



# Making Good Decisions About Financial Planning *The Good, the Bad and the Benefits of Factoring!*

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## So what's the deal with factoring anyway?

Have you noticed how some industries seem popular with factors? It seems like wherever you turn, there's a factor touting its service.

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**'... factors provide a scalable mechanism that will not retard a firm's real growth opportunities.'**

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## It's not your imagination.

I can confirm this phenomenon, and I'd like to explain how to take advantage of this popular way to raise capital. Many firms, such as temporary staffing, manufacturers, printers — any firm with substantial front-end labor or material expenses — use factors to cover high fixed costs and support new business.

Factors consider industries like these to be good opportunities because they routinely have credit-worthy customers, with invoices that rarely result in trade disputes.

So, as long as a firm stays current with the taxman, and produces valid invoices, most factors will consider these businesses to be routine, 'low-maintenance,' and good factoring candidates.

## Blessings from above.

From a firm's point of view, factors appear as blessings from above, helping manage cash flow and growth.

Security guard firms and custodial firms, for instance, have an extremely high proportion of labor expenses, more so than any other form of expense because labor MUST be paid frequently and in a timely manner.

Yet, unfortunately, customers don't pay invoices with the same speed. Thus, the cash flow dilemma.

Another reason factors are popular is that factors normally work with emerging firms not yet attractive to traditional lenders, such as banks. Plus, factors don't routinely impose tight, credit-line caps like other lenders.

Hence, factors provide a scalable mechanism that will not retard a firm's real growth opportunities.

And, because of these attributes, a love affair between factors and firms like these commenced long ago. So?

## Remember Economics 101.

First lesson: imbalances between supply and demand drive the cost of products or services. You are now in the enviable situation of being 'popular' with many factors vying for the same business — yours!

Due to the high number of factoring firms coveting your business, you benefit from aggressive price discounting and structural enhancements amongst the competing factors.

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## So, how to take advantage?

Certainly, price is a strong point, but other issues can be negotiated, which can help separate the best from the rest.

- Find out if the factor requires term agreements or volume requirements.
- Can you obtain better pricing by offering these in the first place, or adjusting them from the initial proposal?
- Does the factor require all invoices — bad for you, or **you to finance some invoices — good for you?**
- Can invoices age prior to factoring to **reduce fees — good for you,** or must all invoices be factored immediately — bad for you?
- Does the factor pro-rate fees to reflect **quick customer payments — good for you,** or is it a one-price-fits-all approach with 30-day minimum fees — bad for you?

- Does the factor use batch-accounting — bad for you, or **individual invoice accounting — good for you?**
- How are non-factored receipts handled? Does the factor **return them immediately — good for you,** or place them in a reserve escrow account — bad for you?
- Do transactional fees stop accruing immediately **upon payment to the factor — good for you,** or after a check clearance delay — bad for you?
- Does the factor **allow you to control invoicing — good for you,** or do they require control — bad for you?
- Do reserve **payments get released immediately — good for you,** or monthly — bad for you?
- Does the factor require invoice repurchase at 60 days — bad for you, or **120 days — good for you?**
- Does the factor require personal guaranty — bad for you, or **is this unnecessary — good for you?**
- Is the factor's program full-recourse — bad for you, or **non-recourse — good for you?**

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These are just some criteria to discuss and structure with a factor because no two factors do business the same way.

But negotiate to your advantage. You have to know to ask. Don't limit discussion to rates. As you can see, until you get answers to these criteria, how can you compare rates properly?

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