



Your essential guide to

SPOT FACTORING



A fast and flexible cash flow solution that's grabbing the attention of businesses



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Your essential guide to spot factoring

As every business relies on consistent cash flow to sustain itself and provide a good service, ensuring you are prepared for all eventualities will underpin success and stability.

This guide explores why spot factoring is capturing businesses' attention as a way to keep cash flowing - particularly when receiving large or one-off orders, or even to support with spikes in working capital requirements when trading on lengthy payment terms.

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What is spot factoring?

IN A NUTSHELL

Also known as single invoice finance, spot factoring enables businesses to access flexible funding against the value of an individual invoice, or series of invoices. Although it shares many benefits with traditional invoice finance facilities, it has the edge by providing an additional layer of flexibility given the speed that funds can be made available after an enquiry is made. This enables accelerated access to cash that's otherwise tied up to facilitate business growth and development.

WHY CHOOSE IT?

When a business is expecting a large order, or is perhaps looking to provide a product or service on extended credit terms, it is likely to experience cash flow pressure without access to a specialist finance facility of some type. Even if there is, there may well be certain circumstances which prohibit the funding of certain customers. In such instances, a spot factoring facility may work by itself or alongside an existing long-term facility by bridging the cash flow gap and

releasing funding against the invoice(s), supporting this increased activity.

SO, HOW DOES IT WORK?

1. A business sets up a new facility with a spot financier, enabling them to assign invoices. Lots of options exist at this stage, making it beneficial to speak to a commercial finance broker at the outset to ensure the most suitable one is identified
2. Having decided on the facility, the business will assign an invoice to the spot financier
3. The funder will then verify the invoice. Depending on the funder chosen and their methods of funding, some will provide instant underwriting using a complex algorithm, while others work on an auction basis to secure the best rates for the borrower
4. An advance is made available to the business

WHO IS ELIGIBLE?

Because funding is advanced against the value of invoices raised, the lender's security is often linked to the individual customer's creditworthiness. Minimum

requirements can therefore be quite stringent with this product. For instance, a company must have been trading for a minimum length of time, which means it is typically not available to new-starts and those with financially weak customers. It is also unsuitable for businesses that might need to use it on a revolving basis, as the costs can be more expensive than through a longer-term facility.



Things to consider

How could spot factoring benefit your business?

Here are the pros and cons of using spot factoring as a funding facility

PROS

- Convenient and quickly accessible
- Helps to circumvent the impacts of seasonality or other peaks in trading
- Facility can be based on the customer's financial strength
- Suits businesses who are not looking for ongoing support
- Credit control function and key customer relationships are maintained by the business

CONS

- Although it's typically a fast process, the initial set-up isn't instant – so it's best not to leave things to the last minute
- Some businesses are wary of transacting online
- The availability of funds isn't always instantly visible and, dependent on the facility and provider, can be subject to an auction completing
- The cost-per-pound of borrowing can be higher than other, more long-term facilities, dependent on the level of utilisation. This is because traditional invoice finance facilities are secured against a business's whole ledger, providing a higher level of comfort for a funder



Spot factoring vs invoice finance

Although spot factoring has evolved from invoice finance, the two products are quite different and bring with them a range of benefits. But which one would be best for your business? Here, we compare the two, point by point.

How they work:

Instead of releasing cash tied up in a single invoice, a full invoice finance facility advances funds from the entire sales ledger. This usually means access to a higher level of funding and allows the funder more flexibility in providing the right solution, which evolves and grows with the client's businesses.

Access to funds:

Once an invoice finance facility is set up, access to funding is provided within 24 hours of an invoice being issued, as long as it is within the parameters of the facility. Both enable access to up to 90% of an invoice's value – yet while invoice finance releases up to 90% of the total ledger, less any reserves in line with the facility structure, spot factoring is subject to the acceptance of each individual invoice by the funder.

Additional services:

A traditional invoice finance facility can additionally incorporate a dedicated credit control service. This can be hugely beneficial if you do not have the time or resource available to undertake this key function in-house, while the funder's expertise could help to improve your debt turn.

Credit protection can also be incorporated, safeguarding your business against the threat of customer insolvency and protracted default.

Fees:

Both spot factoring and invoice finance give the benefit of the fees being deducted from the facility, so they usually do not involve any upfront fees. The remainder of the invoice value is made available, less the facility fees, once your customer(s) settle the invoice(s).

Other benefits:

The improved availability of cash means that either facility may help you to secure and benefit from early settlement discounts. This is more likely to have a wider impact using a full service facility due to its revolving nature, and cash flow support therefore being consistently available.

Facilities can be structured to meet your specific requirements. Therefore, it's key to be in an informed position to consider which option is best suited to your business and its current, medium and longer terms needs.

SO... WHICH IS BEST?

Spot factoring is typically most beneficial to a business looking to satisfy the demands of a one-off payment using an invoice or series of invoices. The flexibility it provides allows you to only utilise the service when necessary, avoiding contracts and the in-depth due diligence process associated with a longer term facility.

Full service invoice finance facilities are more useful for businesses with ongoing cash flow requirements, for instance those who trade on credit terms or growing businesses looking to concentrate on future plans without worrying about restrictive cash flow.

These more comprehensive facilities can come with the benefit of additional services such as credit control, cash management and debtor protection, but not all businesses have the same needs. Ensuring a healthy cash flow is, however, a vital need, and ultimately holds the key to all business success.

Ultimately, you know your business and what features would benefit you best, and speaking to an independent broker can ensure you are able to make the right decision for your business.

A winning solution to an urgent need

We were delighted to introduce one of our clients from the care industry to a carefully selected panel of spot factoring providers.

Faced with having to provide longer credit terms, they foresaw a potential cash flow gap between providing their services and getting paid.

Awkward timing saw them take on a large new contract whilst simultaneously finalising the buyout of another business. Having recognised the need to access additional funding quickly, in order to cover the wages for that month, they contacted Hilton-Baird Financial Solutions.

After gaining valuable insight into the client's needs, we were able to easily identify the funders who were fit for purpose. In this case, spot factoring was identified as the most appropriate finance facility for their immediate need – particularly given the urgency required, with wages due in just four days.

From the initial call to signing with a funder, the process took just three days to complete, which helped our client in their time of need.

The director commented: "Hilton-Baird understood our imminent need and managed our expectations as to when the facility could be provided, and introduced two funders within a matter of hours from engaging with us. We were impressed by their speed and professionalism."

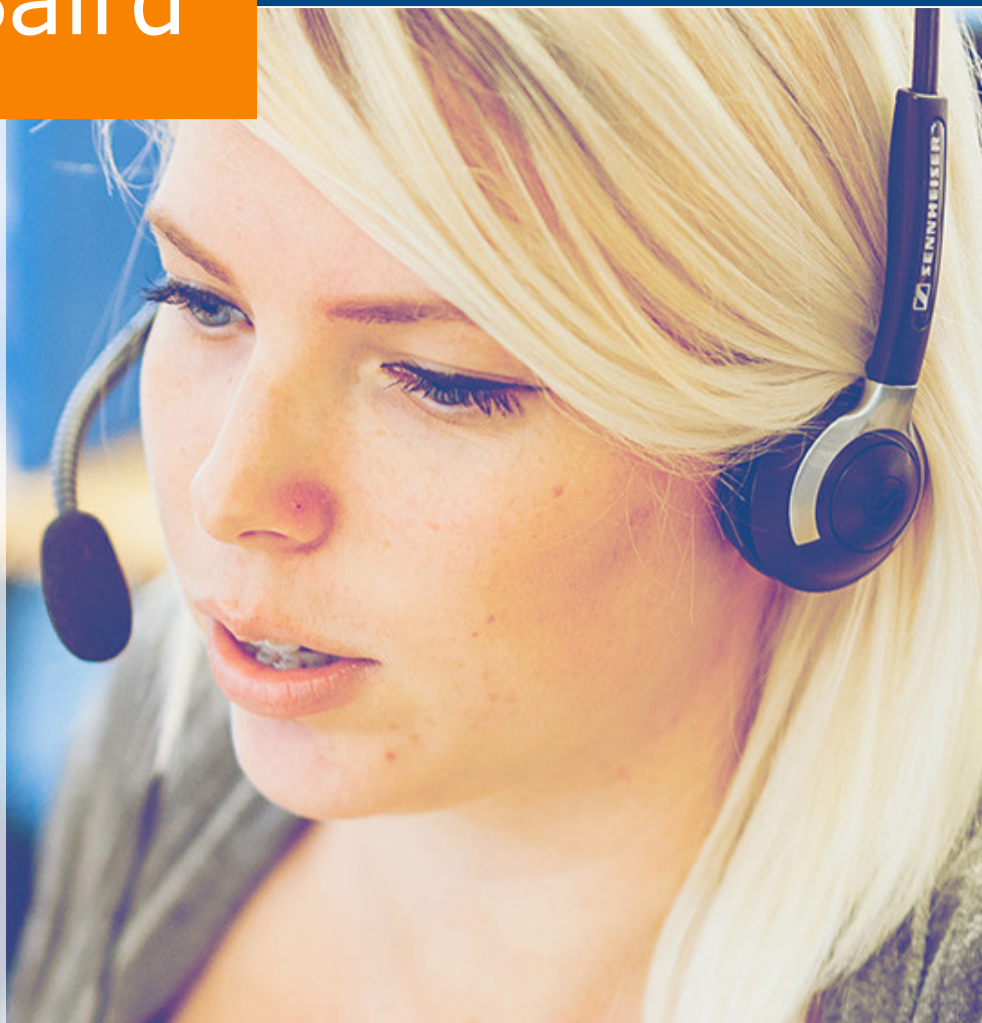
About Hilton-Baird

How we can help

When it comes to searching for the most suitable funding facility, there is a wide range of options available to cater for businesses' different requirements, which can make it a challenge to navigate the various features and benefits of each one.

Our role is to make this task easy for you, working with you to explore your needs and to deliver suitable options for you to consider.

To explore your options with one of our funding consultants, simply call us on **0800 9774833** or email info@hiltonbaird.co.uk.



The UK's trusted independent commercial finance broker

Established in 1997, Hilton-Baird Financial Solutions has helped thousands of businesses to conquer their cash flow challenges by introducing the most suitable funding solutions on the market.

Totally independent, and with expertise across the commercial finance market and specialist knowledge of the invoice finance sector, our access to a multitude of banks, independent funders and invoice finance companies means we can objectively find your business the solution that fits, giving it the foundations to grow and reach its full potential.

We recognise that every business is different. As such, we work closely with you to fully understand your business's unique funding needs and challenges so that we can identify the most appropriate facility.

Our affiliations to the leading industrial bodies – UK Finance, the National Association of Commercial Finance Brokers (NACFB) and the Finance and Leasing Association (FLA) – ensure we maintain the highest level of standards, making us the ideal partner to work with in order to realise your business's objectives.



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