



# FACTORING



## What is Factoring?

Factoring is the purchase of accounts receivable for immediate cash.



## How Does Factoring Work?

The factoring company:

- ◆ Verifies with the client's customers that the product was received or the service was performed
- ◆ Advances up to 95% of invoice value to the client
- ◆ Sends the invoices to the client's customers
- ◆ Performs collection service when payment is due
- ◆ Rebates reserves back to client, minus the factoring fees, once payment on invoices is received



## How Does Factoring Work?

### The client:

- ◆ Agrees to exchange account receivables for cash
- ◆ Completes the business transaction as usual
- ◆ Sends all or some of the invoices to the factoring company and includes proof of product or service delivered or completed



## Other Services Provided by Factoring Companies

- ◆ **Financial** – Fast cash advances for invoices
- ◆ **A/R Management** – Some factors offer full A/R management
- ◆ **Credit Services** – Credit information and credit limit recommendations on customers. Some factors offer “non-recourse” which means the factor takes the credit risk.
- ◆ **Online tools** - Most factors offer online account management (similar to online banking)



## Financial Benefit – Cash Flow

- ◆ Meet payroll
- ◆ Meet tax requirements
- ◆ Increase marketing
- ◆ Purchase inventory
- ◆ Purchase capital equipment
- ◆ Obtain better supplier terms, volume, discounts



## A/R Management Benefits

- ◆ Redirect critical resources to selling and delivering your product/service
- ◆ Reduce administrative costs
- ◆ Improve billing and collection by outsourcing
- ◆ Reduce overall workload & stress



## Credit Services Benefits

- ◆ Provide immediate credit limit recommendations for current and future customers
- ◆ Improve decision-making on new business
- ◆ Reduce or eliminate bad debt
- ◆ Non-Recourse Factoring: Riviera Finance is one of a handful of factors that, when they approve a credit, will also take that credit risk on behalf of the client. This is a form of credit insurance.





## A Company Can Use Factoring If...

- ◆ The factor can get a priority lien (UCC) on accounts receivable
- ◆ It sells to credit-worthy companies (B2B)
- ◆ It invoices for products or services AFTER they've been delivered or completed
- ◆ Terms are 30- to 60-days with no contingencies



## Factors Generally Can Work With...

- ◆ New or established businesses
- ◆ Businesses with little or no credit history
- ◆ Owners with personal credit challenges
- ◆ Businesses that are concentrated with one or two customers
- ◆ Sales volume from \$100K to \$25MM/yr.



## Factoring - Industries Served

- ◆ Transportation
- ◆ Manufacturing
- ◆ Technology
- ◆ Distribution
- ◆ Staffing
- ◆ Business services



# Transportation

Type of business: Long-haul trucking company

- ◆ Factoring Line: \$50,000
- ◆ Business Challenges: Paying for diesel and drivers
- ◆ Solution: Factoring provides money for both



# Manufacturing

Type of Business: Promotional Items Company

- ◆ Factoring Line: \$200,000
- ◆ Business Challenges: Growth & paying suppliers
- ◆ Solution: Cash to pay suppliers in order to keep pace with growth



# Staffing

Type of Business: Temporary Staffing Company

- ◆ Factoring Line: \$300,000
- ◆ Business Challenges: Start-up
- ◆ Solution: Factoring...
  - Started in February 2010 with \$3,000 in invoices
  - Now factoring over \$500,000/month



## Business Services

Type of Business: Security Guard Company

- ◆ Factoring Line: \$1,600,000
- ◆ Business Challenges:
  - Large customer base (100+)
  - Opportunity for a big new contract
- ◆ Solution: Factoring...
  - Managed A/R for 100+ customers
  - Provide cash to perform on new contract



## Pricing and Advance Rates

- ◆ Pricing depends on:
  - Volume (total outstanding A/R)
  - Industry
  - Credit-worthiness of client and customers
  - Terms of vendor agreements / contracts
- ◆ Advance rates vary generally from 70% to as high as 95%, depending on each situation





## Common Barriers to Using Factoring

- ◆ Third-party medical billings
- ◆ Progress billings of any type (construction)
- ◆ Bills due for future services (prebilling)
- ◆ Installment billing (software)
- ◆ Consignment or guaranteed sales
- ◆ Invoice contingencies



## Summary

- ◆ Business is about taking advantage of opportunities.
- ◆ Factoring gives a company the financial and administrative ability to grow.
  - Fund working capital
  - Control accounts receivable costs
  - Identify credit-worthy customers
  - Manage growth, outsourcing, cyclic changes



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