

Thanks for the Order, but You're Ruining My Business

By Catherine Seifert

Many companies are hurt, and some even fail, because their cash flow is insufficient to support their growth – a situation that seems to occur more often in companies owned by women and/or minorities. Paradoxically, insufficient cash flow can result from too much business, when it's with companies that are slow to pay. And these include some of the biggest corporations.

In recent years, major corporations have been doing an excellent job of bringing minority- and women-owned companies onto their core supplier lists, if not at Tier 1, at least by giving them business through a Tier 2 relationship. Yet many of these well-meaning corporations overlook the fact that, while they're helping small businesses by awarding large contracts, their extended payment terms – once 30 days, but now averaging 45 days – are truly jeopardizing the companies they so want to help.

Often a 90-day timeframe occurs between receipt of order and payment (using a 45-day production cycle and 45-day payment cycle),

creating great challenges when small businesses try to meet payroll while making prompt vendor payments. When businesses grow over time, their cash flow tends to smooth out eventually, with a constant flow of business being received. But during the first five years in operation, business flow typically fluctuates so much that the prompt receipt of payment due is almost a necessity to keep the business running.

Several issues are keeping major corporations from changing their payment terms to assist these vendors:

- **Expense.** A real dollar expense is associated with any printing of a check outside the standard payment process. While many corporations will help when a vendor calls for assistance, there is a cost to the corporation in doing so.

- **Equality.** While corporations do want to help

women and minority vendors, they do not want to show preferential treatment over the other vendors. They strive to follow standard processes for all.

- **Understanding.** One major corporation stated that they deal with more than 1,000 vendors, and they do not believe any of these vendors have a cash-flow issue because it has never been brought to their attention! Many corporate purchasing personnel have never worked in a small business, and often they do not truly understand what is happening behind their vendors' closed doors. Naturally, the corporation is the last place any vendor would want to tell about cash flow problems.

When corporations support their minority and women vendors by providing an accelerated cash flow,



Photo: Patricia Pope
President & CEO
Pope and Associates

they're actually assisting these vendors on multiple levels:

- Enabling them to pay their employees without worry.
- Allowing them in turn to make prompt payment to their own vendors, which helps establish or enhances their credit rating.
- Protecting their credit score, because receiving prompt payment may prevent them from having to seek a loan.

These benefits give the vendor the ability to safely and easily grow business with the corporation as well as with other clients.

Greystone Commercial Services LP (GCS) has recognized the need for corporations to support minority and women vendors' cash flow needs in order to help them grow. As GCS vice president for supply chain financing, I have felt the pain of being in fast-growing small businesses that are selling to Fortune 1000 companies. Instead of rejoicing at receiving a nice size purchase order, we have felt the intense stress of trying to figure out how we can produce the required products without the accompanying cash flow. Yes, the sales were great, but the slow cash flow truly hindered the company's operation.

Patricia Pope, president of Pope & Associates, whose late husband, Merlin G. Pope Jr., coined the term "diversity" in 1976, knows all too well the challenges of being a small business supporting the needs of Fortune 1000 firms. While Pope & Associates is now well-established, slow payments from clients in the early years sometimes put the firm in the situation of "do I pay employees, the vendors, or the taxes?"

"Our business had the same problems many new start-up companies have," Pope says. "You can't afford all of the resources that your

business needs, and you have to pay yourself, so you put off sending those IRS payments, and the next thing you know, you are facing the problem of penalties and interest for late payments."

Soon, she says, "our motto became, 'the bigger the company, the slower they pay.' But for a small, start-up company, landing those contracts with large corporations is the key to survival. It's a real Catch-22."

Pope says the Quick Pay Program that Greystone Commercial Services LP is launching in partnership with Fortune 1000 firms is "truly innovative and much needed."

"Back in the early days of our company," she says, "we certainly would have gladly chosen to give up a small percentage of our invoices in order to solve our cash flow problems – but that wasn't an option in 1976! We ended up negotiating a payment plan with the IRS. Fortunately, I had worked for 10 years at a Fortune 500 company and my pension plan distributions came in about 30 days each year before the IRS payment was due. I would receive those checks and say "hello and goodbye!" she laughs.

As her company celebrates its

30th anniversary in business, Pope still recalls the acute need for stable cash flow. "Most major corporations today view supplier diversity as an integral part of their diversity/inclusion initiative," she says. "They see it as part of being a good corporate citizen. It is simply a 'no-brainer' for large corporations to include the Greystone program as part of their supplier diversity program. It costs them nothing, and demonstrates that they are truly interested in including AND assisting diversity suppliers, so that there is a win-win for everyone."

In our efforts to assist the success of women- and minority-owned companies, we at Greystone are mindful of President Lyndon B. Johnson's remark in the commencement address delivered on June 4, 1965 at Howard University:

"You do not take a person who for years has been hobbled by chains and liberate him, bring him up to the starting line of the race and then say, 'you are free to compete with others,' and still justly believe that you have been completely fair. Thus, it is not enough just to open the gates of opportunity. All of our citizens must have the opportunity to walk through those gates." ■

The Quick Pay Program streamlines the payment process to minority and women vendors working with Fortune 1000 firms. Under the program, GCS:

- Receives the invoice and backup documentation from the corporations' women and minority vendors.
- Provides quality checks of the invoice and documentation, ensuring everything meets the corporation's standards.
- Sends the invoice and documentation electronically to the corporation.
- Direct deposits the entire invoice amount, minus a corporate-negotiated discount, into the vendor's bank account within one business day from receipt of authorization from the corporation to pay the invoice.
- Receives payment from the corporation through the normal payment process.