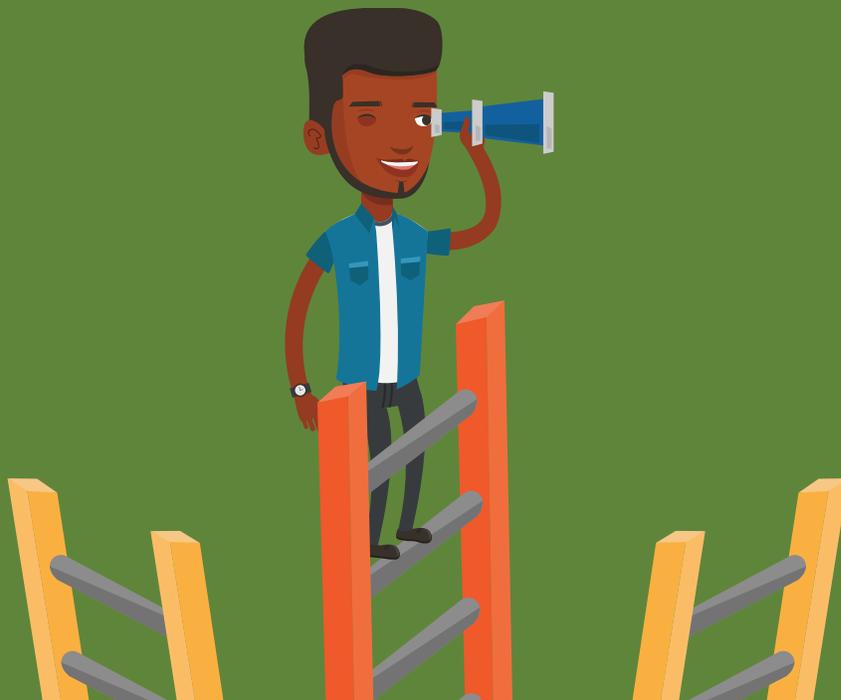
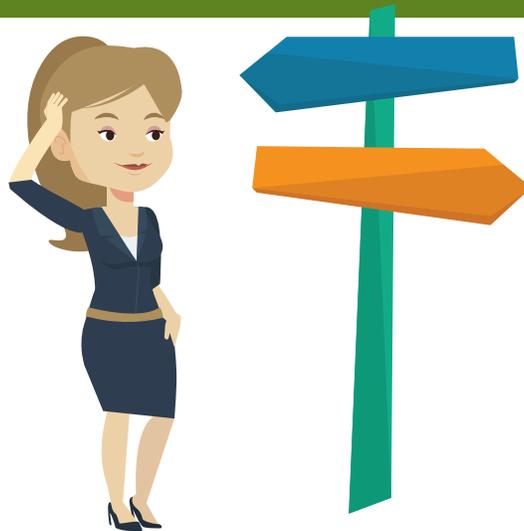


How Do I Choose a Factoring Company?

Ultimate Resource Guide



How do I choose a factoring company?



Invoice factoring is an option for businesses in all industries. It is a great way to increase your cash flow without taking out a bank loan or a line of credit. However, because you are dealing with cash, it is important to be sure the factoring company you choose to work with is professional and reputable. Different companies are best suited to different industries and businesses, so it is crucial that you take the time to research what factoring company is right for your and your business.

To choose a company we first need to look at how Invoice Factoring works and how it is beneficial to your business. Factoring is an agreement between two businesses where a factoring company purchases the invoices from another company at a discounted percentage. It is not a bank loan or a traditional line of credit and it is beneficial to companies who need cash flow quicker than a typical 30, 60, or 90 day invoice would give them.

Factoring is beneficial to companies because it allows them to get restriction-free cash flow almost immediately. Smaller companies or companies with less than stellar credit can benefit from factoring as well because the criteria is based off of your customers' ability to pay – not yours.

Factoring companies run a thorough analysis of your clients to ensure they will pay on the invoice, so as long as your clients are reliable, you will be able to see the benefits of factoring.

Having said that, in any industry, there will be companies you should work with and companies you should stay away from. How do you know which factoring company will be the right fit for you and your business?

How does your fee structure work?

Factoring companies routinely lure uninformed businesses into agreements with a low factoring rate. However, these contracts can include a number of hidden fees which can include:

- Same Day Funding
- Credit Checking
- Interest
- Fee Per Invoice
- Administration
- Non-Factored Fees

Be sure you look into all the fees you'll be expected to pay prior to entering into any kind of agreement with a factoring company. While initial prices for some companies may seem much lower, you could end up paying more in the long run due to undisclosed fees or charges hidden in the fine print.



What Do I Need to Get Approved?



Most factoring companies only approve prospective clients with good credit. They will also secure all of your assets for their own security. This can lead to future complications as your business grows.

For example, some factoring companies can place a blanket UCC-1 on all your assets. This can prevent you from securing important loans you may need to expand your business or fulfill future equipment or a leasing loan.

Using your assets as security ends up being very similar to acquiring a business loan instead of invoice factoring. Instead, look for companies that don't secure or tie up all your assets. Also, find companies that don't qualify customers based on their personal or business credit scores. Factoring companies should help your business operate efficiently, not constrain it.

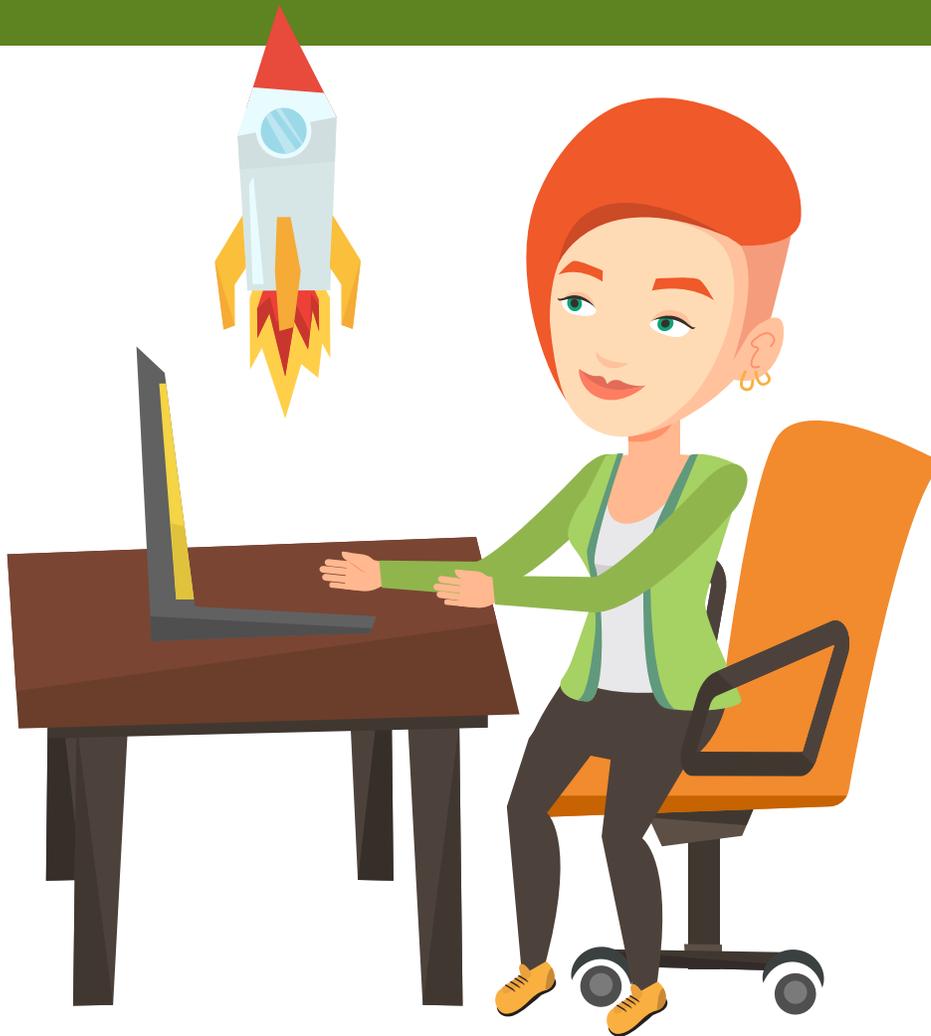
What Protection Do You Offer?

Look for companies that offer free credit checks and risk assessment analysis on all invoiced customers wishing to do business with your company. This measure allows you to avoid the risk of not getting paid from your invoices.

A good factoring company will have the expertise to recover funds from a defaulted customer. Ask about the company's track record and history of collecting funds.



How Quickly Will I Receive My Funds?



Once you submit an invoice with back up documents to a factoring company, they will typically advance you a percentage of that invoice value within 24 hours. While this is certainly better than waiting to receive payment from a 30-day payable, it still isn't fast enough for many thriving businesses. Instead look for businesses that can submit your funds within a 30 minute to 2 hour window upon receipt of proper paperwork.

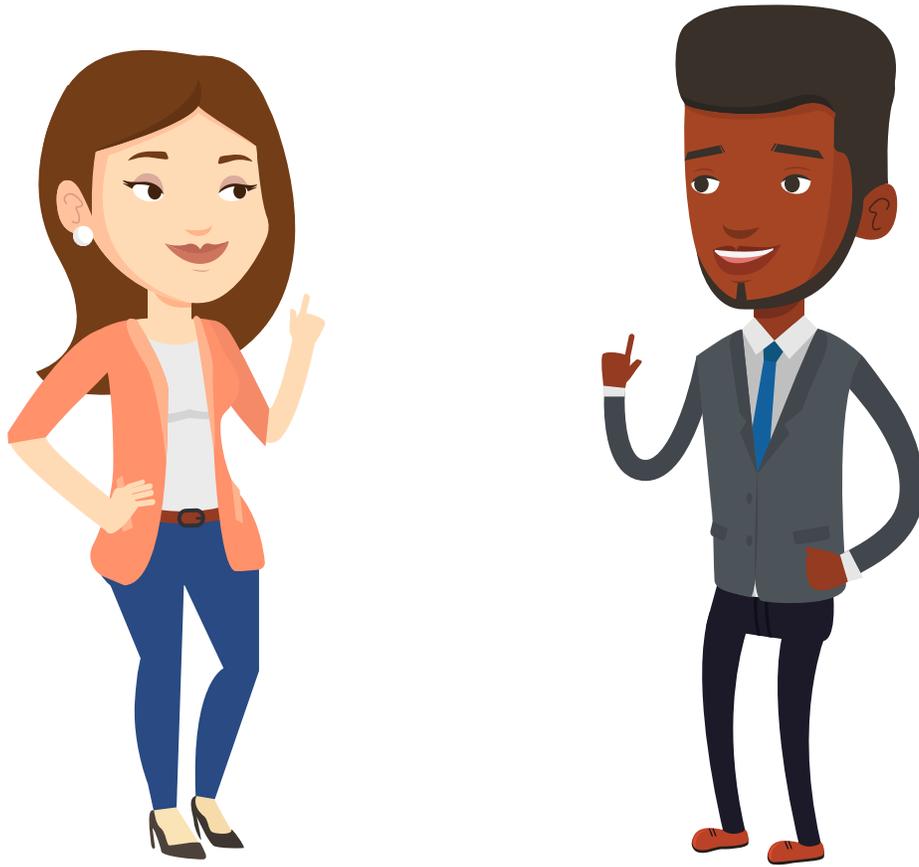
Another thing to look out for is verification. Try to find companies that only require verification if important paperwork is missing from the initial receipt or if the invoices are high dollars. This will save your customers from multiple verification requests and give you rapid access to capital to run your business the way you see fit.

A final thing to be aware of is the advance rate of your funds. This refers to the amount of money you receive upon a factoring company's purchase of your invoice. Do some shopping around for different factoring companies to see how advance rates vary. Typically, you should see about 70% to 90% of your invoice immediately after factoring.

How Would You Describe Your Company Culture?

One of the benefits of working with a factoring company is that the company essentially becomes part of your finance and collections department. Because of this, it is imperative that the company offer good customer service to not only you, but your clients as well. If the factoring company you are speaking with has limited resources, inadequate staffing, or long wait times for phone calls or emails, that is typically not a good indicator that they offer good customer service.

Look for a company with a long standing management team and office staff. The longer your factoring company's employees have been with the company, the more industry experience and knowledge they will have to offer you. Also, look for companies who have dedicated customer service teams available during business hours, both by phone and email.



What Are Your Company Rates?

Finally, you should consider the rates a factoring company charges compared to the services they offer in return. Ask about your contract – how long the contract is, what it entails, if there is a minimum number of invoices, are there any cancellation fees? Look at the services you are getting for the rate you pay – is the company friendly, do they answer questions, are they knowledgeable about different industries, are they available for customer service?

After looking at all of this, look at the rates each company is charging and compare it to the services and contract they offer you. You should be able at that point to tell which company will be most beneficial to your particular business need and which will benefit your company the most.

A factoring company, just like any service you purchase for your business, has to be the right fit for your company and your business goals. There are many different elements to consider when choosing which factoring company will be right for you. Be sure to take the time to research and consider what services you get for the price you are paying. Remember, the company you choose will reflect on your business, so put as much time into the decision as you would if you were making a new hire.

About the author:



Denise Messang is a successful Divisional Manager with over 28 years of experience in the factoring industry. She has worked firsthand in every aspect of factoring and understands the business inside and out. Passionate about building long-term relationships, she loves helping businesses reach their full potential.



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