

Frequently Asked Questions about Factoring (ARF)

1. We don't need to use Accounts Receivables Financing!

Answer:

What kind of terms do you give your customers? How long does it take them to pay? Could you manage your business better as well as finance its growth if you had your money sooner?

2. We do that ourselves!

Answer:

It may sound like we're a collection agency but we're not. Yes, we can help you recover past due invoices through our Business Legal Expense plan program. Not through Accounts Receivables Financing. We advance money to your business based upon your invoices to your business customers and we wait for them to pay. Meanwhile, you have the use of YOUR money to better manage your business and to finance its growth.

3. It sounds too good to be true!

Answer:

Just because you haven't been exposed to this financial service doesn't mean that it doesn't exist. Factoring has been a powerful financial tool for centuries but until recently only very large companies could qualify for factoring. Now small to medium size companies can qualify and receive the benefits of this financial service.

4. I've heard of factoring, but I'm too small!

Answer:

Instead of waiting for your customers to pay your invoices, would your business benefit from having most of that money right away? Would you be more comfortable with a factoring program that doesn't require a minimum monthly volume and doesn't require an annual contract.?

5. We already have a credit line!

Answer:

Great! How big is it? How much of it do you use? Would you like to have access to larger amounts of funding? We can work in cooperation with your existing credit line to make that possible.

6. We see the benefits of factoring, but we're afraid our customers will think we're in financial trouble and they will look for alternative sources of our product or service.

Answer:

The fact that your company does qualify for factoring makes a powerful and positive statement about the strength of your finances and the factor's level of confidence in your business.

If your neighbor received a multi-million dollar credit line from his bank what would you think of him? We're providing a virtually unlimited credit line to you based only upon your receivables as collateral. In the process of verifying an invoice we tell your customer that you have been provided an unlimited credit line based on your accounts receivable and we are providing receivables management in conjunction with that credit line.

When you make a purchase at a retail establishment (restaurant, furniture store, etc..) do you question that business' stability because they accept major credit cards? Of course not. That is called "retail factoring". AFR is commercial factoring.

7. We wouldn't do that to our customers! We're afraid it will offend or alienate our customers!

Answer:

You are doing it for your clients. Factoring will enable you to continue to provide the high quality of product and service that they have come to expect. Your customers will also continue to enjoy the generous trade terms i.e. 30 days or more, that factoring will enable you to continue to provide for their benefit. In our communications with your clients, we only refer to this service as receivables management in conjunction with the unlimited credit line you have received to accommodate the growth that you are experiencing

8. What do you charge?

Answer:

I know how important that is to you. I'll be happy to get an answer to your question, but I don't yet know enough about your business to obtain a quote.

Examples:

- ✓ *What terms do you give your customers? How long does it actually take your customers to pay?*
- ✓ *What is the size range of your invoices? Where do most of them fall in that range?*
- ✓ *Who are your customers? What are your monthly or annual sales?*
- ✓ *What is your gross profit margin? What are your accounts receivable right now?*
- ✓ *How much is current, i.e. under 30 days? How much is over 90 days old?*
- ✓ *How much bad debt did you write off last year? Are there any liens or judgments against your firm? Are there (SBA) loans, credit lines, or recent bankruptcy?*

9. It's too expensive. We only receive have a 8 % net profit.

Answer:

Compared to a bank that isn't willing to lend all the money you need, and if they do, they charge or impose many of the following:

Points and Service Charges, Application Fees, Appraisal and Auditing Fees, Compensating Balances, Inadequate Loan Limits, Pledge of All Your Assets, Extra Accounting/Bookkeeping Expense, Possible Credit Impairment, Loss of Control & Regulatory Exposure

Compared to spending 1 or 2 days each week chasing money or receivables instead of concentrating on running your business and getting more business? Compared to lost profits because you can't fill new and larger orders? Aren't you willing to pay 3 or 4 cents out of each dollar to ensure the full use, benefit, and pleasure of the remaining 96-97 cents? Take a look at more than simply comparing the factoring fees to your current dollar volume. Look at the fees in relation to the enlarged volume that you will reach by the creative use of ARF.

10. Three or four points for 30 days! Wow! That's 36% a year!

Answer:

*It's tempting to multiply by 12 to annualize the fees, but, let's examine this in detail. If you borrow \$100,000 from the bank at 12 % and you make **monthly payments** of \$1,000. In a year you will have paid \$12,000 and still owe most of the \$100,000!*

*If you factor \$100,000 **each month for a year** at a 3 point discount, at the end of a year, your fees would total \$36,000. You would have had the benefit of **\$1,200,000!** (12x100,000) and the fees would still represent 3%. **And since it is NOT a loan, you don't have to pay it back!***

How often have you wished you were in a COD business? If you could convert your business into COD simply by offering a discount across the board to your customers, how much of a discount would you offer? Dun & Bradstreet conducted a survey and learned that many businessmen offered as much as 15% discounts while most offered at least a 10% discount. We may be able to convert your business into COD for less than half that discount!

Bottom line questions: Can you better manage and enjoy your business with faster cash flow? Can you make more money if you had access to better cash flow? Can you make your business grow with better cash flow? Are you willing to spend 3 or 4 points to net an additional 20-25-30-35% on our money?

11. How can I pay you 3 points when I'm only making 6% profit myself!

Answer:

If you've been short of cash, you probably haven't been taking advantage of all the discount opportunities for early payment of bills and you probably haven't been buying in the most economical quantities. These discounts alone will offset a substantial portion of the cost of factoring.

You could raise your price by just 1% across the board and pay for factoring one third of your receivables. The core issue is whether you can do more business if you factor. Because fixed costs and overhead don't increase in proportion to sales, the added volume made possible by factoring usually results in a much higher percent of profit on the added business and on your business, overall.

I hope these Questions and answers have helped you. A number of savvy business owners have asked the same questions that you have and felt the same way until they found that ARF is quite a sound financial tool to supplement your existing cash sources. This is why many bankers and accountants recommend us to their clients.

Please contact us at 877-470-9732 or email at info@profitsolutions.org to get started today!

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