NeeBo Capital

Pro's and Con's of Factoring

We personally created this brief guide to explain the pro's and con's of factoring, as well as what you should look for in picking the correct factoring company for your business. We believe a good relationship begins with trust.

NeeBo Capital congratulates you for being a business owner. As business owners we too understand the importance of a solid foundation. Here at NeeBo Capital we partner with top lenders to deliver the lowest rates possible. Our staff is made up of an energetic team that assists businesses across the nation to gain control of cash flow management.

Our Educational Team has produced many guides that will help you enhance your operations. Through the world wide web NeeBoCapital.com allows you have access to factoring options totally free. We invite you to talk with our licensed advisors by calling toll free 1(888) 876-1723.

Sincerely,

Don Chappellet, Vice President NeeBo Capital

Pro's & Con's Of Factoring

Factoring is a quick and easy way to replenish your business with urgently needed cash in quickest possible time. However, this financing option is not all hassle free and has its disadvantages too.

Advantages:

- It is among the fastest way to get advance cash.
- Overhead charges get automatically reduced with the cut in invoice processing activities.
- The business owner becomes free of various other obligations connected with the invoice processing like depositing checks and entering payments.
- Getting cash with factoring helps in eliminating the risks of bad debts.
- By undertaking the task of debt collection it helps the company in concentrating over more value added activities.
- Without acting as hindrance to cash flow it gives an opportunity to offer credit terms to customers.
- Factoring brings no extra liability in balance sheet and hence does not result in creating hassles while obtaining other types of financing.
- Early payment discount is another benefit of factoring. Payment of bills before the scheduled time brings in many benefits in the form of discounts.
- It is an easy way to have an access to unlimited capital as with an increase in sale more money becomes immediately available to business owners.

Some other benefits include building credit, quick and easy process, concentration on marketing and securing new accounts and no long-term obligation.

Disadvantages:

- The biggest disadvantage is the process can be complicated as documentation is needed.
- It may not work with every type of business.
- The ambit for borrowing gets narrowed, as account receivables will not be available for security.
- Factors may want to get your customers examined.
- In case the customers do not repay the money, you have to pay their amount entwined in factoring.
- Few customers don't want to deal with a third party.

Picking The Right Company

Keep in mind it is in your best interest to evaluate each factoring company for the best outcome for you, but filling out multiple applications to multiple factoring companies may not be the best approach. The best option is to research the best company to submit your information to. Again do not do this if your back is against the wall, you will put the pressure on yourself.

The following questions are what you need to ask the factoring company:

1. **Ask the size of their clients/ client base:** You do not want to be the factoring companies largest or smallest client. Simply because they may not have the ability to handle a firm of your size, or you may be too small of a factor for them to focus on.

2. **Find out what industry they specialize in:** Many factoring companies have experts in specific fields. If you are an aircraft parts broker, what can a freight bill factoring expert know

about your industry? At [NeeBo Capital] we pair you with a professional in your field.

3. **Know the terms:** Many business owners overlook contracts because they need the cash flow immediately and like the rates offered. However, all factoring companies have different terms. Be aware of credit limit charges, and miscellaneous fees.

4. **Location:** Know the location & hours of operation of your choice factoring company. If you do business on the east coast you have to understand a factoring companies staff on the west coast won't be in the office until noon your time. Especially if your factoring company is dealing directly with your customers.
5. **Do they work with you:** Before you start a factoring invoices agreement make sure they are willing to work with you. Ask the company for references, and trust your gut whether they are working with you or just want more business.

Why Factoring Is A More Attractive Financing Option Compared To Traditional Lending Methods

Asset based lending, in particular, accounts receivables and/or purchase order funding, is can be a more attractive financing options than more traditional lending methods. A traditional banking facility of $50k that is fully deployed is not a benefit to a growing business, rather a hindrance.

With an accounts receivable line a company can better sustain growth, because the receivables line will grow with the sales of the business and effectively increasing the cash flow to meet payroll, make payments to suppliers and cover operating expenses, the business can focus on generating new customers and increase profits. The end result being a business that is more attractive to a bank, thereby, achieving the desired result. A traditional banking facility large enough to handle the financing needs of the business.

However, this is becoming a more “accepted” and useful method to inject cash flow for a business. Many small to medium sized businesses that have survived this economic downturn, are finding access to cash and traditional banking lines of credit are not enough to support growth. A traditional facility is capped or has a hard limit, whereas a receivables/factoring facility can grow in parallel to the sales of the company, provided the credit of the debtors support the sales.

Qualifying for an accounts receivables line is based on the credit worthiness of the customer base and strength of the invoice trail. Because this is not characterized as a loan there is no debt shown on the balance sheet. This is a purchase of an asset or invoice at a discount and costs are calculated on the turn of the receivable.

The costs to a business can also be quantified by lost revenue and lost opportunities. How much do businesses lose each year to bad debt and write offs as well as lost sales or turning away of customer orders because of the operating capital the business has tied up in open receivables.

Many businesses utilizing a factor have decreased offsets and bad debt thanks to the attention paid to the debtors credit rating. Businesses are able to accelerate their cash flow, in turn, accelerating and increasing the number of orders/jobs fulfilled, directly increasing their bottom line and adding revenue to business. A banking line is not as quick or flexible enough to increase with the rapid growth a business may see. What is the cost to a business in missed opportunities?

Businesses today need access to cash when they receive the orders not when they have reaped the profits or have become profitable. Businesses today can become profitable with access to cash and financing. In transactions with 20% margins, what is more costly the 3-4% “cost” of financing or the loss of the 16% profit? Many businesses today are turning down opportunities, bids, purchase orders, new business because of the lack of available cash flow.

For more information visit NeeBoCapital.com. NeeBo Capital has a friendly staff to cover all of your funding needs. When you need funds they deliver. They are one of the most trusted cash flow providers in the United States.

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