Accounts Receivable FACTORING

PRESSURE WASH CO.

Pressure Wash Co. is owned and operated by Conrad Smith and provides exterior building and common area maintenance services including pressure washing and window cleaning. His largest clients are local gated communities where he pressure washes the building exteriors and sidewalks as well as the decks around the community pools.

As a disabled veteran-owned business enterprise, Conrad receives many opportunities to compete for local, community, city and municipal contracts but has declined many of these opportunities in the past as the contracts are relatively large and both the county and city take 45 days to make payment for the services he would perform.

Unfortunately, Conrad's service company has few hard assets to be used as collateral and he has not been able to secure any form of business loan or line of working capital credit from his local bank.

The Problem: Big Contract Opportunities...No Cash

Conrad saw an ad for and attended a business finance workshop held by Bill, a loan broker and small business finance consultant, who introduced him to the benefits of something called “factoring”. Bill showed Conrad how selling his 45 day term invoices immediately after his pressure washing services were performed would allow him to bid on and accept some of the lucrative contracts offered by the city and county without worries of being able to meet payroll and make timely payments to vendors for **Pressure Wash Co.’s** equipment and supplies.

Bill then introduced Conrad to a factor's business development officer (BDO) by setting up a conference call and Conrad was very quickly forwarded a proposal for a factoring arrangement whereby **Pressure Wash Co.** would be advanced 80% of the invoice face amount immediately when the work was completed with the remaining 20% (less factoring fees) remitted when the invoice was paid. A flat rate fee would be charged of 4% of the invoice face amount for the first 45 days the invoice was outstanding and 1% for each fifteen days thereafter on all invoices Conrad factored.

Conrad’s net profit margin of 25% easily absorbed the factor's fee and left him with a 20% or greater net profit margin on highly profitable work he was capable of competing for but was currently turning away due to the crippling 45 day payment terms. Additionally,

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he also reasoned that his disabled veteran-owned business status would possibly allow him to build in a slightly higher profit margin when bidding for the city and county's work.

When the promised contracts arrived, Conrad quickly executed the factoring agreements and established his client relationship with the factor. He then immediately began to bid on the city and county jobs that he had been turning down for years and was awarded a $25,000 monthly contract to provide pressure washing maintenance on five local county buildings. He also won the bid for maintenance on the City Hall for over $50,000 per year.

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Future Growth of Pressure Wash Co.

With his factoring agreement in place and with no more payroll worries, Conrad is now positioned to grow his business at an exponential rate, limited only by his ability to market, train employees, and contract with major customers. For service companies like Conrad's, factoring is often the financing mechanism of choice. A factoring facility automatically grows in size along with it's user. Most important for service companies like Conrad's that have little in the way of collateral for a traditional bank loan, factoring is readily accessible. Like a mirror image of a bank, factors focus on customer credit (the payer of the invoice), not the creditworthiness of the (borrower) client. This makes factoring a perfect working capital solution for new startups and companies in their earliest stages of business growth that have not yet developed a sound credit history.

Factoring

The World's Most Popular Method of B2B Small Business Finance

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