

Factoring in Canada

By Mark Perna Two types of factoring predominate in Canada, each providing specific financial services tailored to the needs of apparel companies



If you mention the word "factoring" to most Canadian business executives, they will usually tell you that it involves selling your commercial accounts receivable on a continuous basis. While partly true, there are actually two types of factoring predominant in Canada.

One type is basically an accounts receivable outsource, without lending, where the factor essentially acts as the credit and collection department for its clients with one very important benefit - the factor will guarantee the creditworthiness of its client's accounts receivable. The client could be, as an example, a sportswear importer selling to the retail trade. Companies using outsource factoring utilize bank financing or are self-financed.

Factors that provide this service are valuable because they are specialists in your field. This type of factoring has its roots in the apparel and textile industries and, even today, 75 percent of the clients that use this outsource service are in the apparel business. While there are only a handful of companies that provide this service in Canada, their in-depth knowledge of the apparel customer base, coupled with their experienced staff, provide a powerful niche service.

What exactly will you get from a factor providing this service?

You'll get a company that will set up revolving lines of credit for your customers, which are fully guaranteed. If the customer can't pay you, the factor will. There are no deductibles or risk sharing on any losses -- you get paid 100 percent of the receivable up to the credit limit for that customer.

The factor will also collect all of your accounts receivable sold on open credit terms, even if you ship someone without credit approval. Finally, the factor will properly reconcile and apply your customers' cheques to your account, duly notifying you of any deductions or claims.

All transaction details on your customers' accounts are available online with the factor. Most important, your credit requests and approvals are also handled online and submissions of your sales information to the factor can be done seamlessly via EDI. In fact, the paperless transfer of information is encouraged where possible.

Aside from the services covered in the typical factoring agreement, you get quite a few "extras" at no charge. Let's say you need to check out the credit status and payment habits of select customers before you even sell them. No problem, just ask your assigned credit specialist at your factor -- they have a wealth of information at their fingertips. Or, let's say, you've heard that a certain customer has a high incidence of claims with their suppliers. Again, a quick check with your factor's collection manager will reveal the answer. The outsource factor can be a valuable sounding board, steering you in the right direction so you can build meaningful selling programs with well-run credit-worthy retailers.

You can also utilize factoring outsource services for sales to the U.S. and overseas. Some factors in Canada belong to Factors Chain International (FCI). Headquartered in Amsterdam, FCI is a worldwide organization linking more than 210 factors in 62 countries, which facilitate the global export and import trade in apparel and many other industries.

In addition, some factors, including Accord Business Credit and its sister company Montcap Financial Corp., have products that utilize EDC's export credit insurance, along with the factor's credit and collection management capability.

Clients that utilize the factoring outsource service generally range in size from \$500,000 in annual sales to \$50 million. The cost of the service is based on a percentage of sales, ranging from about two percent for the smallest clients to below one percent for the largest.

Factors that provide financing

This type of factor provides various kinds of asset-based financing to its clients. (It should be stated that some factors in Canada provide both the accounts receivable outsource service as outlined above and the financing service as well. However, most factors tend to specialize in one or the other.) The service can range from "purchasing" an ongoing stream of accounts receivable (the basic service) to funding on inventory, purchase orders, equipment, real estate and the granting of letter of credit facilities. The factor will usually collect and ledger the accounts receivable as well. Some will even guarantee customer payments.

Unlike their outsource factor cousins, these lenders tend to be involved with many different industries, with apparel making up about 15 percent or less of their client base. Rather than specializing in certain industries, these factors specialize in accounts receivable and asset-based lending, and they're experts at it. Their facilities are tailored to provide flexible solutions for clients poised for growth or with unique opportunities such as acquisitions, turnarounds and management buyouts.

Presently there are over 45 of these finance factors in Canada, a mix of both national and regional players.

Given today's buoyant economy and the loan limit restrictions that bank funding places on some privately run businesses, it is no wonder that this type of factoring has grown substantially over the last decade. It's a very flexible way of financing a small or medium sized business, and the typical entrepreneurial style of the finance factor seems to fit well with the dynamic clientele they serve.

Most finance factors have a lending range from \$50,000 to \$10 million, and even higher if they are bank affiliated. The cost of funding on a typical accounts receivable facility would range from 0.75% to 2.5 percent of sales, and prime plus two to three percent interest on the loan. The cost of borrowing on other collateral varies as to the type of asset being financed and the size of the loan. ■

Mark Perna is president of Accord Business Credit Inc., which provides accounts receivable outsourcing. A sister company, Montcap Financial Corp., provides finance factoring services. Both companies are wholly owned subsidiaries of Accord Financial Corp., a public company listed on the TSX.

INDUSTRY NEWS

Sugoi: distribution hub in Holland

Less than a year after opening a U.S. distribution centre in Connecticut, Sugoi of Canada will open a distribution facility in Oldenzaal, Netherlands. Oldenzaal is close to Germany and is a European rail and road transit hub.

Sugoi's design, sales and marketing departments remain in Vancouver along with Canadian distribution and much of its apparel manufacturing. The company will start shipping from Oldenzaal at the end of 2007.

Ash City opens Kansas City distribution center

Ash City, a maker of casual clothing branded with corporate logos, will open a distribution center in Kansas City in the fall.

The 120,000-sq.-ft. facility is within a two-day drive of a good part of the U.S.

Ash City, based near Toronto, also has a location in Buffalo, N.Y. but the new location will become the company's U.S. headquarters.