The Complete Guide

Invoice Factoring

BayViewFunding

because cash flow matters

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Invoice Factoring

What is Invoice Factoring?

Invoice factoring is an effective form of business financing:

Rather than waiting 60, 90, or 120 days for invoices to be paid, a factoring company will purchase your outstanding invoices and pay them in as little as 24 hours.

Cash now, for invoices due in the future means your company can use the cash to cover business expenses.

Let's consider some cash flow challenges. Do any of these situations sound familiar?

- Have you offered your customers credit terms, which means they pay up to 90 days after an invoice has been issued?
- Has the bank said NO to your business loan?
- How about your line of credit? Is it at capacity?
- Is your cash flow becoming a constant challenge?
- Have you recently increased capital expenditure, negatively affecting your cash flow?
- Is your business credit too low to qualify for a traditional business loan?
- Do you need to improve your cash flow in order to grow?
- Does your company struggle to meet payroll?

Late payments can quickly cripple cash flow and bring a small or medium business to their knees. If these challenges sound familiar to you, invoice factoring could be the key to get your cash flowing.

How can invoice factoring help your cash flow?

Quick Qualification

Unlike a bank loan, the qualification process for invoice factoring only requires basic company information and can be completed in as little as 3 days, once the application is accepted.

Fast Cash – No more waiting on slow paying clients

The factor will typically pay you within 24 hours after receiving your invoices. No more waiting for 30,60 or 90 days.

Use your own receivables as cash

Because you are using your own receivables, factoring will not show up on your balance sheet.

Imperfect Financial Statements – No Problem

Qualification for factoring is based on the creditworthiness of your customers, not your credit.

Accounts receivable managed by experts

The Factor's professional A/R team manages the receivables that you factor, saving you time and A/R management expenses.

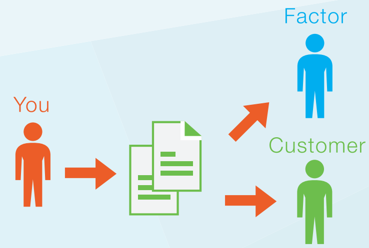
Reduce the stress of constrained cash flow

Factoring your invoices and getting immediate cash reduces the stress of late payment, the inability to pay taxes or meet payroll.

Waiting for customers to pay their invoices may be a large contributor to your company cash flow crunch. Invoice factoring offers fast payment of your invoices, which can help avoid this situation.

How Does Invoice Factoring Work?

1



You send a copy of the invoice you are factoring to your customer and also to the factoring company.

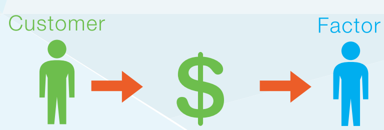
2

The Factor forwards 80-90% of the invoice in cash to you.

3

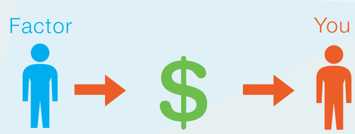
The Factor acts as your accounts receivable department and collects on the invoice.

4



Your customer pays 100% of the invoice to the Factor.

5



After your customer pays in full, the Factor pays you the remaining 10-20% in cash, less fees.

How Do I Qualify And Get Started?

How do I qualify for invoice factoring?

The good news is that qualification is not dependent upon the credit history of your business, rather the credit history of your customers, which means it is easier to qualify for invoice factoring than it is for a traditional bank loan.

Surprisingly invoice factoring can help you even if your company has:

- Less than perfect credit
- Not been in business very long
- Used up loans and lines of credit

Don't let imperfect financial statements deter you from applying. Most factoring companies may work with you to find an answer and approve your application.

Qualification can take as little as 3 days

The qualification process requires basic company information, and can be completed in as little as 3 days, once the application is accepted. Once your company is qualified, make sure the work is completed on submitted invoices, and that the invoices are current.

How do I begin the process and start factoring my invoices?

How it works – it's easier than you think!

1. **Start the Process**
   Contact an invoice factoring company.
2. **Chat with an expert**
   Establish if invoice factoring will work for you.
3. **Accept a Proposed Offer**
   Provide the paperwork and invoices to be considered
4. **Review the final offer**
   Usually between 70%-90% of the invoice amount*
5. **Begin to factor**
   Recieve your funding in as little as 24 hours

* The final offer is based on the amount of risk the invoice factoring company believes they may be taking by advancing the money. The amount of risk, creditworthiness of your customer, along with your volume of accounts receivable will determine the final rate.

How Much Does It Cost?

What about cost? When you decide to factor, your factoring company will offer a rate, which is dependent upon several things such as:

- Sales volume
- Invoice size
- The creditworthiness of your customers
- The number of creditworthy customers
- The length of your contract with each customer
- The number of days the invoice is outstanding

Factoring often appears to cost more than a traditional loan, but if you are experiencing cash flow challenges the cash flow shortage may have devastating effects on your business.

FAQs

Do I have to factor everything?
The beauty of invoice factoring is that it is there for you when you need it. Invoice factoring companies do not require you to factor everything, only those invoices that you choose to factor based on your cash flow and business needs. There is also generally no long-term commitment with factoring. Many companies only choose to factor the invoices from customers that historically take a long time to pay, while some factor all of their invoices.

When should I start factoring?
As soon as your company becomes eligible, by providing goods or services to your customers, and generating invoices, you can consider invoice factoring. You may decide to inquire about invoice factoring from day one, but especially in the following circumstances:

You are experiencing cash flow challenges – your business is healthy, but the cash is not flowing, and you are finding it hard to pay your operating costs, so the ability to grow is hindered. Receiving a cash advance on your outstanding invoices would help alleviate cash flow problems and allow you to grow your business as your cash flow builds.

Waiting for payment is taking its toll – not only waiting for payment but also the effort it takes to get your customers to pay. Allow your factoring company to take on the burden of collections so you can get on with running your business.

FAQs continued

Why do companies like to factor their accounts receivable?

Companies like the flexibility. Invoice factoring offers companies the ability to receive a cash flow injection when they need it. Your company may like factoring for the same reasons:

Less stress – late payment of invoices may cause cash flow stress
Fast cash – no more waiting on slow paying clients
No loan liability – using your own receivables as collateral means factoring will not show up on your balance sheet
High financing limits – unlike traditional loans, the limits are high
Expert management – a professional A/R team manages the receivables you factor, saving you time and A/R management expenses.

Do companies of all sizes and industries choose to factor?

Since invoice factoring is such an efficient way of increasing cash flow, companies of all sizes, from small start up businesses to Fortune 500 corporations, choose factoring as a cash flow tool. Not only all sizes, but also many industries benefit from this type of alternative financing. Such as:

- Trucking
- Manufacturing
- Staffing
- Government contractors
- Wholesale
- Distribution
- Oil and Gas

No matter what the size of your company, or your specific industry, invoice factoring can provide the resources to help your company with the cash flow needed to flourish and grow.

What additional benefits should I look for from my factoring company?

- In house credit department included in the factoring cost
- Evaluation of your customers to establish their creditworthiness
- Reassurance that there are not long term contracts
- Ability to factor when you need to. Not all factors require you to factor all your invoices, just those you choose to factor.

How can an invoice factoring company help my business grow?

The benefits of invoice factoring, and how it can help your business grow can be clearly seen in success stories. Factoring can help start-ups become established businesses, and larger businesses expand, diversify and grow. The example below illustrates the unique way an experienced factor can help your business succeed.

Challenge: A client had a loan with a bank and wanted to increase the loan amount, or extend credit, in order to take on a new contract that would help them significantly grow their business. The bank was unwilling to increase the loan or line of credit.

Solution: The client approached a reputable invoice factoring company, hoping that accounts receivable financing would provide the answer. During the initial underwriting process, the bank was unwilling to consider subordinating the loan so that the client could factor a large invoice, but the factoring company was able to work through the issues and approve the client for factoring services, enabling the contract to close.

FAQs continued

Invoice factoring can assist with the working capital financial support your company needs to implement your marketing and sales plans and strategies.
An experienced factoring company that is well funded and knowledgeable can provide a reliable partnership when it comes to helping your business grow.

What questions should I ask when choosing my factoring company?
With so many factoring companies to choose from, it is important to ask the right questions to establish a good fit.

What are the terms when factoring invoices?

The fee structure varies with different factoring companies, and also with different industries. Make sure your factoring company is transparent with you and that you fully understand the rate structure. Don't be embarrassed to ask until it is completely clear.

Flexibility is important, so check if you are required to enter into a long-term contract, or are you able to choose your factoring structure? Rates can often be altered once you begin to factor more, or larger invoices, so make sure you have the ability to make these changes and you are not locked into one rate.

How long have you been in business?

Check the specific industry experience of your factoring company. Have they specialized in one area, or many, and does that area match with your needs? Many new factoring companies have started as a result of the high demand, but lack experience. Their rates may seem enticing, but as with any financial undertaking, experience really matters.

What is your capital structure and how many clients do you have?

Make sure your factoring company has the resources to provide the funding you need now, and may need in the future. Check the average amount of funding they provide, and the size of their largest client. A well-funded factoring company will be able to grow as you grow.

What else can you offer?

Check all the services provided by your factoring company. The added benefits can make a huge difference in your decision making process. Financing and collections on invoices are obviously the key requirements, but ask for a full list of added benefits included in your agreement.

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