When small manufacturers become the bank

chicagobusiness.com/article/20170722/ISSUE01/170729950/small-manufacturers-forced-to-become-the-bank

Claire Bushey July 21, 2017

The shop floor of Erica Wiegel's metal stamping plant doesn't look like a bank, but some customers treat it like one.

Wiegel, president of ARO Metal Stamping in Roselle, says that this year more customers of the 26-employee, $10 million-in-revenue operation are asking for extended payment terms. ARO makes heat sinks, bus bars, springs and other parts, mainly for makers of autos, electrical equipment and lighting. In manufacturing, customers typically pay net 30—really net 45 by the time the check arrives and is deposited. But Honeywell International, which had paid in 60 days, recently asked Wiegel if it could double the terms to 120 days. She agreed to it through January, when the terms will revert, but worries that she'll lose the company's business then.

"All these big companies want us to be their bank," she says. "It's a real ugly, nasty problem right now."

The squeeze is on, and while it extends beyond manufacturing, small factories are feeling some of the worst of it. Boeing, for example, last year began paying suppliers in 120 days. Suppliers sense a shift in industry norms, and the burden of a cash crunch would hit them at a time when many already are upset at Illinois' corporate tax rate returning to 7 percent.

Slow payment outpaced credit card fees, bad checks or customer bankruptcies as the biggest hassle to getting paid for more than half of all small businesses, according to a 2016 survey by the Nashville, Tenn.-based National Federation of Independent Business. In the United States, businesses average a 49-day wait for payment, according to Euler Hermes, a specialty insurance company headquartered in Paris that insures receivables.

But for the types of manufacturers clustered near Chicago, the wait is longer. In 2016, machinery makers in Cook and the collar counties employed about 32,000 workers, while automotive parts manufacturers employed about 9,300, with 13,000 additional auto workers scattered around the state. That year, U.S. machinery makers waited nearly 60 days to be paid, two days longer than in 2015, while automotive manufacturers saw a four-day increase to nearly 55 days.

Dan North, chief economist for Euler Hermes in North America, notes that the company, which services small and medium enterprises, is having "a pretty big year" for trade credit insurance sales.

One reason for the upward creep is the manufacturing industry's improving fortunes, he says. As demand increases and companies expand operations to meet it, they are outgrowing their financing. "Everybody is sending out more and more widgets every month, but not getting paid fast enough," North says.

Companies also are leaning on their suppliers to depress their costs for working capital, says Denise Devitt, vice president and senior commercial banker at BMO Harris with a strong client base among manufacturers. The federal funds rate, a key benchmark for interest rates, has risen from .5 percent to 1.25 percent since July 2016, "and the easiest way for customers to combat this is to slow down how quickly they're paying. It usually doesn't cost them anything, it just aggravates the suppliers."

Small manufacturers who bank at Rosemont-based Signature Bank have used lines of credit more frequently in the last 18 months, says Executive Vice President Kevin Bastuga, though it's unclear whether the uptick comes from longer payment terms or business expansion.

When customers take longer to pay, the pain for small manufacturers is real. Nicole Wolter is president of HM Manufacturing, a $2.8 million company that makes power train components like gears, pulleys and shafts. Boeing is a customer; the Wauconda plant also supplies a company that sells Chicken McNuggets machines to Tyson.

In the past eight months, Wolter says, customers have asked to go from 45 or 60 days to 90. One customer simply began paying invoices in 90 days instead of 60 days without ever acknowledging the change.

Slower payment from customers makes it more difficult to meet payroll or forecast when to buy new machinery. Wolter had to part ways with one company that wanted to move to 120 days.

"As much as it hurts (to lose a customer), it hurts more when you look at your bank account, and there's not much there, and you're waiting on all of this money," she says.

More and more companies see trade payables as a way to bankroll their own business, and "the large ones use their big-boy pants to say, 'If you don't want to do this, we'll find someone else,' " says Craig Zoberis, president of Fusion OEM. The Burr Ridge contract manufacturer generates $12 million in revenue making private-label industrial products for companies like Illinois Tool Works. One customer called him a few weeks before Christmas, when he was handing out bonuses to employees, and asked for a rebate.

"I had to pull myself together," he says. "I said, 'I know you do a lot of business with us, we appreciate that, but I don't see how this could even work.' . . . It was kind of like getting roughed up by the Mafia."

Some small manufacturers are choosing a different option. Jim Carr, who owns Carr Machine & Tool, an Elk Grove Village shop with $2 million in revenue, has also noticed an increase in customers asking to pay in 90 days. He says no. So far it hasn't cost him.