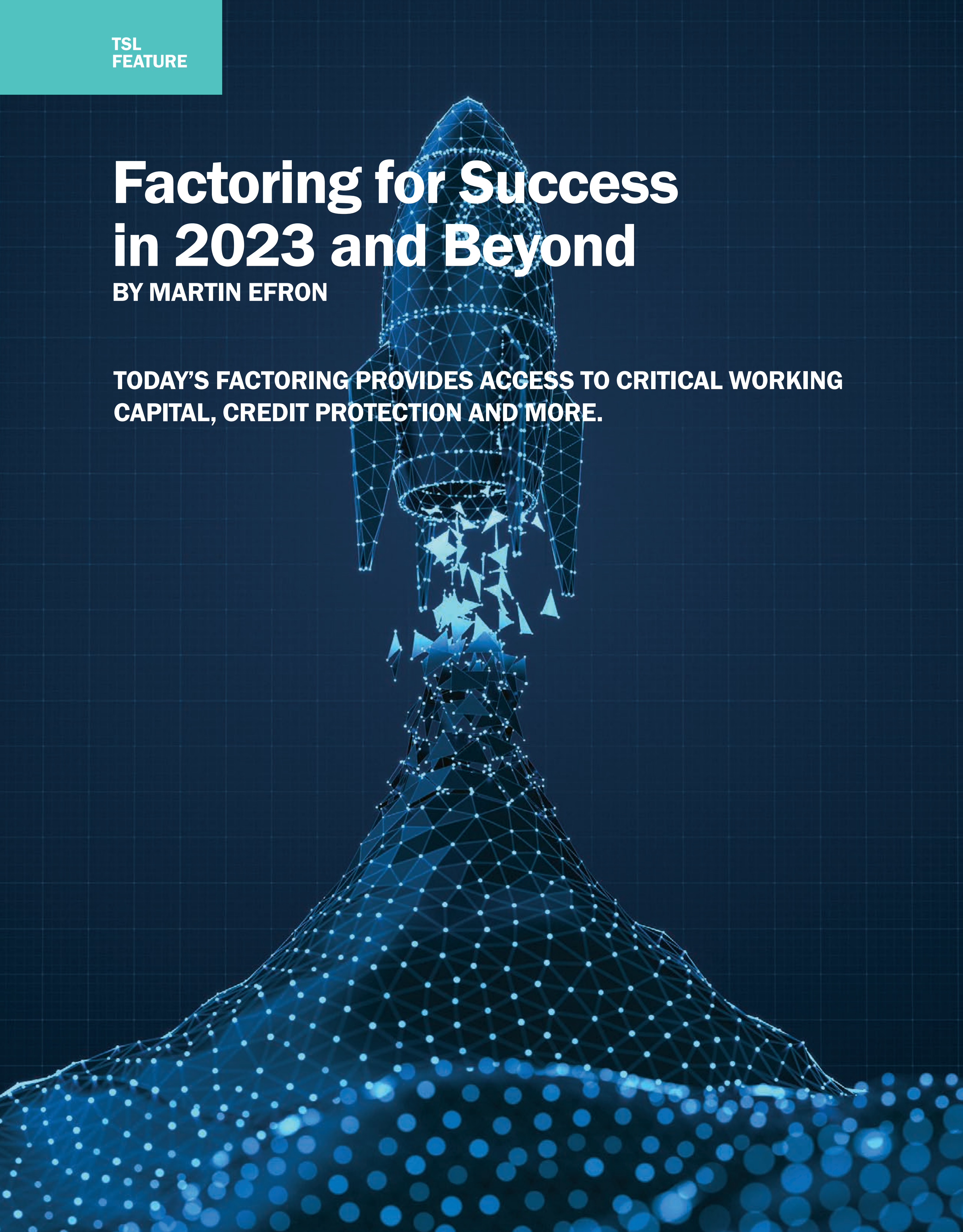
TSL FEATURE

Factoring for Success in 2023 and Beyond

BY MARTIN EFRON

TODAY'S FACTORING PROVIDES ACCESS TO CRITICAL WORKING CAPITAL, CREDIT PROTECTION AND MORE.



Access to ready working capital is critical to the success of a business, whether it is for maintaining ongoing operations or investing in future growth. Yet, short-term liquidity constraints are common, particularly during uncertain economic times. Factoring can offer a critical lifeline – providing reliable cashflow, credit protection and trusted guidance to help companies navigate the current market challenges.

At its most basic level, factoring is a quick and effective form of financing in which companies sell their accounts receivable (AR) to a third party, called a factor, at a discount in order to quickly access working capital to pay suppliers, fund seasonal production ramp-ups, manage inventory, and meet payroll obligations.

This is an attractive option for businesses that have been turned down by a traditional bank, need access to funds more quickly than a bank can accommodate, or are looking for a more flexible financing partner. For decades, factoring has been the go-to option for timely access to working capital for many industries, including housewares, furniture, apparel, and other types of manufacturing.

Importantly, a factor is not a lender of last resort, but rather a more flexible funding source willing to see opportunity where others don't. Factors serve clients they believe will be in business for a long time, helping them make the most of their assets to accommodate their changing financial needs, in both the short and long term.

Today, major factoring firms are able to offer more than simple "spot financing," or one-off invoice discounting. These factors can now serve as long-term lenders for companies, with the flexibility to provide creative funding structures based not just on receivables, but also other assets like inventory, machinery and equipment, real estate and, in some cases, intellectual property.

This more nuanced, flexible approach to funding is appealing to many companies, having come out of a tough 2022 and facing an uncertain 2023. Traditional banks offer the lowest pricing, but they also look for the lowest risk. They do not like to see losses on the books, even if a company has the potential to perform well despite a rough year or two.

Factoring firms are willing to work with "fallen angels" or companies in turnaround situations, recognizing those with good business models that simply need some adjustments to get back on their feet. Factors are able to go beyond their role as lenders to serve as trusted advisors, helping clients streamline their operations, discreetly control collections and maintain their client relationships.

Credit protection is a tremendous benefit to companies in the current environment, with record-high interest rates, rising costs, shifting consumer demand, and other factors impacting businesses' bottom lines. Factoring firms add considerable value by acting as their clients' credit department, assuming the risk of collections and providing protection against debtor default. They can also offer strategic advice on where companies should focus their efforts, which customers to sell to and how to negotiate with them, in order to help better ensure financial success moving forward.

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As we move into the second half of 2023, many people are underestimating the impact current market conditions will have on their bottom line. Factoring can be a powerful tool for companies, particularly those subject to cyclicality, to solve any liquidity challenges. By proactively establishing a relationship with a strong factoring partner, companies will be better prepared to navigate these uncertain waters, with a plan to tap the value of their assets into cash if and when they need it.

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