



CONCEPT FINANCIAL GROUP

Making your cash flow.

The Complete Guide to Freight Invoice Factoring

Everything you need to know to get your cash flowing

A White Paper by Concept Financial Group

Factoring FAQs

What is Factoring?

According to the *Business Dictionary*, invoice factoring is the selling of invoices to a third party company to improve cash flow.

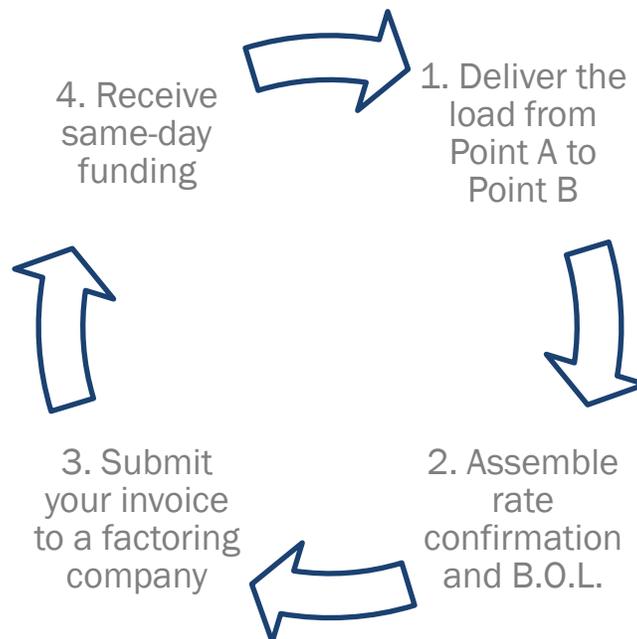
When a business uses invoice factoring, they benefit through an immediate boost to cash flow, while at the same time eliminating the back office support needed to manage the accounts receivable process.

Why Factor?

Most companies use factoring to improve and provide a consistent cash flow for their operation. Factoring provides immediate funding instead of the typical wait time of 30, 60 or even 90 days to get paid. In addition, factors typically provide back office support to your business in collecting the invoices and monitoring your customers credit.

How Does it Work?

Invoice factoring sounds like a complicated process but it is not. There are actually only three main tasks to be completed before receiving same-day funding.



Benefits of Factoring

The benefits will vary from business to business, but factoring usually provides a source of consistent funds and healthy cash flow. Without question, factoring has become a widely accepted means of business finance worldwide. It is considered an ideal way to provide strong cash flow from companies of all sizes.

- **Generate Cash Flow Immediately.** You choose how often and which invoices you want to submit. Upon submission, the invoices are processed by the third party company and you are sent your money.
- **No Debt Created.** Loans require collateral limited by your hard assets. Factoring is not a loan, so there is no debt to repay.
- **Simple, No-Cost Approval Process.** Factoring depends on the credit worthiness of your clients—the people who repay us.
- **New Business Capital.** A growing business, new business or one with insufficient hard assets may have difficulty qualifying for a loan, but factoring is available to any business that successfully generates invoices.
- **No Loss of Business Equity.** Ownership percentages remain unchanged.
- **Free Credit Checks on Your Clients.** Contact the factor to receive credit checks on new clients before the load is booked.
- **Invoice Processing.** You can greatly reduce your cost of processing invoices because factoring agencies handle most of the back office work in regards to managing the accounts receivable process.
- **Enhance Your Credit.** Once you begin factoring, the increased cash flow will provide the liquidity to pay your vendors on time.
- **Increase Productivity.** Business owners often spend a large portion of time on duties such as collections, administration, bookkeeping, warding off creditors, and searching for additional capital. Factoring helps eliminate these duties.
- **Reduce Accounting Cost.** Online access 24/7 to any of your account information.

Requirements

As long as you operate in business or governmental sales and service, then beginning to factor with a Factoring Company should be a breeze; however, there are some other basic requirements that many Factors require you meet.

- **Be Recognized as a Business.** Most factoring companies prefer your business to be formalized through a corporate structure (i.e., Corporation, Limited Liability Company, etc.) However, some can operate with sole proprietorships and partnerships.
- **Sell to Commercial or Government Entities.** Factoring companies prefer invoices if your clients are commercial/business companies or government entities.
- **Ensure Your Client Has Good Credit.** Funding is based on the credit quality of *your invoices*, rather than *your company*. Therefore, factoring companies will only finance good quality invoices, likely to be paid on or around their due date. *Contact a factoring company to receive credit checks on new clients before the load is booked.*
- **Invoices Free of Liens.** Invoices cannot be pledged as collateral to other institutions in order for them to be factored. However, sometimes factoring companies can still work with you if a payment plan has been put in place.
- **No Open Bankruptcy.** It is possible to provide factoring services to companies undergoing a Chapter 11 bankruptcy, but it is oftentimes more complex and expensive.
- **Clear Background Check.** As with any type of financing, background checks will be completed before a factoring company agrees to work with you. The clearer the background check, the more likely the company will accept your invoices.

Factoring versus Accounts Receivable Financing

Factoring and accounts receivable financing are oftentimes considered to be one-and-the-same. However, slight differences exist between the two that could affect your business.

Factoring.

When you factor, you are actually selling your invoice to a factoring company. This results in a three-part funding structure:

$$\begin{array}{r} 70 \text{ to } 95 \text{ percent of the value of the receivable at time of sale} \\ \text{plus} \\ \text{The remaining balance of the receivable when the invoice is collected} \\ \text{less} \\ 1.0 \text{ to } 5.0 \text{ percent factoring fee based on the total face value of the invoice} \end{array}$$

Pros:

- Flexible - You often get to pick-and-choose which invoices you want to sell.
- Easy to Qualify - Ideal for growing, new and financially unstable companies
- Simple - There is an established fee structure
- No debt created

A/R Financing.

When you engage in accounts receivable financing with a funding company, you are essentially taking out a bank loan. The difference is that instead of the loan being secured by real estate and/or personal assets, an A/R financing loan is backed solely by a pledge of all the business's accounts receivable. Here is a typical funding structure:

$$\begin{array}{r} 70 \text{ percent to } 90 \text{ percent borrowing base at each draw} \\ \text{less} \\ 1 \text{ to } 2 \text{ percent collateral management fee based on the outstanding amount} \end{array}$$

Pros:

- Less Expensive - A/R financing is usually less expensive than factoring because the funding company assumes less risk.
- Easy to Transition - When your company becomes bankable again, it is typically easier to transition from accounts receivable financing to a traditional bank line of credit.

Factoring & Your Growth Potential



Bank.

After someone delivers their load from Point A to Point B, the individual must wait 30-90 days to receive payment. Oftentimes, this timeframe leads the individual to taking out a loan from a financial institution in order to cover their bills.

However, say you get a loan from a bank for \$10,000 at 12%. You could make payments of \$100 and in 12 months you will have paid \$1,200, but you still owe \$10,000 as you have only paid off the interest.



Factoring Company.

When an individual delivers a load from Point A to Point B and decides to work with a factoring company, he or she is oftentimes left with no debt added to the balance sheet after one year.

Consider this, if you factor \$10,000 worth of invoices each month at a 2% discount rate, in 12 months your fees would total \$2,400 ($\200×12). However, you would have received \$117,600 ($12 \times \$10,000 - \$2,400$) and your cost for \$120,000 in cash advances from the factoring company would only be \$2,400 with no debt added to your balance sheet.

Can your business grow from better cash flow?

The answer is simple, yes. Factoring has saved numerous companies from implementing layoffs or filing for bankruptcy due to cash shortages. In addition, factoring allows your company the cash needed to fuel the growth of your business.

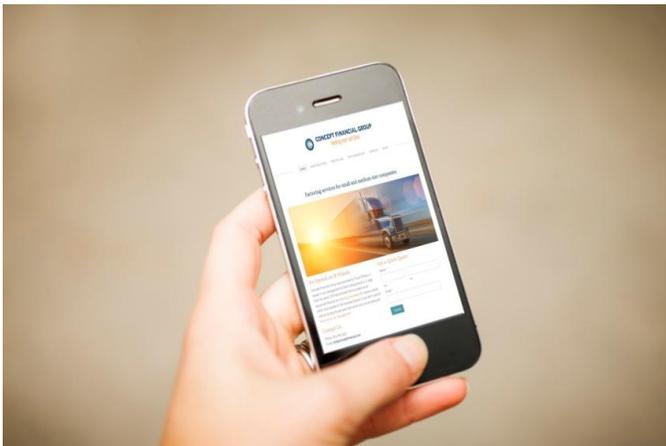


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Why CFG?

- We will assist in your business' success.
- We are owner managed, which provides flexibility, quick responses, and personal contact with the decision makers.
- We are active participants at various MN trucking associations.
- A+ Accredited Business since 2006 with the Better Business Bureau.

*A company that actually wants to help your business grow.
What a concept!*



What We Offer.

- Same-day funding directly into your bank or fuel account.
- Free credit checks that will improve your credit procedures.
- No long-term contracts with hidden fees.
- Easy and quick account setup.
- No minimum volume requirements.

Chris Johnson

President

Direct Phone: 763-231-0046

chris@conceptfinancial.com

We look forward to making your cash flow.

**Please contact us with any
questions!**

866-780-1527



CONCEPT FINANCIAL GROUP

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8970 West 35W Service Drive NE

Blaine, MN 55449

(763) 780-1527

(866) 780-1527

info@conceptfinancial.com