

Factoring, a service industry

What many prospects don't seem to understand is that factoring companies put forth a much larger effort and cost into customer service than traditional bank relationships do. In that financial relationship, banks provide loans and mail out payment booklets. Each month the client sends a payment, which is then applied to their database. In today's technology driven age, almost everything is electronically automated. So there is little to no maintenance in overseeing an account like this. The overhead appears virtually non-existent.

A factoring relationship is a far different scenario. Clients are in constant contact with the factor asking about their current receivables, how they're aging, fees that may be associated, requesting credit information and a host of other important items. There are on line reports to view and reconcile as well as general conversation about their company's future and its financial needs. The factor also has a lot of control over the company's accounts receivable. A bad factor can bankrupt a company if their receivables aren't handled with the proper care. Choosing a factor that knows how to properly take care of the customer's accounts is crucial to its life span and profitability. With this in mind, don't you think it would be important that the factor offer nothing less but the best possible customer service, as they almost act as the company's business partner?

Thus, the excessive overhead incurred by a quality factor causes them to inevitably charge more for discounting than banks would for a general loan. When prospects compare the rates from one factor to another, remind them that rates are only a portion of the entire package that the factor has to offer. One factor may charge slightly higher rates because their customer service and general experience is far superior and thus costs more to provide. On the other hand, an inexpensive factor may have the room to allow these lower rates because they may not provide equivalent customer service and experience, hence lowering their overhead.

A factor with poor customer service and experience could become a major problem with the client. Causing loss of sales, poor financial comprehension and generally spending more time focusing on the factors actions rather than concentrating on sales and their own company. A good quality factor, however, is a useful tool that may help the company grow in a manner not initially realized. This, in turn, will create a more long term commission generated from this account.

Don't you think it would be worth a slightly higher rate to ensure that the company is getting a high quality and knowledgeable factor, instead of risking the company's future simply to save a fraction of a point? If your prospect realizes that there's more to choosing a factor than simply rates, they'll be better educated to make a wiser and financially accurate decision.

Tom Longo
Paragon Financial Group, Inc.