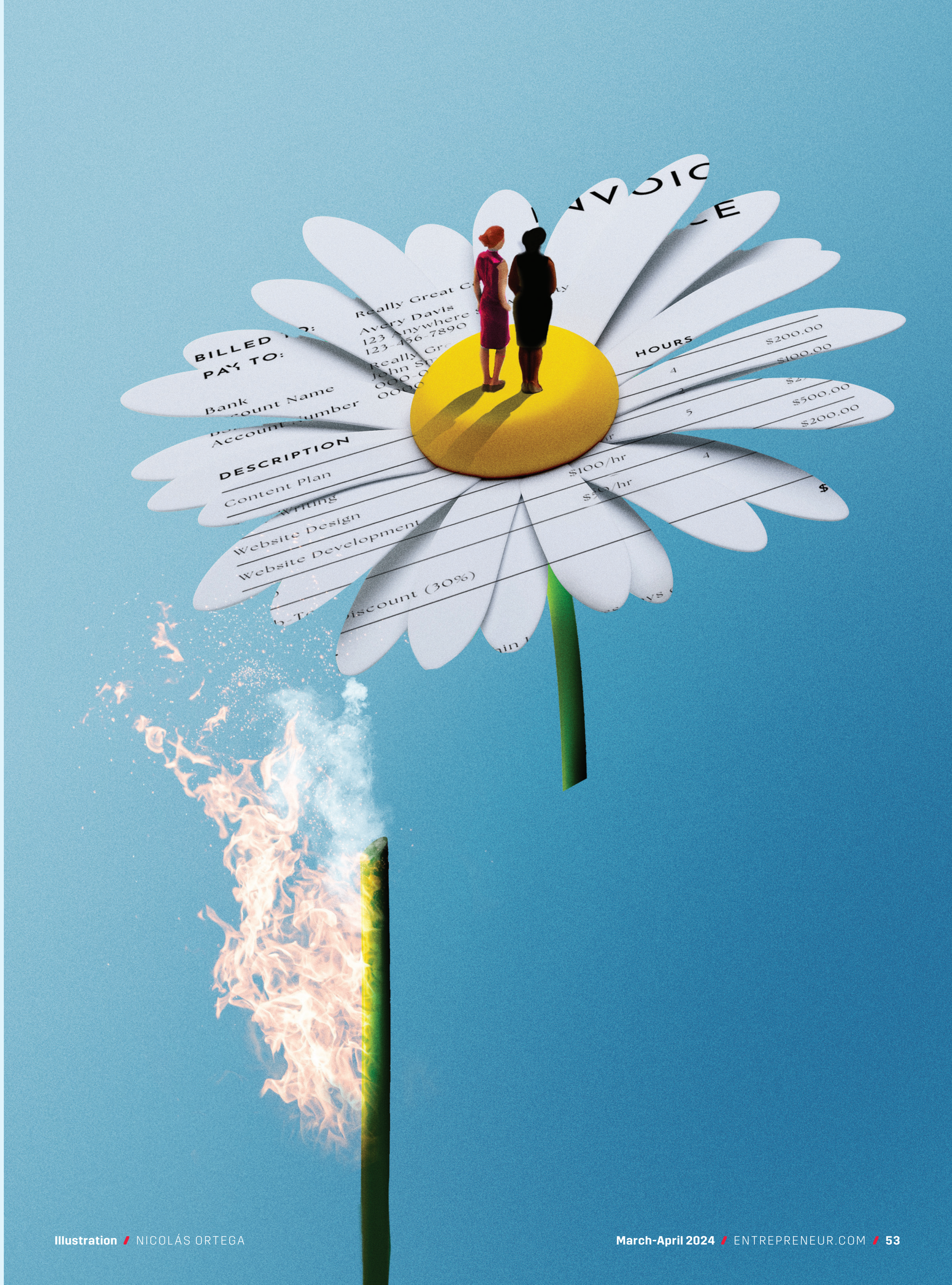
Big companies take a long time to pay their suppliers. Sometimes, so long that the supplier goes out of business. Two entrepreneurs wanted to find out why this system is so broken—and wound up creating a solution.

by **FRANCES DODDS**

WHY SMALL BUSINESSES CAN'T AFFORD TO GROW



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IT SHOULD HAVE BEEN A CELEBRATORY LUNCH—THE KIND WHERE YOU ORDER FRENCH FRIES AND CHEESECAKE, THEN GO HOME TO NAP AND DON'T EVEN FEEL BAD ABOUT IT.

Instead, Stacey Abrams and Lara Hodgson were sitting in an Atlanta restaurant, dazed with disappointment, talking in circles, returning again and again to the same confounding question: *How did we not know this?*

It was 2010, and three years earlier, the women had cofounded a company called Nourish, which made grab-and-go baby bottles filled with premeasured, purified water for easy formula mixing. The company had been finding its legs, one wobbly step at a time. Then, Whole Foods placed a huge order of their product.

"It was, like, orders of magnitude bigger than anything we'd done before," Hodgson says. They were ecstatic. *This* is what they should've been celebrating. But then they read the payment terms. "We discovered that we weren't going to get paid for three to four months. I mean, no small business can handle that."

The women had run headlong into an unspoken rule: the bigger the buyer, the longer they take to pay. And it didn't even matter what the official payment schedule was. "If your invoice says net 30 or net 60 or net 90—that's just a suggestion," Hodgson says. "We know now that the average net 30 invoice pays in 54 days. But back then, when we realized all this, I just remember thinking, like, *Was I sick one day in business school? Why does no one talk about this?*"

They had more questions, too. Why was this the status quo? Why did no one seem to think it was a big deal? And why—in a country that calls small businesses the backbone of the economy—had no one bothered to create a better solution?

Suddenly, they couldn't *stop* talking about it. They talked with each other, and then with other small business owners, and then with academics and investors. And eventually, they decided to do something about it.

Later that year, the duo cofounded NowAccount, a novel business-to-business financing solution that lets small business owners get paid for invoices right away, with low, flat-rate fees, while building up their credit and outsourcing the time-consuming task of tracking down payments. Since its inception in 2010, Now has fast-tracked almost $1 billion in payments for nearly 1,000 businesses, and in the past two years, more than doubled in growth.

But getting to this point took a long time: years of asking, and listening, and explaining, and *insisting* that something could and should be done.

"We had to convince people we could solve the problem," Abrams says, "because it sounded like magic."

Hodgson and Abrams met at a leadership program in Atlanta—but they might not have connected so fast if Abrams hadn't fessed up to her audacious ambition.

It was 2004, and they were both enrolled in a tough session: The facilitator had researched attendees ahead of time, and made it his mission to target their insecurities, in order to prompt deeper conversation about biases. Hodgson is an extrovert who loves to talk—so the facilitator didn't let her do that. "At the end of the weekend, he told me he needed me to know what it felt like to have no voice," she says. "I did *not* like that."

Abrams is an introvert, so the facilitator treated her the opposite way—constantly pressing her to speak. Eventually, he asked Abrams a direct question: "What is one great ambition you've never wanted to say out loud?" She paused, then said she wanted to be president of the United States. Across the room, Hodgson remembers thinking, *I always said that as a little girl, and girls don't say that out loud!* When they broke for lunch, Hodgson made a beeline for Abrams in the buffet line.

The women were assigned to the same study group. "We found that while we had different approaches to problems," Abrams says, "we almost always aligned on solutions." They became friends, and a couple of years later, founded a consulting company together, making use of Hodgson's business connections and Abrams' knowledge of local tax law. Then they founded Nourish. And that brought them to that bleak lunch in 2010, agonizing over how to get the money for their Whole Foods order. They were searching, once again, for an answer.

They'd scrambled to find conventional bridge-funding solutions—a bank loan or invoice factoring—but found the first inaccessible, and the second predatory. Bank loans are hard to get for small business owners without solid credit, or for anyone who doesn't feel comfortable with personal guarantees. Recourse-factoring companies, which buy invoices from small companies, charge variable fees, along with additional accruing fees for late payments (which the small businesses can't predict or control), and often use invasive tactics like collecting money from the business's bank account on a daily or weekly basis. Plus, if a payment falls through, the small business is on the hook for the full payment plus late fees, which leaves a liability on its balance sheet for months.

The best option Hodgson and Abrams had found—"a creative factoring agreement from a community bank"—also came with personal guarantees. This was uncomfortable for both women. Hodgson had a new baby and worried about losing her house because of the loan, and Abrams had a mortgage and a lot of student debt. Plus, she was financially responsible for her parents and niece.

To both women, this situation just felt wrong. They knew they couldn't be the first entrepreneurs to find themselves suddenly "growing out of business."

"When you encounter a massive problem that's been around forever," Abrams says, "you tend to think, *I can't possibly be the first one to see it*. So you assume what's happening is your fault, or that the problem would have been solved if it could have been. And you usually stop there. But instead of critiquing ourselves, Lara and I decided to ask: *OK, but why hasn't it happened?*"

When Abrams and Hodgson began talking about solutions, the first thing they thought of was simple: What if Whole Foods could pay them with a credit

→ PROBLEM SOLVERS
Abrams and Hodgson in Atlanta in June 2021

PHOTOGRAPH BY KEVIN LOWERY

→ **GREAT MINDS UNITE** Meeting with team members Archie Jones and John Hayes in 2015, in an antiques shop next to their office

PHOTOGRAPH COURTESY OF STACEY ABRAMS

card? In this case, Nourish, the seller, would be charged the flat 3.5% transaction fee, and get paid right away. Then Whole Foods, the buyer, would pay down the balance on their own time with interest.

But therein lies the dilemma: Whole Foods doesn't *want* to pay its suppliers right away—and certainly doesn't want to pay interest. And because it's a giant company, it doesn't have to. That's the way the capitalist cookie crumbles. Bigger companies set payment terms, and the smaller companies accept them—until they prove critical enough to negotiate.

But what if Hodgson and Abrams created something for small businesses that was *like* being paid with a credit card?

This is the idea that eventually became NowAccount: Small businesses would apply to be Now's clients, and pay an annual membership fee of $750. When clients received an invoice from a new buyer, Now would assess the buyer's risk, and if they approved, the client could start uploading invoices. Now would vet each invoice, then pay the client the full amount almost immediately, minus a flat fee based on the payment terms (ranging incrementally from 3% for a net 15 invoice, to 8% for a net 120 invoice). And Now would be reimbursed when the payment is made.

This would shrink the payment schedule from a few months to just a few days. In the case of Nourish and Whole Foods, it would have looked something like this: If Whole Foods placed an order of, say, $50,000 worth of goods from Nourish, with 90-day payment terms, Nourish would take that invoice to NowAccount, who would confirm its validity with Whole Foods, and then pay Nourish $50,000 right away (minus the 7% fee for a net 90 invoice). Then Now would be reimbursed in, say, 117 days, or whenever Whole Foods actually paid.

For a small business owner, the advantages of this setup are numerous: No added interest for late payments you can't control, no liability on your balance sheet, no unforgiving credit checks or invasive debt collection strategies, and no personal guarantees. Unlike factoring companies, which hold you responsible if a payment falls through, NowAccount absorbs the risk of every invoice it accepts. In this way, Now acts as a kind of insurance for their clients.

Hodgson and Abrams knew their concept was groundbreaking.

Unfortunately, at first, the people they needed to join them were not convinced. Part of the problem was that the concept didn't lend itself to pithy, 30-second elevator pitches. "It's complicated to explain," Hodgson says. "And because nobody had seen anything like this, when they heard 'get paid fast,' their brains immediately went to, 'Is it a loan? Is it a payday loan? Is it factoring?'"

From the finance side, there was also some confusion about why this was even a problem. What's stopping any small business owner from going down to their local bank to get a loan at a lower annual interest rate, or negotiating better terms with their factoring company or buyer?

What financial institutions often overlook are the countless variable barriers for small business owners. Many are becoming entrepreneurs for the first time, figuring it out as they go, without a lot of financial education or resources.

Patricia Wilson is a NowAccount client who worked in technology for 20 years before deciding to start her own consulting business, Online Media Interactive. When she started out, she says, "Honestly, going after a bank loan didn't even occur to me. I was still trying to feel out what I wanted to do from a business perspective. And with traditional factoring companies, I was very intimidated by the aggressive nature of how they collect the money. I just wanted a way to have consistent income coming in."

Another Now client, Mike Riordan, is the founder of Freeze Sleeve, a cold/hot compression therapy he developed for his daughter, a pre-Olympic gymnast. Riordan had previously run a struggling construction company that tanked his credit, so he couldn't get a bank loan for Freeze Sleeve. And he was put off by the "loan-shark mentality" of factoring companies.

"I think there's a kind of business amnesia that occurs in the financial sector," Abrams says. "The people making these decisions forgot what it was like to be a small business owner." Moreover, Hodgson thinks there's a misconception in the finance world that you can take funding solutions for large companies and "miniaturize" them. "I tell people, 'Small businesses are not miniature large businesses. You can't just, like, shrink a solution,'" she says. "Think about it: If I'm a small business selling to, say, Walmart, and they're demanding net 90, that means they might actually pay in 120 days. So I'm essentially Walmart's free bank for 90-plus days. My cost of capital is way higher than Walmart's, so efficient economic theory suggests the best solution for Walmart is to borrow money really cheaply, pay me faster, and get a discount. But anyone who's tried that knows a large company will just take the discount and still pay you late."

In fact, Hodgson tried this kind of dynamic discounting with one large retailer when they were running Nourish. She'd offer, say, a 2% discount on a net 30 invoice if they paid her in 10 days. But in the end, she says, the retailer just took the discount and still paid her late.

"What am I going to do, sue them?" she says. "My legal bill would be way more than the 2%, so it's not worth it. I could threaten not to sell to them again, and they'd be like, 'OK, move over! There's a line of people who would gladly take your shelf space.' When you have an imbalance in power, efficient economic theory just doesn't work."

Dr. Richard Bliss, a professor of finance at Babson College and the national academic director for Goldman Sachs 10,000 Small Businesses, confirms this. "It's the classic 'because they can,'" he says. "There's a huge power dynamic, and big companies just take advantage. I often hear stories from small business owners who are so excited they got this big contract, but they lose sight of the fact that they still have to make this positive from a financial standpoint. A lot of them don't have the rudimentary forecasting tools to plug in their new contract, look four months down the road to say, 'Holy smokes, we're gonna run out of money.' By the time they realize the predicament they're in, there are very few options."

Slowly but surely, investors began to hear Hodgson and Abrams' message. First came credit unions, then equity investors, and finally Goldman Sachs. Taking different types of funding presented some tension, Hodgson says, but she thinks it made the business more sustainable. "Equity investors usually prioritize growth more than profitability, whereas lenders want you to be focused on profitability. So at times, I was like, *Oh my gosh, I can't make everybody happy!* But in hindsight, I think it forced a kind of discipline."

The thing about discipline is that it doesn't exactly lend itself to meteoric change. It's an act of faith that, eventually, the baby steps will get you somewhere.

"You know when your shoelaces are tied together, and you can't take a step that's longer than the shoelace or you fall on your face?" Hodgson asks. "That's the image that comes to mind about starting and scaling NowAccount. We had to go get capital and then get some customers, then we needed more capital and then more customers. And if I tried to do either of those too big, I'd fall on my face. So we just sort of trudged along, little by little."

NowAccount's investors were pulling on one shoelace, and clients were tugging on the other. Small business owners didn't need convincing that there was a problem. But they *did* need some convincing that these two nice Southern ladies weren't selling them some fanciful money "magic," as Abrams says, "or worse!"

"The first question we'd get from small business owners is, 'Why would you give us this money?'" Abrams says. "They were trying to understand: 'If this other financial institution wants to charge me 30% on my entire inventory, or this one wants my DNA swab, or to mortgage my house, why would I trust you?' Entrepreneurs are trained to believe no one is coming to help them, so we were trying to convince people we could untie their shoelaces when they'd gotten used to walking that way"—restrained, cautious, and slower than they should have to.

But once NowAccount started delivering on its promises, they started getting more applications than they could accept. This was partly because they needed more funding, and partly because they needed to mitigate risk. "We wanted to serve more businesses, because that's why we existed," Hodgson says. "But if we went too far, someone's going to take the dollar and run. So in the early days, it was a lot of learning, like, what are the signs? And analyzing data to tell us if certain industries or company profiles are more prone to risk."

Now learned to spot certain "behavioral indicators." For example, if someone has a Gmail account instead of a business email, it's worth a closer look. Maybe it's a fly-by-night operation, or maybe it's a new business that just hasn't set up its website yet. But with each invoice Now processed, its system became more informed. "Every data point we have about a customer and who their buyer is, and when they pay, that just makes the system incrementally smarter," Hodgson says. "So mistakes happen less and less as we grow."

And this practice of mitigating risk isn't just for Now's benefit. It's also become a crucial service for clients.

Riordan, the founder of Freeze Sleeve, says the buyer-vetting that NowAccount does is invaluable. In addition to being able to sell to big companies that are "horribly slow" at paying, Riordan says, "We also use NowAccount almost like our credit check people. Every time somebody wants to come on board, I send them over to Now, and they do their due diligence on the company. One time we had a cryotherapy business that wanted to go national with our products, and they gave us a very substantial order. But Now wouldn't approve them. We were frustrated because it was a big order, so we ended up doing it on our own. Well, guess what? That company went out of business and left us with a big hole."

Now was always intended to serve small businesses. But a few years in, something surprising happened. "We got a call from Coca-Cola's chief procurement officer," Hodgson says, "who was like, 'This seems to be a huge benefit to suppliers. Maybe we could partner to make sure more of them know about it.'"

Coca-Cola had been trying to diversify its supply chain to include more women and people of color, but its payment terms made it impossible for many of these businesses to work with them. "They're going to take 90 days to pay, and if that's going to kill you, they can't give you the contract," Hodgson says.

But with Now, Coca-Cola saw an opportunity: If there was a small business they wanted to buy from, but the supplier couldn't afford their payment terms, they'd send them to NowAccount. That way, the small business didn't have to worry about how long it would take to get paid, and Coca-Cola would know they had the capital to deliver. It was a win-win for everyone.

Not long after, the city of Atlanta began a push to boost the local economy by connecting Atlanta-based corporations with local small business suppliers. Now was perfectly positioned to partner with the city to make these connections.

Then, in 2020, the George Floyd protests happened, and corporations across the country started making public pledges to spend more with minority-owned businesses. At that point, Now realized it was sitting on a goldmine of data.

Sure, there are plenty of business databases out there—but only Now has years' worth of invoice data, giving them visibility into

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which suppliers can deliver at what level.

"If you're a procurement person, and you've bought a database of businesses, and you're looking for one with a Latina founder, there are probably hundreds of them," Hodgson says. "How do you pick? And most importantly, how do you know which of those hundreds can do a million-dollar contract versus a $5,000 contract? Because that matters. If I give you a contract that's too big and you don't have the staff to deliver, neither of us win."

What if they created a curated platform that helped big businesses find diverse suppliers capable of meeting their needs? It would be free for the small businesses to join, while the big businesses paid a membership fee. And that's how the next Now product—NowNetwork—was born.

When Hodgson and Abrams talk about Now, people often ask: *Why is it like this? Why don't these big businesses just pay their suppliers faster?*

Hodgson likes to tell a story about a conversation she once had with a Fortune 500 CFO. They were talking about NowAccount, and the CFO said, "You know, this is fascinating, but I could probably just pay my suppliers immediately for cheaper than you can."

"Well for sure you could," Hodgson replied. "You're a Fortune 500 company and we're a startup. But you won't."

The CFO paused for a moment. "You're right," she said. "I won't because if I turn around and paid all my suppliers immediately, Wall Street would take me down."

What Hodgson and the CFO were acknowledging is how common it is for corporations to beef up their capital stacks by leaning on "accounts payable"—the money owed to suppliers but not yet paid.

"Take any public company and look at their financials," Hodgson says, "If you look at their short-term debt, like what they're borrowing from the bank, compared to their accounts payable—what they owe suppliers—their accounts payable are almost always two to three times what they owe the bank. Because there's a smart CFO who knows he can delay payments for free versus borrowing money at some cost greater than zero. If you yanked that away, they'd have to turn to more expensive capital, their net earnings would drop, and Wall Street would kill them."

This notion—that it's common for corporations to deliberately delay payments—is provocative. But each year, the consultancy firm The Hackett Group does an annual analysis of something called Days Payable Outstanding, or DPO. It's an accounting measure that calculates the number of days it takes for a company to pay suppliers. And it sheds light on the pattern.

Of the top 1,000 publicly traded U.S. companies, for the decade running up to 2021 (when payment terms started to shorten due to pandemic supply chain pressures), "DPO was consistently increasing—around 5% year after year—which is significant," says Shawn Townsend, a director in Hackett's finance transformation practice. "On a compounding level, that adds up to a 32% increase [in how long suppliers are waiting to get paid]. And you would assume the same trends are happening to an even greater extent to smaller companies, because it's about leverage."

Townsend says DPO can't distinguish between long payment terms and late payments. But when asked if it's common for corporations to deliberately delay payments, he says, diplomatically, "It does happen. We hear some companies saying, 'This month, we told the accounts payable people, *pay a certain group of suppliers, don't pay the others.*' The most critical suppliers are always the first to get paid. And then the other ones, you know, they just stop the payments until the following month. It's very anecdotal, obviously, because nobody's going to admit that."

But Now's data is *not* anecdotal. They have unprecedented visibility into exactly when the biggest companies in the U.S. say they'll pay, and when they actually do.

"We *know* what the normal behavior is for certain companies and certain industries," Hodgson says. "I was talking to someone at a major bank and they said, 'Well, we typically pay in X days.' And I said, 'No you don't.' They said, 'Well, that's our policy.' And I said, 'But that's not what you do! I know because I've been watching you pay invoices for over a year.'"

More recently, the Now team has been asking what they can do with all this information. "Could we partner with someone like Hackett, or start doing our own reports?" Hodgson wonders. "This data could be incredibly interesting to investors, because if you're investing in a company, and they are continuously paying very late, there may be a weakness in its business model. Or if you're a small business who wants to sell to the airline industry, and they're saying they pay in 45 days but they really mean 60, that could be the difference between making a payroll and not. It won't change reality, but you can plan for reality. And that's what got Stacey and I into all of this trouble in the first place."

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A lot has happened since that fateful lunch in 2010. Abrams kept working at NowAccount during her tenure in the Georgia House of Representatives, but left the company in 2016 to pursue those two runs for governor. (Or as she says, "I had this other job I was interested in applying for, but my application was rejected.") After that, she and Hodgson decided that NowAccount and NowNetwork should be separate companies, which act as partners with service agreements. Hodgson will run NowAccount, and Abrams will run NowNetwork.

Unlike Hodgson, who's had a long career in business, Abrams admits she never really wanted to be an entrepreneur. "I liked paychecks," she says. "It was a frightening idea to be solely reliant on my own efforts."

The thing that changed her mind, though, was meeting Hodgson.

"We often believe we have to be the leaders," she says, "but having a partner challenges you. It helps you grow, sharpens your mind, gives you a different perspective. Lara and I have always been curious about what the other person knows."

Curiosity, more than anything, is what brought the friends to this place. And it's what will guide them toward whatever's next. "Curiosity is about more than simply seeking information," says Abrams. "We want to know: Are we asking the right things?" E

Frances Dodds is Entrepreneur*'s deputy editor.*

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