



# AN OVERVIEW OF INVOICE FACTORING



## **A. Introduction**

With banks lending less, invoice factoring is becoming the go-to source for quick cash infusions.

## **B. What is Invoice Factoring?**

Invoice factoring allows businesses to obtain cash quickly by selling their client invoices.

## **C. Recourse vs. Non-Recourse Factoring**

Understanding the difference between recourse and non-recourse factoring is crucial.

## **D. Why Businesses use Invoice Factoring**

Each business has its reasons, but the most common reason is covering cash flow gaps.

## **E. Industries that use Factoring**

Oil and gas, staffing, transportation and many others have a long, steady history with factoring.

## **F. Conclusion**

Invoice factoring dates back to the days of Mesopotamia. It was used between the 1600s and 1700s to support merchant trade between England and the colonies. Today, it is a multibillion-dollar industry and continues to play a significant role in business finance.

By using invoice factoring, businesses can now cover rapid growth costs, cash flow shortages, and other expenses while growing their business. Invoice factoring allows a predictable and dependable financing source that is not dependent on balance sheets or profit and loss statements.

This overview covers invoice factoring, its many advantages, and why many industries use it today.

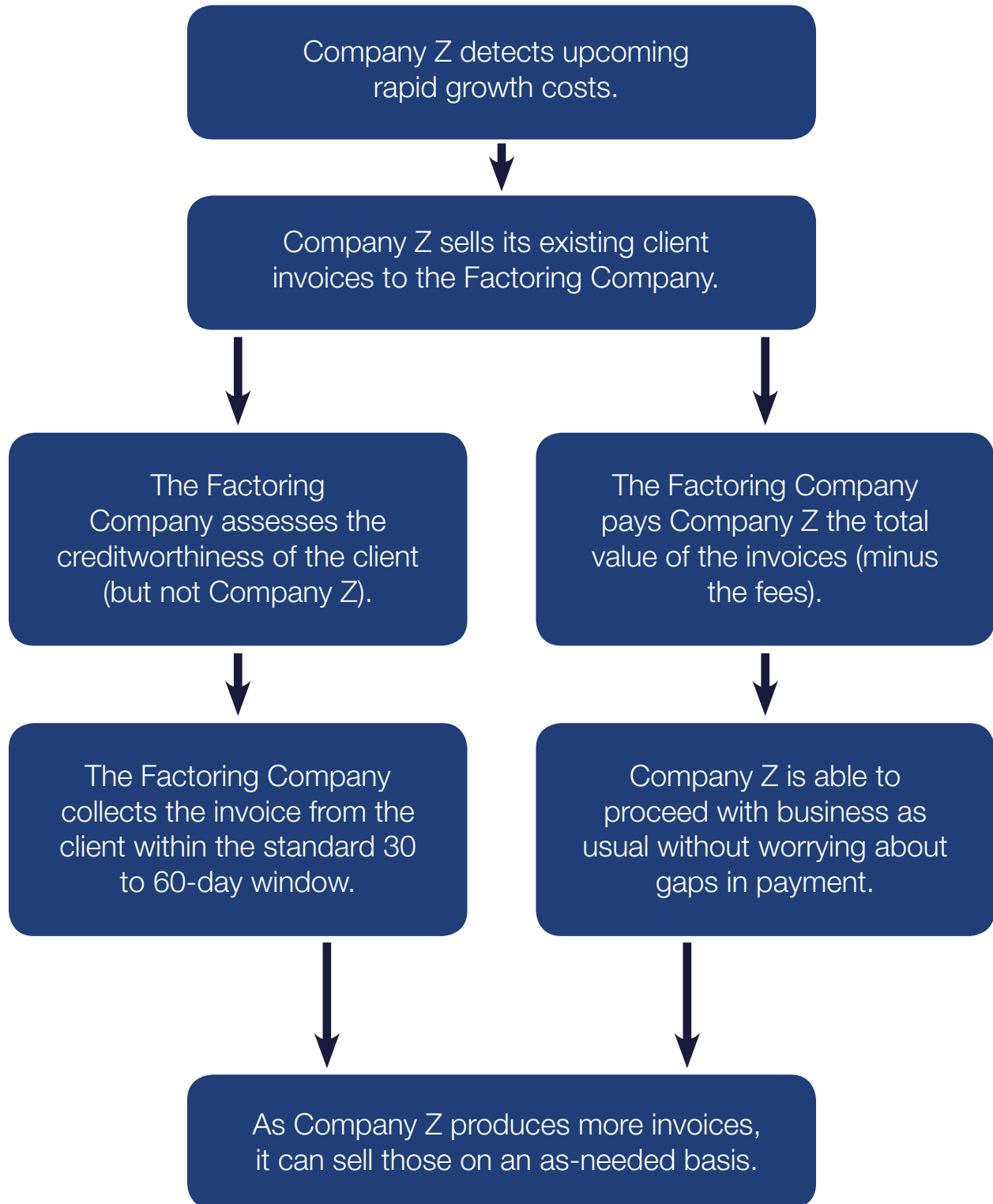
Invoice factoring is a reliable financial method through which businesses can obtain cash quickly by selling their existing client invoices. Factoring enables businesses to improve their cash flow and manage their growth without taking on additional debt. Invoice factoring may appear complicated, but it is a simple, easy-to-follow process.

For each product sold or service provided to a client, an invoice is created, which serves as a formal agreement. More than an agreement, however, an invoice is an asset. While waiting for an invoice to be paid, expenses need to be settled, financial obligations are due, and cash flow gets tight. Instead of waiting, invoice factoring is a way in which a business can take charge of its finances and collect right away.

This is how invoice factoring works (see Fig.1):

1. Company Z detects upcoming rapid growth costs.
2. Company Z sells its existing client invoices to the Factoring Company.
3. The Factoring Company assesses the creditworthiness of the client (but not Company Z).
4. The Factoring Company pays Company Z the total value of the invoices (minus the fees).
5. The Factoring Company collects the invoice from the client within the standard 30 to 60-day window.
6. Company Z is able to proceed with business as usual without worrying about gaps in payment.
7. As Company Z produces more invoices, it can sell those on an as-needed basis.

**Fig.1. Invoice Factoring Workflow**



Two main types of factoring agreements exist today, and it is important to know the difference between them when making a business decision.

### **Recourse Factoring**

If invoices remain uncollectable by the client (after a pre-determined time, usually 90, or 120 days), with recourse factoring, the company is responsible for buying them back. The agreement is that the company sells its invoices with the understanding that they will buy them back if they are unpaid. Recourse factoring is the more affordable agreement, yet it has some risk involved. In fact, the company takes on all of the risk - instead of the factoring company - because the risk of insolvency does not transfer to the factoring company.

### **Non-Recourse Factoring**

With non-recourse factoring, the factoring company takes on all of the risk of non-payment due to the insolvency of the company from whom the money is due. The company can sell its invoices without any obligation to reimburse the factoring company if the customer becomes insolvent. As the factoring company takes on the risk of insolvency, this may be a good alternative to avoid the costs of extending credit and risks of bad debt.

Each business has its reasons, but the most common include:

- To pay for costs associated with rapid growth, such as staffing, payroll, new equipment, production increase, etc
- To cover ramped-up production costs associated with the seasonal business cycle or unexpected product demand
- To pay for new expenses related to increased payroll, equipment or machinery, facility lease space, etc
- To take advantage of new business opportunities
- To cover working capital or operational expenses related to a slow business quarter
- To bridge cash flow gaps as a result of slow-paying customers

Here are some more detailed reasons why many businesses choose factoring as a way to sustain their operations and maintain growth.

### **Use Invoice Factoring to Keep Pace with Rapid Growth**

Expediency is a key reason companies choose factoring. This is especially true in situations in which rapid growth is an issue. Even if a business qualifies for a bank loan, a bank can take several weeks to process it. Invoice factoring works perfectly for a fast-growing business. Factoring companies can provide cash infusions generally in less than 24 hours.

### **Invoice Factoring Can Enable Business Expansion**

Factoring is a financing option that more and more businesses are considering in lieu of a loan from the bank or raising private capital. Many businesses have found factoring to be a suitable replacement for the once-standard bank loan.

### **Ease Cash Flow Concerns with Invoice Factoring**

All businesses have moments of growth and plateaus. Invoice factoring is the most responsive way to solve cash flow issues for small and medium sized businesses. By partnering with an invoice factoring company, a business can sign into an agreement to receive regular, on-time payments to keep a business running smoothly – no matter what. So, even if clients stretch their accounts payable cycle, the company will receive regular payments from the factoring company.



For the past several decades, more and more industries have been using invoice factoring as a way to obtain cash quickly. Invoice factoring is used in just about any public or private sector. Here are some industries most associated with factoring.

### **Invoice Factoring and Oil & Gas Financing**

Oil and gas funding is a common industry practice. Oilfield construction and field services involve high expenses all around, from leasing mammoth drilling equipment to making payroll to covering costs of permits, and much more. Factoring is a popular choice for many in the oil and gas industry because they understand the nature of the business. They are often willing to take on risks associated with the industry that banks will not.

### **Staffing Agency Factoring Gains Widespread Use in Recent Years**

Taking on permanent employees is expensive. Today, many companies use staffing agencies to hire flexible employees. Medical staffing factoring, in particular, has experienced tremendous growth as nurses, medical technicians, and others are hard to find and cost a premium in terms of total compensation. Moreover, payroll funding companies are becoming more common for businesses that need assistance with financing their payroll and minimizing their payroll staff.

### **Transportation Factoring is Keeping Freight Moving and Cash Flowing**

The trucking and transportation industry is one with tight schedules and high expenses. This is especially true of the many small- to medium-sized fleet companies that operate with tight profit margins. Since there are multiple players involved in getting a product load from point A to point B, and since everyone wants to get paid quickly, freight factoring is a good option.

Invoice factoring is a centuries-old, alternative financing method that can provide steady cash infusions to meet growing and ever-changing business needs. Invoice factoring can help bridge the cash flow gap, keeping a business moving forward to pay costs associated with rapid growth. Plus, invoice factoring companies provide cash quickly (generally within 24 hours).

Though oil and gas, staffing, and transportation are sectors where invoice factoring is commonplace, almost any industry can take advantage of invoice factoring. It provides fast cash when needed, without debt.

With risk, or perception of risk, at higher levels, banks are also taking longer to award on loans and requiring more underwriting and processing. With invoice factoring, a company can get money on its terms instead of waiting for the bank.

### **About Business Factors & Finance**

Backed by more than 40 years of industry experience, Business Factors & Finance provides invoice factoring and other alternative financing services to businesses large and small in need of regular cash infusions. By using existing receivables as collateral, a business can get cash when needed to grow and sustain itself. Unlike traditional business loans from banks, factoring receivables from Business Factors & Finance does not require lengthy paperwork processing to secure immediate cash. A business simply creates the invoices, and the factoring company does the rest. From freight bill to IT factoring and from staffing to payroll factoring, Business Factors & Finance can be a company's silent financial partner.

Call to connect with one of our Business Development professionals at:

**888-234-6663 FREE**

or visit <http://businessfactors.com/> to learn more about invoice factoring.

