

How Can Invoice Factoring Help Fund Your Company's Growth Even if You Have Bad Credit and Are a Startup?



By Philip Campbell

214-434-1141

philip@smallbizfundingUS.com

1 What is invoice factoring?

- 1.1 Invoice factoring is the sale of accounts receivable to a third party at a discount. The third party advances the business money usually 70-90% of the invoice amount and pays the balance less their fees when the invoice is paid to the third party.

The great news is it doesn't depend on your credit score or if you have great management in place or if you've been in business for 2 years or more!

1.2 Other names for invoice factoring

- Accounts receivable financing
- Receivables financing
- Factoring
- Accounts receivable factoring
- Invoice discounting

2 How does invoice factoring work?

- Deliver products / services to customer
- Send invoice to customer
- Submit copy of invoice to factor
- Factor checks credit of customer
- Sign sale of invoice to factor
- Customer signs notification
- Get paid 70-90% within 1-2 days
- When invoice is paid by customer, get balance of money less factoring fee
- Can be repeated with each invoice to be billed to credit worthy clients

3 When to use invoice factoring

- On invoices to customers who are credit worthy
- On invoices that typically take more than 10 days to receive payments
- On invoices that typically are paid within 60 days

4 How to work well with a factoring service

- Submit invoices only that are sent to credit worthy customers
- Give factor heads up in advance so much can be approved ahead of time
- Work as a team to solve your cash flow, not as adversaries

5 Benefits of factoring

- Doesn't show up as debt or a liability on your financials
- Provides immediate cash flow to grow your business, during the time waiting for payment from your customers.
- Increases your working capital so you can take on the next projects.
- Doesn't depend on your credit
- Doesn't depend on how long you've been in business
- Doesn't require paying back a loan - it is not a loan
- Virtually limitless as to how much you can factor
- Saves time - 1-2 days to funding
- Less expensive than other available sources.
 - Cheaper than crowd funding
 - Don't have to give up any part of your ownership like you do with angel funding or venture capital funding
- Grow your business faster
 - If you have your money tied up in waiting for payments of work you've already completed and delivered, you would have the needed money to start new customer projects or build your inventory.

- Very little hassle – very few steps to get paid
- Generates cash flow quickly
- Ability to pay vendors on time
- Can spend time on business, not juggling AR, bills and bank accounts
- What if you don't use factoring
 - You won't be able to take on new projects if you don't have the money to pay for the labor and materials prior to being able to invoice your next project.
 - In most businesses you have to pay labor costs and expenses prior to being able to invoice. With factoring you get the cash right away from previous invoices so you can focus on the next job.

6 Who uses factors?

- Small, medium, large businesses
- Truckers
- Manufacturers
- Any business that sells to other businesses
- Transportation companies
- Distributors
- Textile industry
- Oil and Gas industry
- Staffing agencies
- Business services
- Wholesalers
- Technology
- Consultants
- Telemarketing firms
- Landscapers
- Logistics
- Construction
- Contractors

- Sub-contractors
- Publishers
- Security firms
- Furniture companies
- Electronic companies
- Start up companies
- High growth companies
- Companies with high payroll expenses

7 Types of factoring

7.1 Recourse

Recourse factoring means if the customer doesn't pay the invoice you've sold to the factor, the factor can hold you liable for that amount of money.

7.2 Non-recourse

Non-recourse means the factor accepts all of the risk for collecting the money from the customer. So if the customer doesn't pay, they take the loss. In a non-recourse factoring situation, the rate you pay will be higher because of the risk they are taking on.

8 Requirements

- 8.1 You must be a business, not just an individual wanting money for people who owe you money
- 8.2 Your customers must be businesses. This doesn't work for companies that sell to consumers (B2C) only for businesses that sell to other businesses (B2B).

- 8.3 Sell to credit worthy customers. Since factors do not consider your credit as part of their evaluation of whether or not they provide funding in advance. Instead, they rely on the creditworthiness of your customer. If your customer has a good credit rating they will take the risk. If they don't, you won't be able to fund invoices to that customer.
- 8.4 Invoices cannot have been pledged in other loans. Sometimes when you get bank loans or loans from other sources, you may have to pledge your accounts receivable as part of the collateral. If you have already pledged the accounts receivable to others, factors cannot fund any of your invoices.
- 8.5 Can't be part of a current bankruptcy proceedings. Unfortunately if you are in the midst of bankruptcy proceedings, factors will not be able to help you out. The reason is the bankruptcy process will often split any income or payments equally among the creditors, resulting in a partial payback to the factor.
- 8.6 Must pass background check. This is not a financial check but a criminal background check to make sure you don't have a history of ripping people off.

9 How to choose a factoring service

- One that can deliver results
- One that doesn't tie you down with a long term contract
- One that doesn't have hidden fees
- One that works with you to solve your cash flow issues
- One that can fund the invoice quickly

10 Why choose us?

- We can quickly fund your invoices, typically providing you the money within 1-2 days of receiving the request.
- We are privately owned, so sensitive to the business owner's needs
- No long term contracts. It isn't even a month-to-month contract; it is one invoice at a time.
- No hidden fees. Many others charge fees for various parts of the transaction. We only charge one discount fee and you will know what it is up front.
- Can start with as little as \$10,000 of invoices
- Easy to get started. Simply call us at 214-434-1141 or email us at philip@smallbizfundingUS.com