

## Viewpoint

### The unseen financial role in the journey from farm to fork

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The fate of CIT Group, the financial firm that supports some one million small and mid-sized businesses and isn't too big to fail, is still hanging in the balance as I'm writing this. But its misadventures brought to mind the little-known role similar companies, called "factors," play in getting food from the farm to your fork.

Farmers, both corporate and family, have nothing to sell, and no income, until harvest time. They get by on the profits from last year's crop and loans from banks, using their land and equipment as security. Food processors, the people who make sausages and corn flakes, have year 'round income from a steady flow of products.

But what about the folks in the middle, the distributors who deliver the products to your kitchen? Distributors sell to you on credit. At the end of the month, they send you a statement and get paid, hopefully within 30 days. But 30 days end-of-month is 60 days from first delivery. They have to pay cash on delivery for the products they buy to resell to you and, in some cases, even before their supplier will ship to them.

How do they meet their payrolls, pay overhead costs and buy more products in the meantime? Enter the factor.

When your café manager signs for a delivery, the invoice is sold to a factor for immediate cash, usually 80% of the invoice's face value. When you pay the invoice, the factor pays the distributor the balance, minus its charges. The later you pay, the less the distributor receives.

The factor, in turn, borrows from banks and other sources to keep up its cash flow, so it can keep sending that 80% to your distributor. (That's where CIT ran into trouble. Its lenders stopped lending.)

Complications arise along the financial chain when more customers pay late, or don't pay at all. The cost is passed back up the line, ending in higher prices to you.

So when you pay the cashier for lunch today, you're not only paying for the food and the labor of the farmer, trucker, chef and server who brought you your meal, you're also paying for the complex web of financing that lubricates the whole system.

- Tom Mac Dermott