% of the company’s accounts are late -- up from 1% or 2% a few months ago. If you’re small, she says, big companies think they can wait to pay you. Ms. Ortiz has had to delay hiring and buying new equipment because of the lack of cash flow and she has been forced to use personal funds to pay bills.”*  
– Wall Street Journal.com, 1/23/09

### **Welcome to the cash crunch!**

Welcome to the cash crunch. In today’s economy, no industry is immune from the pain and reality of decreased sales, client bankruptcies, lost jobs, stalled growth, and cash flow worries. While we all wait for the economy to stabilize and the credit to flow again, we still have bills to pay and cash flow to manage. Small businesses, the lifeblood of the American economy, are feeling this pinch even more than the rest. As the recession deepens, small businesses complain it’s tougher to get paid on time.

If your company is experiencing a cash flow gap – when your cash inflows don’t keep pace with your cash outflows - your business is left short of cash. And that’s a problem. A big one. **According to a U.S. Bank Study, 82 percent of business failures are due to poor cash flow management .** From manufacturing to marketing, from consulting to staffing, this economic crisis has made all eyes focus on a better way to finance.

### **The Staffing Industry Outlook**



Let’s take a look at the staffing industry in particular. According to a recent Staffing Industry Analysts, Inc. report, the temporary staffing segment is taking the brunt of the economic downturn. Temporary help payrolls fell by 72,000 jobs in March, the 25th monthly reduction in temp jobs out of the last 27 months. The experts predict continued uncertainty in the business environment which impacts long term growth.

Despite the gloomy short-term prognosis, the staffing industry is actually expected to be the second largest job-growth industry in the U.S., according to Bureau of Labor Statistics (see inset chart). The industry has been growing faster than the economy because of flexibility: Workers want it, businesses need it, and it’s good for the economy.

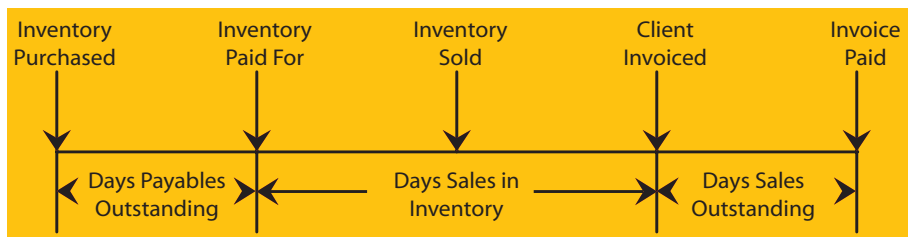
Therefore, one of the top priorities for staffing firms should be growth. But a company can't grow if it doesn't have the cash flow to do so. Since the long-term outlook for the staffing industry is strong, now is a good time to position your staffing company for future growth. And now is the time to understand how improving your cash flow can help you do just that.

## A Better Understanding of Cash Flow Management

Cash doesn't flow as soon as you make a sale. It's not that easy. Instead, cash flow is impacted the moment your company invests in personnel, supplies and sales brochures to bring in customers and continues until you've received payment for the actual services provided to your customers. Therefore, companies need to have enough money on hand to pay running costs and expenses while waiting to get paid by their business customers – that's what working capital is. Traditionally, companies have turned to banks or investors for additional working capital if they are running low. But in this economy, no one – including the banks – is handing out cash without a lot of strings attached. Therefore, it is important that companies understand cash flow management, specifically, the Cash Conversion Cycle.

The Cash Conversion Cycle (CCC) represents the number of days it takes a company to purchase raw materials, convert them into finished goods, sell the finished product and receive payment from the customer for the product. In general it looks like this:

### Cash Conversion Cycle



$$CCC = \text{Days Sale Outstanding} + \text{Days Sales in Inventory} - \text{Days Payable Outstanding}$$

The shorter your CCC is, the better your cash flow position and the less working capital you need. As you can visualize using the chart above, companies can optimize their CCC by extending their payables, turning their inventory quickly then invoicing and collecting the receivables quickly. At one point Dell Computers had become so efficient that it had achieved a negative CCC, which meant that it was invoicing and collecting from its end customers before Dell had to pay its suppliers. Not only did this allow Dell to reduce its working capital requirements, but Dell was also able to earn interest on the prompt payments it received from its customers.

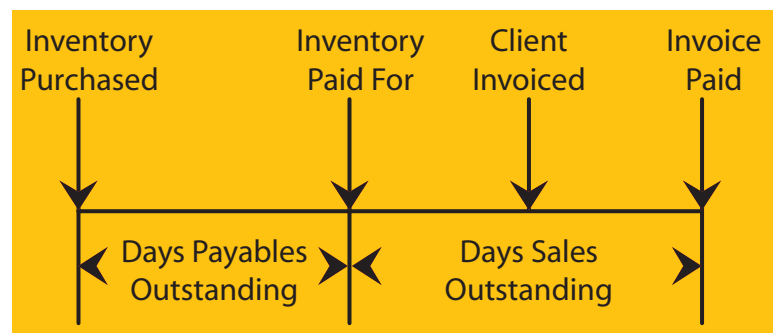
“A company that manages its cash flow smartly is also a company that grows – and grows profitably.”

Every company’s goal is to manage cash flow more efficiently. Cash flow management is not only necessary during difficult economic times, but it is critical during the go-go days as well. A company that manages its cash flow smartly is also a company that grows – and grows profitably. In order to help staffing companies seeking to grow in the current environment we have outlined seven simple steps to better cash flow management.

### 7 Simple Steps to Stay Afloat in the Staffing Industry

What’s unique about the staffing industry when it comes to cash flow management is that it has a slightly different CCC. The graph below illustrates the staffing industry conversion cycle, which eliminates the “days sales in inventory” variable because staffing companies have no real inventory per se (i.e., no work in process or goods sitting on a shelf.) So, we’re going to focus on the “Days Payables Outstanding” and “Days Sales Outstanding” variables as key factors to more efficiently managing cash flow.

#### Staffing Company Cash Conversion Cycle



“In today’s economy, more and more businesses are finding themselves at the mercy of late or non-paying clients”

Of the 7 simple steps below, the first two will help shorten the CCC by increasing “Days Payables Outstanding,” – or lengthening the amount of time that cash stays in your hands. The last five will address ways to decrease “Days Sales Outstanding.” In today’s economy, more and more businesses are finding themselves at the mercy of late or non-paying clients, so this provides some key strategies to address this pressing issue.

**1. Review Your Invoices** – it is becoming more common for scam artists to send bogus invoices to large corporations in hopes that nobody in AP will have the time to verify the legitimacy of the expense . You need to make sure that your AP department is aware of who your suppliers are and what their typical invoices look like.

**2. Postpone Payments until their Due Date** – another strategy to maximize cash on hand is to condition staff to refrain from paying suppliers until the due date. Many companies simply pay their bills when they arrive, or pay all of their current bills on a specific date (e.g., the 15th and the 30th), preferring to handle it once and get it out of the way. However, by carefully scheduling payments to pay only when they are due, a company can optimize its cash flow. Additionally, for cash strapped companies, knowing exactly how long you can hold on to a particular invoice before incurring a late fee or hinder your relationship can be extremely important. When funds are really tight you may be able to stretch payment terms to 60 days. But be careful - doing so could impair your credit rating, and you shouldn’t ever stretch your tax obligations.

**3. Avoid Slow/No Pay Customers** – don’t be shy about conducting a simple online credit check with credit institutions such as Dun & Bradstreet. If you can’t find any information with those sources, consider checking references or paying for a credit check. In the current economy, it pays to know your customer.

**4. Invoice Immediately** – getting invoices promptly issued is one of the easiest ways to reduce days in the accounts receivables part of the CCC. If you complete a project on Tuesday, for instance, but do not invoice until the following Friday - or the 15th, or the end of the month - you can lose days on your CCC. Since your clients are seeking to minimize their CCC as well, they will likely be waiting to pay your invoice until the last possible moment. By getting your invoices in your clients’ hands sooner, you can easily shorten your CCC.

## It Pays to Know Your Customers

A recent article in the Cleveland Plain Dealer highlighted the importance of paying attention to accounts receivable or “Days Sales Outstanding.” Aaron Grossman, a staffing industry entrepreneur, talked what happened when he took on a big client but did not have tight systems in place.

*“We also didn’t realize that sometimes companies use staffing agencies as if they were banks, to float their payroll costs. We pay our people every week. But that doesn’t mean our customers pay us every week. As we didn’t have an in-house accountant, and no one was managing our receivables, by the time we realized what was happening, the restaurant owed us more than \$400,000. The company’s payroll costs were about \$100,000 a month. When we tried to collect on the money, we learned the restaurant was having problems and needed to make installment payments. They paid us \$20,000, then filed for bankruptcy protection. We never saw another dime from them.”*

**5. Offering a Discount for Early Payment** - if your standard policy is to have payments due in 30 days, offer a small discount such as 2 percent to customers who pay within 10 or 15 days. This relatively simple incentive can significantly speed up receipts from well capitalized clients.

**6. Collect Near Due Accounts** – often times a well placed reminder call a few days before an invoice is due can help speed up payment. Have someone on your staff call clients 10 days after the invoices are sent to confirm that they were received and will be paid.

**7. Outsource Receivables to a Factoring Company** – Factoring is a financial transaction whereby a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount in exchange for immediate money with which to finance continued business. Factoring can save time and money and add a level of professionalism to companies that do not have well defined receivables processes.

## The 7 Simple Steps In Practice

You may have tried one or more of these strategies already. And hopefully you’ve had success in increasing your “Days Payables Outstanding” and decreasing your “Days Sales Outstanding.” But more likely you’ve experienced the harsh reality of today’s challenging financial climate, when many of these strategies simply do not deliver the desired results fast enough.

For one thing, you are a busy staffing industry executive or manager who is trying to manage the business and don’t have enough time to spare to chase more and more accounts receivable. Secondly, your customers may be struggling with their own cash flow issues. For example, one company that instituted a 2% discount policy for early payment suffered at the hands of one of its largest clients that decided to take advantage of the early payment discount but continued to pay its bills on the last possible due date. Finally, wrongly implemented these strategies can also put businesses in a precarious position with their clients. Pushing slow payers too hard can put you at risk of losing hard won customers. “The last thing you want to do is get in an adversarial position with your great clients; they’re your lifeline,” says Charles Doyle, managing director at Business Capital, a San Francisco company that helps businesses restructure their debts .

However, one of these strategies helps you avoid the possible negative repercussions described above, and that is lucky #7, factoring. You may not know much about this way to reduce “Days Sales Outstanding,” but factoring is actually fairly common in the staffing industry.

### Lucky #7: Factoring

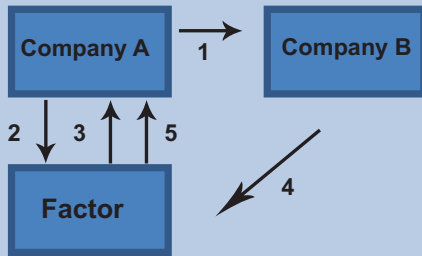
Factoring is not a new concept. In fact, it is an ancient financing technique in which a “factor” purchases a company’s receivables - invoices - converting its unpaid invoices into cash. The term comes from the cotton factors who worked in the south, advancing money to planters in anticipation of the receipts they’d earn from selling their product in Europe. Factoring service fees vary based on a number of variables, such as monthly factored volume and how long it takes for an invoice to get paid. Based on these, fees can range from 1.5% to 6%.

There are many advantages to factoring:

- o **Faster Receipt of Funds** – when you factor you will receive up to 80% of the entire amount of the invoice within one or two days – at least 28 to 118 days sooner than usual.
- o **Focus on Your Business** - by choosing a factoring service, you avoid giving yourself extra work by outsourcing your accounts receivable collections to somebody else. This will allow you to focus on your current workload without becoming distracted or falling behind.
- o **Access More Capital** - banks often measure accounts receivable at as low as 50 percent of their overall value as collateral for a traditional loan. Plus, with factoring you accrue no debt for this financing .
- o **Injection of More Capital** - this cash injection allows a company to make capital improvements in order to generate more revenue. More capital can be used to increase marketing and sales, buy inventory, expand the business, etc.

Businesses today – including those in the staffing industry - need all of the help they can get when it comes to smarter financial management for the rocky road ahead. If your company is to survive – and even thrive – then it has to have the most efficient cash flow management plan in place. Remember to constantly monitor the Days Payables Outstanding and the Days Sales Outstanding, and take steps to shorten your business’ Cash Conversion Cycle. Use the 7 simple steps to help your company stay afloat. Use them well. Use them wisely. Use them often. And remember that factoring can be a better, easier, quicker solution to cash flow management problems, as illustrated by the staffing industry case study below.

#### How Factoring Works



- Step 1: Company A performs the services for Company B
- Step 2: Company A sends a copy of the invoice to the Factor and Company B
- Step 3: Factor confirms invoice and advances funds to Company A
- Step 4: Company B pays the invoices to the Factor
- Step 5: Factor releases the holdback to Company A

“Use the 7 simple steps to help your company stay afloat. Use them well. Use them wisely. Use them often. And remember that factoring can be a better, easier, quicker solution to cash flow management problems”

## A Staffing Factoring Case Study: Best Security Service Inc.

One staffing business that has learned the value of factoring to manage cash flow is Best Security Service Inc. Best Security specializes in watch control guard staffing, providing guards for banks, nursing homes, construction sites, EPA sites, coin shows, jewelry shows, etc. It has succeeded in the staffing industry because it is a reliable company with 30 years of experience in the security business, has a good reputation with solid state licensing and credentials, provides competitive rates, and it has earned loyalty both from internal staff as well as external clients.

But as the economy started to go south, Best Security started to feel the effects in the form of non-paying or late-paying clients. According to Sarah Folgado, executive assistant at Best Security, cash flow was becoming difficult and very slow. “It’s difficult to generate funds if you are not getting paid. If things didn’t improve, we would not be able to survive,” Folgado summarized the company’s woes.

LSQ Funding Group, one of the premiere factoring companies, approached Best Security with the solution to its cash flow problems. LSQ took responsibility for Best Security’s accounts receivables and went after payment from clients in a professional, efficient, and effective manner. “The LSQ team is fantastic and works fast,” said Folgado.

But it hasn’t been just the short-term cash flow solution that has made the partnership between Best Security and LSQ so successful. While LSQ is an established factoring company that provides clients with immediate funding to meet their working capital needs, it is also a company that is concerned about its clients’ long-term potential as well – a company that cares. “LSQ cares about my business as much as I do. At LSQ, you are not just a number. They care about you as a client,” enthused Folgado. After four years of working with LSQ, Best Security has not only been able to ease immediate cash flow concerns but also has come to rely on added value expertise, loyalty, team work, and accountability from LSQ. “LSQ has helped us with a lot of different situations. They advanced me on an invoice that hadn’t been received yet. In addition, given the state of the economy right now, we continue to have clients who take a long time to pay and sometimes need cash; LSQ has been there when we needed it. LSQ has also offered us guidance when

we are determining whether or not to take on a new client. When I get in touch with LSQ, they can verify a client’s credit status and reliability, and I can then sign a contract and not have to worry. This is a big deal in this recession, to know whether or not you are signing with a company that is solid.”

In addition to the financial expertise, efficiency and reliability that LSQ provided, the funding company also helped Best Security grow. “With financial stability, we’ve been able to not only keep clients, but pick up new clients and expand our business. We have been able to excel and become a better company. LSQ has been our silent partner; they are there when we need them,” claimed Folgado.

While Best Security’s short-term and long-term cash flow management has been improved by its partnership with LSQ, so has another important strategy for productivity and growth – company morale. While “morale” isn’t something that appears on a spread sheet, the pride, responsibility, and positive attitude of a company’s employees can not be underestimated as a corporate asset, especially for a company that relies on its employees to be front-line representatives at all times, as in the staffing industry.

Folgado explained: “We are a company that cares about its employees. Being able to meet payroll and pay the people who have been here for twenty-five years is important to me. There were times when we did not know where the funds were going to come from for payroll. Now, I can go to bed on a Thursday night and know on Friday that payroll will be met. Working with LSQ has been the best thing we did. I recommend them wholeheartedly to friends, family, everyone.”

If you want to know more about factoring now that you’ve seen the success that Best Security had using factoring to shorten its CCC and optimize its cash flow, see the enclosed attachments:

- Evaluating Factoring for Your Business
- Fee Structure

## Evaluating Factoring for Your Business

Not all factors are the same. While pricing is important, it is not the only consideration. You need to consider the following key factors when choosing a factoring company.

### □ **Experience**

Some companies that provide factoring provide other services. While the jack of all trades type of financing companies may sound like a good place to one-stop-shop, you might find that you receive better services from companies that focus on accounts receivable factoring. In addition, many factoring companies specialize in certain industries and can help you proactively stay on top of issues that can impact your business such as changes to taxes, regulations or the economy, etc...

### □ **Customer Service**

From one-on-one meetings to email and telephone support, from problem solving strategies to having a Disaster Recovery Site in place, a factoring company is only as good as its customer service. Look for a factoring company that provides a dedicated team member to service your account.

### □ **Professionalism**

The company you choose will be in direct contact with your clients, so you will want collectors to act as your company spokespeople and have positive personalities and constant professionalism. In the long run, your company's reputation is on the line. To evaluate a factor's interactions with its clients, consider reviewing some of the notifications that the company sends out to clients.

### □ **Longevity**

How long a factor has been in business speaks volumes about its professionalism, integrity, and reputation.

### □ **References**

The most valuable insight that you can gain about a potential factoring company will come through its references. Check them. Call around. Ask about the best and worst experiences other clients have had with a factoring company. See how reliable their account team and financial processes are.

### □ **Technology**

Technology is a must have. .... Online account access.... and who will provide customized reporting on your schedule; daily, weekly, or monthly as well as continual credit monitoring of your customer base

### □ **Contracting**

Look for a factoring company that does not require long-term contracts, monthly minimums or early termination fees. Your funding needs can change. A good funding provider recognizes this fact and allows its clients the opportunity to modify and grow in its relationship.

## Fee Structure

Factors typically charge a fee, also called a discount rate, in exchange for the advance they provide your business and the subsequent efforts to collect on your business outstanding invoices. Fees can run from 1% to 5% of your submitted accounts receivables value. In the majority of cases, the fees generally range from 3% to 5%. The contract you negotiate with the factoring company will depend on the following factors that impact pricing:

### □ **Your clients**

Factoring relies on both the ability of your clients to repay and their credit worthiness, so if you maintain accounts with clients that have an established repayment history and a good credit rating, you will generally receive a better discount rate and have more room for negotiation with your factor.

### □ **Your industry**

Certain industries inherently carry more risk than others when it comes to collecting monies owed. If you run a business in a higher-risk industry, such as in the garment and textile industries, it is likely that your factor will require a higher discount rate, could possibly limit the amount of funding that you are eligible to receive up front.

### □ **Number of invoices**

Each invoice you submit to a factor for an advance will increase their workload. By submitting fewer high-dollar invoices over a larger number of low-dollar invoices, you are decreasing the amount of work for the factor, which could enable you to negotiate a better discount rate if your factor does not automatically offer it.

### □ **Account setup costs**

Some factoring services will charge an account setup fee to businesses who want to use their services. These fees can range from \$500 to over \$2,000, and are used to help cover the costs of a factor's time and efforts in running credit reports and validating your clients' invoices and abilities to pay what they owe.

## EndNotes

1. (Source: "10 Critical Cash Flow Rules, by Tim Berry, Entrepreneur.com 11/30/07 <http://www.entrepreneur.com/startingabusiness/businessplans/businessplancoachtimberry/article187366.html>).
2. (Source: State of the Staffing Industry, Staffing Industry Analysts Inc., October 2008)
3. (Source: American Staffing 2008: Uncharted Territory, Annual Economic Analysis Puzzles Through the Data and Explains the Trends, June 2008)
4. (Source: <http://www.startupnation.com/buyersguides/119/9261/6/1/factoring-company-advice.htm>)
5. (Source: [http://www.smallbiz.com/bestpractices/Firms\\_Turn\\_on\\_Charm\\_to\\_Collect\\_Bills.html](http://www.smallbiz.com/bestpractices/Firms_Turn_on_Charm_to_Collect_Bills.html))  
The Role of Accounts Payable, TheAccountsPayableNetwork.com,  
-(Source: <http://ezinearticles.com/?Benefits-of-Factoring-Receivables&id=378464>).

## LSQ Knows the Staffing Industry

“When you work with LSQ, they will enhance your cash flow and reduce your administrative responsibilities, so you can focus on running your business.”

Whether your company is providing light industrial, clerical and administrative, nurse or other medical personnel, LSQ understands the nuances of each industry and is prepared to work as a partner to help grow your business. Financing your firm’s growth doesn’t have to be complicated. When you work with LSQ, they will enhance your cash flow and reduce your administrative responsibilities, so you can focus on running your business. At LSQ, they work with a variety of staffing companies and leverage their industry knowledge to professionally and effectively assist in managing each company’s cash flow, using the following strategies:

- Familiarity with unique industry documentation - cut the red tape to get you funded fast
- Staff is trained to understand the unique aspects of the industry, especially the invoice approval process
- Increased cash flow- pay daily or weekly, no matter how fast your business is growing
- Avoid the large drain on cash flow that can be caused by changing insurance rates, or annual premium payments

LSQ understands that meeting payroll is essential to gaining and retaining your largest asset - employees. LSQ also knows that overlapping pay cycles can affect cash flow. If your staffing company is in need of cash flow management, financial and credit expertise, a reliable strategic partner, and a company who cares about your business as much as you do, contact LSQ to get the funding you need.

-- <http://www.LSQ.com>



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### :: About LSQ ::

LSQ Funding Group was founded in 1996 to provide specialized financing to growing companies, and it is exclusively focused on small to mid-sized companies with whom it can build solid partnerships. LSQ offers competitive rates, rapid funding, offices nationwide, partnerships with major banks and credit agencies, as well as state of the art software and online account access anytime anywhere. LSQ does not require long-term contracts, monthly minimums or early termination fees. LSQ offers companies from a variety of industries – from staffing to seafood to trucking – premium personal service, customized account management, innovative technology, and flexibility.