

## That's a Fact

**As one of the oldest ways to generate working capital, factoring is now flexible, customizable and going mainstream.**

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Robert Knobel first heard about factoring from his grandparents, who owned a fabric business in New York City. They used factoring to convert accounts receivable into cash, bridging the gap between invoice and payment dates.

So when Knobel's banker suggested factoring for day-to-day cash flow needs for his advertising specialty business, Knobel found himself following in his grandparents' footsteps. But not without some initial reservations. For starters, he worried about the stigma attached to factoring. "I, like so many others, did not initially understand factoring," recalls Knobel, whose \$5 million-plus firm, RMK Worldwide Inc., in Deerfield Beach, Florida, puts company logos on goods it imports from Asia. "Many feel that factoring is a means to receive cash faster if someone is in financial distress. I felt like I was somehow failing and could not get my dollars in fast enough."

However, when he found [The Hamilton Group](#)--one of a new breed of factoring firms offering businesses more flexible funding than factors are traditionally known for--Knobel soon realized that this wasn't his grandfather's factor. For one thing, the Syracuse, New York, factoring firm would let Knobel pick which invoices to factor without setting any monthly, quarterly or annual minimum volume requirements. "They allow us to pick and choose whom we wish to factor and [don't] demand that all our receivables are factored," says Knobel, 44, who estimates that today he factors about 60 percent of his customers' invoices.

Here's how it works: Once Knobel sells his accounts receivable, he immediately receives cash for a percentage (70 percent to 80 percent) of the invoice. He receives the remainder, less the factor's fee of about 3 percent, when the full invoice payment is received and cleared by the factor. Because he doesn't have to wait for the typical payment period, which could be 60 days or more, he can use that money to fund payroll and support the day-to-day needs of his business. More important, he hasn't had to give up any customers to take advantage of this financing. "Some of my strongest customers pay in 45 to 60 days," he explains. "We looked at one factor who said, 'We may not be able to get credit approval [for those customers].' And I said, 'They've been with me since 1985. They do hundreds of thousands of dollars a year with us, and they always pay.'" Given those constraints, he probably would have had to pass up factoring altogether.

### The New Face of Factoring

Dating back hundreds of years, factoring is one of the oldest ways of generating working capital. And though the fundamentals of factoring remain largely unchanged, the way the services are delivered have changed dramatically in the past 10 years. Indeed, as Knobel's story illustrates, factoring is now more customized than the traditional one-size-fits-all approach.

"Factoring has become more mainstream," says Kenneth Walsleben, a principal of The Hamilton Group. "It is continually evolving and becoming far more user-friendly. Pretty much any business that has significant upfront expenses or has a high labor cost component to the overall cost of product or service delivery [is a good candidate for factoring]."

Keep in mind, though, that factoring isn't for everyone. At a cost of 3 percent to 7 percent of your receivables, your company must be able to absorb the loss of income. If not, a short-term solution could turn into a long-term problem.

To attract clients, many factoring firms offer not only custom-tailored financing and more flexible credit limits, but also nontraditional services such as help with foreign trade. "Over the past 10 years, more factors are springing up in the U.S., which is causing more competition and [leading] factors to increase services and decrease fees to customers," says Bert Goldberg, executive director of the [International Factoring Association](#). Among these new offerings: special programs to support U.S. firms that do business abroad, and helping the firms deal, in some cases, with different customs, currency systems, laws and languages. Although many large factors have already established their international presence, "there are some smaller factors now opening offices overseas," says

Goldberg, pointing out that one small factoring firm recently opened an outpost in China.

Technological advances have also revolutionized the ways factors conduct business. "Prior to the development of web-based services, it was a very paper-intensive business," says Walsleben. "Now, most of us in the factoring industry [allow our clients to] submit invoices via e-mail. You have access to a 24-hour-a-day web server that shows in real time what checks have arrived, what [their] financial disposition is and what open invoices remain. You can look back historically and assist your [accountant] in pulling your books together to see how transactions were paid and what was outstanding at [certain] dates."

Says Knobel, "I have a much better handle on what's happening and when my customers are paying. I can go online and see in seconds exactly what's outstanding and what has been paid."Â

Business owners like Knobel also benefit from factors' stringent credit evaluation and monitoring, which can quickly spot problems and help businesses avoid losses. "We get a better chance to screen our customers to check their creditworthiness before we ship," Knobel says. "Hamilton has its own credit investigation process in addition to the standard D&B reports we use for new clientele."

Despite the factoring industry's evolution, some of the traditional rules still apply. First and foremost: the importance of finding a reputable factoring firm with a proven track record. According to Goldberg, you should start by talking to business owners who have worked with factors. Additionally, the International Factoring Association offers a "factor search" tool on its website, letting businesses search for factors based on their industry, physical location, the size of their company and whether or not they import or export goods. "Talk to various factors," adds Goldberg. "Find one that you can work well with, that understands your business and the types of services [you need]. It's not all about finding someone with the lowest price."Â

Knobel couldn't agree more. "We have been approached by other firms claiming that their rates are better," he says. "[But] when you take all things into consideration, [especially] the flexibility, this is not true."

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