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BUSINESS GUIDE

Factoring Businesses Scale Up With Cloud Enterprise Resource Planning

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By combining NetSuite's leading cloud enterprise resource planning (ERP) system with capabilities designed for their industry, factoring companies can more effectively manage their transaction loads, grow, and take on new business.

When businesses need immediate access to cash, one option is to work with a factoring company. For a fee of 1% to 10%, the factoring company pays cash for a business' accounts receivable assets. Because the factoring company takes over the invoice and collection process, businesses get cash upfront versus waiting 30-90 days for their customers to pay.

Factoring companies acquire their clients' unpaid invoices at a discount and also assume the risk of late or nonpayments. For cash-strapped businesses, going this route can help address cash flow problems.

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Managing on Disparate and Homegrown Software Systems

The US factoring services market was valued at $153.96 billion in 2022 compared with $147.40 billion the previous year. Over the next eight years, the market is expected to post a compound annual growth rate (CAGR) of 8.1 percent.[1] Companies operating in this growing sector often handle very high transaction volumes and work on extremely short approval and disbursement times.

For example, a client that submits an open invoice in exchange for payment usually expects to get paid same-day or next-day. To manage these demands across thousands or even hundreds of thousands of invoices per week, factoring companies combine systems like QuickBooks for financial management, FactorFox for invoice management, and Excel spreadsheets for transferring data across their disconnected systems.

"These companies operate in a sector where volume is high and turnaround times are extremely tight," said Emile Le Saux-Racette, NetSuite solution architect at Bryant Park Consulting, a NetSuite Alliance Partner. "Yet we continue to see a lot of disparate systems that require additional headcount to perform the extraction of the data."

Some larger factoring companies are using homegrown factoring software comprised of Microsoft databases and proprietary software architecture. The latter is a homegrown set of software—sometimes integrated, sometimes not—that a company develops for its own operating purposes. There are advantages and disadvantages to this IT strategy.

"One of the main benefits that factoring businesses get from NetSuite is the 'SuiteFactoring' set of records and intellectual property that Bryant Park is developing. SuiteFactoring gives companies one ERP system that they can then use to do everything, from operations and accounting to financials and reporting."

Emile Le Saux-Racette, NetSuite Solution Architect, Bryant Park Consulting

It's a dramatic improvement.

"NetSuite operates on vendor and customer transactions, so linking accounts payable and receivables—the very core of a factoring company's business model—is a base functionality for the ERP," said Le Saux-Racette. "Using NetSuite's native functionalities as a foundation, we then extend the ERP's capabilities to help factoring companies grow and scale on a single system."

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[1] U.S. Factoring Services Market Size, Share, & Trends Analysis Report By Category, By Type, By Financial Institution, By End Use, And Segment Forecasts, 2022 - 2030

Providing Instant Cashflow When Customers Need It

Factoring companies purchase their clients' invoices for cash. This provides liquidity faster than those clients can collect outstanding balances from their customers. Factoring businesses charge a fee—sometimes referred to as the "discount" for their services—and their growth largely depends on their ability to acquire new customers, or encourage current customers to sell more of their invoices.

"Hence the need for a scalable platform that can grow with the business," said Le Saux-Racette.

Factoring companies also need automated banking processes that support fast payouts of cash. Working with QuickBooks, FactorFox, and spreadsheets eats up valuable time and resources. With NetSuite's electronic payments module, factoring firms can easily generate an ACH file, submit it to the bank, and distribute the funds.

The accounting department can view the bank general ledger or outgoing transactions for the day to see which bill payment transactions did or didn't take place.

"Not only is the process scalable and fast, but it also provides access to real-time data that these factoring companies didn't previously have with their disconnected and homegrown solutions," said Le Saux-Racette.

With automation, factoring companies can also better leverage their human resources in a business environment where finding and retaining employees has become extremely difficult.

"In this current economic landscape, there's definitely a squeeze as far as staffing goes," said Le Saux-Racette. "Following up on collections, generating spreadsheet-based reports, and other processes require a lot of human interaction. Having NetSuite manage their end-to-end operations and automate many of those processes gives companies a key advantage."

An Integrated Accounting and Operations System

Bryant Park uses a set of suite scripts to automate processes and create custom records and data tables for its factoring company clients and provides an average implementation time of four to 10 months.

"We've added our own flavor to NetSuite and worked alongside some of our clients to develop intellectual property for the factoring industry," said Le Saux-Racette.

Once in place, NetSuite helps factoring companies manage their current workloads and take on more business.

Here are three more reasons why factoring companies work with Bryant Park to adopt NetSuite for their growing businesses:

1. **Volume handling and scalability.** Some of Bryant Park's factoring clients process more than 700,000 transactions a week. These transactions include invoices the company purchases and then collects on, bill payments made out to clients who need their cash quickly, and the bills the vendor generates itself.

   The transactions also include custom record structures that Bryant Park designed to encompass the entire factoring process, or "the schedule." The schedule acts as the umbrella document that stores and keeps track of all transactions related to a factoring deal. There are also reports and saved searches that run directly on top of the record structure that give factoring companies a clear view of the entire deal.

> "We essentially wrap up much of what FactorFox manages and automates, put it on top of NetSuite with our own IP and boom. Suddenly, you have an integrated accounting and operations system to run your business on."
>
> Emile Le Saux-Racette, NetSuite Solution Architect, Bryant Park Consulting

"Using both standard NetSuite records and a custom record structure allows our customers to leverage the ERP's native functionality, plus a little extra using Bryant Park's extensive knowledge of the factoring industry," said Le Saux-Racette.

The benefit of managing all of this in NetSuite is being able to automatically send the client, which is the entity that a factor business buys invoices from, a complete view of their transactions without the need for manual intervention.

During its initial discussions with a factoring company, Bryant Park determines that firm's volume and other needs. It also gains an understanding of the features that it will use during implementation, such as the SuiteCloud Plus license.

"The needs of factoring businesses sometimes require us to integrate to legacy systems that have been in place since the company's inception," said Le Saux-Racette.

For integration to legacy factoring systems, for example, Bryant Park recommends the use of SuiteTalk SOAP Web Services to transfer records to and from NetSuite. This approach allows the customer to continue using its custom legacy application and existing integrations—to payment portals and customer payment applications, for example—while integrating with NetSuite to take advantage of robust reporting tools and analysis.

"Our skilled development team works hand-in-hand to design processes that align current architecture to future-state designs that best leverage NetSuite's functionalities," Le Saux-Racette added.

2. Factoring configuration. Bryant Park also helps factoring companies use a custom schedule record to serve as the umbrella document that links all of those firm's transactions. Those transactions include invoices, payments, escrow applications, and/or payables. This helps factoring analysts and accounts receivables specialists access the data they need to get paid quicker.

"The schedule records the entire lifecycle of the transaction and allows for a truly wide view of transactional data," said Le Saux-Racette.

As part of its SuiteFactoring solution, Bryant Park also built state-of-the-art automation that saves factoring analysts time when creating transactions. This is important because factoring businesses exist to provide their clients with money ahead of their customers paying their invoices, so speed is of the essence. And, the fees for this work are typically negotiated at the same time that credit worthiness is evaluated and the client is brought onboard.

"The entire definition of the signed contract is stored within another custom 'contract record' that we created," Le Saux-Racette said. "The contract record is important because it allows us to automate certain tasks, including the creation of the accounts payable bill for the total invoice amount minus the factoring fee."

Using SuiteScript, Bryant Park built a script that allows factoring firms to create vendor bills directly from the invoices that their clients submit. This automation saves the factoring analyst from having to manually cross-reference the contract record to find the fees that should be calculated.

3. Simplified customer relationship management. At most factoring companies, the customer relationship requires a lot of human touches and interactions, much like any sales process. Customers have to be vetted for credit worthiness before the factoring relationship can be established, for example, and contractual obligations must be set forth on both sides.

NetSuite's simplified customer relationship management sometimes catches factoring companies by surprise once they get the ERP up and running. That's because many of them didn't realize how manual and spreadsheet-dependent their customer relationship management approach was until they automate it with NetSuite CRM.

"A factoring business' customer is essentially their vendor; it's whoever they're paying for the invoice," said Le Saux-Racette. "That's how they make money. Factoring companies need to know that the end debtor will actually be able to pay the invoice and that it's not just a dud invoice."

Le Saux-Racette has seen factoring firms use NetSuite's native CRM functionality to store the phone calls it made to its own clients while using the ERP to store incoming calls from vendors who were inquiring about their contract structures and other details.

"They're also using NetSuite to log sales activity and getting a lot of value out of that functionality," he added. "That means managers no longer have to pick up the phone and call a direct report to get a status update on a specific client. It's all right at their fingertips in NetSuite."

The No. 1 Cloud Platform

As NetSuite continues to innovate, it provides two new annual releases that include new features and functionalities to its more than 33,000 customers.

"A robust change management process is in place to ensure continuation of existing configuration and that processes work seamlessly as their environment gets taken to the next edition of NetSuite," said Le Saux-Racette. "Our customers can take advantage of their own release previews to ensure the current configuration works as expected."

Bryant Park's dedicated team of consultants take the time to configure customers' systems according to best practices and ensure long-lasting, sound processes. And, the company's extensive knowledge of the factoring space instills confidence that NetSuite is truly built to support companies in the industry.

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