What is Factoring and How Can it Help Your Sign Shop?

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Navigating the choppy waters of financing have become increasingly harder in recent years. Guest blogger Sol Roter explains how the option of factoring can help to make things easier. *The sign industry was not exempt from the rollercoaster of economical changes and hardships that the country went through over the past few years—and continues to go through today. As a result, finding the money to start a new shop, invest in new equipment, or try out an untapped market niche, can be difficult. To further complicate things, lending and loans can be a confusing road to travel down.*

There is another way to fund your signage endeavors, however. We welcome guest blogger ***Sol Roter*** *from Liquid Capital to explain the benefits of factoring, and why it may be an option for your sign shop.*

Banks don't seem to have any money to lend right now – or at least none they want to – and equity markets aren't a great value proposition for many companies with investors skeptical about, well, everything.

U.S. Bancorp recently commissioned a survey of 1,004 companies nationwide with an annual revenue of $10 million or less. It showed that slightly less than a third of those surveyed said their bank provides everything they need when it comes to financing and other business services.

Yet business needs to go on. Companies still need to buy goods, meet payroll, cover seasonal adjustments, and even seize market opportunities. So what are they to do?

More and more are turning to factoring, an alternative to bank lending that provides businesses with capital when needed on a flexible formula basis that is proportional to sales. The factoring "line" grows as the sales to credit worthy customers increase, giving clients a chance to capitalize on market opportunities.

Following are some of the most frequently asked questions about factoring; they show how sign industry professionals can benefit:

Q: What is factoring?

A: Factoring is the purchase of corporate accounts receivable. It's generally used when a company is in its infancy or experiences a growth spurt, and it gives that company access to capital through non-traditional means.

Q: How does factoring work?

A: A factor purchases a business's accounts receivable and gives them a large percentage of the total creditworthy accounts receivable up-front and the remainder when they are collected. The factor handles all the credit checks, collects the accounts receivable, and ledgers the receivable so the client is able to concentrate on growing their business.

Q: How does factoring differ from other types of financing?

A: Factoring differs from traditional bank loans because the credit decision is strictly based on receivables rather than other criteria – how long the company has been in business, working capital, and personal credit score, for example – that a bank would take into consideration. Factoring differs from equity financing in that factors don't take equity in the company. Since contracts are short term, the client could elect to stop factoring whenever they choose.

Q: Who can benefit the most from factoring?

A: Generally, any business-to-business company that has the ability to increase their sales but are held back because of a lack of capital can benefit from factoring. The industries that tend to use factors now are service-based because they have a high labor component (must pay employees weekly). Without factoring, they wouldn't be able to expand. The transportation industry is big. Truckers factor because they have to pay employees and fuel costs every week and truck rentals monthly. With receivables collected every 45 days, it would be impossible to grow without factoring. Staffing is another industry that benefits.

Q: What are some common misconceptions about factoring?

A: The biggest misconception is that people believe factors are a lender of last resort. That's not true because clients seeking out factoring are often in the beginning stages of growth. At first glance, factoring appears to be expensive, but it does a lot more; in essence, factoring replaces the accounts receivable and credit department. For example, if sign company is doing $600,000 a year in sales, a factor may charge 5 percent (or $30,000) per year for financing. In addition to the financing, the factor will do credit checking, ledgering, and all the collection work, thus saving the company the salary of an employee hired to handle the same tasks. Most clients contact a factor for the money, not the service, but they stay with them after seeing what they can truly offer.

Q: Do you see factoring becoming the norm if these economic conditions continue? Why?

A: With banks becoming more stringent, businesses can't get the financing they need. But I don't think factoring is becoming the norm because many people are still not aware of it. It's never going to be a mainstay type of financing because the majority of businesses using it are in their formative stages. In Europe, factoring is still relatively new, but its volume has increased substantially. Given its increasing popularity overseas, I think it's only a matter of time before it enjoys a similar level of notoriety in North America.

Q: How do factors differ from one another?

A: Businesses in need of a factor have long had only two choices: they could go to a large factoring company in a far away city, or to a smaller, local operation. At the larger companies, the client can never talk to the decision maker like they can with a smaller company. Conversely, the smaller companies can't provide the same sophisticated back-office system that the larger company can. With the advent of companies like Liquid Capital, the client can have both the back-office perks and direct access to the decision maker, who is a member of their own community.

Sol Roter is the founder and director of Liquid Capital, an international franchise network with more than 60 offices across North America. For more information, visit www.liquidcapitalcorp.com *.*

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