

What is Invoice and Accounts Receivable Factoring?

Invoice and accounts receivable factoring is a relatively unknown form of financing for many business owners which is gaining popularity throughout Canada. Historically, small business owners would look for traditional corporate financing options with their banks as a means to fund their working capital and growth needs. Today, obtaining bank financing from the major financial institutions in Canada is becoming increasingly more difficult. As business owners are being turned away by the banks they are finding that factoring is a sensible alternative which provides them with the working capital funding they require to run their business.

Simply put, factoring is the process of selling your slow paying invoices and accounts receivable for a cash advance at the time of the factoring transaction. You receive payment for the invoice immediately and the factoring company waits to get paid by your client, in exchange for a fee.

In today's competitive market, clients are demanding 30-to-90 day payment terms in order to win their business. This creates significant financial stress on smaller businesses. This financial burden can be overcome by factoring, where the business owner essentially gets paid at the time of generating the invoice via a factoring transaction, while at the same time being able to offer its clients the payment terms they demand.

How does Factoring Help?

Factoring enables a business to free up the cash that is tied up in their accounts receivable, by providing an immediate cash infusion for the company. This improves cash flow and eliminates the uncertainty and stress created with not knowing when your slow paying receivables will be collected.

Factoring vs. Debt Financing

Factoring is different than traditional debt financing as the company is not taking on any debt in the transaction; it is simply speeding up its accounts receivable collection period by selling its slow paying invoices to a factoring company for cash. This is viewed by many as a significant advantage to taking on debt, especially for smaller and fast growing companies.

Outsourcing Accounts Receivable Function

Many small companies also view factoring as a way of outsourcing their accounts receivable collection process as it places the time and effort required to manage a company's accounts receivables in the hands of the factoring company. This enables the business owner to focus on



www.mascorcapital.ca

their day to day business operations and the factoring company will handle the follow up and collection process on the invoices.

Misconceptions

Some, who are not familiar with factoring, perceive factoring as a means of selling their dated and hard to collect accounts receivable. This is not the case and most factoring companies will turn down and reject financing such invoices as part of their due diligence process. Most factoring companies want to work with growing businesses that are experiencing growing pains resulting in cash flow challenges. Additionally, even if such uncollectable receivables did get funded, this can backfire on the company as a result of how factoring transactions are structured. It is important to understand that factoring companies are not collection agencies for hard to collect receivables.

Requirements for Factoring

In order for a company to consider factoring, it must have business-to-business sales with reputable clients. In order for a factoring company to approve and purchase your invoices, they must be able to assess the creditworthiness of your client who is ultimately paying the invoice. As your client is the source of the ultimate financial exposure, the factoring company has to be comfortable with the risk that your client will not default on the payment and that it has the financial wherewithal to be able to make the required invoice payment when it becomes due. Companies will also have to demonstrate to the factoring company that they are financially sound, do not have any significant tax or legal issues and that there are no other encumbrances on their receivables from other parties.

As invoice factoring becomes more popular and mainstream, business owners are realizing the tremendous benefit that this form of financing provides. We invite you to review our other articles on the factoring process, explore our website and to give us a call with any questions you may have about our invoice and accounts receivable factoring services.

For further information, please contact:

Matt Sobolewski, President

Mascor Capital

Phone: (403) 827-7148

Email: matt@mascorcapital.ca

Website: www.mascorcapital.ca