

Factoring...The Truth Behind the Myths.

SO, YOU'RE TRYING TO DECIDE WHETHER OR NOT to use accounts receivable financing because you've got a bank line of credit or it's "too risky"...

All right, I hear you and understand, really I do.

But, let me ask you, do you have more cash in the bank than on your books? No?

Then, you could benefit from reviewing how factoring may help your company.

Things may have changed since you last inquired or maybe (just maybe?) you've been misinformed. In either case, let's set the record straight.

What is It?

Purchasing business (B2B) commercial receivables .

This means, you, the holder of the invoice, can **sell each invoice today to receive a cash advance.**

You can meet payroll, pay vendors, take on new clients and pay other bills. Now the finance company waits the 30, 60, 90 days for your clients to pay. Now you wait for more orders, new clients, and cash to hit your bank account.

Dispelling the myths

"It's a new 'trendy' financing tool". Actually, it is **one of the oldest forms of financing.** The garment, apparel and furniture

industry was taking advantage of factoring hundreds of years ago. They needed raw materials to manufacture and distribute their products. Suppliers expected payment before shipping goods; clients wouldn't pay until delivery (even then wouldn't pay for days or sometimes months - sound familiar?)

Factoring is here to stay.

"Our company has a large bank line of credit, we don't have any use for factoring.."

Factoring works in synergy with traditional credit lines. One of our clients put it best when he said,

"My business is successful because I have always followed two very important rules: one, pick other people's brains and two, use other people's money."

He put three years of college study for an MBA into two statements. Even though he has a large credit line, he benefits from having access to factoring lines. In fact, **many of today's Fortune 500 companies employ this type of financing** to help supplement their working capital needs. Factoring can

reserve the bank line for 'as needed' basis, thereby extending the life of the line. Factoring can help pay down the line when used. And, since this is NOT a loan (an asset being purchased), this form of financing will not appear as a liability on your balance sheet.

This actually strengthens your company's position when seeking new or additional bank funding.

Now, both your balance sheet AND cash flow statements are more appealing to a loan officer.

The Real Truth

"It costs too much". NOT true, anymore. Sure, long, long ago, it did cost an arm and a leg. No more! **Fees are only pennies on the dollar, and we DO mean pennies.** What you should be saying is **"It costs too much NOT to factor"** .

Think about it. You have \$100,000 of receivable on your books and \$15,000 cash in the bank. You get a purchase order for \$36,000 (a cost to you, with a 20% margin, of \$30,000 due now). You are \$15,000 short. You lose the order

because you are unable to pay the vendor. You have just lost 20% profit. If you had *factored only half your receivable*, you would have paid *maybe* 3%, made 20%, grossed 17%, and still have cash in the bank.

Better to lose 3% than 20%, wouldn't you agree?

To cut costs even more, some factoring companies may perform additional services to their clients including certain post-dated invoices and collections.

Benefits

- ✓ Not worrying about payroll.
- ✓ Having your valuable sales reps contacting your clients to sell more, instead of trying to collect on accounts receivables.
- ✓ Hire some more employees.
- ✓ Expand facilities.
- ✓ Acquire more equipment.

Companies with one client or companies with 1,000 clients can qualify.

Companies a week old and companies a hundred years old can qualify.

Factoring can work with any company.

Don't stress-- **Increase sales and PROFITS.**

Improve or maintain credit rating.

Fund growth internally.

Credit screen future clients.

Extend credit terms.

Pay taxes.

Increase client base.

GAIN THE COMPETITIVE EDGE.

Costs of *not* Factoring

This is easy.

Unable to fulfill orders.

Lose prospective clients.

Limit growth potential.

Drain current bank lines of credit.

Decreased profit margin.

Now what?

Possible tax liens leading to poor credit rating leading to low or no supplier credit.

Lower competitive edge.

Retire *later* rather than sooner.

Why do this to yourself? That's right, to yourself.

You may be spending **too much time on collecting YOUR money** and maybe not enough on providing your quality products and services to your valued clients.

... Why not let the factoring company waits the 30, 60, 90 days for your clients to pay. Now, you wait for more orders, new clients and cash to hit your bank account!

Summary

Okay, so you have decided, "*Hey, factoring is not so bad after all!*". Not so scary, is it? Nope. Factoring can help any business on the path to growth (and shouldn't all business be growing). Don't let your competition take all the working capital!



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