



Franchise Owner Training

Day 3
Factoring

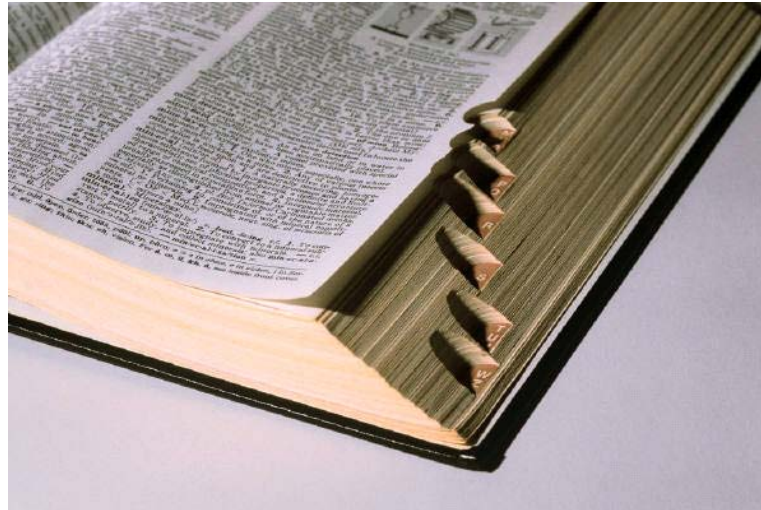
When Business is your Interest™





Factoring 101

- The definition of factoring
- The history of factoring
- Factoring industry today
- How factoring improves cash flow
- The difference factoring makes
- Other advantages of factoring
- Who can utilize factoring



The Definition of Factoring



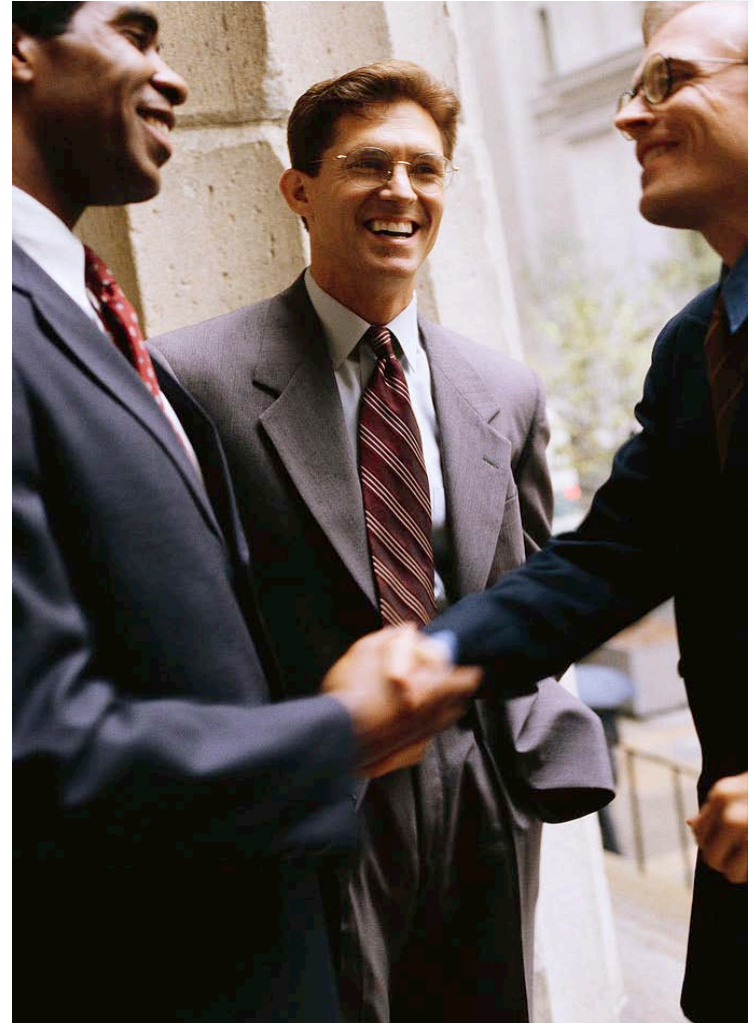
The Definition of Factoring

- Factoring is the purchase of accounts receivables at a discount. That is, the factor is a person or business that pays immediate cash (somewhat less than an invoice's face value) for business receivables

**Factoring is NOT a loan with interest due
– it is the sale of an asset**

The Definition of Factoring

- Who is who?
 - Factor
 - Client
 - Customer





The Definition of Factoring

- Full Factoring
 - Purchase of all or most of a client's accounts receivables
 - Ongoing relationship often spanning years
 - Other services often provided
 - Billing
 - Collections
 - Credit underwriting
 - Credit insurance in some cases



The Definition of Factoring

- Spot Factoring/Invoice Discounting
 - Purchase of selected invoice/invoices
 - One time transaction or “use it as you need it service”
 - Minimal services are provided from factor
 - Higher fees
 - Some factors require insurance on A/R
 - Often used by seasonal businesses



The Definition of Factoring

- The purchase of receivables can occur in numerous forms
 - Straight discount for a flat fee
 - Partial advance with reserves held and balances settled after the invoices are collected



The Definition of Factoring

- Straight discount for a flat fee
 - 8% to 10% discount fee
 - No additional fees
 - No rebates
 - Example: \$1,000.00 invoice
 - The factor might pay \$900.00 up front and own the invoice
 - Recourse vs. non recourse



The Definition of Factoring

- Partial advances with reserves
 - 2.5% to 5% fee for 30 days with 80% advance
 - Example: \$1000.00 invoice
 - The factor might advance \$800.00 up front and charge 5% of the face value of the invoice assuming payment is received in 30 days
 - Once the invoice is paid, the factor keeps \$50.00 and refunds the client \$150.00



The History of Factoring

The History of Factoring

- To the surprise of most people, factoring has been practiced for centuries



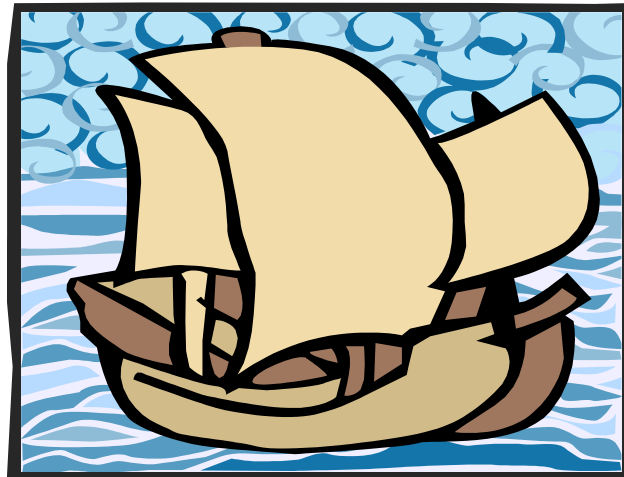
The History of Factoring

- Phoenicians supposedly used a primitive form of factoring and Romans were known to sell promissory notes at a discount



The History of Factoring

- The pilgrims' journeys to America were financed by advances from a factor who provided the funds to pay for passage
- They repaid the money with earnings in their new home which they sent back to England



The History of Factoring

- Through the years factoring has been commonplace throughout England and Europe
- Unlike the U.S., most people there are aware of factoring





The History of Factoring

- Factoring in the United States began to be commonly practiced in NY early in the 20th century
- Clothing manufacturers are the primary clients to factors





The History of Factoring



- Until the 1980's factoring transactions were limited to large companies
- S&L crash of the 80's changed things
- Increased regulation
- Decrease in business loans

The History of Factoring

- Today factoring is available to most companies but not well known to them
- Factoring companies are fragmented and unorganized to a large degree



**This is where Cprofit
comes in with a win!!!**



Factoring Industry Today

Factoring Industry Today

- Non recourse factoring
- Recourse factoring





Factoring Industry Today

- **Non recourse factoring:**
Non recourse factors actually take the credit risk related to receivables. Generally the factor will insure the receivables so that if they are not paid due to credit issues the client does not have to buy back the receivables
- Product or service related disputes are still subject to recourse



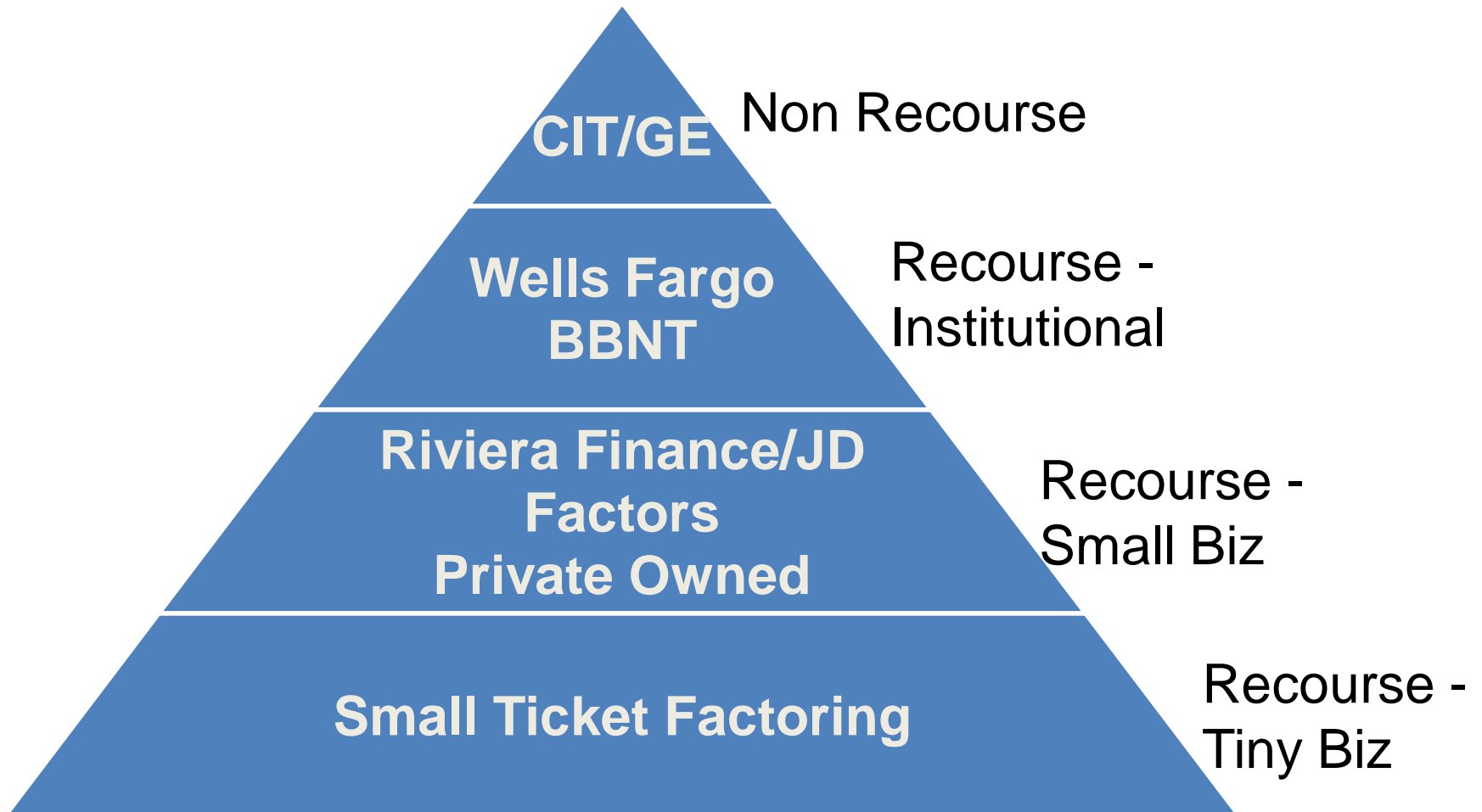
Factoring Industry Today

- **Recourse factoring:**
In recourse factoring the factor does not take the credit risk on the receivables
- If for any reason a customer does not pay a receivable, the client has to purchase it back or trade it for a good receivable





Factoring Industry Today



Factoring Industry Today

- Non Recourse
 - About 5 players
 - GE capital and CIT own about 90%
 - Large deals





Factoring Industry Today

- Recourse Institutional
 - About 50 players in this market
 - Usually want deals above \$500K per month
 - Decent credit required





Factoring Industry Today

- Recourse Small Business
 - About 100 players
 - Usually wants deals above \$50K per month
 - Some will go as low as \$10K per month
 - Accept lower credit





Factoring Industry Today

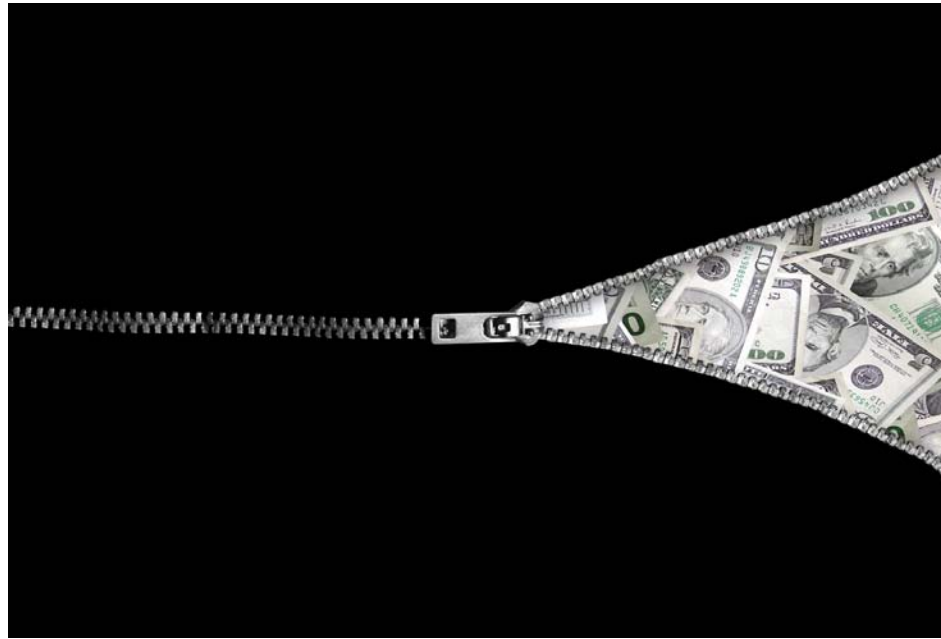
- Recourse Tiny Business
 - About 200-300 players
 - Many part time
 - Usually wants deals above \$5K per month
 - Some will go as low as \$1K per month
 - Accept lower credit



Factoring Industry Today

- You can do:
 - Tiny business factoring
 - Small business factoring





How Factoring Improves Cash Flow

How Factoring Improves Cash Flow

- ABC Staffing – Employees
 - Microsoft
 - Boeing
 - Sun
 - Exxon/Mobile
 - ETCC



How Factoring Improves Cash Flow

- Payroll
 - 50 employees at \$50K per year
 - \$1,041 week per employee
 - \$4,164 month per employee
 - 208,200 total monthly payroll
 - **\$624,600**



How Factoring Improves Cash Flow

- $\$624,600 * 1.5 = \$936,900$
- $\$936,900 * .80 = \$749,520.00$
- **$\$124,920$**



How Factoring Improves Cash Flow

- Payroll

- 50 employees
- \$50K per year
- \$1,041 week
- \$4,164 month
- \$208,200
- $\$208,200 * 1.5 = \$312,300$
- $\$312,300 * .80 = \$249,840$
- **\$41,460**



How Factoring Improves Cash Flow

- $\$624,600 * 1.5 = \$936,900$
- $\$936,900 * .80 = \$749,520.00$
- **\$124,920**
- $\$936,900 * .15 = \mathbf{\$140,535}$



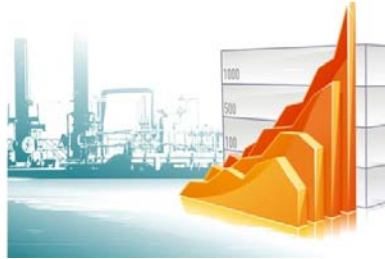


The Difference Factoring Makes

The Difference Factoring Makes



- The key question is:
Will factoring make a business more money than it costs?
- If the answer is yes, the cost of factoring becomes rather unimportant



The Difference Factoring Makes

- How can you calculate whether factoring will improve a company's bottom line?





Other Advantages of Factoring



Other Advantages of Factoring

- Not a loan – sale of an asset
- Faster to fund than loans
- Non dependent on credit rating
- Non dependent on other assets
- Non dependent on years in business
- Strengthens your balance sheet (no debt)
- **Unlimited capital to grow your company**



Who Can Utilize Factoring?



Who Can Utilize Factoring?

- **Standard factoring is not for:**
 - Retail establishments
 - Cash and carry
 - Online businesses
- **Credit card factoring** can be an option for these businesses. Credit card factoring is covered in another training



Who Can Utilize Factoring?

- Business to business marketplace
- Verifiable invoices to creditworthy business or government customers
- Wait a period of time for payment for those invoices. Two weeks to two months is optimal for most factors
- Factoring invoices will make the company more than it costs



Who Can Utilize Factoring?

- The greater number of these statements that are true about a company the more factoring will help them:
 - Financing is unavailable to pay operating expenses
 - Company is growing
 - Company is young
 - Company is small to mid-size and sells to larger companies



Who Can Utilize Factoring?

- The greater number of these statements that are true about a company the more factoring will help them:
 - Negative net worth but sells to creditworthy companies
 - Sometimes has inadequate cash on hand to purchase materials and/or meet payroll
 - Turning away business that requires terms
 - Delays payment of bills due to lack of cash



Who Can Utilize Factoring?

- The greater number of these statements that are true about a company the more factoring will help them:
 - Could save costs on vendor discounts for paying cash
 - Needs professional collection and credit analysis
 - Needs professional management of billing and/or accounts receivable in order to focus on core business model

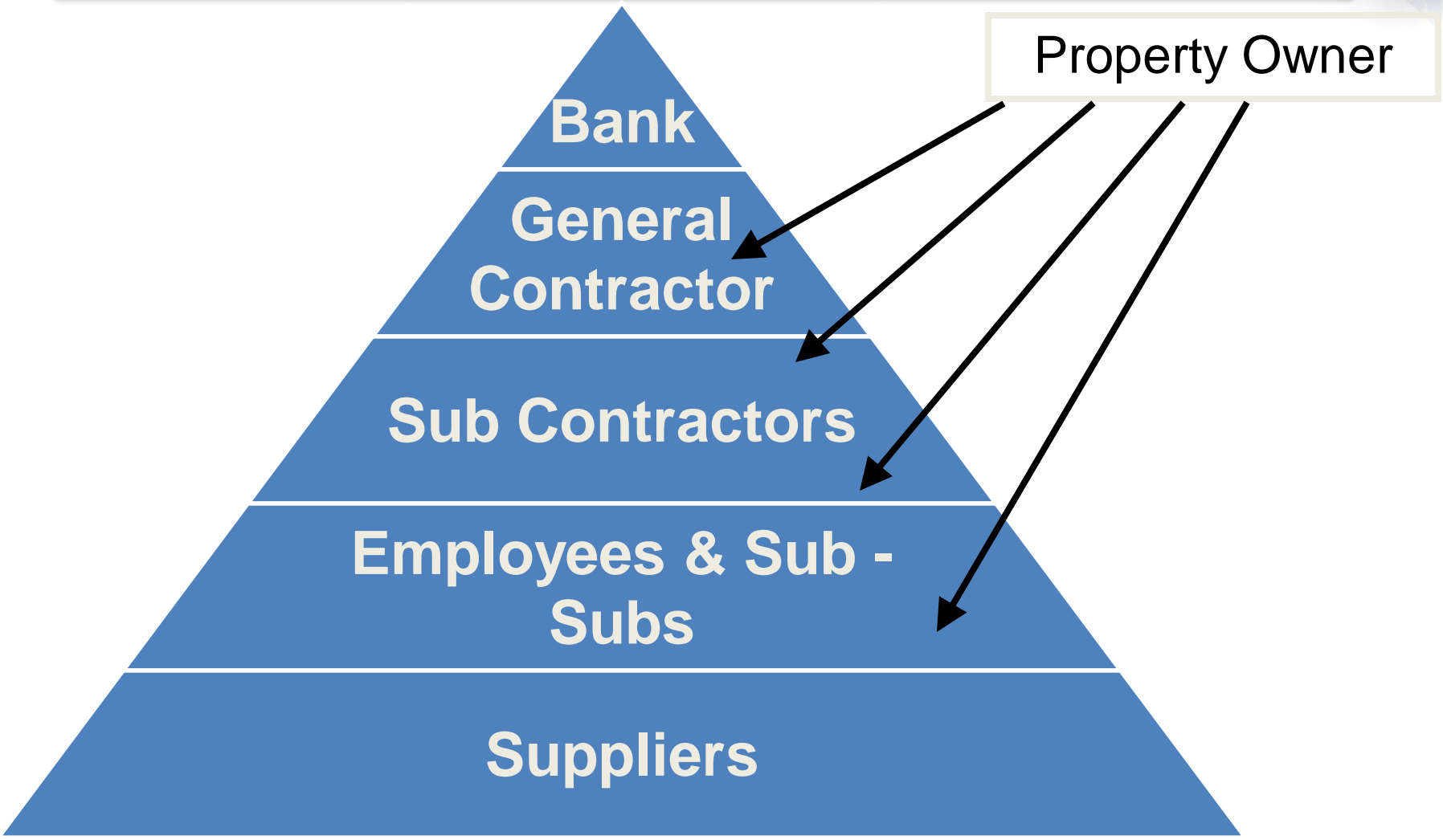
Who Can Utilize Factoring?

- Construction
 - Consumer protection laws
 - Multi-layer payment process
 - Lien laws
 - Work stoppages





Who Can Utilize Factoring?



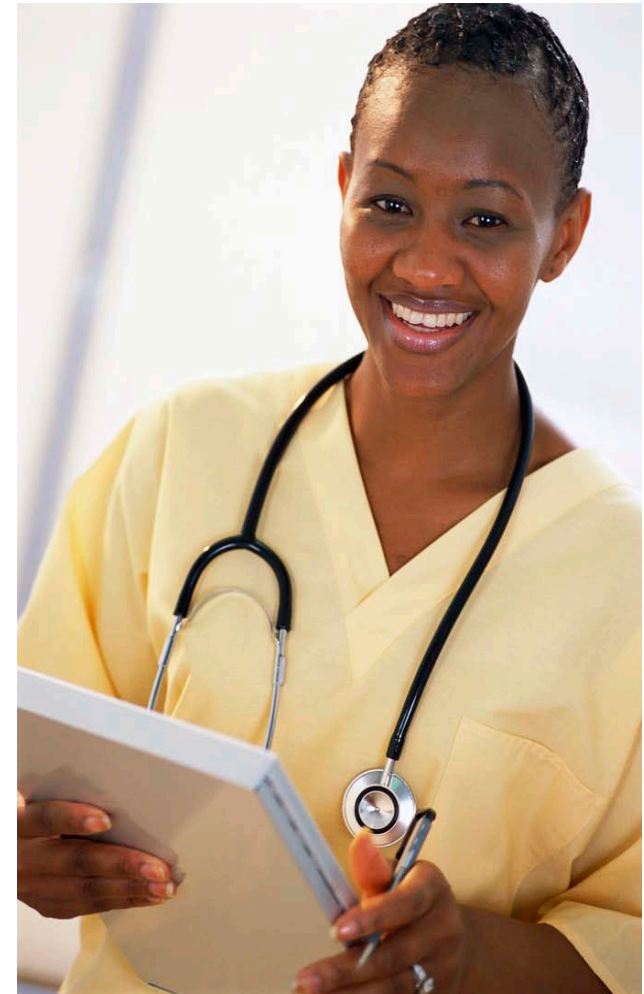
Who Can Utilize Factoring?

- Construction/Contractors – a lot of risk
- Construction/Contractors – gaining ground, especially in public works projects



Who Can Utilize Factoring?

- Medical
 - Insurance companies
 - Corporate paid
 - Private pay
 - Reduced payments





Who Can Utilize Factoring?

- Medical Receivables – unpredictable
- Medical Receivables – high risk
- Medical Receivables – **Don't waste your time**



Who Can Utilize Factoring?

- Consumer
 - Difficult to verify
 - Difficult to collect
 - Consumer protection laws
 - Prone to disputes



Who Can Utilize Factoring?

- Consumer
 - No factoring company will fund





Who Can Utilize Factoring?

- Oilfield
 - High quality receivables
 - 90-120 day pay
 - Solid customers with \$\$\$
 - High yields



Taking the Deal off the Street

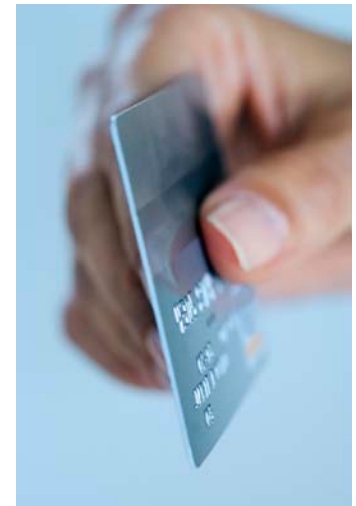
- Mentally/emotionally
- Action
- Signed proposal/MONEY





Neutralizing Common Objectives

- The rate is too high
 - “Do you mind if I ask you a question? If your customers walked in the door and offered to pay their invoices using a MasterCard, Visa or American Express, would you be HAPPY to accept that form of payment?”
 - **They almost always say Yes!**





Neutralizing Common Objectives

- The rate is too high
 - “Let’s take a look at your last statement from your processor and see what they are charging you.” (often it is more that 2-3%)
 - I then ask, “Outside of fast cash, what other services do the credit card companies provide to you?” (the answer is nothing)



Neutralizing Common Objectives

- The rate is too high
 - Some of the other benefits we provide to our clients include
 - Underwriting of services to reduce bad debt
 - Reporting
 - Friendly processes that get your money in the door faster
 - Customer service benefits/proactive response





Neutralizing Common Objectives



- What will my customers think?
 - What if the message we conveyed to your customer was one from a position of strength?
 - You are likely aware – almost all companies use outsourcing in their business



Neutralizing Common Objectives

- What will my customers think?
 - We can explain that in order to accommodate the growth your company is experiencing, you enlisted the services of a Receivables Management Company
 - The service company will manage your receivables and reporting
 - **YOU CAN FOCUS ON CUSTOMER SUPPORT**





Neutralizing Common Objectives

- In addition to all of this, you were granted an unlimited line of credit based on the strength of your customers. Doesn't this sound strong?



How You Earn \$ in Factoring

- Review with your Franchisee/Coach



Who Can Utilize Factoring?

- Tons of opportunity!





What was your biggest
takeaway of the day?

