A Small Business Owner's Guide to

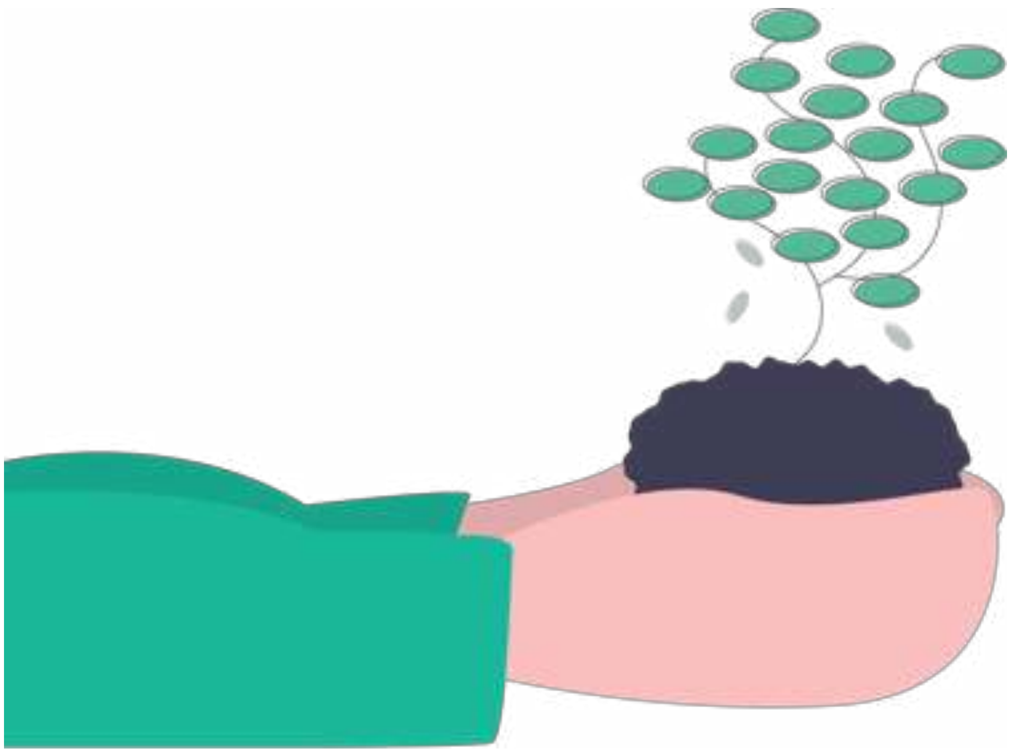
INVOICE FACTORING

HOW INVOICE FACTORING WORKS
USE CASES AND INDUSTRIES USING IT
HOW YOUR BUSINESS CAN BENEFIT

LEARN MORE AT FUNDTHROUGH.COM

WHO IS THIS E-BOOK FOR?

- Small Business Owners
- Aspiring Entrepreneurs
- Fintech Enthusiasts
- Small Business Lenders



WHAT YOU WILL LEARN

- The Basics of Invoice Factoring
- How Invoice Factoring Works
- The Advantages and Disadvantages of Invoice Factoring
- How Invoice Factoring Compares to Similar Funding Options
- Which Industries Use Invoice Factoring
- If Invoice Factoring Is Right for Your Business

OUR MISSION

ENABLE **BUSINESSES** WHO INVOICE TO **SUCCEED** BY GIVING THEM **CONTROL** OVER WHEN THEY GET PAID

At FundThrough (FT), we help small businesses overcome their cash-flow gaps through invoice factoring.

This ebook is designed to help you, as a small business owner, understand everything you need to know about factoring.

It is a compilation of blog posts contributed by FT Co-founders, Steven Uster and Deepak Ramachandran, and other industry experts.

FundThrough

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Chapter 1

THE BASICS OF INVOICE FACTORING

Before we dive deep into all aspects of invoice factoring, it’s important to learn the basics.

Early Days of Factoring

As novel as this concept may seem, factoring has been around for more than 4,000 years, yet many remain unaware of factoring and its benefits.

Factoring is one of the oldest forms of business financing, dating back to 2000 B.C. Traders in ancient Mesopotamia are thought to have used an early form of factoring when making international business deals. Also known as "**debt factoring**," factoring is continuously growing in popularity, and is now available to businesses of all sizes across the world.

The 2000s witnessed a rise in factoring used by businesses of all sizes after banks adopted factoring financing and started reaching customers through the internet and cloud media. Today, **invoice factoring** is slowly becoming one of the most popular **alternative financing** methods in the world.

Factoring 101: All You Need to Know

Understanding Invoice Factoring

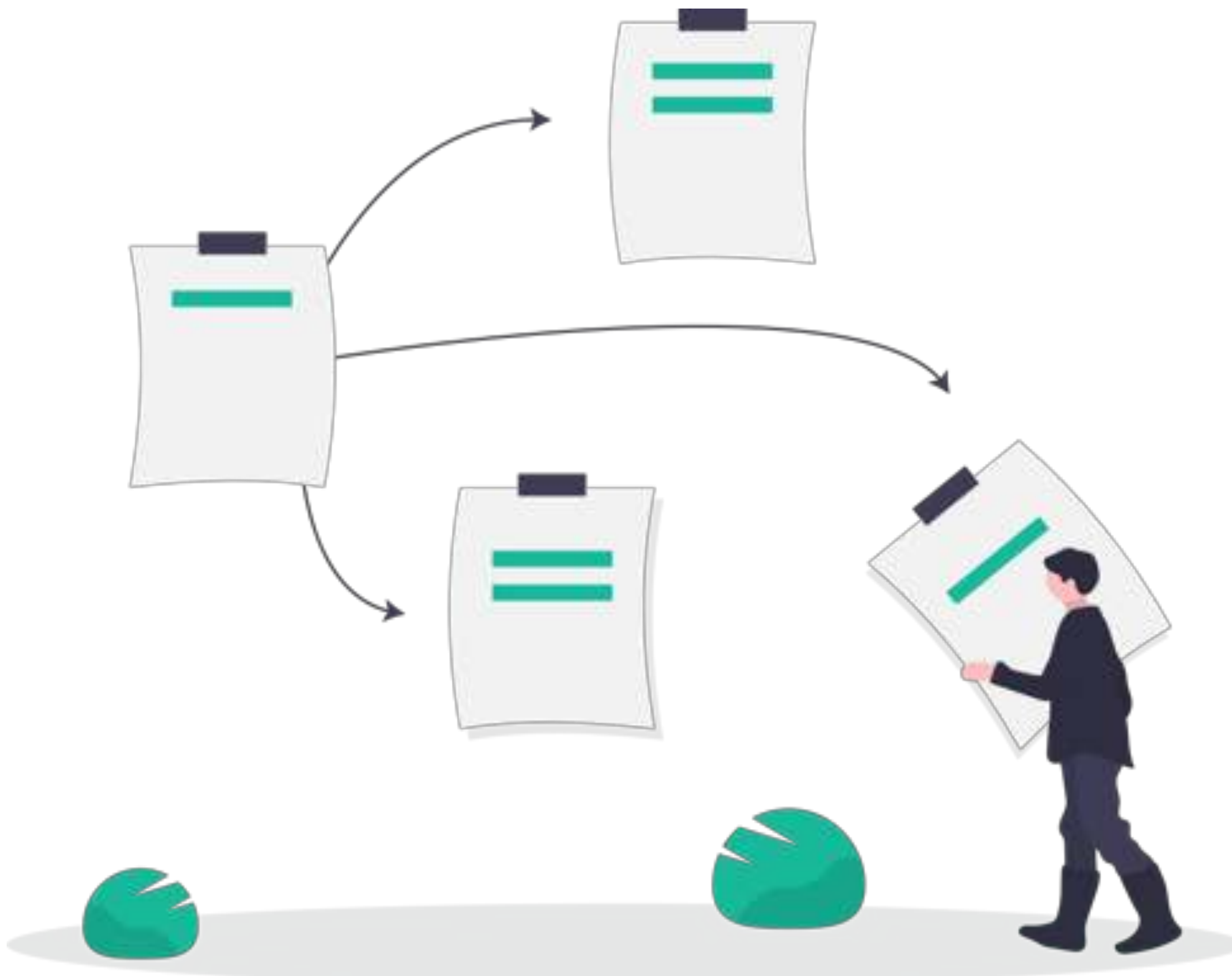
To understand invoice factoring and its types, it is important to understand what accounts receivable are.

Accounts Receivable

Accounts receivable is the amount of money your business has a right to collect in return for services or goods already provided to a customer.

The longer your accounts receivable last (i.e. the longer you don't collect your money), the longer your business is prevented from investing in production for your next order. Delayed collection of accounts receivable **ties up working capital** unnecessarily and leads to longer business cycles.

It's crucial for your business to collect all due accounts in a timely manner to sustain healthy cash flow. To resolve the cash-flow gaps, invoice factoring is a smart funding option.



Invoice Factoring

Invoice factoring is a financial transaction in which a business sells its accounts receivable for a fee to get immediate cash. Here, a finance company buys some of the supplier's invoices at a discount. The factor then has to collect payment from the supplier's clients when the accounts are due. In this type of financing, the supplier receives immediate payment.

Before we delve into how it works, it is important to understand the types of invoice factoring.

Types of Invoice Factoring

There are a couple of different ways invoice factoring is classified.

The first is based on how you use invoice factoring as a financing tool:

1. Whole turnover: you sell your invoices to a third party that advances you a percentage (typically 70-80%) and pays you the rest, minus their service charge when they collect from your client.

2. Selective: you have an ongoing relationship with the third-party invoice factor that allows you to choose which invoices to finance and when.

3. Spot factoring: you need to access funds from an invoice factor infrequently but as quickly as possible to cover a cash-flow emergency.

The second is how your agreement is structured with the factor:

1. Factoring with recourse, or recourse factoring means that you sell your invoice(s) to a factoring company, which then releases an advance payment to you (typically 70-80%). They are responsible for debt collection and release the remainder of the invoice, less their transaction fee, to you once they are able to collect the debt. With recourse factoring, you are responsible for paying back the advance even if the invoice remains unpaid to the factor.

2. Non-recourse invoice factoring, or factoring without recourse, works in much the same way as factoring with recourse. The key difference is that with non-recourse factoring, the liability of unpaid invoice transfers to the factor, so you are not responsible for unpaid invoices.

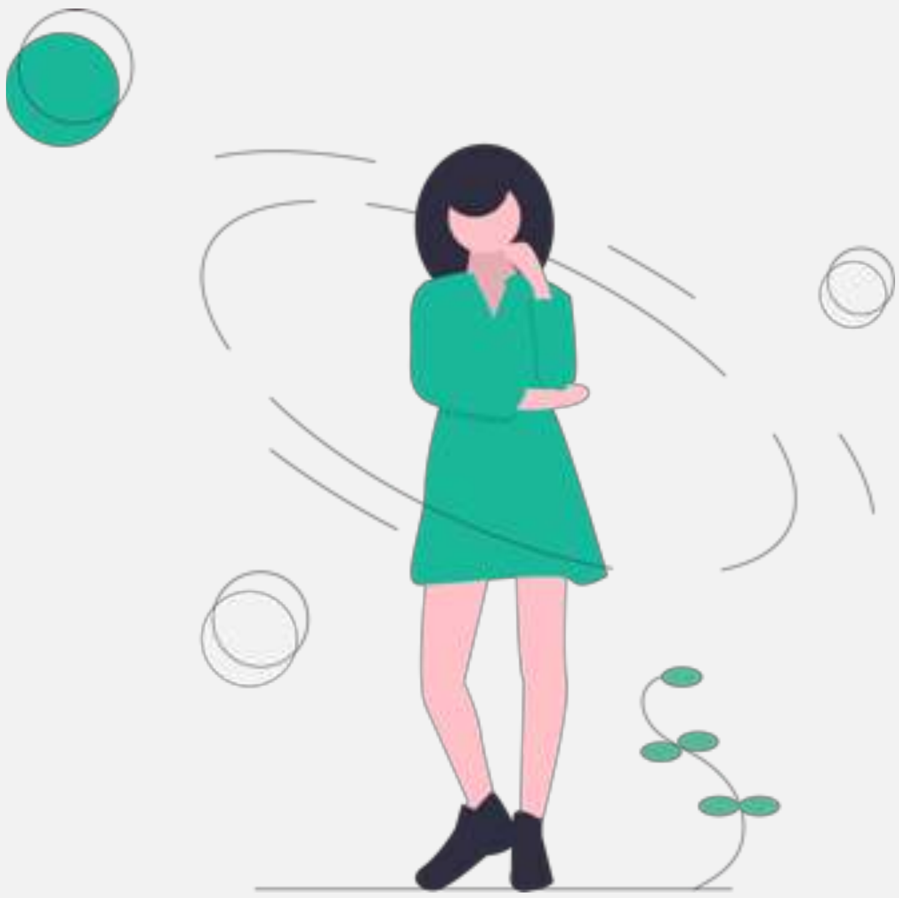
3. In **maturity factoring**, you do not receive an advance on the amount invoiced. The invoice factor pays out the invoiced amount less their financing fee on the invoice due date, or some other date you've agreed upon in advance.

4. Invoice discounting means that your invoices are used as collateral for a loan. Invoice discounting companies usually advance only 80% of the value of your invoice(s). You will pay an interest rate above prime, plus a monthly fee to maintain the loan as long as its takes you to pay it back.

5. Disclosed factoring: when a third-party purchases your invoices and begins debt collection, your clients receive communications from that party. The relationship is then disclosed; it's evident that you've used an invoice factor, as they are either collecting on your behalf or are now the owner of the debt and collecting on their own behalf.

6. Cross-border factoring simply means that a U.S. company might use a Canadian invoice factor or vice versa. Online invoice factoring has made it possible for you to choose the best solution for your business's unique needs, regardless of geography.

Want to learn more about invoice factoring?



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Chapter 2

HOW INVOICE FACTORING WORKS

Invoice factoring is a preferred financing method for many small businesses because it allows you to advance money you’ve already earned. You don’t have to present a business plan, pass credit checks, or jump through hoops that have traditionally made it difficult for new and small businesses to get funded.

With FundThrough, you can collect on your invoices immediately instead of waiting 30, 60, or 90 days for clients to pay.

Terminologies

Here are a few terms to understand the process and calculation of invoice factoring at FundThrough:

Advance Rate: The percentage of the Invoice's Face Value released upfront for funding. At FundThrough, the advance rate is up to 100%, which is more than other factoring companies.

Funding Time: Number of days it takes for the funds to get released. Typically 1-5 business days.

Invoice Face Value: The amount of outstanding invoice for funding.

Processing Fee (%): The transaction fee charged by the factoring company for advancing funds. Calculated on the Invoice Face Value. At FundThrough, this typically ranges from 2-6%, depending on the term.

Extended Payment Terms

Extended payment terms are payment agreements where the buyer can pay the supplier for up to 30, 60, or 90 days after the invoice is issued. These are usually called net-30, 60 or 90.

The payment cycle is part of doing business for smaller suppliers, yet they tend to shy away from bringing up the very real – and common – cash-flow concerns they are faced with when doing business with larger clients.

“There’s this weird dance that goes on between small suppliers and large customers, as small suppliers try to project that they are a bigger company than they really are, because they think that that’s what the bigger customers want,”

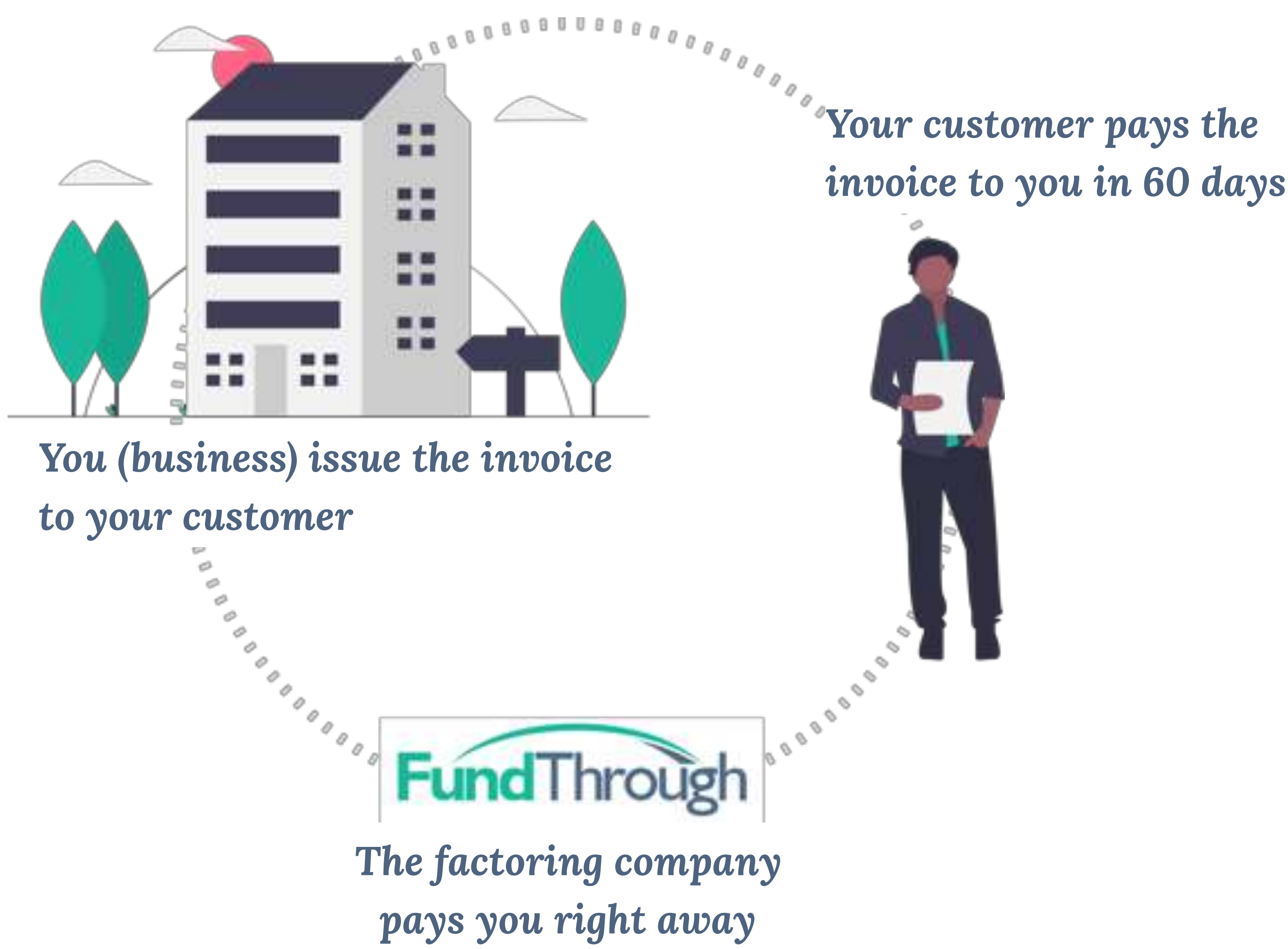
says Steven Uster, co-founder and chief executive officer of **FundThrough**.

“It’s a misconception because, in actual fact, some of the reasons that large customers love working with small businesses in the first place is because they are small, they’re nimble and they are responsive.”

What Factoring Companies Do

When a factoring company decides to work with a business, they verify the outstanding invoices the business wants to sell. Once verified, the factor advances payment on the invoice. Once the outstanding invoice is paid by the business' customer, the factoring company sends the remainder of the invoice value, minus the fee.

At FundThrough, we are able to fund **up to 100%** advancement.



A Step-by-Step Guide to the Invoice Factoring Process

1. A small business delivers the products/services to its customers and receives an invoice with net terms.
2. The small business needs immediate cash, therefore sells the invoice to the factoring company.
3. In return, the small business receives the advance payment, which typically ranges from 80-95% of the invoice. (Up to 100% at FundThrough)
4. With cash on hand, the small business can buy more material, pay its employees and invest in growing their business.
5. When the net term completes, the customers pay the invoice to the factoring company.
6. In the case of remaining funds, the small business receives the ‘rebate’ or remainder of the funds, minus a fee charged by the factoring company.
7. The result is a win-win for all. The small business gets cash upfront, customers get more favorable payment terms, and the factoring company gets its fee.

Example

Let’s see how factoring helped Alex’s interior designing project

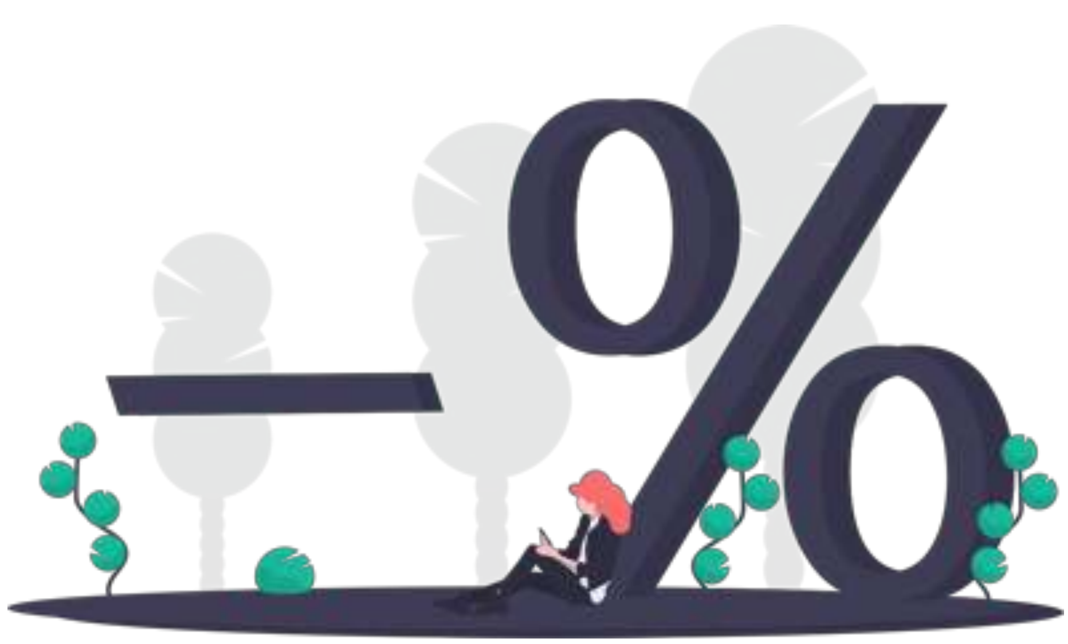
1. Alex runs an interior designing project and handles one of the largest clients.
2. When Alex receives a project, he completes the job and sends an invoice to the client. The payment terms are typically **60 days**.
3. He secures another large project but may need to turn it down as he is running low on cash to buy the supplies.
4. Alex searches online for a funding solution and finds **FundThrough**.
5. He signs up **in 10 minutes** and gets his application approved for invoice factoring within a day.
6. Alex chooses the invoice which needs funding and gets **100% payment minus the processing fee**. He accepts the new project the next day, maintains a steady cash flow, and is able to grow his business.

Invoice Factoring Cost Example

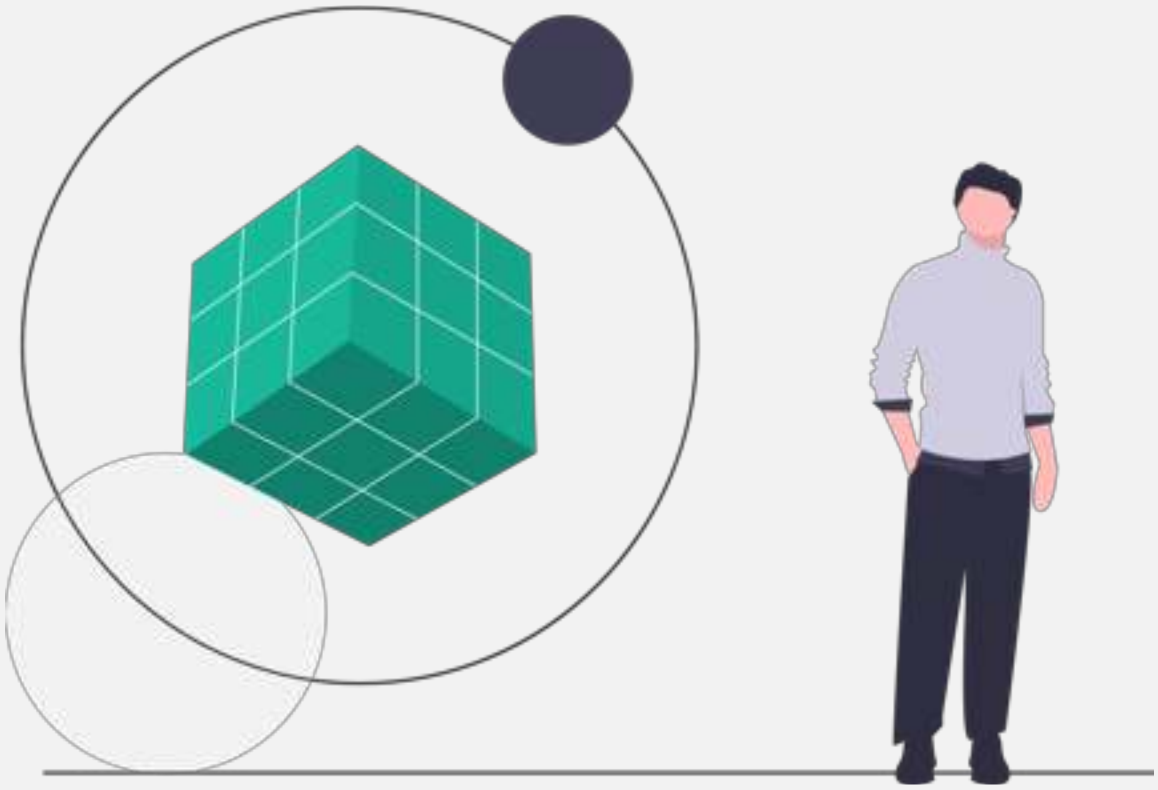
At FundThrough, we believe in transparency and keeping things simple for our customers. And that reflects in how we calculate the invoice factoring cost.

Let’s say you have an invoice outstanding of $10,000 and FundThrough advances you the full 100% value. It becomes easy to understand the cost of factoring by looking at the single processing/transaction fee. If the transaction fee is 2.5%, the cost would simply be the invoice value multiplied by the 2.5% fee, which is equal to $250, in this example.

With FundThrough, there are **no hidden charges or fees**.



Want to learn more about how invoice factoring works?



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Chapter 3

THE BENEFITS OF INVOICE FACTORING

As invoice factoring has evolved and become more affordable, more and more companies are using it to solve gaps in cash flow, raise working capital, and fund the growth of their business.

Invoice factoring is a great way to fund new equipment, talent or contracts using the money you've already earned, rather than taking on new debt.

Here are some key benefits of invoice factoring to small businesses:

Instant Access to Cash

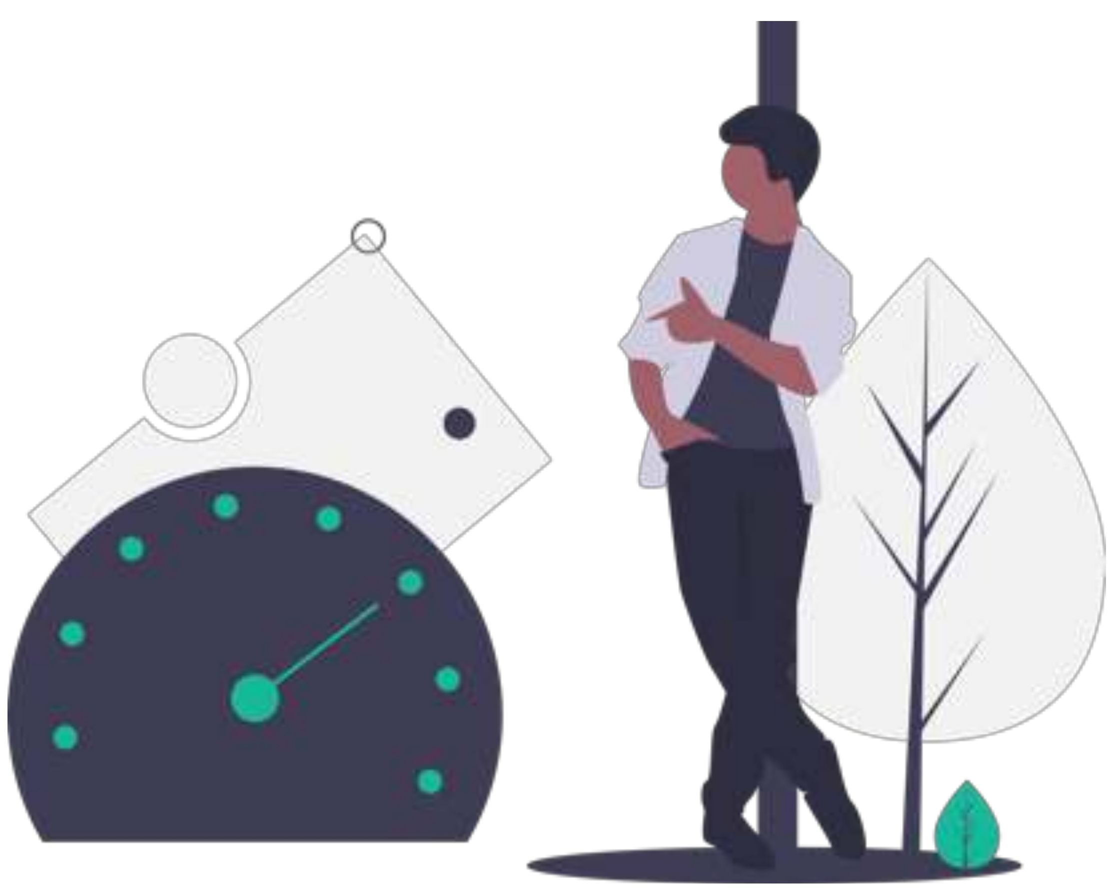
Speed is at the core of invoice factoring. Whereas most invoices have payment periods of between 30 and 60 days, invoice factoring can get you the majority of those **funds within 24–48 hours**. This means you get the payment one or two months earlier than usual, and you can use that capital for whatever you need.

Having access to cash that much sooner means faster reinvestment and more flexibility. If a business opportunity arises, you can take advantage of it right away with your available funds. That kind of quick response time and **increased cash flow** translates into a huge competitive advantage for your company.

Independent of Credit Score

Whether you and your business have fantastic credit or not, having to constantly check your score for the sake of obtaining a loan is a hassle and can actually **hurt your credit score**. With invoice factoring, the focus is entirely different — your credit standing is not considered, nor affected in any way. The only relevant piece of information for the factoring company is the financial soundness of your customer paying the invoice. It is important to think about this difference when choosing to use either **invoice factoring** or a **bank loan**.

If you're selling in bulk to large retailers, factoring can be an ideal business strategy. The more secure your customers are, the better rate you will get from the factoring company.



Reduced Paperwork

Doesn’t matter whether you run a big business or a small business, whether you’re a wholesaler or a technology company — paperwork is a hassle. Invoice factoring involves less paperwork than a bank loan application. Technology allows the whole invoice factoring process to be seamless with a quick online application and simple document uploads.

Seamless Experience

Other than eliminating loads of paperwork and getting quick approvals with little or no credit checks (depending on the application) — FundThrough provides a seamless user experience so that you can focus on what counts — your business. After the quick setup and integration of your accounting software, you can get funded with the click of a button. Not being bound by a contract, you are in full control of which invoices you want to get funded.

Want to know more about the benefits of invoice factoring?

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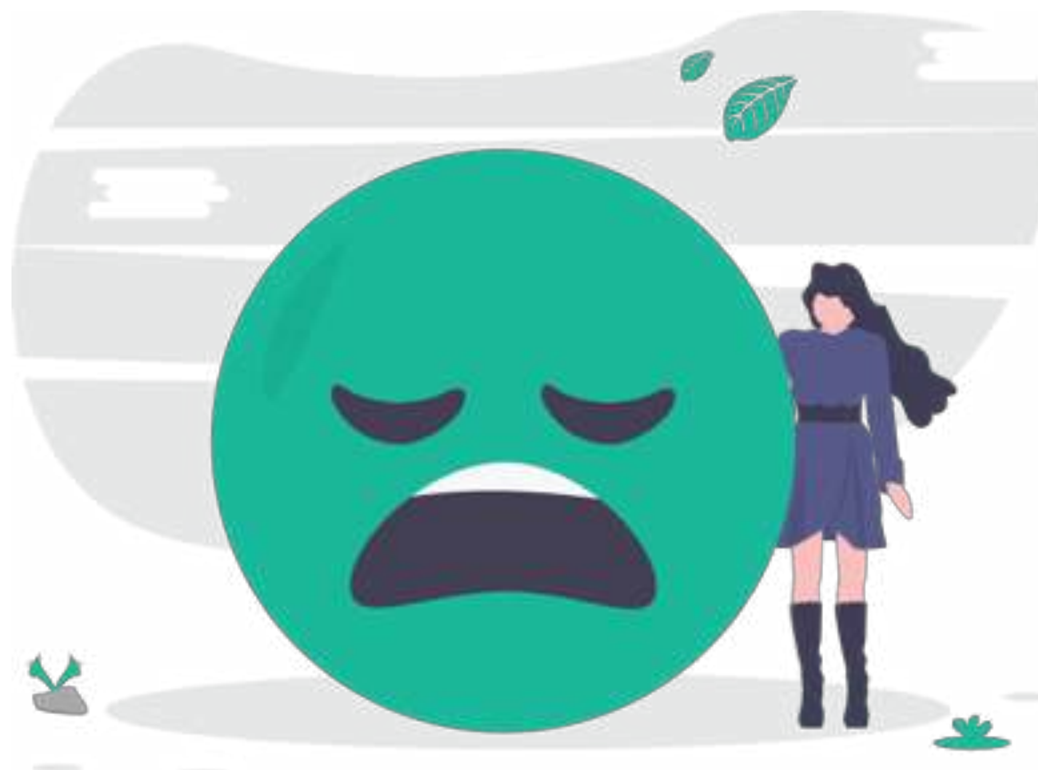
Chapter 4

THE DRAWBACKS AND MISCONCEPTIONS OF INVOICE FACTORING

Historically, invoice factoring involved some major drawbacks. However, with today's technology, the drawbacks have been significantly reduced.



Drawbacks

Expensive?

It’s been noted that factoring can become expensive pretty quickly. Typically an interest rate is around 2-5% percent for the first 30 days (that’s quite good). However, after that, you might be charged a 0.067-0.125% fee for each additional day. At FundThrough, we keep the costs low and transparent. Call us at +1 (800) 766-0460, and find out how we keep things simple.

Bad Reputation

Invoice factoring has a negative connotation as previous factoring companies employed bad practices. Some businesses worry about what their clients would think when they receive a transfer of notice — or confirmation on the invoice. The truth is, many businesses use factoring as a way to resolve their cash problems. Moreover, big customers now encourage invoice factoring for their small business suppliers.

Constant Verification

Due to outdated processes and bad reputation, verification was required every time an invoice required funding. However, now with technology and better processes, an invoice needs verification only once, which reduces hours of work. At FundThrough, we take pride in a faster process, quick approvals (as little as in a day), and outstanding customer service.

Misconceptions

There are a number of misconceptions that are attached to factoring, mainly due to misinformation. We are here to prove these misconceptions wrong:

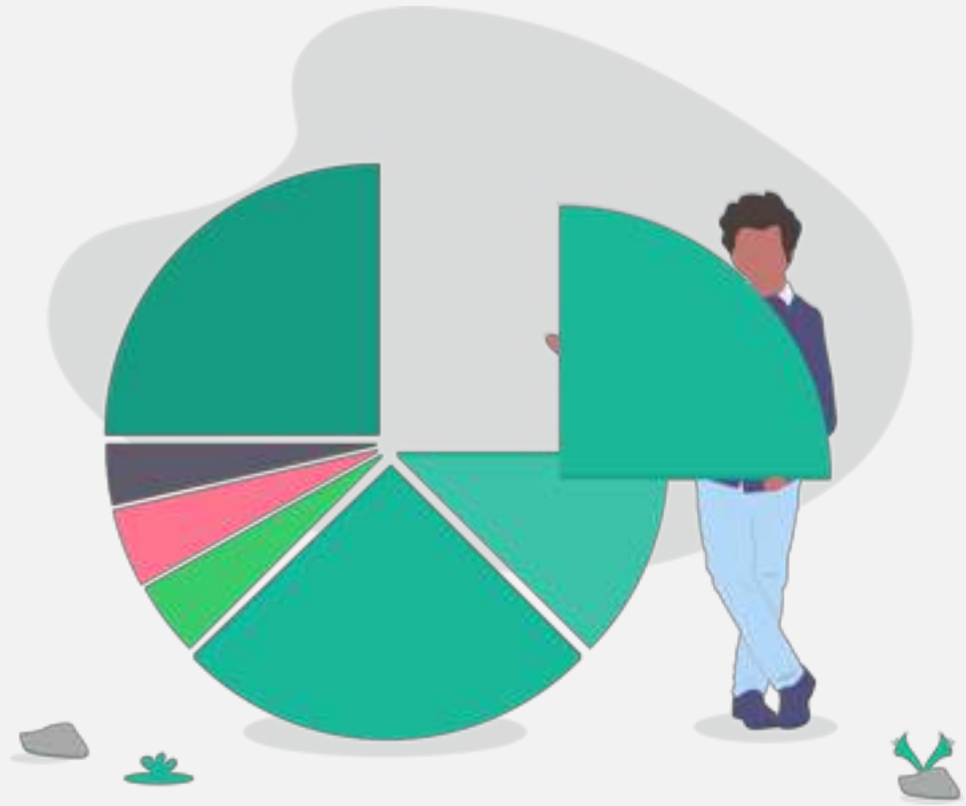
Factoring Only Works for Big Companies

Small to medium-sized companies actually make up factoring companies' largest share of customers. Factoring is an easier and faster method of timely satisfying a demand that some enterprises wouldn't be able to meet with traditional financing options.

Using Factoring Means Your Company Is Unstable

Many people think that if companies need external financing, they are probably close to financial failure. We know this statement to be false, however, as factoring allows a company to improve its cash flow and be more financially stable.

Want more clarifications on invoice factoring?



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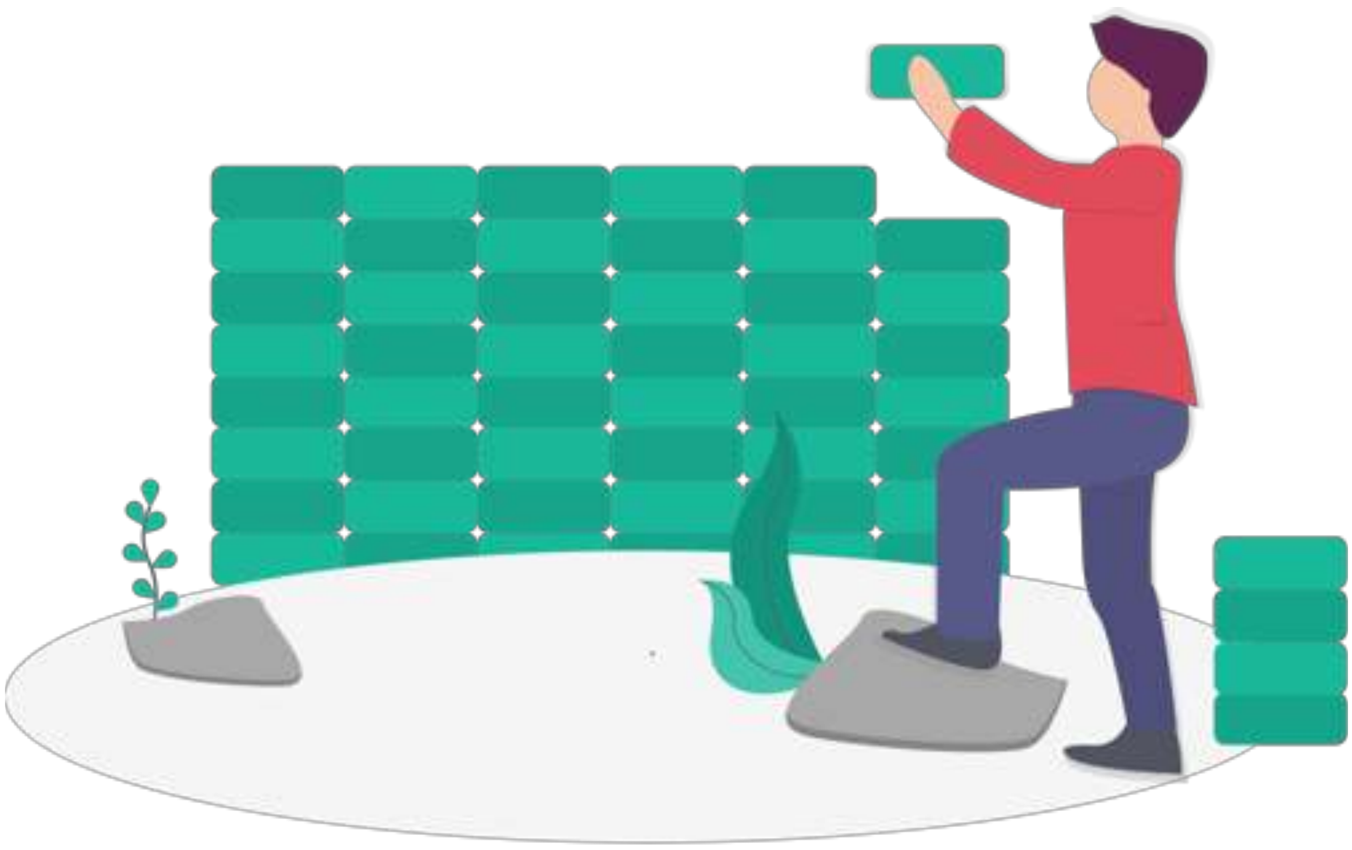


Chapter 5

OTHER TYPES OF FUNDING OPTIONS

We recommend you familiarize yourself with all of the types of funding options for small to medium businesses, so you can decide which suits your business best.

Invoice Financing

With invoice financing, your invoices are used as collateral for a loan. Companies typically advance 80-100% of the value of your invoice(s) and charge an interest rate above prime plus a monthly fee to maintain the loan for as long as it takes you to pay it back. It is also known as invoice discounting. Read more about **invoice financing** and its **risks**.

Merchant Advances

A merchant cash advance (or MCA) can be an attractive option for small businesses that find themselves unable to qualify for a traditional bank loan. An MCA is an advance of capital based on a percentage of future sales. When you take out an MCA, you're essentially "selling" a percentage of all your credit or debit card sales until the amount is paid off.

It's important to be apprehensive of MCAs as the industry isn't well regulated. A business is also agreeing to give up future sales that it could find itself in need of at a later date.

Line of Credit

A line of credit can be a valuable resource for SMBs looking to cover short-term expenses. This could include everything from covering day-to-day operating costs, to finding the extra money needed to buy supplies or inventory.

A line of credit works much in the same way as a credit card, but the application process is a bit more complicated. The most important thing to remember is that interest must be paid on any capital that's borrowed. While the amount of interest owed is often lower than a typical credit card rate, it's also higher than the prime lending rate.

Chapter 6

THE ROLE OF FINTECH IN INVOICE FACTORING

Let's face it, **"FinTech"** means a lot of things to a lot of people. For some, it encompasses any form of financial technology, while others consider Fintech to mean an entirely new kind of finance company with a particularly disruptive mindset. Fintech is positioned to be a truly disruptive force on the traditional financial industry.

Disruption in Small Business Lending

Business owners are painfully aware of the difficult path they need to navigate to secure enough capital to grow their businesses. If you're currently undergoing fast-paced growth, then you might be in need of consistent financing to continue your successful business venture.

At FundThrough, rather than addressing cash-flow gaps by facilitating short-term bank loans, we have gone outside the banking system to provide innovative financing tools on our own terms. In the end, our clients benefit from better and more diverse options.

How Alt-Finance Companies are Disrupting the Financial Space in Canada

Empowering Small Businesses

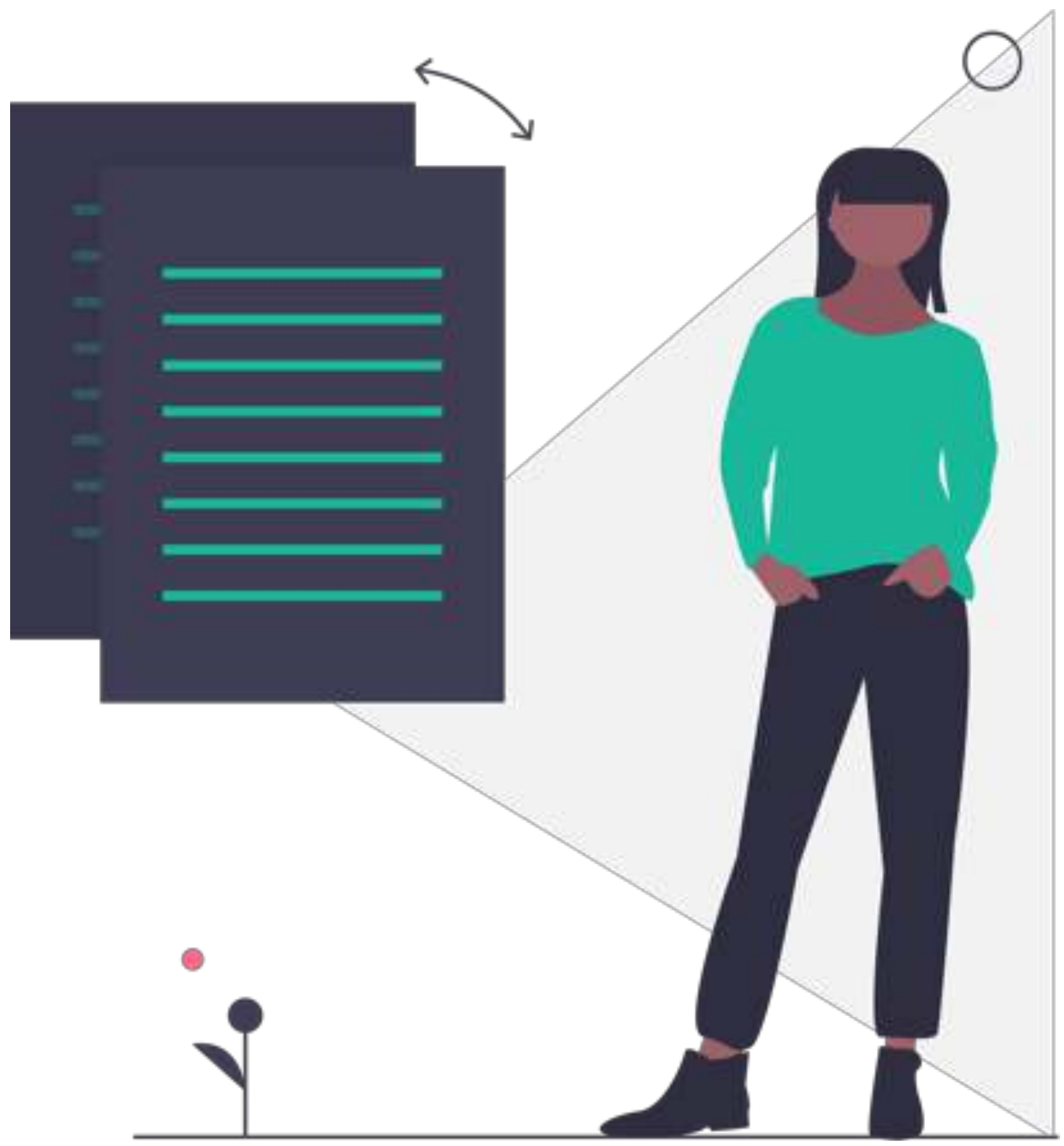
Our goal at FundThrough is to **eliminate the wait** associated with invoice payment terms and give business owners the ability to self-generate the cash flow they need to fuel the continued success of their business.

Instead of waiting 30, 60, 90 days or longer to get paid for the work you have completed or the products you have delivered, FundThrough users can finally get paid immediately when they invoice so they can use those funds to buy more inventory, hire more people, pay bills, ensure payroll is met, take advantage of supplier discounts or simply have peace of mind.

Long Payment Terms? Let This Innovative Lender Help

Why Big Customers Encourage Invoice Funding for Their Small Business Suppliers

How to Compete With Big Businesses Without Big Business Resources



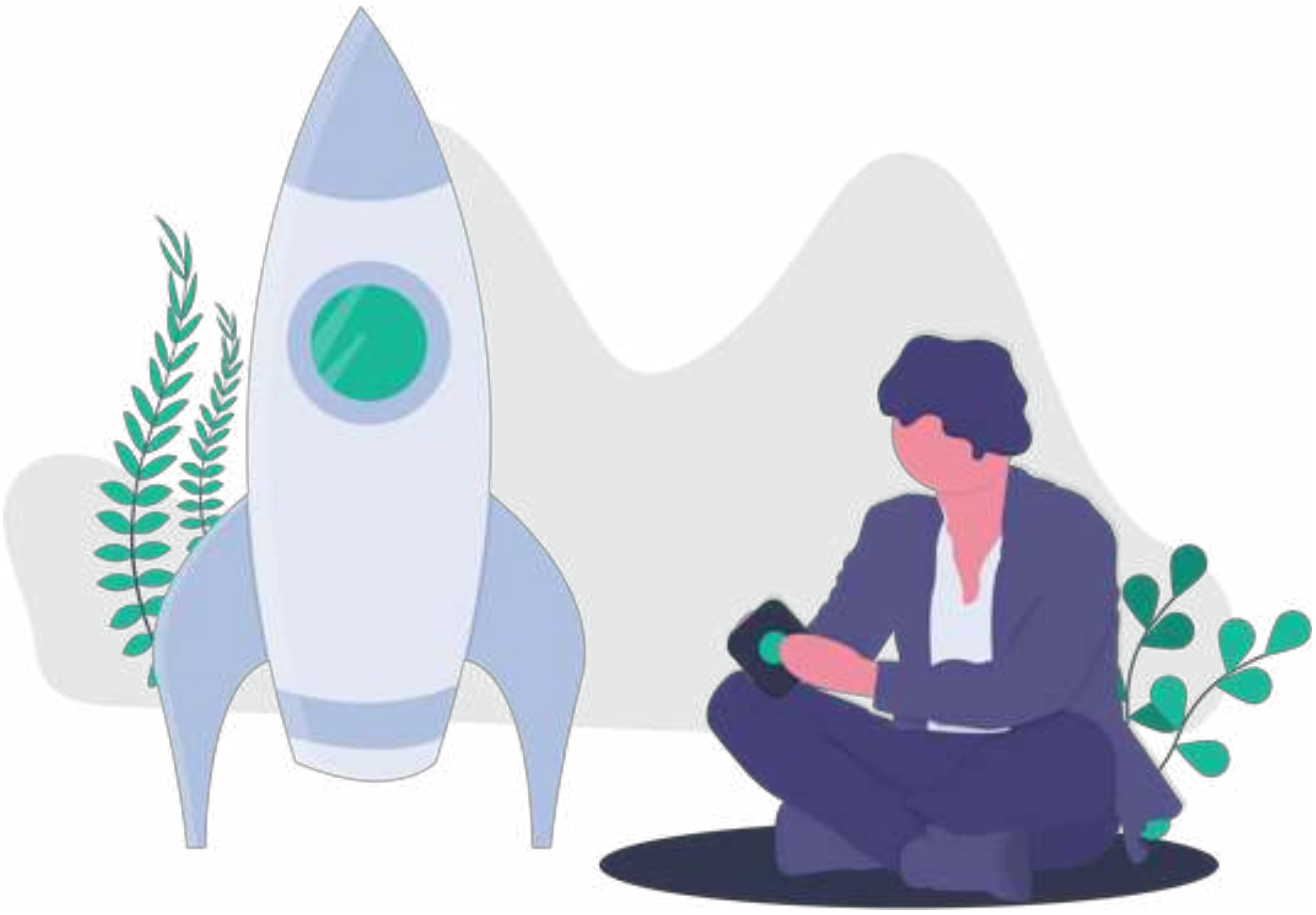
Chapter 7

INDUSTRY USE CASES

Entrepreneurs and businesses of all sizes use invoice factoring to help **cover gaps in cash flow** and generate financing without giving up equity or committing to long-term loans. Hundreds of business owners across all sectors use FundThrough for invoice financing, and you can read about their experiences **here**.

Fact: in Canada, 34% of small businesses requested external financing in 2016 (**ISED**) and in the U.S., **a recent survey** found that 50% of small business owners had applied for business financing in 2017. What's remarkable about those survey respondents was that by all measures, they were successful and often established businesses; 60% had been in business for five years or more, and 80% had a personal credit score of 650 or above. This shows that even the most successful and well-established small businesses with above-average credit scores seek funding.

Let's look at what type of businesses are benefiting from invoice factoring, along with some customer success stories



Small Businesses and Start-Ups

Businesses of all sizes use invoice factoring for a number of reasons: to raise working capital, improve cash flow, expand their product or service offerings, purchase equipment, increase the size or quality of their workforce, buy out a partner, and more.

Online Apparel Entrepreneur Solves Cash-Flow Hurdle to Drive Expansion

Auto Detailing Entrepreneur Solves Cash-Flow Struggles

Chocolate-Loving Entrepreneur Scales Snack Business Bite-By-

How Invoice Factoring Helps Small CPG Businesses

Contractors

Contractors are more susceptible to cash-flow issues than most, due to the many working parts of each contract. Invoice factoring helps contractors cover payroll, pay suppliers and invest in equipment while still taking on new jobs, even when client payments may be slow coming in. The ability to collect on your outstanding invoices instantly frees up funds you've already earned, so there's no need to take on new debt or give up equity in order to raise financing for that next project.

General Contracting Entrepreneur Solves Cash-Flow Struggles

Construction Companies

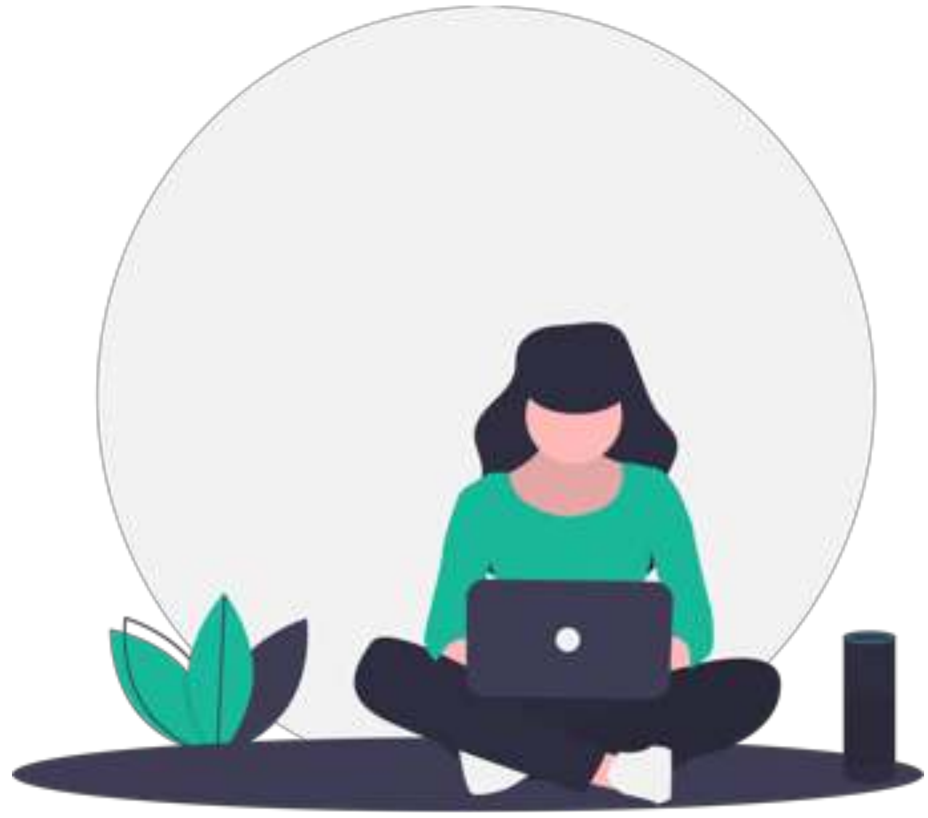
More construction companies are turning to alternative financing solutions like FundThrough for its ease of use and low financing charges. Typically, construction factoring companies advance only 20 to 30% of your invoice value and keep the rest upon collection.

How Invoice Factoring Helps Extraction and Construction Companies

Staffing Agencies

Invoice factoring is a popular financing method for forward-thinking staffing companies. Gone are the days of massive financing charges by traditional factors, that took advantage when companies were desperate to cover gaps in cash flow while waiting on payments. Today, online invoice factoring is used as a proactive cash-flow planning and business-growth financing solution.

How Ace Recruitment Manages Cash Flow to Build Their Business



Freelancers

Invoice factoring empowers freelancers to take control of their cash flow and stay in good standing with suppliers, subcontractors, and other expenses even when customers are late in making payment.

Invoicing for Service Companies: A Better Invoice Process for Better Cash Flow

Freight and Transportation

Freight invoice factoring is a common way for trucking companies and independent truckers to manage their cash flow. Traditional invoice factors purchase your outstanding invoices and advance you 20-30% of the invoice value, then keep the rest as their fee. Modern **invoice factoring** such as FundThrough, on the other hand, advances the entire value of your invoice.

There are plenty of factoring companies out there willing to discount your invoices in exchange for advancing 70-80% of the outstanding funds. But there is a better alternative. **FundThrough** is an innovative solution that lets you keep more of the money you've already earned, when your company truly needs it most.

Invoice Factoring Case Studies

Invoice factoring with FundThrough is so quick and easy that customers are sharing all kinds of experiences online. You can read real customer stories on **our Reviews page**, and in the **Intuit Quickbooks App Center**.

Want to know if invoice factoring is right for your industry?

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WHY INVOICE FACTORING IS RIGHT FOR YOUR BUSINESS

Now that we've learned all there is to know about invoice factoring, let's conclude with why it makes sense that your business adds factoring to its toolbox.

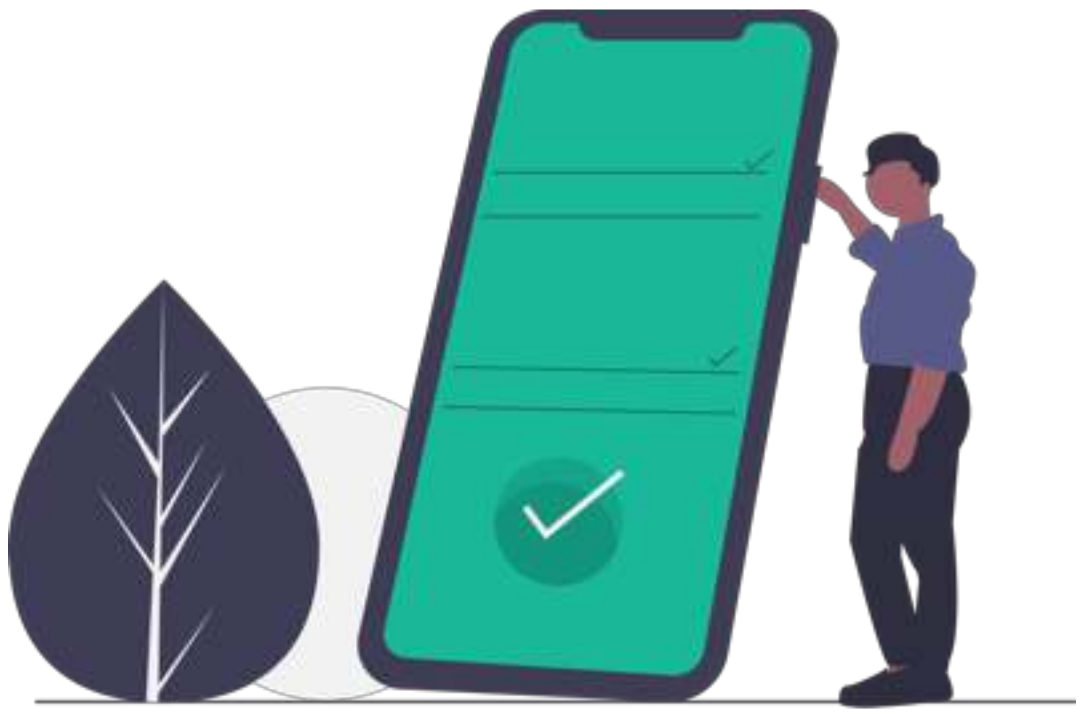
Why Should Your Business Factor?

There are two main reasons why companies choose to use factoring: it’s quick and easy. Since factoring doesn’t require that you go through huge financial institutions and comply with their long lists of terms and conditions, it’s a great alternative for companies that need capital right away, but haven’t been around for long.

Moreover, small and medium-sized enterprises are among the most likely to benefit from factoring, in a variety of ways. Not only is factoring among the easier financing options for growth and expansion, but it also might help you better serve your existing customers. The above will result in higher satisfaction for all parties involved with your business.

At FundThrough, we use factoring to help businesses around Canada and the U.S. reach their goals. The only thing you need are invoices from your customers.

Our **invoice factoring** options do not require any financial history, thus making the application process quick and easy. Furthermore, you get to draw money whenever you need it, without minimum sums or commitment periods.



How to Apply?

1. Create an account by signing up **here**.
2. Link your bank account and your accounting software if you use one
3. Fill out some basic details about your business and your identity. Allow FundThrough 1-2 business days to review your account.
4. If your application fits our criteria, we will ask for further business documentation to process the application.

Once you are approved, your eligible invoices will appear in your dashboard for funding with pricing and details. You can pick and choose any invoice you want to fund.

Still have questions?

Online chat
Start a conversation

Toll-free number
+1 (800) 766-0460

Email
info@fundthrough.com

Our headquarters

260 Spadina Avenue

Suite 400

Toronto, ON, Canada

M5T 2E4

View on Google Maps