Your Guide to Invoice Factoring

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How does factoring work?

Factoring is not the same as a bank loan. You do not incur debt when you sign a factoring agreement and you do not need collateral to secure the cash. Rather, factoring professionals focus on the creditworthiness of your clients and, if they are satisfied with your clients' payment history, the factoring firm pays you a majority of the invoice amount. You receive the balance once your client has paid the invoice, minus a small factoring fee.

Invoice Factoring Defined

Factoring is a form of financing, also known as "accounts receivable financing." Factoring provides businesses with immediate cash for their invoices without having to take out a loan. The factoring firm buys the company's invoices and then collects on those invoices on the company's behalf.

The definition of factoring

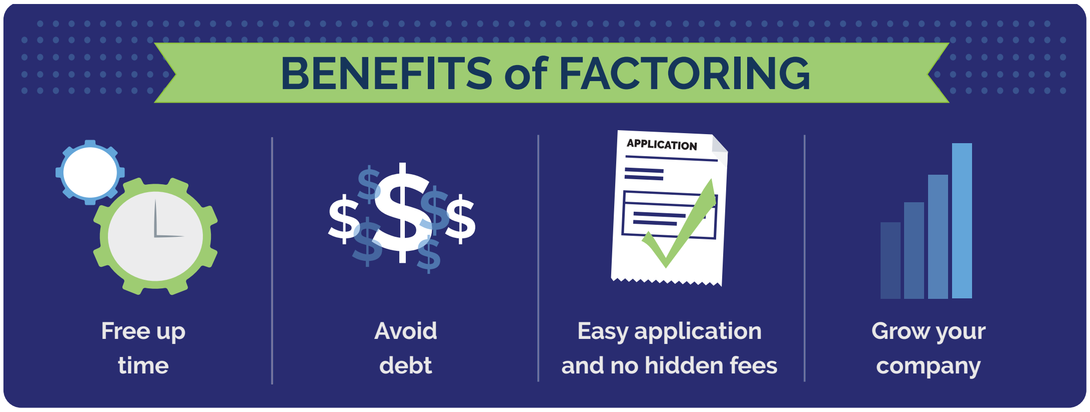
Factoring is a method of funding where a third party buys a company's invoices at a discount in order for that company to raise capital. The factoring firm advances the company most of the value of the invoice, collects on the invoice on the company's behalf, and then pays the outstanding balance when the company's customers have paid in full.

What does a factoring company do?

Factoring is a centuries-old debtor-financing practice that enables companies to enhance their cash flow and expand their businesses. Some factoring companies take care of all the associated back-office administration as well, freeing up business owners to focus on other areas of their operations. Unlike a bank, funds are not restricted and grow as your invoices grow. Most factoring companies give you access to the cash you need in as little as 24 hours.

The Benefits of Factoring Your Invoices

If you deliver goods or services on a schedule, but don't get paid for weeks, how can you keep up with your day-to-day expenses? Do you have payroll to meet each week, office costs every month, and insurance, taxes, and other overhead expenses? When you factor your invoices, you don't need to wait 30, 60, or even 90 days for your clients to pay you. You can be paid in advance on those invoices and use that cash for expenses – and have the cushion to grow your business.



You don't need to meet a long list of criteria to apply for factoring. Well-established factoring companies don't require that you have certain types of collateral or that you have been in business for a certain number of years. Your application is reviewed on the basis of your clients' credit history, and you can qualify for factoring even if your financial history has been less than perfect. When you're looking to raise working capital for your business and are exploring affordable alternatives, consider factoring.

Who uses factoring?

Factoring helps companies ranging from small business start-ups to large corporations. Businesses in these industries commonly rely on factoring for improved cash flow:

- ✓ Agriculture
- ✓ Food & Beverage
- ✓ Healthcare
- ✓ Manufacturing
- ✓ Service providers
- ✓ Staffing agencies
- ✓ Distribution
- ✓ Government Contracting
- ✓ Information technology
- ✓ Oil & Gas
- ✓ Small business
- ✓ Transportation & Trucking

Is Freight Factoring Right for You?

When deciding if freight factoring is right for your business, you should start by asking yourself these questions:

- ✓ Do my customers take a long time to pay me?
- ✓ Is a lack of cash flow negatively impacting my ability to grow my business?
- ✓ Are slow paying customers impacting my ability to pay my vendors on time?
- ✓ Do I know the broker/shipper will pay me before I take a load?
- ✓ Am I spending my valuable time making collection calls?

If you answered 'yes' to any of these questions, then there's a good chance that factoring some or all of your invoices can help. Your time is valuable. By taking advantage of what factoring can offer in terms of cash flow and back office services, you can spend more time servicing your customers and expanding your business. To learn about our factoring services contact Triumph Business Capital today for a free assessment.

(866) 368-2482

Invoice Factoring vs. Traditional Bank Loan: What's The Difference?

Invoice factoring and a bank loan have very little in common—other than the fact that both provide cash to small businesses. Here's a simple factoring vs. bank loan comparison to help you decide which can work for your business.

	Invoice Factoring	Line of Credit
Cost	Based on volume	Varies bases on collateral
Qualification	Very little requirements	Extensive process
Approval Time	2-3 days	Weeks to Months
Credit Limit	Flexible	Restrictive
Maintenance	Easy	Difficult to Maintain
Access to Funds	Easy	Easy
Line Increase	Simple and quick	Complicated and slow
Collateral	None. Invoice financing uses invoices as collateral.	Usually all company assets

Debt Collection vs. Invoice Factoring

While debt collection and invoice factoring might seem like the same thing, there are actually significant differences between them. Consider these three key points:

1. Purpose

The primary purpose behind using a debt collector is very different from the reason you'd use an invoice factoring company. While invoice factoring involves collecting unpaid invoices—no more than 45 days old—debt collection deals with invoices that are at least 90 days past due.

DEBT COLLECTION	INVOICE FACTORING
If you're still trying to get paid months after you've completed the work, it might be time to check in with a debt collection agency.	If you prefer timely payment for your work instead of relegating your receivables to the bad debt file, you'll want to connect with a reputable invoice factoring company.

One of the benefits of working with an established and reputable factoring company like Triumph is that we'll not only factor your invoices, we'll also provide a host of back office solutions—including payment services—to ensure that you get paid on time for the work you perform. Welcome to the best of both worlds.

2. Funding timeline

How much longer are you willing to wait to be paid? The difference between how long it takes a debt collector to get funds to you and how quickly an invoice factoring company sends you funds can be a game changer.

DEBT COLLECTION	INVOICE FACTORING
You'll be paid, but only after the collection agency receives payment from your customer. That can take time—if it happens at all. Add an aggressive process that can alienate customers, and you may decide that engaging a debt collection agency just isn't worth it.	With factoring, you simply sell your invoices at a small discount and get immediate cash for your business. How fast? You get paid before the factor receives any money from your customer—usually within 24 hours.

3. Fees

How much are you willing to pay to be paid? In an ideal world, the payment conflict wouldn't exist. But in today's environment, unfortunately, you often end up either arm wrestling your customers or throwing up your hands.

DEBT COLLECTION	INVOICE FACTORING
When you hire a debt collector, you'll likely pay a hefty 25% to 30% collection fee—which still beats giving up 100% of an unpaid invoice.	With factoring, you'll receive an immediate payment from the factor-usually 90% to 100% of the invoice-followed by any remaining balance (minus a fee) as soon as the factor collects full payment from your customer.

How a Factoring Rate is Calculated

The factoring rate is stated as a discount, usually based on the volume of the invoices you wish to factor. Factoring rates can start at as low as .49% of the invoice amount, and go higher depending on certain variables. Factoring rates are quoted as a percentage of the invoice amount, rather than an annual percentage rate. Since the factoring is not a loan product, and rates are usually fixed, an annual percentage rate cannot be determined when rates are set. Also, unlike an interest rate on a loan, factoring rates include lots of value-added benefits such as back-office credit and collections services, invoicing, delivery of invoices to your customers, and other billing-related services. What benefits can you expect when you factor your invoice with a top-tier factoring company?

- ✓ Receive advances between 95% and 100%
- ✓ Fund your business immediately
- ✓ Improve your cash flow within days

Generally, the factoring company will pay you up to 100% of your invoice amount, minus the factoring or discount fee. Unlike borrowing from a bank, you incur no debt when you factor. Instead you receive payment upfront for completed work rather than waiting for customers to pay you.

What is a Factoring Agreement?

When you sign up with a factoring company, you will sign a factoring agreement that outlines what you can expect from your factoring company and what they can expect from you. Agreement specifics vary, but all general invoice factoring agreements should outline the process, each party's responsibilities, and the fees. You can expect the following in a factoring agreement:

4 Signs Your Business Needs Factoring

Read these four tell-tale signs to learn how this type of business funding could work for you:

1. **You have a long list of slow-paying clients**
   It's not uncommon to wait 30, 60 or 90 days for clients to pay, but this turnaround time can put a lot of pressure on your business. When you partner with a factoring company, we will advance you a large portion of your invoice within days as soon as your paperwork has been approved.
2. **Your business is taking on debt to cover expenses**
   Bank loans take time and add debt to your business. Merchant cash advances may be fast, but can incur costly fees and high interest rates that can cut deep into any potential profit margin. Factoring your invoices gives you payment upfront on what you are already owed. You can cover expenses, without incurring debt or paying high borrowing costs.
3. **You have customers that require payment flexibility**
   If you have clients that have long payment cycles, factoring allows you to give them flexibility without affecting your bottom-line or cash flow. This means you can take on new clients.
4. **Slow-paying clients are stopping you from growing**
   Instant access to cash means that you will have the funds you need to invest in your business. Whether you want to be able to negotiate discounted rates with suppliers or hire a new salesperson who will bring in more business, you will often need money to achieve these goals. Factoring companies can put you in the financial position you need to grow.

- ✓ A statement that the client confirms they will “sell, transfer, convey, and assign” selected invoices to the factoring firm
- ✓ An agreement that the client will provide accurate and true financial information at all times
- ✓ A description of the Notice of Assignment process that tells the client’s customers to send in their payments to the factoring firm rather than to the client
- ✓ A commitment for the factoring firm to provide continually updated reports on invoices they have purchased, payments sent and received and other information
- ✓ A description of steps taken to secure payment of any indebtedness that is due to the factoring firm in the event of default or insolvency
- ✓ A fee schedule that specifies the factoring percentage rate and the advance rate
- ✓ A time limit for the agreement

So how much does invoice factoring cost?

Fees vary from factor to factor, so check with your factor before getting started.

Application/Due Diligence Fee	Some factors charge this fees, and some do not. Those that do not may recover this upfront expense by increasing the initial financing fees. This fee varies highly from factor to factor and can cost anywhere from zero to thousands of dollars.
Factoring Fee	The factor retains a percentage of each invoice, typically 1–4%.
Monthly and Termination Fees	Some factors may require that you sell a certain amount of your invoices each month and sign a long-term contract. If the monthly target isn’t met, a minimum monthly fee will be charged. Terminating the contract early can trigger a cancellation fee.

Triumph’s factoring fee depends on your factoring agreement. Our factoring experts consider whether you’ve chosen recourse or non-recourse factoring, the credit quality of your customers, and more. But in general, let’s say you decided to factor $3,000 with a 95% advance rate over a 90-day repurchase period. Meaning, you’d get paid $2,850 within 24 hours of submitting your load, and the final 5%—minus standard factoring fees—when the invoice is collected.

60%

of all invoices are

PAID LATE

Don’t Fall for These Myths About Business Invoice Factoring

Before choosing the right invoice factoring service for your business, it’s important to understand the facts. It’s also important to clear up the potential misconceptions about invoice factoring. Here are just a few invoice factoring myths you shouldn’t believe.

Myth 1. Companies choose factoring as their last resort

Many thriving companies turn to factoring to access the funds that have been sitting in their accounts receivable for weeks or months. The benefits of upfront payment on their invoices appeal to all business owners, not just companies with financial challenges.

Myth 2. Factoring companies are lenders

Factoring companies are not like banks. They do not lend you money that you must pay back, but instead pay you for work you have completed. Unlike a bank, factoring allows you to get paid right away what you are owed. You do not have to wait on your customers to pay, and you don’t incur debt with loans.

Myth 3: All invoice factoring companies are the same.

It’s easy to assume that all invoice factoring companies offer the same services, charge the same rates and have the same contract terms. But in selecting a factoring company, it’s important to remember that there can be significant differences among providers.

For instance, depending on your agreement, many factoring companies require you to submit all of your invoices for funding and maintain monthly minimums (or be charged a fee). Not all factoring companies have these policies, so it’s important to ask and to read and then reread your contract to understand what you’re agreeing to and for how long.

Myth 4: Factoring companies could change my customer relationships

Your customers will actually reap certain benefits. For instance, when your customers know you are working with a factoring company, they know you will complete your work for them because you will have the working capital to do so. This also enables them to take on more jobs with you as needed.

Ultimately, it’s important to understand the facts about the services provided by an invoice factoring provider and the services that they provide before you decide on a working capital solution. If you’re ready to move forward or have questions about invoice factoring, contact **Triumph Business Capital today for a free rate quote.**

(866) 368-2482

Six Questions to Ask Before Factoring your Invoices

Not all invoice factoring companies are the same, with one program and one price. Some factoring companies specialize in niche industries, while others are generalists. Some may offer low rates, but provide little or no client services. It's worth doing your homework before signing up, to ensure that you know what you'll get from the partnership and how you'll interact with the company.

Here are six questions you can ask your potential factoring company:

1. **What are the fees?** Find out if you will be paying a flat factoring rate only or are there other costs involved, like invoicing fees, money transfer costs and collection fees.
2. **What is the length of my contract?** A longer term contract may be more beneficial if the company can offer you more flexible rates or other benefits. Most companies offer a 12-month contract, but some might be willing to negotiate with you for a shorter contract.
3. **What other services can you offer me?** Some factoring companies will provide a full suite of time-saving and convenient services to handle the back-office work associated with your invoicing.
4. **How long have you been in business?** A well-established factoring company will have years of experience with a wide variety of clients and will have stood the test of time in different business climates.
5. **Do you understand my industry?** Whatever your industry, it's worth going with a factoring company with professionals who have an in-depth understanding of how your business works.
6. **Can you offer me flexibility in the number of invoices I will factor?** You may not wish to factor all your invoices. You may have different QuickPay agreements with some of your customers. Discuss your needs and see if the company will be able to accommodate your requests.

Choosing the Right Factoring Company

When you're ready to factor your accounts receivable and enjoy the benefits that come with increased working capital and financial stability, how will you choose your factoring company? Keep in mind these 5 variables as you make your choice:

- ✓ **The company's experience in the factoring industry:** Older companies tend to have greater stability and proven track records of helping clients succeed. Plus, they have the expertise and experience to develop value-added programs to benefit their clients.
- ✓ **Exceptional customer service:** Your factoring company should provide you with a single point of contact – an account manager who is friendly, professional and eager to help.
- ✓ **Ease of managing your account:** Leading factoring companies have invested in on-line management systems that make submitting funding requests quick and easy. Find out if you'll gain the ability to track payments and get a bird's eye view of your accounts.
- ✓ **The company's experience in your industry:** Different industries work on different business models. Your factoring company should know your industry and offer you tailored solutions for how you work.
- ✓ **Rates and numbers:** Ask each factoring company about advance rates, the percentage they charge for each invoice that they factor, and about any additional "hidden" fees.

Why Factoring has Become So Popular with Small to Medium-Size Companies

In the past, factoring accounts receivable was a financing option typically reserved for large companies. Today, factoring companies can provide customized factoring services tailored to small and medium-sized businesses. For many of these businesses, turning invoices into immediate cash has become the preferred way to finance their businesses.

The economy has led to slower collection rates: Today, in an era of increased banking restrictions and decreased savings reserves, many small and medium companies struggle to keep up. Instead of endangering payroll or postponing key vendor payments, your company can continue with business as usual while the factoring company pays you upon delivery of your products, shipments, or services.

Small and medium-sized businesses need flexible financing alternatives: Unlike a fixed-limit bank loan or line of credit, factoring provides you with your most flexible funding options without incurring debt. When you factor your invoices, your funding can grow with your business.

Companies can make important purchases: Without a positive cash flow, you aren't able to invest in critical equipment, vehicles, or other capital purchases that your company needs. With factoring, you can make sure your cash isn't tied up in aging accounts receivable.

Ready to Factor with Triumph Business Capital?

If you're unsure whether factoring is right for your company, you should talk to a factoring specialist to discuss your business cash flow needs. Ultimately, it's up to you to get creative and find the right ways to keep business cash flow consistent.

For more information about the best invoice factoring services call:

(866) 368-2482