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Eric Tom Correspondent

Phillip Castillo works on a cable junction box Friday for his employer, Corona-based Steele Water Cable Inc., which uses an invoice factoring service to receive payments.

Invoice factoring

Service provides payments within 24 hours

By Matt Wrye Staff Writer

Getting clients to pay you on time seems harder than ever for businesses owners.

"Invoice factoring" could be the answer, and here's why: You'll usually receive payment within 24 hours instead of waiting for weeks.

Many businesses are taking more than 30 days to pay other companies for goods and services, according to Robert Usher, a senior business consultant at the Inland Empire Small Business Development Center.

"They're pushing that 45-day and 60-day envelope," Usher said. "Everyone is trying to hold onto money as long as they can."

That's where factoring services come into play.

Let's say someone owes you \$10,000. You can sell your accounts-receivable for that client to a factoring business, which hands you \$8,000 up front and takes over the account.

When the rest is collected, the factoring service pays you the remaining \$2,000 while charging a 15 to 5 percent markup on the \$10,000. That's \$150 to \$500.

It's like a short-term loan, but without the headaches of dealing with the underwriting paperwork and hoops that banks force entrepreneurs to jump through.

Clients who are paying later for goods or services are hindering their provider businesses from expanding, said John Goga, the Inland Empire salesman for Oxygen Funding Inc., a factoring firm based in Lake Forest.

"There are a lot of companies out there with a good solid business plan, and they desire to grow their business," Goga said. "This is the creative way they're choosing to do it. It's becoming popular."

Factoring companies assess the risk related to buying out a client's accounts-receivable, according to Don D'Ambrosio, president of Oxygen Funding. If it's not too risky, the mark-up is on the low end.

But if the financials of the company owing you money aren't in tip-top shape, you'll pay 4 or 5 percent for the factoring service to buy the account.

Lately, several Oxygen clients are companies whose accounts-receivables are nearing deadline or have already passed it.

But Carlos Gonzales has used factoring services for more than a decade, even when times were good.

"In this industry, not too many people have money in their accounts just to cover payroll," said the owner of Corona-based Steele Water Cable Inc., a cable installer and payment collector for large cable companies. "During these times, you never know what's going to happen."

Factoring may be a good choice for companies with several accounts within their accounts-receivable division, according to Seth Herman, senior vice president at the Woodland Hills office of San Mateo-based Bay View Funding.

"If you're constantly losing accounts and gaining new accounts, you might not have the manpower to administer those accounts," Herman said. "We act as their bank."

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