



INTRODUCTION TO FACTORING

- What you should know about invoicing
- Learn how you can receive funding in order to operate your business more effectively
- Common misconceptions about factoring

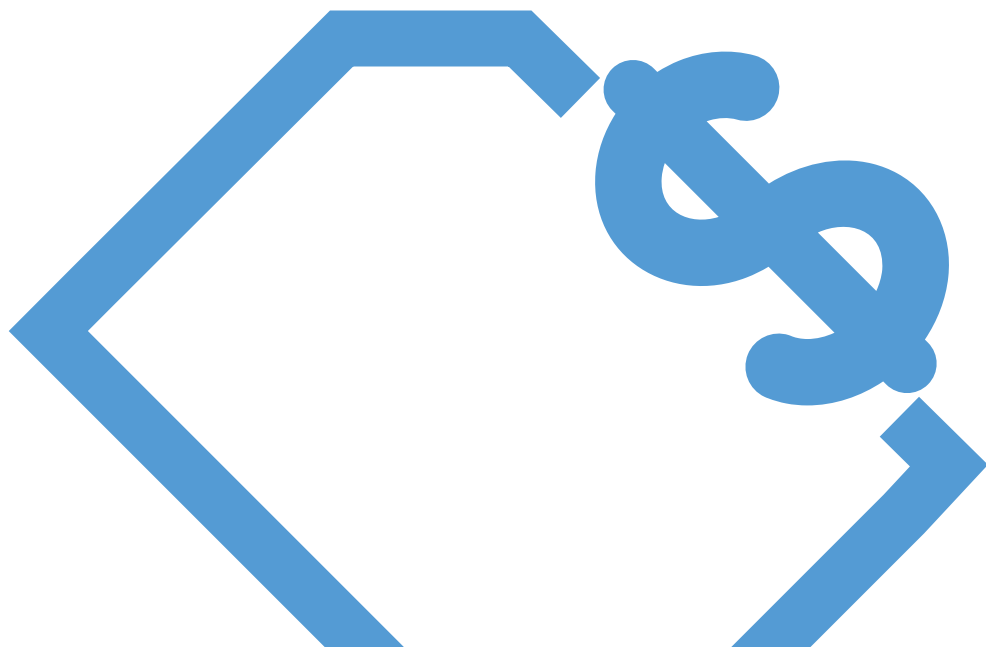
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ACCOUNTS RECEIVABLE FUNDING, ALSO KNOW AS **FACTORING**

Factoring is an excellent source of capital for businesses that are growing and experiencing “growing pains” of temporary cash flow shortages.

DEFINITION :

Accounts receivable funding, also known as factoring, is the sale of invoices at a discount. A method of financing that is used by businesses to raise capital quickly and improve cash flow without going into debt.



HOW DOES IT WORK?

When a business sells a product or service to a customer, it creates an invoice. Typically, an invoice would itemize the unit sold, the price and the terms of the sale. The invoice serves as a bill detailing the payment due. An outstanding invoice may also be called an account receivable. Instead of waiting to collect payment, a business may elect to sell the invoice to a factor and receive an immediate cash advance.

A factor is an individual or business that is engaged in the buying of accounts receivable.

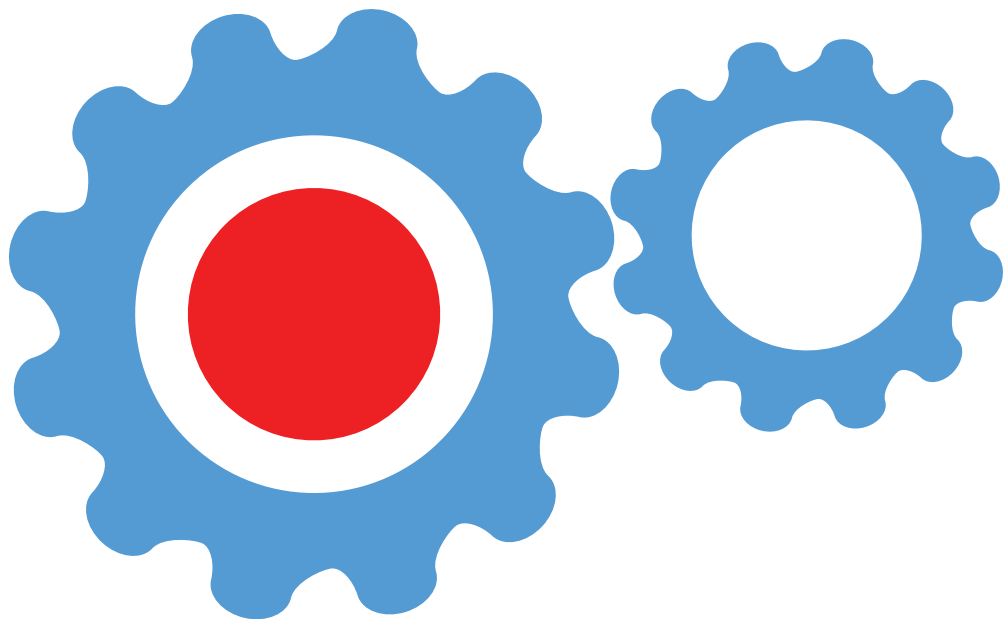


A TYPICAL FACTORING PROCESS :

For the privilege of receiving immediate access to money and early payment, you will be charged a nominal factoring fee by the factor. Your customer will be notified where to send payment. The fee for the factored invoice will be deducted after payment is received from your customer. You do not have to factor all your invoices or change your billing process except for the payment address.

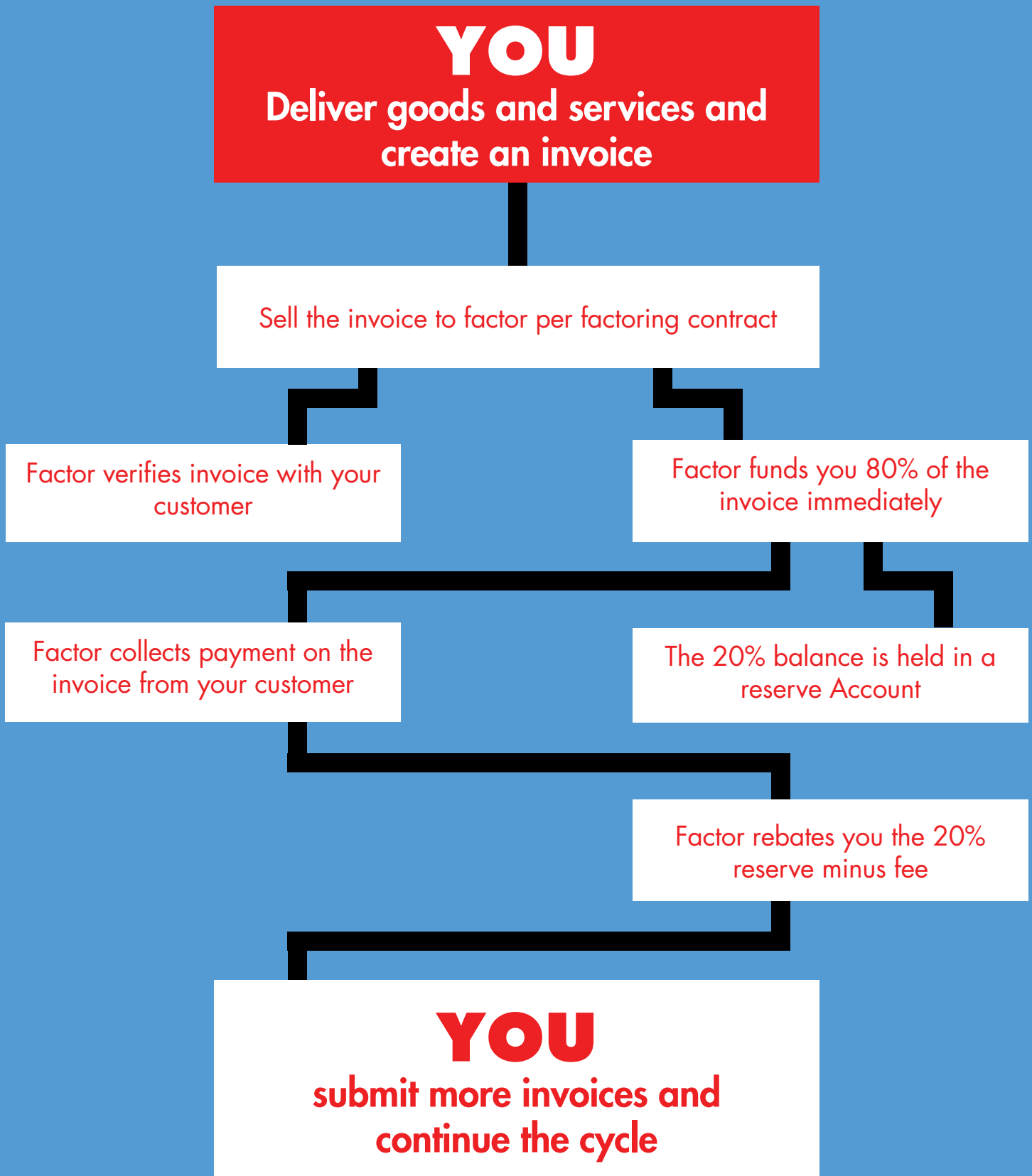
Most customers require payment terms of Net 30, which means they wait 30 day to pay the invoice. In reality, this could delay the payment for 35-50 days, depending on when the check is actually cut, signed by management, and mailed. Factoring fills the money gap and creates a predictable and dependable source of cash. This will make cash available to meet payroll, pay rent, buy supplies and meet other operational needs.

Factoring accelerates cash flow by providing a cash advance upfront for your invoice. The Factor will wait to collect from your customer. When the invoice is paid, the Factor will retain a sum equal to the initial cash (a sum equal to the initial cash advance) advance plus applicable fees. The balance is then refunded to you along with a statement of the transaction. The exact factoring fee will depend on the amount of time the cash advance is outstanding. For example, if a payment of the invoice is received by the Factor in 25 days, the fee will be less than if the payment is received after 60 days.



With factoring, a business owner might be able to completely avoid loans and other financing options that could restrict independence and the ability to operate freely and efficiently.

Until recent decades, factoring was available only to large corporations that were able to meet the minimum threshold required by factoring companies, many of which were wholly owned by or subsidiaries of banks. Today, factoring is available to small and medium-sized businesses because factors are more diverse and require no minimums for funding.



GETTING STARTED

To begin a factoring relationship, you will submit an application along with a few other documents related to your business (i.e. business registration, customer list, business ownership, sample invoices, and expected sales volume). If accepted, you will sign an agreement that may include UCC filing statements, IRS information release forms and other documents. There is not a term commitment and your credit limit will be directly related to sales. The process can take anywhere from 3 - 7 days to establish an account.

Once your factoring account is set up, you can begin to submit invoices for factoring. Upon submitting an invoice(s) for funding, you will receive the 80% advance via an ACH (direct deposit) to your account within 24 - 48 hours.

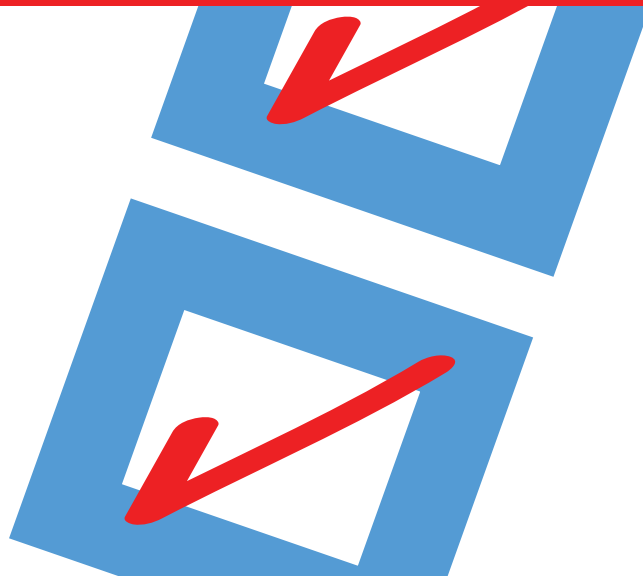
Factoring has evolved into a very fine financing technique for companies that are experiencing rapid growth or have other cash flow needs, but may not qualify or want conventional funding.

There are countless reasons why businesses factor. For example:

- You may need a continuous level of cash to give you the ability to operate in a timely and efficient manner
- You may want an unlimited credit line that is directly related to sales
- You may want an alternative to borrowing without encumbering valuable assets
- You may want to extend terms to your customers to make it easy for them to pay and encourage them to buy more
- You may want immediate access to your money rather than waiting on your customers to pay

REQUIREMENTS

Perfect credit is not required to establish a factoring account. The single most important requirement for factoring is that you have accounts receivable (invoices) due by credit-worthy customers. It is the factor's responsibility to verify your customers' credit worthiness. You can qualify whether you are a start-up or an already established profitable business.

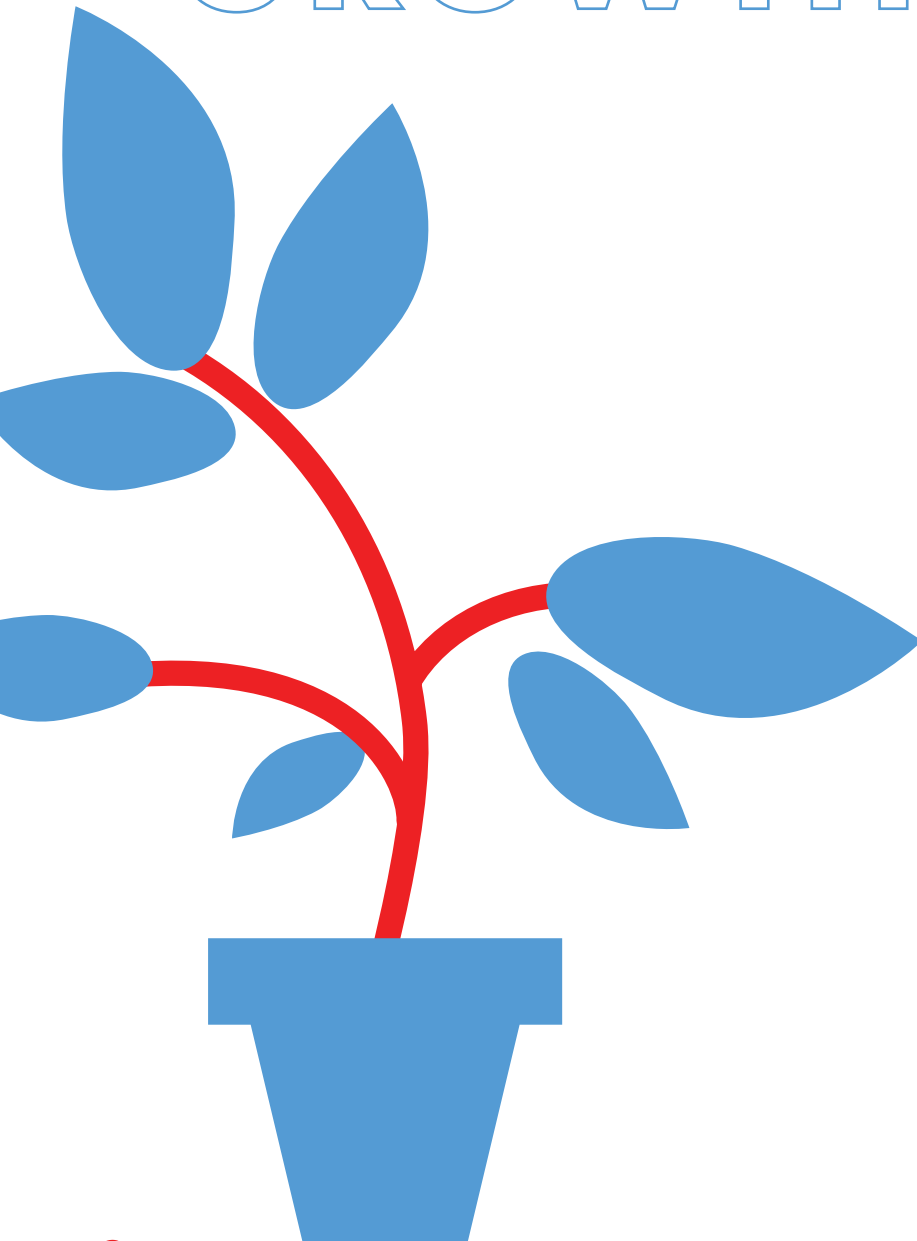


FACTORING MYTHS:

The following are some of the prevailing misconceptions about factoring:

MYTH: FACTORING IS ONLY FOR BUSINESSES THAT ARE IN EXTREMELY BAD FINANCIAL CONDITION.

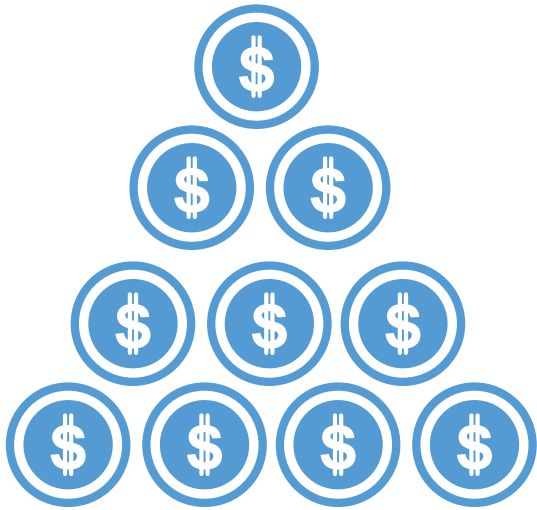
GROWTH



FACT: Very much the opposite. Factoring is used by businesses that are experiencing significant growth. When a business is in a growth pattern, cash flow sometimes becomes a concern because of the costs associated with growth. Factoring is an excellent solution for those businesses.

Factoring is not just for companies experiencing cash shortages. Most astute business managers use it in long-term planning and in conjunction with other revenue generation methods. It is increasingly becoming part of businesses' overall financial plans.

MYTH: CUSTOMERS MAY HOLD A NEGATIVE VIEW OF YOUR COMPANY IF YOU FACTOR AND MAY SEEK ALTERNATIVE VENDORS.



FACT: Being able to qualify for outside financing should speak to your business' strength and the confidence financiers have in your company. Very few businesses can succeed without some type of financing. Businesses that cannot obtain financing have a higher failure rate. Business owners, more than anyone, understand the difficulty in securing outside financing. To have access to funds when you need it should put your suppliers and customers at ease because you will be better equipped to meet their needs at any time, even on short notice.

MYTH: FACTORS HOUND AND HARASS CUSTOMERS WITH COLLECTION CALLS, LETTERS AND NOTICES.

FACT: A factor's goal is to assist you in increasing sales and growing your business. It is in a factor's best interest to help you succeed. Factors are very much aware of the importance of representing your company in the best way to ensure your customers are satisfied and ensure your business success. Factors would never intentionally offend and harass your customers with collection calls. Conversely, Factors often improve and enhance the collection process to the amazement of their clients. Factors can act as your "back office" to assist with collection efforts, resulting in faster-paying invoices.

MYTH: FACTORING IS PROHIBITIVELY EXPENSIVE AND WOULD ABSORB ALL PROFIT MARGINS AND PUT YOU OUT OF BUSINESS.

FACT: “Factoring is too expensive” is often a generalized response given when a prospect does not yet have complete details. Factoring fees can be compared to offering your customer a 3% discount to pay in 10 days. Many businesses offer this quick-pay discount to their customers already. Factoring is simply another form of financing available to businesses.

A factor’s funding should not be weighed against a bank loan because money received through factoring is not considered a loan. The fee is not considered interest; it is a purchase discount. Attempting to multiply and annualize the discount rate is inaccurate. Comparing a bank loan to factoring is like comparing apples to oranges. For example, if you borrow \$100,000 from a bank at 12%, you could make monthly payments of \$1,000 and in 12 months would have paid \$12,000 in interest. Yet you would still owe \$100,000.

If you factored \$100,000 each month at a 5% discount, in 12 months your fees would be \$60,000. However, you would have received \$1,200,000 (12 x 100,000) and the fees would still be \$60,000. In addition, you would not “owe” anything because as each invoice was paid by your customer, the “debt” was repaid. Factoring allows a business to have steady cash flow without creating additional debt. The real bottom-line effect: with better cash flow, you can grow your business rapidly and exponentially. In theory, your profit should increase, not decrease.



For example, take the case of a T-shirt design and distribution company that does about \$8,350 in monthly sales, or \$100,200 a year, without the benefit of factored revenue. However, with cash advance to buy supplies and meet expenses, revenue could possibly double.

	WITHOUT FACTORING	WITH FACTORING
Sales Revenue	\$100,200	\$200,400
Cost of Goods 60%	60,120	120,240
Gross Profit	40,080	80,160
Overhead	36,072 (36%)	48,096 (24%)
Cost of Factoring	0	5,010 (5% OF \$100,200)
NET PROFIT	4,008 (4%)	27,054 (13.5%)

Even with increased expenses and cost of factoring as a result of additional volume, you would get a much higher percent of profit overall. Net profit increased from \$4,008 or 4% to \$27,054 or 13.5%. This is a significant increase. The core question is, can you do more business with better cash flow?

Most businesses would prosper with better cash flow. However, it takes more than just money to run a successful business. It requires knowledge of your business, hard work, organization skills, attention to detail, and so on, which is outside of our control. Numbers used here are for illustration purposes only. We make no guarantees that you will achieve the same results. The goal was simply to introduce information about factoring and we hope that you are better equipped to make an informed decision about the service. However, we are not engaged in rendering legal, accounting or other professional service. If legal advice or other expert assistance is required, you should seek the services of a competent professional. We welcome questions and are always pleased to address them.

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